



Fall 2007

As the 2007/2008 heating season approaches FMA offers the following perspectives.

- According to the United States Energy Information Administration (EIA), the retail price of heating oil is almost identical to where it was a year ago. In August 2006 the retail price of heating oil was \$2.51 per gallon and in August 2007 it was \$2.52 per gallon.
- The most important and least understood aspect of the price we pay for energy is the role of speculators. Last year the United States Senate Permanent Subcommittee on Investigation found that \$20-\$25 of the cost of a barrel of crude oil was attributable to the role of speculators. The same Subcommittee has recently investigated how speculators drive up the price of other fuels, such as natural gas. As a member of the Energy Market Oversight Coalition, FMA is calling on Congress to require greater transparency of the activities of those speculating in energy since the “irrational exuberance” of these traders can create self-fulfilling prophecies. When news that could impact future prices or supplies occurs, speculators load that concern into the current price, whether the events they feared occur or not. This then drives up the price we pay to heat our homes, fuel our vehicles, and power our businesses. Attached is a copy of the letter sent to Congress elaborating on the reforms that need to be instituted.
- Many homeowners want to know when is the best time to “lock-in” via a price protected program, for the upcoming winter, Oilheat marketers would like to know this answer as well. Price protected programs are usually either a fixed price where the price stays the same for the entire season, or a cap price where the price is “capped”, and if the prices declines the consumer gets the lower price. Remember, price protected programs are not without cost. Oilheat marketers must buy insurance, or “hedge” heating oil their customers want. The cost of hedging used to be approximately three cents per gallon, now it is approximately eighteen to twenty cents per gallon, due to excessive speculation by hedge funds and other traders in the commodities markets. The cost to hedge is a function of the volatility in the market - the more volatility, the more expensive the insurance. The purpose of a price protected program is not to guess months ahead of time what the lowest price of the winter will be, rather these programs are offered as a way for consumers to anticipate their heating costs. Remember, almost all Oilheat marketers offer you the ability to spread your payments out with an annual budget plan, call your local Oilheat marketer for more information.

- For those who are looking to “pick” the right time to buy product, the last two years have seen heating oil prices lower in the winter than in the summer. For example, according to EIA the price of heating oil in August 2006 was \$2.51 per gallon whereas the price for heating oil in February 2007 (a very cold month) was \$ 2.39 per gallon. One of the reasons for this is speculation in the summer months when demand for heating oil isn’t strong can move the market (as it also can in the winter). The summer months historically have been the time that consumers have looked to lock in their prices. Conversely even with a cold February the price can stay flat, or even decrease, since speculators may be looking forward at gasoline markets and the summer driving season.
- The price protected heating oil contract is no different than any other consumer contract, it cannot be abrogated. When the price of heating oil has decreased during the season, some customers who desired and entered into price protected contracts wanted their Oilheat dealer to give them the lower market price. Unfortunately, since the Oilheat dealer has to enter into a contract with their supplier that they cannot get out of, they cannot allow their customer to break their contract. This type of contract is no different than any other consumer contract. If a car dealer offers a better deal a month after you buy a car you cannot renegotiate the contract.
- Some recent attention has been focused on “low” heating oil inventory at the beginning of the season. According to EIA, total distillate (heating oil and diesel) inventory nationally is 92 % of where it was a year ago- 134 million barrels (mmbbls) for the week ending September 7, 2007 whereas it was 145 mmbbls for the week ending September 8, 2006. Heating oil inventory on the East Coast was at 32 mmbbls for the week endings September 7, 2007 as opposed to 44mmbbls for the week ending September 8, 2006. Some have read this and are alarmed at the fact that there is only 73% of year ago inventory. However, one has to look further behind the numbers to see that over the past seven years the average heating oil inventory for this time of the year according to the EIA has been 34 mmbbls. So last year was the anomaly and heating oil inventory on the East Coast is 94% of the seven year average, hardly anything to be alarmed about. Furthermore, this year the inventory is actually “more” than in previous years. This is due to a change that prohibits heating oil from being used in many off-road engines such as tractors, excavators, boats, locomotives, etc. All the inventory that in previous years was used for these applications, as well as space and water heating, is now only utilized for space and water heating (and some very limited generator usage).
- Homeowners are reminded that regardless of the fuel they use to heat their home they should have their heating system professionally inspected, and tuned-up, if necessary. A central heating system is no different than an automobile which needs periodic inspection and maintenance. Making sure your heating equipment is running at its peak efficiency can save you up to 10% annually on your heating bills. Homeowners should take other steps to ensure their homes are properly winterized, including; ensuring your attic is properly insulated, caulk/weatherstrip around doors and windows, and install storm windows/doors. The money spent on weatherization pays benefits year-round since it reduces summer cooling costs as well.
- For an even greater reduction in your heating costs you may want to consider installing a new highly efficient boiler or furnace. Depending on the specific system you are replacing, new equipment can save you up to 40% on your heating bills. Call your local Oilheat dealer for what options are right for you.
- At times we fail to remember that your local heating oil dealer is a heating oil customer also, subject to all the same market forces as consumers are. Your local dealer has been your partner in reducing heating oil consumption from nearly 1,700 gallons per home a generation ago, to less than

900 gallons now. Whatever your heating or cooling needs are, call your local Oilheat dealer for help in reducing your energy costs.

The Fuel Merchants Association of New Jersey (FMA) represents small businessmen and women who distribute heating oil, gasoline and diesel fuel in the state. Our members distribute heating oil to residential, commercial and industrial customers and distribute branded and unbranded gasoline and diesel fuel to service stations they own, and to service stations they supply, as well as to state and local governments and commercial fleets. FMA's members also install and service central heating and air conditioning equipment.