

The ADVOCATE

Thousands lose heating oil price bet

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Article Launched: 11/10/2008 02:43:10 AM EST
STAMFORD - Steve Nussbaum made a risky gamble this summer.

In July, when home heating oil hit historic highs of almost \$5 a gallon, the Westport man ignored the panicked predictions that the price would rise another dollar or two a gallon this winter and refused to pre-buy his heating oil.

Nussbaum chose instead to pay whatever oil costs on the market when he needs it.

It was a good bet.

On July 11, the price of crude oil hit a record high of \$147 per barrel. Now it is about \$61 per barrel. That means heating oil prices have tumbled a record 55 percent since the summer.

In July, homeowners were facing heating oil prices of about \$4.69 a gallon. Heating oil now costs \$1.98 a gallon.

"I took a shot that things would go lower," Nussbaum said. "It was a tough call. I was willing to live with my decision no matter what."

But some of the 680,000 heating oil customers in the state - who comprise about half of all Connecticut homeowners - didn't bet as well. They locked into the high prices over the summer, fearing home heating oil would rise to \$5 a gallon or more.

No one knows how many consumers locked in at

the high prices, said Gene Guilford, executive director of the Independent Connecticut Petroleum Association.

Since August, the Department of Consumer Protection has received about 600 complaints about the cost of home heating oil and contracts with heating oil companies - three times more than last year, spokeswoman Claudette Carveth said.

For these customers, the fixed-price plan they thought was a safety net now costs more than what oil is worth. But no contract can be declared void because the price of oil fell, state Attorney General Richard Blumenthal said.

"Consumers are no more free to simply walk away from heating oil contracts than they are car leases, home mortgages, cell phone contracts or other consumer purchase agreements," Guilford said.

For those with expensive contracts, heating oil companies seem like an easy target for blame, Guilford said. But most companies are in the same situation as their consumers - when the customer signed a contract to buy the oil, the company did, too, he said.

"Consumers must consider when they agree to buy from a dealer at a fixed price, the dealer has to go to the market with the wholesaler and buy the contracts to cover your purchase, as is required by Connecticut state law," Guilford said.

In 2005, the legislature bumped the percentage oil companies must cover from 75 percent of the customer's purchase to 80 percent, Guilford said.

The law exists "so we don't get caught not having enough product," said Sam Gault, president of Gault Inc., which serves 6,000 customers in Fairfield County.

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About 25 percent of his customers decided to fix an oil price during the summer and "about one in five are upset with their choice," Gault said.

But not all consumers are stuck paying July's high premiums.

Like Nussbaum, some went with another payment option, deciding not to lock into any price. They signed up for paying the variable or daily posted price, allowing them to "float" with the market value, Gault said.

"In essence, we buy off the rack," he said.

It is the most popular option this year, used by almost 60 percent of his customers, Gault said.

In a stable or declining market, the customer gets the lowest price, he said. But the plan offers no protection if the market goes up.

A smaller portion of his customers, about 15 percent, capped at a ceiling price, he said. Under this plan, they pay an extra subsidy of 20 cents to 30 cents per gallon, which usually means about \$200 to \$300 annually, he said, and pay the lower price if the market falls, Gault said.

Rob Stone of Westport said he picked the capped program because it will limit the cost of his heating bill and allow him to take advantage of lower prices if the market drops more.

"When you look at it, (the subsidy is) about 5 or 6 percent of the annual cost," Stone said. "You could pay that 5 or 6 percent through conservation."

He locked in a capped price in September, Stone said, when hurricane season might have driven up the price.

Gault said heating oil consumers need to start thinking "long term."

"If you feel comfortable and stick with a program on a longer-term basis, you should see returns you wouldn't see in a couple years," he said.

Customers who regularly evaluate their habits are more savvy, Gault said.

Still, as the heating season gets under way, regular customers, suppliers, and even experienced industry analysts can't predict the volatile peaks and valleys of prices.

"Who knows where we are in the cycle?" said Peter Beutel, an industry analyst and president of Cameron Hanover Inc. in New Canaan. "A great deal is going to depend on what the dollar does, the stock market, the weather."

It would be foolish for people to walk away from prices that seem high, he said.

"For all we know, it could be a very cold winter," Beutel said.

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