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February 17, 2009

Co-Chair John Fonfara
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Energy and Technology Committee:

My name is Bob Katzman and I am the manager of Krall Oil, a family owned business in New Haven since 1928. Krall Oil is a small business in this state with about 20 employees. Small businesses like ours are the lifeblood of the economy. We have been servicing our customers faithfully for over 80 years.

I am here to support Bill 506, a proposal to ban all fixed and capped home heating oil contracts. The simple fact is that these contracts, with very limited exceptions, are bad for both consumers and oil dealers.

Fixed price home heating oil contracts for consumers first came into being about 15 years ago when oil dealers tried to keep home heating oil consumers from switching to gas heat provided by public utility companies.

Now, however, these contracts are generally offered to consumers for a much different reason.

I recognize that there is a portion of the consumer population who believes that they can lower their future costs by entering into these fixed price or capped

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contracts. Yes, even a broken clock is right twice a day. But surely you must realize that this belief, by those consumers inclined to want these contracts, is generally misguided and simply not supported by statistical evidence.

So I ask you to seriously consider first the enormous risks and costs imposed by the existence of these contracts on virtually everyone that is a part of this system and, second, whether the ongoing costs and risks to the many outweigh the infrequent benefits to a few.

Fixed price or capped contracts represent a form of gambling and speculation on the future price of a commodity whose price is impacted by many variables over which no one, I repeat, NO ONE, has any control. These factors include basic economic principles of supply and demand, even the weather. History and statistics amply demonstrate that this type of speculation and gambling is dangerous for unsophisticated investors. Consumers should have been thinking about locking in when prices were low and been avoiding lock in contracts when prices spiked higher. Instead, with human emotion being what it is, many consumers rushed to lock in at precisely the wrong time....when prices spiked up. This past year, alone, consumers who purchased these contracts have overpaid for their heating oil by millions of dollars. You can gauge the level of consumers' dissatisfaction, anger, and their economic pain by reading the newspapers or considering how many complaints have been filed with the Attorney General's office or the Dept. of Consumer Protection.

The deck is stacked against the 'little guy' and consumers and small businessmen represent the ultimate pool of 'little guys'. As an illustration, why is it that most consumers who want to lock in their future heating oil costs would have to lock in at a cost higher than the current price?

Mathematically, future prices can go up or down from today's levels for a variety of reasons. Stock options to buy or sell publicly traded stocks in the future can be found at both higher and lower strike prices. Yet, for heating oil consumers, fixed price contracts are ordinarily available only at prices for future delivery that are higher than today's prices. If market oil prices were to remain steady between now, when a consumer enters into a fixed rate contract, and next season when the consumer needs his heating oil, chances are that the consumer would have lost money. He would have been better off NOT locking in his price even if the price of oil remained steady. What does this tell you? Right off the bat, the deck is mathematically stacked against the consumer. The same holds true for the small to medium size oil dealer who feels they must need to offer these contracts for competitive reasons. These dealers themselves can only lock in their supplies for long term delivery at prices higher than today's actual price and they have to pass his or hers costs to the consumer.

Even professional traders and investors have difficulty anticipating future events. Just look at the recent economic carnage that has descended upon the housing markets, Wall Street, and Main Street. Sure, there is considerable blame to go around and a number of reasons of how we ended up where we have. But, no one can dispute that supposedly sophisticated Wall Street investment banks took trillions of dollars of mortgages, bundled them into securities and, with the backing of credit default swaps provided by AIG, sold them to supposedly sophisticated investors worldwide. And what was the result? Merely the biggest financial crisis since the Great Depression!

These same types of financial geniuses who brought the entire world financial system to the brink of collapse now want us to rely on their commodity futures scams and believe that the "Average Joe" can come out ahead by gambling on fixed price contracts to lock in the cost of his future energy purchases.

And the direct risks of oil market speculation are not limited to the "little guy'. Just look at the current lawsuit between Sprague Energy, Global Companies, and Levco Tech, Inc., one of the largest privately owned companies dealing in oil and gas futures in Connecticut. Look at F&S in Waterbury last year who filed for bankruptcy, left many people unemployed, and many of your constituents out in the cold with oil contracts that F&S could not honor. Look at SemGroup, the 12th largest privately owned company in the United States, filing for bankruptcy this past year after trading in oil futures trading.

