

Prebuys in limbo High fuel oil prices strand dealers, consumers

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By JOSH O'GORMAN Herald Staff

May is typically the time of year that homeowners, landlords and businesses begin to take part in fuel oil prebuy programs. However, with prices hovering above \$4 a gallon and some commodity speculators predicting even higher prices by winter, many consumers are unsure if the already high price is the best one to lock in. Fuel oil retailers, on the other hand, are uncertain if they will even offer prebuy programs this year.

"Prebuys are really a way for the customer and the fuel dealer to hedge against any volatility in the market," said Matt Cota, president of the Vermont Fuel Dealers Association. "It really began as a demand from the customer and 11 of the last 12 years the customer has made out."

Cota said that with prebuy programs, a customer will pay for oil up front for delivery during the winter. Between May and July of last year for example, the average price of fuel oil statewide was \$2.54 a gallon, according to the Department of Public Service, which conducts a monthly survey. Customers were able to lock in prices in that range.

By March, fuel oil prices had risen to \$3.46 a gallon, making the prebuy a good bet this winter. The previous winter, however, was anomalous in that the average price in January 2007 of \$2.51 was less than the average prebuy price of \$2.59 the previous summer.

"As a result, many people didn't prebuy this year," Cota said, noting that many consumers hoped that once again winter prices would be less than summer's.

No. 2 heating oil futures for June closed down 8.87 cents to \$3.865 per gallon in Friday's trading in New York.

Cota said there are two schools of thought right now: either prices are rising because resources are rapidly diminishing or the price is artificially inflated, and Cota is putting his money squarely on the latter.

"We believe that there will be a crash in the future that will be larger than the housing crash," Cota said.

Cota said he believed the price of fuel oil has been inflated by commodity speculators who are "using oil as a financial tool."

For proof, Cota noted that the price of fuel oil on the New York Mercantile

Exchange jumped 90 cents in May, a month in which nobody is buying oil.

The trading of fuel oil in unregulated markets — such as the International Commodities Exchange — has led to prices that reflect neither supply or demand, Cota said, who both warns of and hopes for a crash will come soon that will force oil stratospheric prices to return to Earth.

Just when that crash will happen is anyone's guess, however, and fuel oil dealers — whose livelihoods are tied up in this business — are facing the same uncertainty as consumers.

The Office of Home Heating Fuel Assistance — which administers the Federal Low Income Home Energy Assistance Program — has begun drafting contracts to send out to fuel oil dealers to help low-income households prebuy their fuel, but how many dealers will participate is still up in the air.

"The issue is a lot of fuel suppliers have not set their prices or decided if they will even offer prebuy programs," said Tina Wilder, family services supervisor for the Office of Home Heating Fuel Assistance.

"I would bet that most companies won't be offering prebuys this winter," said Terence J. Moran Sr., president of Hugh Duffy Coal Co. in Rutland. Moran said that in the past his company began its prebuy in mid-June, but on Friday he was uncertain not just of the rate that might be charged but whether his company will offer prebuys at all.

"If the market makes a turn and gave me a window that made it sensible for the customer, I would do it," Moran said. "The analogy I use is this: would you pay \$450,000 for a \$500,000 life insurance policy?"

Like Cota, Moran also cited the unregulated trading of fuel oil as something that is "just killing this industry" and asked everyone to "call their congressman and ride these politicians to death. Whichever party puts their stamp on the cure will get elected next year," Moran said.

If Congress does pass legislation, Moran predicted, prices will rise before they fall as traders take advantage of those final moments of unregulated trading.

"If Congress can create legislation there will be a short surge like last call at the bar," Moran said.

Moran's advice for consumers is to pay their bills on time or to carry a credit. Before putting up any money for a prebuy, be sure that the fuel company is reputable, Moran said.

"What they should do is make sure the company will be there next year," Moran

said as he related the story of a fuel oil company in New Hampshire that two years ago sold prebuys in the summer and had disappeared by winter.

Wendy Morgan, chief of the Public Protection Division for the Attorney General's office, said that before paying for any prebuy a customer should first check the Secretary of State's Web site to see if the company is registered to do business in the state.

Morgan also recommended asking the fuel oil dealer where their escrow is held. Under state law, a fuel oil dealer must have available 75 percent of the fuel they presell, and since no dealer has enough physical storage for that much fuel, the purchased fuel oil is held in escrow.

Morgan said her office has not received any complaints of fly-by-night oil companies but acknowledged the possibility as prices continue to climb.

"It wouldn't surprise me if there are people out there like that," Morgan said.

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