

Heating Oil 101

Mass Energy's guide to common market practices & local services for home heating oil

Mass Energy is a Boston-based non-profit organization. For over 35 years we have offered a *Discount Heating Oil Service* to oil consumers in New England.



Price & Payment Options

There are three basic payment options: Billing, COD and Budget. Dealers have different terms and conditions for payment—it is important to pay attention to small differences.

It should be noted that the oil retail pricing market is unregulated. That means dealers can charge whatever retail margin they want. It is in most dealers' best interests to stay within competitive pricing, but it never hurts to periodically compare what you're paying to

the state average price released by the Department of Energy resources. You can see every DOER average price released since 2004 on our website: www.massenergy.org/heating-oil/historical-prices.

20-30 Day Billing

This is the standard payment plan for customers on Automatic Delivery. Dealers DO NOT typically offer billing to Will Call customers, except in rare cases at the discretion of the dealer.

With 20-30 day billing, you have 20-30 days (depending on the dealer) to pay your oil bill. Most dealers offer what is called a "Prompt Pay" price: if you pay your bill within 5 to 10 days, you will get a discount and save between 3 and 10 cents per gallon.

For Will Call and Automatic Delivery customers, most dealers will allow you to put a credit card on file which they can charge automatically after a delivery (guaranteeing the prompt pay price).

Cash on Delivery (COD)

This option is available for Will Call customers, because they plan to be home and available to the delivery truck. COD is not available to Automatic Delivery customers, though they have other options (see 20-30 day billing, and Budget plan). Most dealers will accept personal checks and many also accept credit cards, if one is placed on file in advance (you may be subject to a credit check). Some dealers may require cash payment. Check to see what forms of payment your dealer accepts.

Paying COD saves you 3 to 10 cents per gallon off the 20-30 day price, but you need to have a credit balance with the dealer or be present with the payment when the delivery is made.

Budget Plan

A budget plan makes using oil more like a regular utility, much like your phone or water bill. Your cost is fairly even and there are no surprise huge oil bills that sneak up on you (a

full tank of oil can cost \$700 these days!). It also helps dealers plan, reduce their costs and become more efficient. It is typically offered to Automatic Delivery customers only.

How it works: The dealer considers your annual consumption and establishes what they feel will be a fair average price for the coming winter. Then they come up with a total estimated cost for your oil consumption for the season. Next, they break that cost up into manageable monthly payments. Most budget plans call for ten monthly payments. These payments start as early as July, and end in April.

When you're on budget plan, oil is delivered automatically and charged to your budget account. During the season, budget plans are reviewed to check if you are paying too much or not enough. The dealer will then adjust your budget payment accordingly.

Budget plans are seasonal and dealers try to establish them early; typically, you must apply by October. If you apply later, you may have to make a large initial payment to catch up.

Lock-Ins, Caps, Fixed Prices and Pre-Buys

Prices fluctuate daily according to the wholesale price or the market. Most customers will pay the price of the day from the day their oil was delivered. However, every season, dealers offer the option to lock-in, cap, or otherwise fix a price for the upcoming winter. This is referred to as "hedging."

A lock-in is a set price that you will pay for every gallon of oil that the dealer delivers to you all year long. If you lock-in at \$3.50/gallon, you pay \$3.50/gallon even if the price of the day is \$3.75... and even if the price of the day is \$3.30. With a cap of \$3.50, you pay NO MORE THAN the \$3.50/gallon even if the price is higher, but if the price is LOWER than the cap, you get the lower price.

At times, lock-ins or caps work out with fair savings. However, dealers who offer capped or fixed prices need to pay an option premium to an oil trader, which is then passed onto the consumer. This means an added cost per gallon. Dealers typically require a moderate "up-front payment" to guarantee the price. These prices are also designed to make

a profit no matter what happens to the wholesale price of oil. Consumers who choose a cap pay enough to mitigate the risk the dealer is taking.

Mass Energy's *Discount Heating Oil Service* does not use caps or lock-ins—instead we regulate the retail mark-up that a dealer can charge. Over the years, we've found that in most cases, our programs saves members more money than most lock-in or cap prices would when taken across a season.

Service Options

Service Contracts/Policies

A service contract is an optional form of insurance. It covers qualified regular and emergency service costs in the case that your system breaks down or malfunctions.

The cost of a service contract depends upon the dealer, and typically ranges from \$200-\$400 for one year of coverage. In their price calculations, dealers include the cost of a tune-up, plus the chance that you will call them for service. Each contract covers a defined set of services and parts and almost always covers an annual tune-up, or "cleaning." The dealer will provide you with a copy of their contract upon request, which you should read before buying in order to avoid misunderstandings. It is normal practice in the industry to exclude certain parts and repairs from service contracts. A good contract is clear and competitive with those offered by other full-service dealers.

If your system is older, a service contract is an excellent idea. If your heating system is very old or in disrepair, the heating oil dealer may decline to offer you a service contract. If your system is denied a service contract, we strongly recommend that you address the problem. If the dealer recommends getting the system replaced, ask for a bid from that dealer and get two more bids.

For a service contract, dealers typically require you to be on automatic delivery. Many also require an inspection as well. Some require that you pay for a tune-up prior to them accepting your system for a service policy. This is especially true if your system hasn't been receiving regular maintenance.

