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Summer is often the best time to lock in home heating oil for the winter

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It may not be the exact equivalent of casino gambling but locking in the price of home heating oil for next winter is still a gamble. And now is the time of year — in the dead of summer — when fuel oil dealers around the state start rolling out their price protection programs, including pre-buy and budget plans for the start of next heating season.

Michael Kundrath, who tracks fuel prices for the Department of Public Service, said homeowners can save money by locking in a price for the heating season but there's no guarantee. "If you lock in and the price goes up, you're ahead of the game," said Kundrath, the department's energy and policy analyst.

If the price goes down or plummets, as it did during the economic collapse of 2008-09, consumers who locked in their heating oil price that summer got burned when the bottom fell out of the oil market.

According to the Vermont Fuel Dealers Association, with rare exceptions such as the economic collapse three years ago, homeowners who lock in their heating oil price come out ahead because historically the price rises during the heating season.

"Now these pre-buys and fixed-price can be a great thing for the consumer in terms of securing their gallons at the best possible price," said Matt Cota, executive director of the Vermont Fuel Dealers Association.

With a pre-buy or fixed-price program, a homeowner pays for all their fuel in advance, buying a specified number of gallons at a discounted, fixed price.

Homeowners in the state burn an average of 800 gallons of oil during the heating season.

With that in mind, Cota said, relatively few Vermont homeowners can afford to pre-buy their heating oil for the entire heating season.

But many dealers also offer budget plans where the customers agrees to buy a specified number of gallons at a fixed price and makes installment payments over 10 to 12 months. Budget plans usually cost more per gallon than pre-buys.

If the price falls, customers can add "insurance."

Also referred to as downside protection, it allows the customer to lock in a price, but guarantees a lower price, if the market price drops.

Cota said downside plans come with a cost — a premium of 25 cents to 30 cents a gallon. He said customers who want to hedge their bets on fuel oil prices, need to weigh the additional cost against the odds of the price decreasing or increasing.

“Even with all these programs, the reality is more than half of all consumers simply choose to buy their oil based on the spot price,” Cota said, “meaning they’re on automatic delivery and they pay within terms, whether it’s within 10 or 30 days or cash on delivery.”

For the fuel dealer, there is a risk as well.

“If you were a dealer and you were on the wrong side of that 2008-09 price spike and then price drop, you bet you’re more cautious in going into these programs,” Cota said.

Cota said state law mandates that fuel dealers secure 75 percent of the amount in gallons of fuel sold to customers within seven days. He said dealers purchase fuel on the wholesale market in 42,000 gallon increments.

He said more dealers are likely waiting before rolling out their price protection programs. The delay, in part, reflects waning interest on the part of consumers because of the “volatility of the market and the current price … which is high,” he said.

Wild swings in price in recent years reflect the world oil market’s extreme volatility. A case in point is the July price for home heating oil, which fell 16 cents a gallon from June, to $3.58 a gallon, the Department of Public Service reported. In contrast, the July price is nearly 30 percent higher than a year ago. The July retail price for propane was $3.01 a gallon, down nearly 12 cents from June but up more than 14 percent from a year ago.

A PSD survey of fuel dealers found that the average pre-buy price for home heating oil in July was $3.72 a gallon. The average price for budget/cap plans was $3.79 a gallon. The department noted that because of the low number of cap and budget plans reported so far by fuel dealers, the two numbers were combined. The average propane pre-buy price in July was $3.14 a gallon; budget/cap plans averaged $3.79 a gallon.

Trono Fuels won’t roll out its price protection plans until later this summer when the price of oil is historically lower, said company president Peter Trono.

Although the price of oil remains high, he said he sees no sign that customers are losing interest.

“The indication from the customers is that they are very interested,” said Trono, whose company has offices in Burlington and Barre. “I don’t believe interest is dwindling even though the price is anticipated to be higher than it was last year.”

Trono said as a rule pre-buys save customers money and allow them to budget their heating costs for the entire season. He said one of the rare exception when those customers didn’t save money was the economic meltdown of three years ago.

But Trono emphasized that locking into a pre-buy or fixed-price plan is a risk because of the volatility of the world oil market.

At Keyser Energy in Rutland, customers so far are showing less interest in price protection plans.

“What we’re seeing, at least this year, is a bit of muted response to what we’re doing,” Chris Keyser said. “It doesn’t seem to be as much interest in it as in prior years.”

He said customers may be reluctant to sign up for price protection programs because of the economy. Keyser also said given high price of oil some people may be betting that the price will come down.

Keyser's recent pre-buy price was $3.69 a gallon; those signing up for a budget plan will pay a fixed price spread out over 10 months of $3.79 a gallon. Keyser said only about 20 percent of his customers have signed up so far for either the pre-buy or budget plans.

Gasoline and home heating oil prices fell in July, coinciding with the announcement by the United States and other countries that millions of barrels of oil would be released from strategic reserves.

According to the federal Energy Information Administration, world oil markets are expected to tighten through next year with the price of crude increasing from $102 a barrel this year to $108 a barrel in 2012. The EIA cautioned in its recent report that the "price outlook remains uncertain" because of possible supply disruptions in the Middle East and whether non-OPEC countries will increase production.

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