

Heating Costs Seen Jumping This Winter

By JOHN WILEN | AP Business Writer
11:25 PM EDT, October 9, 2007

NEW YORK - Almost all Americans will pay a lot more to heat their homes this winter, even though temperatures are expected to be warmer than average. That's the sobering message from an Energy Department report Tuesday that estimates heating oil costs are likely to jump 22 percent and natural gas bills, on average, will rise 10 percent between October and March.

And while the National Oceanic and Atmospheric Administration forecast a milder than average winter in most parts of the country, the agency also predicted Tuesday that temperatures will be 1.3 percent colder than last year.

In Massachusetts, where about 40 percent of homeowners rely on oil for heat, consumers are bracing for price spikes, said Michael Ferrante, president of the Massachusetts Oilheat Council, a trade group. "They are buttoning up their houses even more, they are turning down their thermostats, they are wearing sweaters," he said.

Surging crude oil prices are the primary, but not the only, culprit for the jump in fuel oil costs. This spring and summer, American refineries experienced an unusual number of unexpected maintenance outages. The net result was that fewer refineries were producing gasoline, heating oil and other petroleum products.

The outages sent gasoline prices to a record \$3.227 a gallon in late May as refiners scrambled to produce enough gasoline to meet peak summer driving demand.

"Because they used every ounce of the refinery to produce gasoline, it came at the expense of distillate fuels" like home heating oil, said Phil Flynn, an analyst at Alaron Trading Corp. in Chicago.

Despite the government forecast, natural gas futures prices have actually been mostly falling in recent weeks. Inventories remained high as new sources of natural gas were tapped this year and a cooler summer depressed demand.

"We could have all-time record storage by the beginning of February," said Tim Evans, an analyst at Citigroup Inc. in New York.

But all of that could turn around if oil prices stay high and electricity plant operators switch to natural gas for units that can burn either fuel, said Ron Denhardt, CEO of Strategic Energy & Economic Research Inc., in Winchester, Mass.

On the other hand, supplies coming on line this year, including Anadarko Petroleum Corp.'s Independence Hub platform in the Gulf of Mexico and a portion of the huge Rockies Express natural gas pipeline project, are expected to boost natural gas supplies by 2 billion to 2.5 billion cubic feet.

"That's a lot of supply coming on," Denhardt said.

The Energy Department estimated a gallon of heating oil will rise to \$2.88 this winter as crude oil prices stay high. Crude futures traded on the New York Mercantile Exchange have surged by more than a third from a year ago and settled Tuesday at \$80.26 per barrel, up 1.2 percent for the day.

In Massachusetts, the Division of Energy Resources said dealers were charging an average \$2.72 a gallon for fuel oil on Tuesday -- a record high, and up 5 cents from the most recent survey on Sept. 18. The figure is 11 cents higher than the peak that followed a series of price spikes after Hurricane Katrina in 2005.

Heating oil is used by 7 percent of American households, mostly in the Northeast, while natural gas heat is used by 58 percent of households. Another 30 percent are heated by electricity, which the Energy Department estimated will rise 4 percent in cost this winter.

For the 5 percent of American homes that use propane, winter heating costs are expected to increase 16 percent.

While some homeowners are choosing to convert to natural gas furnaces, oil dealers argue that such conversions don't pay. An average conversion costs \$5,575, the Oilheat Council says.

"I think consumers understand if they do the research, heating oil has been cheaper than natural gas in the past," said Ken Williams, owner of Scott-Williams Oil, in Quincy, Mass.

The wild card in the heating cost estimates is the weather. If the U.S. experiences a warmer than expected winter, prices of some fuels could fall through the winter.

But if the winter is particularly cold, prices could jump more than expected. "You could have (supply) tightness if you're going to have a colder-than-normal winter," Evans said.

Penny Taylor, who spent about \$350 a month last winter to heat her Sarasota, Fla., home with electric heat, blanched when she heard about Tuesday's price forecast from the Energy Department.

"I think we're going to have to get a lot of blankets, because there's no way we'll be able to afford to run the heat," she said.