When major players in the oil commodity and futures market cannot appreciate the market risks they are taking, why would you bury your heads in the sand and continue to believe that even unsophisticated consumers would understand the risks they are taking?

Furthermore, when major players in the options and fixed price contract markets fail to appreciate the risks, they not only put their own companies and employees at risk, but they also they put their customers and trading partners at risk, and they also give a black eye to the reputation of everyone else in the business. We at Krall Oil, having been in business for more than 80 years, have gained the respect and trust of our customers during this time. But because these exist for our customers, to remain competitive, we must offer them or watch up to 20% of them walk out the door to a competitor, all while our customers' trust in us is eroding.

Consumers who purchase these fixed price contracts are not the only ones to lose out from the existence and availability of these types of contracts. Because all dealers who offer these contracts lose money on these contracts, all retail customers who have <u>NOT</u> purchased these contracts and think that they have saved money have actually overpaid by approximately 30 to 50 cents a gallon because they are subsidizing losses the dealers incur by offering these contracts.

Ask any dealer in this room who supports the sale of these contracts and is against Bill 506's proposed ban if they would be able to stay in business if all they did was sell these contracts at the same prices they do, but without selling a drop of oil at retail. The answer can be found in the fact that there are no businesses that consist solely of entering into these contracts with homeowners or property owners. These contracts, by themselves, do not and cannot support or provide a sustainable business model.

In Connecticut, there are approximately 500 million gallons sold at retail on an annual basis. That equates to \$150-\$250 million in extra costs incurred by consumers, your constituents. Then factor in the millions lost by consumers who locked in their costs by purchasing these contracts only to see the market price of oil drop. You quickly see that all consumers lost this past year. Furthermore, only a very few lucky consumers who gamble correctly from time to time on the future price of oil can ever come ahead and, even then, only on a short term, but not a long term, basis.

If most consumers who buy these contracts generally do not come out ahead, you may be wondering why dealers lose money on these contracts. Let me explain how the system works for a marketer like me and probably for most marketers in this room who have to offer these contracts for competitive reasons.

First of all, in order for a company like us to even offer a fixed price or capped contract to our customers, state law now requires us to purchase in advance at least 75% of the oil that we are offering. This requirement was intended to insure, if a consumer wants the contract, that we will have the oil to sell and deliver to them. Even before I can be sure how many customers will accept the offer requiring me to deliver oil to them months in the future, I have to have oil supply commitments of my own. Before I even send out letters offering these contracts, I have to assume how many customers will want to lock in and for how many gallons. Let's assume that Consumer A wants to lock in 1000 gallons for this heating season. We then go to our supplier to lock in his 1000 gallons. Our supplier tells us that we have to buy oil in 42,000 gallon or 1 barrel of oil increments. Just like buying a stock where you have to buy whole shares, you cannot buy a partial barrel. You have to buy the whole barrel all at one time. Our supplier then advises us that I must pick a month I want the oil. He will then find out what oil is trading for that month on the NYMEX, mark it up and give me my cost. Right now, for next January, the price quoted to me is probably 15-25 cents more a gallon then today's cost of oil. If I pick January, he then tells me that I must use that oil only next January and if I do not take it all, I might lose the oil or have to sell it back at a price that I do not know today. So, now, I had to commit to buy 42,000 gallons for one month and I have sold only 1000 gallons in advance for the entire season.

Furthermore, Consumer A will not use all 1000 gallons in January. He might use 200 in October, 150 in December, 175 in January, 225 in February, 150 in March and 150 in May. Meanwhile, I am not protected in any of those months except January. So I must buy 42,000 gallons in every month just to protect myself for those small deliveries in each month that I have committed to deliver to Consumer

A. I also must hope that I can sell all the other oil I just bought, which is about 336,000 gallons, to protect that 1000 gallons.

Now let's get back to a company that anticipates selling 1 million gallons of fixed price contract oil. By law, that company must buy a minimum of 750,000 gallons before sending out its offering letter and waiting for responses. This past year, prices were extremely volatile. More than the usual number of consumers showed interest in the fixed price contracts as prices were spiking. Dealers who chose not to offer these contracts at that time would have lost customers. But dealers who chose to compete in this market had to lock in at high prices. When prices began falling precipitously, many consumers who initially wanted to lock in decided, instead, to buy at retail and not to pre-buy like they did last year. As a result, the dealer might have a fixed price commitment of only 200,000 gallons sold of the higher priced oil. He is now forced to sell the remainder, which in this case is 550,000 gallons, at a retail price far below what his cost was. Hopefully, he can average in the price that he pays at the rack and the price he bought the oil for. It is hard to cover a 600,000 gallon shortfall at $2 a gallon.

