



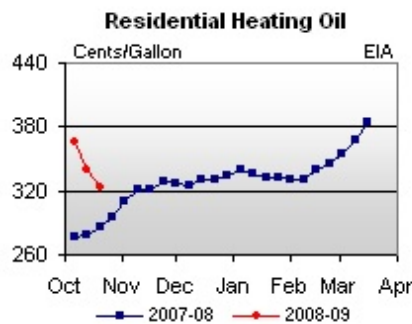
On being wrong - the falling price of home heating oil in Maine

Posted by [Heading Out](#) on October 31, 2008 - 9:54am

Topic: [Supply/Production](#)

Tags: [heating oil](#), [maine](#), [marcellus shale](#), [natural gas](#), [north east](#), [original](#), [rockies express](#), [wood pellets](#) [[list all tags](#)]

Sometimes, I have to admit, when predictions are made, I can be just wrong. Asked, early in the summer as to the wisdom of buying winter supplies of heating oil in the North East, I suggested that there would be a likely continued rise in price, and that with distributors having problems, that an early securing of supplies would pay off. Well it is not happening. Recent stories have [shown](#) that the price of heating oil in Maine has fallen from \$4.71 in July to \$3.08 last week. The national average heating oil price as shown by the [EIA](#) is steadily falling.



The underlying facts about world production potential have not changed, but the demand side of the equation has, at least temporarily, and with this change, the price has dropped. Winter still comes around (I look up at a tomato ripening on the window ledge as temperatures outside drop to freezing) and this winter has been [predicted](#) as being a bad one.

AccuWeather.com Chief Long-Range Forecaster Joe Bastardi today released his 2008-09 Winter Season Forecast addressing issues of average temperature and precipitation impacting the nation. His forecast calls for one of the coldest winters in several years across much of the East.

The core of cold was centered across the Great Plains last year but is expected to be farther east this year. Bastardi says the winter of 2008-2009 will be viewed as the hardest in several years. "It may be a shock to some when compared with the above-average temperatures of last year in the East. It will put some 'brrrrrr' in the saddle of folks who have not had to deal with such things for a while," he cautions.

The toughness of the winter will not be seen just by those who use the oil. Distributors, and the

"A lot are starting to bounce checks," said a trader at a wholesale heating oil supplier, who requested anonymity to protect the supplier's standing in the physical fuel market. "Credit lines are definitely strained."

In the Northeast U.S., heating oil's biggest market, hundreds of dealers, ranging from single-truck operations to publicly traded corporations, bring the fuel to customers.

The fractured system, which stretches back decades and includes many multigenerational family owners, connects into a global market through the heating oil futures contract on the New York Mercantile Exchange, which in turn acts as a global benchmark for other products, including diesel and jet fuel.

But the story goes on to note that inventories are 25% lower than they were last year, and though the price drop has helped the financial stability of some distributors, the price is still higher than it was this time last year, and it won't take much of a disruption to take it back up.

I have written in the past about the supply of natural gas into the North East, and the recent [drop in price](#) from \$13.58 to \$6.50 per million Btu, would initially suggest that there is nothing to worry about this year for that fuel either. However stocks are down a little over this time last year, when they were at record levels. If the cold weather is arriving a little earlier this may also reverse the decline in price, and depending on the winter's severity may also remind folk that the cheaper supplies from the Rockies aren't quite to Ohio yet, though the Rockies Express pipeline (REX) reached [Missouri in May](#). Comments on an extension through Ohio (which it was scheduled to reach in June, 2009) close [this week](#). This is later than had been intended, and with this delay in getting permits, the project completion has been set back about [five months](#). (Interestingly there is some [concern](#) that this will hurt supplies to places such as Nevada.)

We have reached a time when production from the Marcellus shale in PA is now [gearing up](#), so this supply may have an overall influence on price. However, given the relative cost of the wells, it will be interesting to see how the entire dynamic of price plays out with the two new competing sources of natural gas becoming available at around the same time. This may be especially interesting with the changes in the financial market.

At the other side of the country up in Alaska, one might have thought that supplies would have been more assured, given that the recent redistribution of oil revenue [to the residents](#) has been upped by some \$1,200 per person. However, getting oil out to the more remote communities of the state continues to be a difficulty, and at an additional cost, so that prices away from the towns may well be at double that in the city. This is leading to concern from the Alaskan Federation of Natives, who considers that it is reaching [emergency levels](#).

One of the impacts that this might have, is on the longer-term availability of natural gas from Alaska into the lower 48. The recent decision that [TransCanada](#) will run the pipeline the 1,715 miles from Prudhoe Bay to the Alberta Hub in Canada may face the same sort of objections from Native tribes that has caused problems for the [McKenzie River project](#) further East.

If the economic downturn reduces demand, with the concurrent increased availability of natural gas in the short term, then the economics of pipeline construction may not be as immediately pressing as they might have appeared even a year ago. Unfortunately putting off the construction planning and the other preliminary work that presages construction may mean that by the time

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that Arctic gas finally gets down to the lower 48, it will be considerably later than can do most good for the country.

Perhaps in recognition that it is no longer prudent to rely so heavily on external sources, Maine is now seeing construction of [wood pellet plants](#), although there is currently a [greater demand than supply](#). Part of the reason for the shortage is credited, in part, to the ability to buy larger volumes at a time, without the storage problem that arises with other forms of fuel. The pellets are selling for around \$300 a ton, with one plant producing 60 – 70 tons a day during the summer. With demand increasing there are plans in place for expansion of the industry.

Which reminds me that it is time for the annual chimney sweeping, so if you will excuse me nothing like a face-full of soot to keep one humble.



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