

## State's pre-buy popularity depends on cost savings

By BRUCE EDWARDS STAFF WRITER

Published: July 4, 2010

For homeowners, the question is whether to lock in to a fixed price and number of gallons of home heating oil for next winter or wait.

Pre-buying fuel oil during the summer was an easy call to make, provided the customer had the cash to pay upfront. But two years ago that mindset was jolted when oil prices skyrocketed to nearly \$150 a barrel, pushing home heating oil in Vermont to \$4.65 a gallon. Consumers who locked in to pre-buy programs that summer were convinced that prices had nowhere else to go but up. Instead, oil prices crashed in the fall along with the world economy, becoming the worst financial crisis since the Great Depression.

But fuel oil dealers say that despite being burned two years ago, pre-buy plans remain popular. For many customers, who can't afford paying the upfront cost, budget plans are the preferred option. Still others prefer the pay-as-you go method, taking their chance on the market price at the time they need to fill up their tank.

Demand for pre-buy programs can vary from year to year, said Tim Allen of Allen Brothers in Westminster.

"It really comes down to whether people think it's a good bargain or not," Allen said. "Last year, because our pre-buy was \$2.09, we were flooded."

Allen Brothers has rolled out its second pre-buy program for the year at \$2.69 a gallon. The spring pre-buy price was \$2.79 a gallon.

With pre-buy programs running 50 cents or higher per gallon this year, Allen said consumers appear more cautious about locking into a contract.

According to the state's monthly fuel price report, the average June price for home heating oil in the state was \$2.71 a gallon, a penny less than a year ago.

The federal Energy Information Administration is forecasting that home heating oil will average \$2.86 cents a gallon during the fourth quarter and \$2.93 cents a gallon in the first quarter next year with prices a penny or two higher in the Northeast.

Matt Cota of the Vermont Fuel Dealers Association said there's no question that locking into a set number of gallons at a set price before the start of the heating season remains a risk for consumers and dealers, who commit to buying heating oil from wholesalers in 42,000 gallon increments. But Cota said in all but two or three years, a pre-buy has turned out to be a good bet. He said the most glaring exception was two years ago when the economy was "turned upside down."

"I don't think anyone can look into a crystal ball and say fuel prices will be more expensive, less expensive in the winter," Cota said. "What we do know is that there are ways consumers can lock in a price that can buy insurance against volatility that's the same mechanism that the dealers use."

Cota said budget plans are popular because a homeowner can spread out payments, with the option of buying what's called "downside insurance," which protects them against a drop in price.

Patten Oil in Rutland has gone to a year-round pre-buy program, giving customers more latitude when to buy their fuel, said Dan Dukeshire, the company's senior vice president.

"It's become more like stock market trading, unfortunately," said Dukeshire, referring to fluctuations in the price of oil and the influence of speculators in the energy markets.

One day last week, Patten Oil's pre-buy price was \$2.69 a gallon. A year ago, the price was between \$2.39 and \$2.49 a gallon.

Dukeshire said customers who signed up last week for a fixed-price, 10-month budget plan, paid \$3.14 a gallon.

"What we've done with our budget, which I think is unique in town, is that we build in the insurance," he said, "because people who are on budget plans are the people who can benefit the most from the downside protection."

He said the \$3.14 a gallon price includes a 25 cents per gallon insurance premium.

With branches in Burlington, Barre and Montpelier, Trono Fuels doesn't roll out its pre-buy offer until the end of the summer.

"Historically, there's been a little bit of a dip (in price) at the end of the summer, where it appears there's another good time to buy fuel," Peter Trono said.

He also said after a long winter his customers welcome a break from having to consider buying fuel for the next heating season.

Following the rollercoaster price ride of 2008, Trono said he expected more of his customers to shy away from pre-buying their heating oil. But this past winter proved otherwise, he said.

"Quite frankly, I thought we would," he said. "I thought we'd see a drop of 20 to 25 percent and we didn't experience that last year."

Considering that the price of heating oil was so much lower last year than the year before, Trono said in hindsight it's not surprising that his pre-buy program remained popular.

He said the number of customers on budget plans has remained stable over the last few years. The company does not offer downside protection.

"Probably 25 to 30 percent of our customers are pre-buy customers, another 8 to 10 percent are budgets and then the remainder are paying market rate," he said.

Allen Brothers offers both fixed price and market price budget plans. Last year, the oil company offered downside protection as an option but had few takers. Allen said the company dropped the add-on insurance this year.

For many of customers, he said a budget plan is an affordable option.

With the average homeowner in the state using 800 gallons of heating oil during the winter, Allen said, "lot of people can't afford to pre-buy."

[bruce.edwards@rutlandherald.com](mailto:bruce.edwards@rutlandherald.com)