So what happens? The company must charge its retail customers more per gallon than he should to try and offset the loss. Every retail customer who thinks he saved by not locking in is, in effect, subsidizing the shortfall. Every customer who locked in is mad because they made a bad choice this year. So, in essence, every customer lost out.

Yet the oil dealers, like Krall Oil, are not profiting. Everyone thinks that the oil dealer is making money. But he is not. He is just trying to cover his shortfall. So again, everyone lost.... the dealer, the locked-in consumer at a high price, and the retail consumer.

Trying to guess how much a consumer will use, and in which months, and how warm or cold it will be in any given year, is challenging. That is why it is impossible to know how much oil to buy so far in advance. While this is an inherent risk in this type of business, this risk is exacerbated because of the existence of these types of contracts.

This was an example of when the market drops. You might think that when the reverse happens and oil prices go up instead of down, the oil dealer hits a home run. You might ask yourself what happens when the market goes up. The dealer and consumer must both win. Well, not exactly. Last year, when the prices were low, dealers like Krall Oil locked in consumers at roughly $2.50 per gallon for 75% of our oil. When February came and the prices started skyrocketing, the dealer had to cover the extra 25% of the sales in February, March, April and May at a higher cost. But he could only charge the fixed price consumers $2.50 per gallon.

So once again, the dealer had to start raising his retail cost higher and higher to offset this loss. Once again, both the oil dealer and retail consumer lost.

Like any other product we buy in the store or at the gas station, consumers should pay what the normal retail cost should be based on dealer cost. In the long run it will balance out. Competition will make sure of that. One year you might pay more and the next year the price might be lower. But at least you are not overpaying by hundreds of millions just to offset loses year after year.

Besides dollars and cents, there are many business issues that dealers need to address and deal with during the year insofar as offering fixed price contracts, such as:

1. The consumer did not get the mailing.
2. The consumer wants to call and renegotiate.
3. The market drops after mailing.
4. The dealer came out too soon with the mailing.
5. The dealer came out too late with the mailing.
6. The contract calls for one year and it is too cold and you need more oil.
7. The contract calls for one year and it is too warm and you have left over oil.
8. The contract calls for gallons and again it is too cold.
9. The contract calls for gallons and it is too warm.
10. The contract calls for gallons and the customer has a small amount left over.
11. The contract calls for one year and the customers all want to be topped off the last day.
12. Administrative costs, letters, postage, phone support.
13. Customer list value.
14. The oil dealer emotional and psychological problems and stress.

There are also four factors controlling all of the above and over which the dealer has no control. These are:

1. Time - By the time the company and the customer get all the paperwork and money sorted out, the price has changed a thousand times already.

2. Price - By the time the dealer has an agreed price and hangs up the phone, the price might have gone up or down by as much as $.10 per gallon within those minutes.

3. Weather - No one can predict or control the weather. When a customer gets a delivery, it all depends on the weather.

4. Minimum orders - Oil companies are required to buy oil in increments of 42,000 gallons at a time. Sometimes a wholesaler might sell oil in ½ quantities or 21,000 gallon increments at a higher cost to the dealer. The oil consumption of a consumer is not as straight forward. The dealer can never guess right when it comes to actual consumption.

So I ask you to consider. Who is benefiting from these contracts? And under what set of very limited circumstances? And at what cost to consumers who do not enter into these contracts?

These are difficult and turbulent economic times. One of your primary responsibilities, as elected officials, is to protect your constituents. It is hard to justify allowing consumers to overpay by millions of dollars for fixed or capped contracts on which dealers are lucky just to break even. It is also hard to justify allowing 80% of retail consumers to be paying higher prices than they would otherwise be paying simply because a portion of consumers are speculating and gambling on the future price oil.

The federal government in Washington has finally woken up and realized that small businesses and consumers, alike, need to be protected. Hartford should wake up and do the same for its citizens and small businesses.

