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Homeowners guess at fuel cost

With prices down 42%, lock-in a gamble

By Dan McLean, Free Press Staff Writer

Each year around this time, Vermonters are forced to become oil speculators and decide whether they want to lock in at a fixed price or roll the dice on heating their homes come winter.

If they think prices of No. 2 heating oil will rise — and they have the cash up front — Vermonters can agree on a price through a “pre-buy” contract. If they anticipate prices’ falling, however, households are better off paying the market price at each fill-up.

People can also hedge their bets with a price cap that will ensure they don’t pay above a certain level even if market prices rise.

The layers of options are complicated, no doubt. Pre-buy contracts can be had for \$2.34 a gallon to \$2.95 a gallon, according to state data. And the majority of dealers, although fewer than past years, are offering the contracts.

Complicating the decision: Heating oil prices are nearly half of what they were in the summer, when volatile commodity markets pushed the price for a gallon of No. 2 heating oil up to \$4.65 a gallon, according to state data. This month, heating oil in Vermont is fetching \$2.40 a gallon. That’s 42 percent less than the \$4.13 a gallon charged last September.

A typical three-bedroom home in Vermont burns about 800 gallons of fuel. So the rising and falling price has a substantial effect on Vermont households. A fall of \$2 a gallon saves about \$1,600 in winter heating costs.

Volatile 2008

Last summer and fall, oil dealers in Vermont were reluctant to sell pre-buy contracts because prices were so high, and volatile. Customers were locking in at prices “near \$4 or above,” Matt Cota, executive director of Vermont Fuel Dealers Association, said then.

“Pre-buys are a heck of a lot more complicated for the dealer because of the volatility,” Cota said Wednesday. “There is obviously great risk involved for the dealer and for the customer.”

Last year, he noted, some customers were burned when they locked in a heating price north of \$4 a gallon and prices fell.

When the market was at its most volatile, many Vermont oil dealers suspended offering pre-buy

contracts because they didn't want to get stuck with a large block of heating oil they couldn't sell. Fuel dealers must buy heating oil in 42,000-gallon blocks.

As the global recession took hold, prices plummeted and heating oil prices fell. Heating oil prices in Vermont have been less than \$3 a gallon since December, according to state data.

The U.S Energy Information Administration projects crude oil prices will average \$69 a barrel in the second half of 2009, \$19 per barrel less than in the second half of 2008. The price of a barrel of crude oil has hovered around \$70 a barrel — about half the peak price oil traded for last summer. Wednesday, a barrel of crude sank 4 percent to close at \$68.97.

"Now, the bet is on the downside," Cota said. "Hedgers are now taking positions at \$60 and \$50," he said, noting some analysts have said prices will fall even further.

"We have a glut of oil," Cota said.

Bloomberg financial news service reported Monday that fuel inventories, including heating oil, are the largest they've been since 1983, and oil prices could fall substantially. "There's all this heating oil with no place to go," Philip Verleger, a professor at the University of Calgary and head of consultant PKVerleger LLC, told Bloomberg. "I'm fairly certain we'll see prices in the \$30s this year."

If crude oil prices hold steady, Cota expects fuel-oil costs to remain at around \$2.50 a gallon this winter.

Cleaner, greener?

Cota said Vermont Fuel Dealers Association likes having the lower prices. Low prices dissuade people from switching to another fuel source, but also because low prices keep borrowing costs for the dealers down. Dealers borrow money to buy the oil, and lower prices help with their cash flow, he said.

The number of households using oil to heat their homes has dipped slightly. The most recent report, using 2-year-old data, says 58 percent of Vermont homes use oil for heat. That's about 330,000 Vermonters, Cota said. The survey found a loss of 1 percent in market share from 2000 to 2007. But that omits the unknown number of people who swapped heating systems last year when heating oil prices were well above \$4 a gallon.

In an effort to help ensure heating oil remains viable — and popular — for the next generation, Cota says the industry is making a coordinated effort to making heating oil greener.

Representatives of the heating oil industry from throughout the region have been "talking about the future of the fuel and how we are going to adapt," Cota said.

Initiatives are under way to create a blend of heating oil with 2 percent biodiesel. Home-heating systems can handle blends with up to 5 percent biodiesel without needing any change in equipment.

Cota said the industry is embracing the issue and is encouraging state and federal leaders to support a "leaner, greener and cleaner" heating fuel.

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