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Business

Heating oil prices cooling downward

By Frank Szivos, Contributing Writer

08/20/2009

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Hold onto your thermostats, but there's actually some warming news about oil heating prices these days: they're down considerably compared to the same time last year.

At the moment, heating oil prices are hovering around \$2.20 a gallon compared to last year when prices touched \$3. Panic was setting in between May through July of '08 when oil prices exploded into the \$4.50 range and threatened to rise higher. Consider that a barrel of oil in 2008 peaked at \$147 compared to today's prices of about \$65.

Michael Tucker, professor of Finance at Fairfield University, liked the price offered by his dealer and locked it in to set a ceiling for what he'll pay for this upcoming heating season.

"Prices could go down, but you're not investing," Tucker said. "And the price could go higher. If you're comfortable with the range, then lock it in and be done with it."

At the moment, Tucker points out that the demand for oil is down because of the recession (a typical economic phenomenon), and doesn't look as if it will change any time soon.

However, some speculators were assuming that the economy would turn around in the fourth quarter of this year and could begin investing in oil futures. But speculation is just that - uncertain. No one can predict the cost of oil for certain, according to Tucker.

"Speculators really drive the market," Tucker said. "Many thought the economy would turn around and the demand would go up."

Gene Guilford, executive director & CEO of the Independent Connecticut Association of Petroleum, recommends understanding all the nuances of oil buying programs before signing a contract. For example, buying at a fixed price allows certainty in what you will pay for a gallon, but you could also be stuck at that price even if the market continues to trend down. In short, it's a gamble.

"It's still summer and no one can tell you where we will be by winter," Guilford explained. "But people should pay close attention to contracts. Understand what you're getting into before you hand over money. Once you buy oil at a fixed price you own it regardless if the prices continue to fall."

Sam Gault, president of Gault Energy Solutions in Westport, thinks this is an ideal time for consumers to lock in affordable prices to insure against any unforeseen rise in cost.

"We're recommending to our clients to cap their price now so they can get the best of both worlds," Gault said. "It gives you the best of both worlds. You're actually buying insurance against any drastic jump in price."

With the capped price program, consumers can lock in the ceiling price, which can be adjusted down if oil prices drop. However, the price per gallon is slightly higher than the market price as a hedge if retailers have to absorb unexpected cost hikes.

Consumers can also opt for a fixed price per gallon, but there's a risk with that. Once you lock in a fixed price, you're stuck with it for the heating season. If oil prices continue to trend downward, you lose.

The reason prices can't change downward under the fixed price program is because the State Attorney General requires oil dealers to purchase in futures at least 80 percent of the oil needed for fixed contracts. As a result, dealers are also locked into a purchase price that they cannot change.

Charles McGoldrick, owner of McGoldrick Fuel in Fairfield, encourages his customers to hang on a bit longer to get a better read on the trend in oil prices. In the long run, he believes riding out price fluctuations and buying at the market rate when you need it will save consumers money. He admits that this strategy invites risk.

"After 38 years in the business, we never know what the price of oil is going to do," McGoldrick said. "Why buy in warm weather for something you don't need until it gets cold. Go with the flow and see what happens. Everyone will pay less for fuel over the long run."

Regardless of the price of heating oil in the future, consumers should ensure their homes are energy efficient, which is probably the best hedge against rising costs. For example, Gault recommends that homeowners have energy audits to ensure they're saving the most money possible on heating and cooling.

"As a company one of our missions is to educate consumers to use less oil," Gault said. "High efficient energy equipment can put money back in consumers' pockets and that's good for the economy."

These energy conservation steps can save a significant amount in energy costs:

* An annual energy conservation check-up for home heating systems - keeping the system running cleanly and efficiently can cut fuel consumption by 5 percent or more.

* Programmable thermostats. For very little money, using a programmable thermostat cuts fuel usage by as much as 5 percent and pays for itself almost immediately.

* Insulate heating pipes. Inexpensive insulation on heating pipes or ductwork raises efficiencies and lowers costs by as much as 5 percent.

* Replace old, drafty windows with Energy Star certified windows - replacing older windows with new high efficiency windows can save up to 15 percent.

* Insulate the home - a home energy audit can reveal where better insulation could help, and improved insulation can cut fuel use by as much as 30 percent.

* Upgrade an outmoded heating system - new oil heat systems can achieve efficiencies as high as 96 percent and can cut fuel usage by nearly 50 percent.

"This industry is not just about selling oil," Gault said. "We're trying to save the customers money with energy conservation."



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