Please support S.B. 506.

Respectfully,

Bob Katzman

Bob Katzman

AKarp ll
6Kra

The New York Times
nytimes.com

October 23, 2008

Some Regret Locking In Price for Oil

By KEN BELSON

After the rapid run-up in oil and gas prices over the past two years, many consumers have been happy to see them subside in recent weeks.

But then there are those who tried to outsmart the market by signing contracts this summer — when prices peaked — locking in rates for delivering home heating oil through the winter. They will most likely end up paying more than their neighbors to heat their homes and apartments this winter.

Barbara Daley, who is 76 and lives on Long Island, signed up in September at $4.22 a gallon. Now, with prices around $3.10, she is looking for a little sympathy. Mrs. Daley said her heating oil company, which she did not want to antagonize by naming, told her it would cost $599 to terminate the contract — about what she paid to fill up her 250-gallon tank one time last winter.

"They said it might go up to $6, so I locked in a fixed price," Mrs. Daley said. "I've been with this company 30, 35 years. You would think you would get some consideration. I'm not asking for the world."

There are no accurate figures on how many people across the nation are stuck in unfavorable contracts. But in one indication of how widespread the problem may be locally, the New York Public Interest Research Group, which negotiates with oil companies on behalf of consumers, said 8,000 of the 20,000 members of its buyers group signed contracts this summer to deliver fuel at fixed rates, at prices between $3.80 and $4.20.

"Customers who signed fixed contracts have a major problem," said Larry Faria of Nypirg's fuel-buyers group. "They'll be hurting because prices are coming down."

The degree of their pain depends on when the contracts were signed. The most acute is for those who signed deals in July, when home heating oil prices peaked at $4.78 a gallon.

An additional 8,000 of Nypirg's buyers signed deals that cap the maximum price they can pay, but allow them to pay less if prices drop. Given the recent slide in prices, these people have made out better than those who signed fixed-price deals. But in many cases, oil companies have been charging customers in capped-price plans 10 to 20 cents more per gallon than the going rate to protect against a rapid fall in prices in the future.

Home heating oil companies say they are being unfairly blamed for circumstances often beyond their control, noting that oil prices are set by large refiners and wholesalers. When customers signed fixed-price contracts this summer, their heating oil companies bought the fuel from wholesalers at a similar price, making it difficult to cut prices now.

"You are playing the market, and a contract works both ways," said John Maniscalco, the executive vice president of the New York Oil Heating Association. "If you lock in a fixed price, if the price goes up you're going to feel like a hero. If it goes down and your neighbors are paying less, you'll feel different."

Mr. Maniscalco, whose group represents 160 companies in New York City, said that many home heating companies did not see profits rise as much as oil prices because they did not pass along all of the increases to their customers. In many cases, he and others in the industry said, companies have been giving customers an extra month or two to pay their bills in the face of the high prices.

"We have to carry our customers and we have to take out credit lines to do it," said Mike Coppola, who owns Bell Fuel Oil Company in Brooklyn, which has 700 customers. "When it goes up, we don't immediately raise prices because we don't want to scare consumers. When there's a downswing, we try to get some of it back."

But Senator Charles E. Schumer complained that large oil companies have not cut their prices as rapidly as the price of oil has declined on commodity markets, and he has called on the Federal Trade Commission to pressure them to do so.

"It's simply baffling," Mr. Schumer said in a statement. "When oil prices go up, gas and home heating oil prices go up, but when oil goes down, mysteriously nothing really happens."

On Wednesday, Andrew J. Spano, the county executive in Westchester, echoed Mr. Schumer's complaint, sending a letter to local heating oil companies asking them to consider their customers' plights. He suggested that they consider, for instance, lowering delivery fees to soften the blow.

"Some customers, particularly seniors who were worried that there was no end in sight to the cost of oil, locked in rates over the summer when they were at their peak — about $4.50 a gallon," Mr. Spano wrote. "These consumers are now locked into sky-high prices, even though much lower-priced heating oil is available."

Amid the complaints, more consumers are trying to avoid heating oil altogether by switching to natural gas. Con Edison said that 1,618 single- and multifamily homes in its service territory — most of New York City and Westchester County — converted to natural gas from January to September this year, 11 percent more than during the same period in 2007.

