

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 72 million barrels per day.
- Hurricane Katrina is currently having a strong impact on prices. According to EIA, nearly 95 percent of the crude production in the Gulf of Mexico has been shut down due to Hurricane Katrina. The Gulf of Mexico and Louisiana supply approximately 12 percent of the crude supplied in the United States. Fortunately, the heating oil market is part of an international supply and distribution chain, and much of this supply will be made up in world markets.
- According to EIA, nearly 88 percent of natural gas production has been shut in due to the Hurricane. However, Louisiana and the Gulf of Mexico supply nearly 25 percent of the U.S. demand. Additionally, natural gas may only be imported at special facilities, and the worldwide market for natural gas is just developing.
- Since 2000, the spot price for natural gas has quadrupled. In that same time period, the price of crude oil has increased by 260 percent. Both products have had a strong upward movement, but natural gas has been move significant.

- Inventories for distillate are above average, last week they were 6.6 percent larger than the previous year, and on the east coast they were 12 percent higher. These are the largest inventories held in storage since January 2004.
- 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..
- 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 700 million barrels, the most that the reserve has ever held, and it continues to expand. The President has authorized a release of this product to make up for the crude production lost in the Gulf.
- Prices in the mid to low \$60 range per barrel of crude are higher than what consumers have grown used to. However, in inflation adjusted terms, the price would have to be above \$80 to reach the high price levels of the early 1980s.
- 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.
- NORA estimates that a replacement of an older boiler, that is burning 1200 gallons of oil per year could save nearly a third of the oil consumed and bring the house down to the national average of 800 gallons per year. If the party was paying \$2.50 per gallon, this would save nearly \$1,000 per year. Another way of looking at it is to say that the boiler conversion essentially lowered the cost per gallon by 33 percent or to \$1.65 per gallon.
- Less expensive modifications such as insulating pipes and ducts can save 5 percent per year, and even a modest tune-up may save 3 percent. For a house using 1000 gallons, these changes will pay for themselves in a short time.

