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Oil pre-buys back by popular demand

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If you asked Peter Trono six months ago how popular his pre-buy heating oil program would be, he would give you a thumbs down. But with the approach of another winter, Trono Fuels pre-buy programs have set a record.

Trono said his pre-buy programs in Burlington and in the Barre-Montpelier area "have outsold the number of gallons we've ever sold before."

Last year, many heating oil customers around the state took a bath when the bottom fell out of the world economy and along with it oil prices.

But with heating oil prices about half the price of a year ago, Trono said customers weren't willing to take chance prices would spike again.

"This year we're at \$2.40 a gallon so it's clearly a function of it's appearing to be a good buy," he said.

He added that some customers who started making installment payments into their budget plan switched to the pre-buy program to take advantage of the lower price.

While many pre-buy customers got burned last year, Matt Cota of the Vermont Fuel Dealers Association said last year was a "notable exception." In 13 out of the last 15 years, pre-buy customers have come out ahead and saved money, Cota said.

Customers who sign up for a pre-buy program save money by paying cash up front for a set number of gallons. Though pre-buy programs are usually offered by dealers beginning in the late spring and end in late summer, some dealers have extended their programs.

According to the state Department of Public Service, pre-buy prices in August ranged from a high of \$2.85 a gallon to a low of \$2.19 a gallon. The average was \$2.58 a gallon. Prices were based on a survey of 70 fuel dealers around

the state.

Similar plans are also available for propane and kerosene customers.

Cota said budget plans — with extended payments over nine or 10 months — are becoming more popular but come with a higher cost per gallon than a pre-buy plan.

"I think that's more of a function of a homeowner's cash flow," Cota said.

For a premium, budget plans can also come with downside or upside price protection shielding homeowners from price fluctuations.

Rutland Fuel Company has seen a slight decline in interest in its pre-buy and fixed price budget programs, said owner Scott Sullivan.

With the memory of last year's oil price rollercoaster ride, Sullivan attributed the dip to customers skittish of locking in again to a fixed price.

But Rutland Fuel has seen an increase in customers signing up for floating price plans. "That offers no ceiling price necessarily but if the market goes down the price goes down," Sullivan said.

One day last week, the fixed pre-buy price at Rutland Fuel was \$2.50 a gallon for a set number of gallons. The current floating pre-buy price is \$2.25 a gallon. The floating price could go up or down but is always at a 15 cents a gallon discount with the customer paying up front based on an estimated number of gallons.

Allen Brothers Oil in Westminster has seen more interest in its pre-buy program.

Tim Allen said he started out in the spring with a pre-buy price of \$1.99 a gallon. The program is winding down with a recent price of \$2.39 a gallon. Allen is continuing to offer a floating budget plan with a recent price of \$2.29 a gallon. Again, like other floating budget plans the price can go up or down.

With that plan, Allen Brothers estimates the price over the heating season with customers making equal installments over nine or 10 months. If the price goes above the estimated amount, the customer pays the difference at the end of the season. If the price goes down, Allen sends them a check for the

overpayment.

Allen said some of his customers who pre-bought their home heating oil last year were upset when the price plummeted but were stuck with the higher priced fuel. He said he both gained and lost customers as a result of last year's wild swings in oil prices.

He said customers had a hard time understanding that a fuel oil company physically buys "the oil at that price and we can't change it."

Crude oil prices have a history of volatility, in part because much of the oil the United States imports has its origins in the Middle East. But consumer advocates and fuel oil dealers blame much of the recent volatility on speculators who are looking to cash in on the oil futures market.

Cota of the Vermont Fuel Dealers Association said with the inventory of heating oil and other oil products at a 20-year high and with demand low because of the recession, prices should remain low. He said the wild card is the oil speculators tied to big Wall Street investment banks.

Trono said barring some major catastrophe oil prices should remain stable.

"We're looking at an economy that doesn't appear to be a whole lot better," he said, "and barring some sort unexpected terrorist act or a hurricane hitting a refinery or something like that, I think you're looking at fairly consistent pricing this year."

Sullivan added that even with the price of home heating oil down about \$2 a gallon from a year ago, the price should be even lower.

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