But that conversion costs $5,000 to $7,000, so it can be a long-term investment. Though natural gas can be more convenient — no furnaces to clean, no deliveries to wait for — prices have been just as volatile as those of heating oil in recent months.

It is too late for such an option at Parkchester South Condominium, a group of 116 apartment buildings in the Bronx, whose board voted this summer to sign a fixed-rate contract that runs through the end of 2008.

"We're blowing our budget out of the water by a couple of million dollars," said Michael Naclerio, the general manager of the condominium, who declined to say how much he was paying. "In hindsight, it turns out it was the worst decision we could have done."

The board has since negotiated a contract for 2009 that is 30 percent lower, a figure that equals the condominium's projected heating oil budget for 2008, Mr. Naclerio said.

SemGroup's $3.2 billion failure shocks backers

REUTERS

By Robert Campbell
Fri Jul 25, 12:04 PM ET

The dramatic collapse of energy trader SemGroup LP shocked the privately held firm's backers who until last week had little idea of the extent of the oil trading losses that sank it, sources said this week.

As late as June a banker at Bank of America (BAC.N), one of SemGroup's main lenders, described the fast-growing company as one of his best clients, two sources said this week.

The Tulsa, Oklahoma-based company filed for bankruptcy on Tuesday after suffering $3.2 billion in losses on energy futures and derivatives trades that SemGroup says were designed to protect its physical oil trading business.

SemGroup creditors said this week they had little idea of the extent of the firm's losses and were surprised by the much larger than expected size of the hedging program.

Some creditors suggested on Wednesday the possibility that fraudulent trades may have caused the collapse.

"Last week was the first that we heard of this level of losses and at the same time heard the need for more money," said Keith Wafford, a lawyer for 11 SemGroup lenders in a U.S. bankruptcy court hearing on Wednesday.

Due to the larger than expected hedging losses, SemGroup creditors will likely recover only half of the more than $7 billion they are owed, Moody's Investors Service said on Thursday.

Shareholders including private equity giants Ritchie Capital Management, Riverstone Holdings and the Carlyle Group are expected to be wiped out.

Founded in 2000, SemGroup grew rapidly through dozens of acquisitions, becoming the 12th-largest privately held company in the United States last year, according to Forbes.com.

SemGroup told investors its operating cash flow could reach $600 million this year before the cost of hedging its physical oil trading business which bought or sold more than 500,000 barrels of oil a day, two sources said.

But on a July 15 conference call with lenders, SemGroup revealed its massive bets that oil prices would fall had gone spectacularly wrong and that it was out of cash, sources said.

The next day, Bank of America, the administrative agent for three secured loan facilities totaling $2.55 billion, issued a default notice to SemGroup, bankruptcy court documents show.

"These guys were supposed to be the straight arrows. They had smart, veteran traders and everyone is shocked by what has happened," said one source close to the bank lending group.

DEFAULT CASCADE

The Bank of America default notice triggered a cascade of bad news for SemGroup. The company suspended its co-founder and chief executive Thomas Kivitso and was forced to recognize $2.4 billion in losses on NYMEX crude oil futures when it transferred its trading position to Barclays Plc (BARC.L).

Included in the losses was $290 million owed to SemGroup by Kivitso's personal trading company.

By July 17, counterparties to SemGroup's over-the-counter energy derivatives trades began terminating trades, resulting in a further $850 million loss for SemGroup.

"People had no idea about these over-the-counter trades and absolutely no idea that Kivitso was running his own NYMEX book within the company as well," said a source close to the lenders.

That same day, shares of SemGroup Energy Partners LP (SGLP.O), SemGroup's publicly traded subsidiary, plunged by 52 percent despite the fact that SemGroup's mounting financial problems, which were by then well-known among lenders and trading counterparties, had not yet been made public.

SemGroup Energy Partners, which is not part of the bankruptcy filing, disclosed its parent's problems in a press release issued hours after the market closed on July 17. The U.S. Securities and Exchange Commission has opened an inquiry into SemGroup Energy Partners' disclosure practices.

(Reporting by Robert Campbell, editing by Matthew Lewis) at&t | YAHOO! MAIL Classic

read Friday, February 13, 2009 1:57 PM

From: "Gene Guilford" <gene@icpa.org>

To: "Mr. Robert Katzman" <gkrall@sbcglobal.net>

Suppliers allege retailer owes millions after defaulting on oil futures contracts

Two of the largest suppliers in the Northeast are suing a Connecticut energy firm, alleging that it has defaulted on millions of dollars worth of futures contracts.

