

Pricing perils

Oil companies could feel the pinch as customers consume less and switch to cheaper suppliers

By Sujata Srinivasan

As home heating fuel prices hover well above last year's costs, some Connecticut companies are benefiting, while others are taking a hit from changes in consumer spending.

Lionel Harris of South Windsor makes frequent trips to Home Depot — to insulate his house from Old Man Winter's biting cold, and his wallet from soaring oil prices. One among 5.9 million consumers of home heating oil in the Northeast, Harris could cough up 27 percent more, or an extra \$325, this winter due to record high prices, according to the Energy Information Administration (EIA), a statistical agency of the U.S. Department of Energy.

Like many other consumers across the state, Harris will be turning down the thermostat a few notches and using insulation and other energy conservation initiatives to reduce his consumption of home heating fuel. As a result, he expects to fill his 550-gallon capacity tank just once through the entire season. That's 350 gallons less than the 900 gallons that will be used by the average Connecticut home heating oil customer this year, estimates Jim Meehan, general manager of Portland-based Peterson Oil Co.

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Heating

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Harris is not alone in his reaction to higher heating oil prices. Homeowners across the region, oil companies report, are becoming savvier about saving money on fuel oil. And some oil companies are already feeling the pinch.

Virginia Caldwell, manager of Manchester-based Ultimate Oil, which sells its home heating oil at \$2.209 a gallon, says, "Everybody's holding back on consumption. Demand has slowed down and customers are afraid, because they're not sure how high prices are going to go." (All prices are quoted as of press time.)

But she notes, "they're not switching to natural gas because it's more expensive." According to the National Energy Assistance Directors' Association, a typical household using natural gas is expected to pay \$1,568 this year on home heating fuel—a whopping 64 percent price increase over the same period a year ago.

Paradoxically, other oil companies are benefiting as a result of higher prices. Along with cutting consumption, many customers are more actively shopping around before signing a contract. That's been a boom to oil companies with the lowest prices.

Dena Brewer, general manager of Advantage Fuel in East Hartford, sells oil at \$2.099 per gallon, about 50 cents higher than the corresponding period last year. Although her margins are off by 10 cents a gallon, she says she can't raise her prices any further for fear of losing customers, who are highly price sensitive. However, what she loses in margins, she gains in volume. "I think the price of oil is forcing people to shop. In the last two months, we've gained two to three customers a day from competitors," she explains. Brewer has also managed to retain old customers.

"Advantage's prices are great, they are reliable, and you know you're not getting ripped off," says customer Lisa

Durrenderger of East Hartford. "Still, prices have gone up and I have 1,600 square feet to heat. So I lower the heat during the day and will use more of the wood stove this year. Last year, we used more of the heating oil."

Advantage is not the only company benefiting from the uptick in prices. David Upton, general manager of Mercury Oil LLC in Glastonbury, a company that set up shop in February, sells oil for \$2.00 per gallon. "I'm new and I'm hungry, so my prices are low," he says. Further, while Brewer of Advantage Fuel does not offer customers the option to lock in prices because of the risk involved, Upton says he had a terrific summer, since half of his customers pre-purchased oil at \$1.25, \$1.30, and \$1.40. He is currently exploring the option of supplying bio diesel at no added cost to consumers.

Mercury supplies 700 gallons of oil a day, while most competitors supply between 3,000 and 4,000 gallons. Although margins have dropped by half in the last month, Upton says to his high-priced competitors — "Keep it

"I think the price of oil is forcing people to shop."

— Dena Brewer, general manager, Advantage Fuel

up! Soon I'll get more of your business!"

He has reason to be optimistic. In the last month alone, Upton gained 60 customers from competing companies. "It's a great time to start an oil business if you're the cheap guy on the block. There's a lot of shopping going on now," he points out.

David Carr of Hebron recently switched to Mercury after purchasing oil for 10 years from his previous supplier, whose name he declines to reveal. "I decided to shop for the best prices," he says, adding that his previous supplier



Bradley Heinbokel (right), assistant manager of Home Depot in Manchester, shows insulation material to Lionel Harris of South Windsor, who has taken extensive weatherization measures to save energy costs this winter. Like many others, Harris hopes to reduce oil consumption in the face of record high heating prices.

was charging 30 cents a gallon more.

