

Consumers want out of fuel oil contracts

Consumers who locked in high price for home heating fuel stuck, AG says

HARTFORD, CT -- Call it locked-in remorse.

State officials have received about 1,000 complaints from people who locked into home heating oil contracts last summer, when prices were pushing up against \$5 a gallon.

Now, with prices at about half that amount, Department of Consumer Protection Commissioner Jerry Farrell has fielded 700 complaints and Attorney General Richard Blumenthal's office has gotten several hundred reports from customers who believe they're now being gouged.

Connecticut oil dealers say -- and Blumenthal agrees -- that state law required them to commit to higher contracts with wholesale distributors at the same time consumers signed their winter delivery deals last summer, months before the historic plummet in oil prices.

Blumenthal said Wednesday that there's little or nothing that locked-in customers can do, unless their contracts are flawed or inadequately drafted.

He said that some contracts may be invalid or unenforceable, especially if the price was not disclosed in advance or in writing, along with method of delivery and penalties in case a contract was broken.

"There is a limit on what they can charge when a contract is terminated," Blumenthal said. "The dealer will have to prove he bought futures for a prepaid product."

Complainants should calculate how much product they used heating their homes last year, multiply that by the difference in the current market rate versus the contracted rate, then

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calculate whether that amount exceeds the potential contractual penalty, he said.

"That has to be done

family by family, consumer by consumer, how big the house is and how much heating oil is used," Blumenthal said.

Then, a consumer contemplating walking away from their existing contract has to consider whether fuel oil prices will rise before the end of the heating season.

About 110,000 customers signed up for contracts last summer, among a statewide

total of 682,000 who heat with oil, said Eugene A. Guilford Jr., executive vice president of the Independent Connecticut Petroleum Association.

In July, the per-barrel price of crude oil topped \$147 and Wednesday, it was more than \$100 cheaper.

Guilford said in 2005 the General Assembly passed a law requiring that heating oil dealers that offer guaranteed contracts, fixed prices or cap plans, have to secure 75 percent of the oil from a wholesale distributor or futures contract.

"If a consumer purchased earlier in the summer a contract for \$4.69 a gallon, say, from a retailer, chances are the retailer purchased, by law, 75 percent of that contract, probably for \$4.10, from an upstream supplier, to meet the state statute," Guilford said.

Last summer, before the failing financial services and credit markets dragged down the national economy, many feared \$5, even \$6-a-gallon fuel oil this winter.

After Labor Day, oil dropped drastically while the American financial crisis spread around the world.

"Instead of being protected at \$4.69 against \$5 oil, the market's heading toward \$2.50," Guilford said.

"The heating oil dealer is saying 'you asked to be protected and under the law, I had to go out and get it, but I'm not in a position to sell it now for \$2.50,' so this has put some consumers and dealers in an awful position."

Guilford said the price collapse is unprecedented and it will result in bankruptcy for some smaller oil dealers.

"Frankly, we've been everywhere from Hartford to Washington trying to figure out a way to deal with this," he said. "Even though we get heart-rending stories from customers, we can't help them."

Blumenthal said that oil speculators, including hedge funds, are the big winners from the high prices of last summer. His office is investigating at least two claims of price gouging.

"We try to help consumers where we can, but there should be no false hopes," Blumenthal said. "If heating oil prices had skyrocketed, it would have been binding on the dealers."

He said there is no "pervasive" evidence of price gouging or windfall profiteering "because generally, dealers have laid down the money for future delivery and they've committed to buy the product just as they've committed to sell it."

Tom Santa, president of the 68-year-old family owned fuel company in Bridgeport, said Wednesday that he sent a letter to customers this week explaining the issue.

"We've been offering guaranteed pricing programs since 1989," Santa said in a phone interview from his Santa Fuel Inc. office. "Nine-tenths of the time the price goes up. This is the first year we have seen a significant move on the down side."

He said that his "several thousand" customers include about 10 percent who are on a fixed-price plan and another 10 percent on a cap program where they won't pay more per gallon than an agreed upon price. "It's a difficult situation for everyone, but who could have anticipated that the economy would collapse?" Santa said.

"The people who locked in wanted assurance. The people who didn't lock in won this time," he said