

## SUPPLY AND PRICING OF HEATING OIL - DECEMBER 2010

The current price of heating oil is of concern to everyone, including the industry, and we are pleased to have the opportunity to respond in more detail to many questions that have been raised by consumers.

There is a number of factors influencing the high prices that consumers are experiencing at present. The price of crude is one, but the dollar/sterling exchange rate has to be factored into that as well (although there has not been any great change in the last few weeks so it has not influenced the sterling price to any great extent over the period in question). The UK does not produce sufficient kerosene (heating oil) from its refineries and so it also has to be purchased as a finished product on the international market where, due to supply and demand, its price is not necessarily directly related to that of crude.

The price of kerosene to the distributor changes daily. In a rising market, when quoting for delivery some time in advance, the distributor would be foolish not to factor this in to the price: he does not know what he will be paying for the fuel by the time of the delivery. This is not very satisfactory for distributors or their customers, but it is the direction the market has taken in the last few years and is something over which the distributors have no control.

The recent bad weather has caused problems for distributors in obtaining kerosene. Order levels have been more than twice the seasonal norm. Although there have been areas that have not been too affected by snow, these supply problems have been almost universal as there has been a knock on effect. For example, some of the terminals from which distributors collect product are rail-fed and there has been disruption of rail supply from the east coast refineries because of the weather. Therefore distributors have had to go further afield to collect product, putting strain on terminals in other areas that would otherwise have had sufficient supply. There have been queues of tankers at the terminals waiting to load as everyone descends on terminals where and when product becomes available. Drivers have to be paid for queuing time and also for the time spent going further afield to collect product.

In areas where the weather and road conditions have been bad, it takes longer to make deliveries. For example, one driver took five hours to make a single delivery where, in normal circumstances, drivers make around 16 domestic deliveries in a day. The driver's time still has to be paid for. Because many people have run out of fuel, tankers are having to be routed to supply them rather than using the most efficient routing. This, again, means drivers are less productive than normal.

The Federation issued a press release to local press in early autumn to try to encourage people to fill their tanks before the pre-Christmas rush, but, unfortunately, not many papers carried it and the temperatures plummeted earlier than anticipated. The modern, small volume tank is an additional problem in that people cannot store sufficient to see them through the winter.

In conclusion, there are additional costs because of the weather and the supply situation. Distributors have to recoup these through the price of the fuel as delivery costs form part of the litre cost. It is a highly competitive market and consumers get a really good deal in normal circumstances. The current circumstances are not normal, but we hope normality returns rapidly. The FPS sought and obtained from the Government a relaxation of the regulations covering drivers' hours to enable them to catch up on the backlog of deliveries. Relaxing health and safety regulation is not something the Government does lightly. It indicates recognition of the abnormality of the situation.

**A statement released by the Federation of Petroleum Suppliers.**

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