

High Heating Oil Bills? New Oil Trading Rules Could Help

Federal Agency Readies to Take on Oil Speculators; Industry Warns of Unintended Consequences By RICH BLAKE

Nov. 2, 2009 —

As the crisp autumn air in New England gets chillier, Ken Williams braces for his busiest time of year. His Quincy, Mass.-based company, Scott Williams Inc., sells [heating oil](#) to homeowners.

In recent years, unprecedented swings in the price of oil have left Williams feeling frustrated. His customers are frustrated too, since the costs get passed along to them. The typical Boston-area household heating bill, around \$750 a decade ago, is now typically \$1,500 a year, Williams says.

He says he partly blames [commodities futures traders](#), speculating for paper gains, for the volatility and steeper operating costs that his business faces.

"I really think we need to keep [Wall Street](#) players out of commodities," Williams said. "Or at least mitigate their influence."

But help may be coming.

The [Commodities Futures Trading Commission](#) will soon announce an official proposal to curb speculation through new rules called Position Limits, caps on how big a bet any given Wall Street player can make in the energy futures markets. The proposal could come in the next few weeks, several

senior industry members told ABC News.

If such new rules are eventually adopted, they could either keep energy prices in check, or unintentionally drive them up, depending on whose opinion you ask. That includes both prices at the pump and prices for home heating oil.

"Limits are coming," said Phil Flynn, a widely followed energy analyst at PFG Best Research in Chicago. "The only question is how stringent they are going to be."

No formal announcement has been made yet, a CFTC spokesman said. However, CFTC Chairman Gary Gensler, speaking at a trade association luncheon in Washington, D.C., on Tuesday, made his view clear: "I believe that we should consider setting position limits to guard against excessive concentration in the energy futures markets," Gensler told a gathering of the Natural Gas Roundtable.

Gensler also has indicated publicly that if the CFTC were to propose a new rule on position limits, it would do so this fall.

Help for High Heating Bills?

[Industry executives](#) say they are bracing for the inevitable, and for the most part they are not pleased.

"This is going to dramatically change how some of the biggest Wall Street banks can participate in the energy market, which has been big source of profits," said one commodities trading firm executive who asked not to be quoted by name.

"Of course I'm against it," says Michael Martin, a Los Angeles-based futures trader who teaches a commodities investing course online through UCLA. "Speculators exist so industries such as airlines can hedge exposure to an oil price shock, and for there to be a hedging market there has to be speculators. When you tinker around with one end of the market it has a way of perverting the entire market."

Added Flynn: "The government is misdiagnosing the problem it's like creating a thermometer that only goes to 75 degrees because people complain it's too hot."

Back in July and August, the CFTC held a series of heated hearings on the issue of possibly instituting position limits which would reduce the influence of financial entities, particularly big banks such as UBS and Goldman Sachs. In some cases, banks, via complex customized derivatives products known as index swaps, facilitate investments in commodities on behalf of long-term oriented institutional investors, including state pension funds.

The \$190 billion [California Public Employees' Retirement System](#), the nation's largest pension fund, has about \$500 million invested in a commodities indexing strategy, essentially mimicking, through complex trading, the movements of commodities prices.

Oil Price Swings

Commodities investing among institutions looking to diversify their huge portfolios became increasingly popular

around the start of this past decade. Even some free market capitalists, such as George Soros, say this was a chief reason for booming commodities prices over the last ten years.

In recent years, the price of a barrel of crude oil, used to make gasoline, heating oil and other fuels, has been subject to wild price swings -- from \$57 in early 2008, to \$147 the following July, back down to \$32 that December and more recently back above \$80.

US Airways Chairman and CEO Doug Parker has been a vocal critic of speculators, publishing a letter in his airline's in-flight magazine to urge the public to help him put the squeeze on oil speculators. "We believe unchecked speculative trading of oil futures is distorting the normal market dynamics of supply and demand."

Speculators Drive Up Energy Prices

Earlier this year, David A. Castelveter, spokesman for the [Air Transport Association](#), the main trade group for the U.S. airlines, told ABC News that speculators have been causing such volatility in the market that it is hard for airlines or other oil users to make appropriate business decisions.

Every \$1 increase in the price of oil adds about \$430 million to airlines' annual operating costs, Castelveter said. The group has been lobbying Congress and is backing a campaign, and has a website, www.stopoilspeculationnow.com.

"They are trading without ever taking a drop of oil," he said.

"Speculators are trading paper."

Flynn said almost all energy commodity trading is based on paper contracts -- and the fact that traders don't actually intend to take possession of the underlying commodity misses the point.

"Large pools of money that want to invest in commodities are going to find a way to do so, no matter what the rules are," he said. "Russia, China, the Middle East, all or any of those countries could use this as an opportunity to take control of oil trading which has been centered in New York. Putting limits on how much speculation any given market participant can engage in will only, I'm afraid, drive prices higher and create less transparency."

That's because, Flynn argues, regulations in the U.S. could send speculators to overseas markets that put no limits on how large a position a paper trader can take. He says something like that happened in the 1970s, when the Nixon administration imposed price caps on oil after the OPEC embargo. Producers, viewing oil prices as artificially low, held back supply because they weren't getting a fair price, in turn leading to shortages, gas rationing and long lines at the pump, Flynn said.

'It Can't Get Any Worse'

Back in Quincy, Mass., Ken Williams says when he tried to use futures and options to get better prices it proved expensive and time consuming. Last year, he says, some in his trade

locked in heating oil prices using a futures-based strategy, and the heating oil market crashed. They lost money.

Williams says he looks forward to possible new CFTC rules and isn't worried about the possible ramifications in the markets. It can't get any worse, he says.

"Stock market speculation at least enriches everybody," Williams adds. "Commodity bull markets enrich a few and pick the pockets of the rest of us."

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