Tune-Ups and Repairs

If you have a newer system, just paying for an



annual tune-up or “cleaning” should be your cheapest option. If, by chance, you need an emergency service call that is not covered by the warranty, the dealer will send a service technician as long as you have an established account with them.

If the dealer recommends a repair and is offering to do that repair for a good price, make the repair as soon as you can. If the repair quote is high, you may want to get a second opinion.

Whatever choice you make, we highly recommend that you order a tune-up every year. The savings gained in efficiency, and by reducing future service calls, more than pays for a yearly tune-up. Call your dealer as early in the season as possible, because you may have to schedule weeks in advance.

When you get the tune-up, ask the technician for a complete written report. The most important figure is the efficiency. Any system rated at less than 70% AFUE is a strong candidate for replacement. See page for more info on replacing your system. The ambient air in the area around the appliance shall have no greater than 9 parts per million (ppm) of CO. You will also receive a measurement

combustion efficiency, which should be 80% or higher in efficient systems, and of Annual Fuel Utilization Efficiency (AFUE) which should be 70% or higher.

The following combustion efficiency test results are considered acceptable for oil-fired heating systems after a tune-up has been performed.

Smoke	0 to Trace
Net Stack Temperature	300 to 600
Net Stack Temperature with Flame Retention Burner	300 to 400
CO ₂ (Carbon Dioxide)	8 to 12%
O ₂ (Oxygen)	4-8%
CO (Carbon monoxide)	less than 100 ppm in flue (goal = 0)
Draft at Breach	-.02 to -.04
Draft over Fire	-.01 to -.02

***Note: During a tune-up, the use of “soot sticks” is not an acceptable alternative to brushing and vacuuming the heat exchanger surface.*

The Rising Cost of Service

You may have noticed throughout the past few years that the cost of a service policy has gone up significantly. In the summer of 2013, Mass Energy looked around to see what was happening in the industry, and found that there has been a 19% increase* in the average renewal price for service contracts over the last 5 years. Why?

Before 2008, when wholesale heating oil prices were at \$1.00 - \$2.00, dealers’ profit margins (as a percentage of their sales) were adequate to help carry the business. Since 2008, when wholesale prices began a steady climb toward the \$3.00 per gallon mark, that is no longer the case. Dealers had to look at their entire operation to see where they could raise their bottom lines while keeping their heating oil prices as low as possible. Furthermore, the rising cost of health insurance increased faster than the general rate of inflation and it has heavily

impacted labor costs, which affects service pricing. This has led to a general surge in the cost of service policies.

How long will this last? We've already seen this trend begin to peak, and these price increases slow or even stop as dealers try to distinguish themselves from their competition. Hopefully the future includes steadier prices.

**Based on data from Gray, Gray & Gray, LLP's Oil Heat Survey Results (www.gggcpas.com)*

Can I get help to fix or replace my heating system?

Replacing your system

If the system needs to be replaced or upgraded (we highly recommend replacing systems with an AFUE (Annual Fuel Utilization Efficiency) of less than 70% - your dealer can test for AFUE), get 3 bids and make sure each has an Energy Star rating.

If your utility is NSTAR, National Grid, Western Mass Electric Company, Unitil, or Cape Light Compact, you can participate in a statewide program called Mass Save®. Replacing your heating system may qualify for the 0% Interest "HEAT Loan Program" sponsored by Mass Save and your sponsoring service provider or gas or electric utility.

The HEAT Loan provides customers with the opportunity to apply for a 0% interest loan up to \$25,000 (depending on approval by the lender) to assist with the installation of qualified energy efficiency improvements. To qualify, you must own a one-to-four-family residence, obtain a no-cost Mass Save Home Energy Assessment, and plan to install a qualified energy efficiency measures as recommended by a Mass Save representative. The representative will be able to provide you with the HEAT Loan Intake Form, direct you to a participating lender, & give you all other documentation.

Call Mass Save at 1-866-527-7283 or visit MassSave.com to ask about the HEAT Loan. If you live in a town or city with a municipal utility, contact them directly for a no-cost assessment and to ask about any other special offers they may be providing.

New Hampshire residents:

Find information about energy efficient heating incentives at

www.nhsaves.com

or through the utility that supplies your heating fuel.

Fixing your system

If you own your home and are on fuel assistance, the following information on the statewide HEARTWAP, from <http://www.mass.gov/hed/community/energy/heating-system-repair-and-replacement-program.html>, may be helpful to you:

Heating Emergency Assistance Retrofit Task Weatherization Assistance Program (HEARTWAP) provides heating system repair and replacement services to low-income households. The program is administered by a network of local agencies, in most areas the same agency that administers the Low Income Home Energy Assistance Program (LIHEAP or Fuel Assistance) program.

Through the heating season, the program is primarily an emergency-based heating system repair program that helps eligible homeowners pay to repair or replace defective or unsafe heating systems. If sufficient funds are available after the heating season, HEARTWAP will complete maintenance work (clean and tunes) and replace heating systems that are in poor condition and not worth repairing.

Households are served based on need. Eligibility for HEARTWAP services is based on eligibility for the current year's LIHEAP (Fuel Assistance program). Interested households should contact their local Fuel Assistance agency for application information (visit www.masscap.org to find the agency near you). Households will be required to verify their income, household characteristics, address and home ownership status.