



**PRESS RELEASE
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HOW HEATING OIL PRICES ARE DETERMINED--

Alexandria, VA- The United States sources of heating oil are domestic refineries and imports from foreign countries. Refineries produce heating oil as a part of the “distillate fuel oil” product family, which includes both diesel fuel and heating oil. Distillate products are shipped throughout the United States by pipelines, barges, tankers, trucks and rail cars. Most imports of distillate come from Canada, the Virgin Islands and Venezuela.

Heating oil is traded on the commodities market. This means heating oil cost is subject to fluctuations, just like the stock market. The price of crude oil has the biggest impact on the price of wholesale heating oil. Due to the variations in crude oil prices, dealers are generally price takers on any given day.

Heating oil like any energy product responds to supply and demand fundamentals, such as cold or warm weather. Additionally, heating oil prices in this country may be affected by a supply disruption in oil producing country, or even cold weather in Europe. On a daily basis, heating oil prices can vary widely.

Prices can change for a variety of reasons. These include:

Seasonality in the demand for heating oil - When crude oil prices are steady, home heating oil prices tend to slowly rise in the winter months when demand is highest.

Changes in the cost of crude oil - Crude oil is a major price component of heating oil, changes in the price of crude oil will generally affect the price of heating oil.

Competition in local markets – Competitive differences can be substantial between a locality with only one or a few suppliers or dealers versus an area with a large number of competitors.

Regional operating costs - Prices also are impacted by higher costs of transporting the product to remote locations. In addition, the cost of doing business by dealers can vary substantially depending on the area of the country in which the dealer is located. Costs of doing business include wages and salaries, benefits, equipment, lease/rent, insurance, overhead, and state and local fees.

Because the heating oil industry is composed of many companies, there are a wide variety of pricing options for consumers. Not all of these are available from every retailer or in every area.

Retail Price

Prices move up or down during the heating season; retail price customers are not locked into a set price as they are with a Price Protection Program. The retailer typically sets his price for the day, and then deliveries are made at that price.

Price Protection Programs

Fixed Pricing: The retailer and customer enter into an agreement establishing a price for heating oil. This establishes a stable and known price for the heating season, and allows the customer to establish a firm budget for his heating oil needs. Fixed pricing may be varied by adjusting the number of gallons subject to fixed price. Additionally, some of these agreements include provisions allowing the contract to be ended for a pre-established fee.

Cap Pricing: A cap price creates a maximum price per gallon that homeowners will pay, regardless of whether the price of heating oil on the markets increase. However, it also allows the price of heating oil to fall if the price of heating oil falls during the heating season.

Generally dealers offering Price Protection Programs do not personally guarantee the price. Instead they use public markets to buy fuel at established prices during the heating season. This ensures that they can sell the product at the price they negotiate with their consumers. As a result, when the customer signs a contract to buy at a set price, the dealer signs a contract with his supplier.

Payment Options

In addition to the pricing options, the retail heating oil industry also often provides different options for payment.

Payment by Load: The most typical payment option is to pay for the oil after it is delivered. The oil company delivers to the customer, and leaves a ticket at the door with the number of gallons delivered and the price.

Budget Plans: Another common option is for the dealer to estimate the number of gallons the customer will use during the season, and the expected price. He then divides by the months that the bill will be paid, typically 10-12 months, and the customer makes monthly payments. This allows for smooth payments that are easy to budget. Some dealers will make minor adjustments in the season to keep a smooth billing cycle, and others will do a settlement bill at the end of the year

As a result of the competitive nature of the industry there are many different pricing alternatives. It is important for customers to understand their pricing options and pick the one that is best for their family.

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