

## TALKING POINTS FOR OILHEAT

The price of crude oil, and heating oil have risen over the past several months. This is a concern to the industry, and we should be aware of some of the factors that influence the current prices, as well as steps that can be implemented to reduce the burden of higher prices.

- The recovery and strengthening economies in the United States and the industrial world has increased demand for crude oil. Demand in the United States is approximately 5 percent greater than demand in 1997, when the United States economy was expanding rapidly. Demand in the industrial world has also expanded by approximately 5 percent in that time period.
- China's economy has been expanding rapidly, putting pressure on demand for a number of commodities. Since 2000, Chinese demand for petroleum has grown by nearly 25 percent.
- Crude oil production throughout the world has expanded greatly in the 1990's and early 2000's. In the early 1990's, average production of crude oil throughout the world was 66 million barrels per day. Currently worldwide production is over 82 million barrels per day.
- The strong hurricane season this fall resulted in significant lost production in the Gulf of Mexico. Oil drilling platforms were shifted by the winds, and much of the pipeline system in the Gulf was disrupted. That production is now being restored, but it may be six months before all repairs are completed, and production returns to pre-hurricane levels..
- The rapid expansion of both supply and demand has made it difficult to match supply and demand at reasonable and stable prices. As a result, we saw significant downward pressure on prices in the late 90's when we experienced historical low prices, unfortunately we are now seeing upward pressure on prices.
- In addition to the global market pressures, there is political uncertainty in several countries which are significant contributors to world oil supplies. The former Soviet Union continues to be the largest producer of crude oil (producing over 10 million barrels a day which is higher than the United States and Saudi Arabia). There are criminal investigations regarding one of their larger companies which

has injected uncertainty into the market. And finally, Iraq has not come close to approaching the levels that it produced prior to the first Gulf War.

- Supplies of heating oil in the northeast for this time of year are adequate; however, they are on the low side of the average. While there is a great deal of discussion of stocks, at this time of year stock levels are not very important. The ability to have continuous supplies in the heating oil states is much more important. Therefore, below average stocks should have no impact on markets or supplies.
- There is 2 million barrels of heating oil stored in multiple locations in the northeast. That product can be released by the President if there is an actual disruption in supply or the price for heating oil increases rapidly compared to crude oil. In nearly a century of service to homeowners, through wars, cold weather, snowstorms, the oilheating industry has always gotten oilheat to American homes.
- The inventory in the Strategic Petroleum Reserve is 665 million barrels, the most that the reserve has ever held, and it continues to expand.
- Prices in the mid to low \$50 range are higher than what consumers have grown used to. However, in inflation adjusted terms, the price would have to be \$57 to exceed the value leading up to the 1990 Gulf War, and above \$80 to reach the high price levels of the early 1980s.
- In late October, there have been significant reductions in prices for crude oil and heating oil, and forward months on the NYMEX indicate continuing price declines in the coming years, in excess of 10 percent.
- The best strategy continues to be conservation. NORA has completed a 160 page training guide “Efficient Oilheat, An Energy Conservation Guide” which is the foundation for the NORA Gold Certification. This program educates technicians on energy conservation strategies ranging from simple thermostat replacements to system redesign including boiler replacements and how to analyze the energy savings for consumers. It also includes information on how to explain these energy improvements to the customer. Working with customers, energy costs can be lowered by 20 -25 percent for many customers. Careful attention to energy conservation can cost effectively be achieved by nearly all consumers.
- There has been talk of a credit problem in the industry as a result of the high prices. Credit terms for most oilheat retailers have needed adjustment. However, there can be no doubt that consumers will be able to buy oilheat during the coming winter. Wars, natural disasters, depressions have not prevented the delivery of this critical product; a short term increase in prices will not affect the ability of the industry to perform during the winter.