Carr also installed a pellet stove in his 1,900-square-foot home, dropped the thermostat to around 62 degrees, and heats only one of the three zones in his house. "I live alone, have a fixed salary, and must make my budget work. That's why it's important that I'm getting the best price that I can," he adds.

Still, Carr explains that the increase over last year in oil prices is hurting his wallet and will impact his spending on movies and restaurants this winter. "I'll be packing my own lunch to [take to] work," he points out. "It disgusts me to hear about the huge profits that oil companies are making, while people like me have to support these huge profits."

Exxon Mobil, Chevron Corp., Shell Oil Co., BP America Inc., and ConocoPhillips, along with their parent companies, earned more than \$32.8 billion during the third quarter on the back of gasoline and heating oil price increases. Congress is exploring these profits and is considering implementing a windfall tax on the industry.

Not surprisingly, home improvement

stores are also ringing up healthy profits as oil prices rise. Chains like Home Depot, Lowe's and Ace Hardware, for example, are doing a brisk business selling weatherization products.

"As of October, sales for window weather stripping, pipe insulation, energy efficient bulbs, and faucet covers increased by about 40 percent over last year," says Bradley Heinbokel, assistant manager of Home Depot in Manchester.

"I would definitely attribute this to energy costs. Oil prices look like they will go up this year, and customers are asking us how they can make their homes more energy efficient," he points out. "We've had between 60 percent and 70 percent increase in sales of wood stoves — everyone wants alternative heating sources."

Though Home Depot customer Lionel Harris has rung up \$3,000 for new windows, insulation and weather stripping to date, he feels it's well worth the savings in heating costs over the long run. Still, he knows his bills will be steep this year. "I'll definitely be spending more on heating oil this winter, and that means I'll have to cut back on holiday expenses," he says.

Meehan of Peterson Oil, which currently charges \$2.549 a gallon for home heating oil, attributes this year's higher oil prices to the run-up in the New York Mercantile Exchange

(NYMEX) as a result of low refinery utilization rates in the Gulf Coast, following recent hurricanes.

Refineries in the region are currently operating at 84 percent of total capacity, down from 95 percent in the same period a year earlier, but up from 79.1 percent about five weeks ago.

Although oil prices have dropped since last month, they are steeper than the comparable period in 2004. For example, Kasden Fuel Co. in East Hartford charges \$2.349 per gallon, compared to \$2.89 about a month ago. Still, prices are up significantly over last year, says a spokesman, who feels a cold winter could cause demand to go up, triggering another price increase.

Phil Flynn, an oil analyst with Chicago-based Alaron Trading, agrees. "Right now, the supply of distillates [diesel and heating oil] is below normal for this time of the year. Even though we've seen prices come down of late, they are vulnerable to go higher if we have a very cold winter," he says.

That has the state worried about those who will find it hard to pay to heat their homes this winter.

"I remain concerned about the state's

fiscal situation and the toll these energy prices are taking on our state budget. But I am also concerned about the toll they will be taking on family budgets," Governor M. Jodi Rell said in an Oct. 31 press release. The governor asked oil companies to donate a significant portion of their third-quarter profits to the Connecticut Energy Assistance Program (CEAP).

The Senate Bill 2100, *An Act Concerning Heating Assistance*, which was passed during the special session currently under way, will provide aid for low- and moderate-income families facing sharp increases in prices for all forms of energy this winter. The bill enables more households to qualify for weatherization services, and offers a sales tax exemption on insulation and other energy efficiency products and equipment between Nov. 25, 2005 and Apr. 1, 2006.

While these initiatives will certainly provide some relief to consumers, they offer little solace to people like Carr. "What the state's doing is a good thing, and it will help those who qualify for such programs," he acknowledges. "But it won't help with the high cost of fuel, and that's the biggest problem. Those bills have to be paid, and the money's going to come out of spending in other areas."

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