Global Companies and Sprague Energy also are seeking court permission to seize the home of one of the directors of Levco Tech Inc., saying he tried to shield his assets from them by transferring title to the property to his wife.

Levco, in turn, is suing Sprague. It says Sprague failed to disclose the risks involved in futures trading, misrepresented the situation, and did not liquidate the contracts when Levco asked it to do so in the face of plunging oil prices. It is seeking damages and a court ruling that the contracts are void and can be rescinded.

Levco and its controlling family, the Levenes, have made headlines before. In 2005, Levco competed with Connecticut Light & Power to supply electricity to the residential market. The Levenes promised customers who signed a two-year supply contract a 5% discount on part of their power costs. They enrolled some 34,000 households but then dropped 19,000 of them when they had to buy costly spot market power to meet peak demand.

Sprague signed a sales contract with Levco in August 2007, according to papers filed in U.S. District Court in Connecticut, and Levene family members personally guaranteed any debt. Late last October, Sprague agreed to buy back some of the oil it had sold to Levco at the market price. Prices had fallen and Levco agreed to pay Sprague the difference, a total of $117,318 in three installments. Levco never paid the money, and then failed to lift monthly amounts for November and December, Sprague claims.

Sprague says it's owed nearly $8 million in past due invoices, the difference in purchase value and market value of the oil, storage fees and interest, accumulating at $3,885/day.

Global Companies has filed a similar suit in state Superior Court. According to Global credit VP Robert Fraczkiewicz, three of the Levenes – Edward, Philip and Robert – personally guaranteed payments to Global. Levco signed confirmation letters for the purchase of home heating oil, to be lifted monthly from September 2008 to May 2009, Global says.

Then, early last December, Levco told Global that it couldn't pay for the product. Global learned that Levco had very few retail customers who had committed to buy heating oil at or above prices set forth in the confirmation letters. Because the price of oil had dropped dramatically, Levco had insufficient funds to buy at the prices to which it had committed.

Global demanded Levco put up a security deposit of $600,000 by Dec. 10. Levco failed to do so, and on Dec. 16, Global terminated the contract. Global wants $1.54 million in liquidated damages. According to Global, on Oct. 16 Robert Levene transferred the interest in his Weston, Conn., home to his wife, Doris, in what Global alleges was an attempt to hinder or defraud Global.

In their suit against Sprague, Levco and the Levenes say Sprague acted as a broker, buying futures contracts for oil on Levco's behalf. Sprague had said Levco would be able to take advantage of the typically lower cost of home heating oil futures contracts purchased in summer for delivery in winter. Levco says it directed Sprague to buy multiple futures contracts on its behalf between July and September 2008.

Levco, based in Norwalk, Conn., supplies lower Fairfield County. It began buying from Sprague in 1996. Levco says Sprague operates the only terminal in Stamford and used its leverage to induce Levco to commit to spring and summer purchase of heating oil, in standard futures contracts of 42,000 gals each.

From July 2008 through September 2008, Levo directed Sprague to buy more than 100 contracts, equivalent to 4.2 million gals. Physical delivery was to take place between October 2008 and May 2009 and lockedin prices of $2.82/gal to $4.34/gal.

As the price of oil declined, Levco began incurring losses. Having purchased the contracts on Levco's behalf, Sprague had a duty to mitigate those losses and disclose the "true scope of the risks." Levco told

Sprague on Dec. 9 to lock in its damages and liquidate the contracts, and that they could work together to quantify the losses at a "mutually agreeable price." But Sprague waited until Jan. 7 to liquefy the contracts. Sprague failed to exercise reasonable care in making representations to Levco and explaining trading procedures, and didn't properly fulfill registration requirements required by the Commodity Exchange Act. Therefore, the contracts between Levco and Sprague are void and should be rescinded, Levco says.

New Haven Register

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Seymour board looks to save on oil

Friday, October 24, 2008 6:46 AM EDT

By Jean Falbo-Sosnovich, Register Correspondent

SEYMOUR — The Board of Education could save more than $165,000 in savings next year by staying in a statewide consortium geared to seek out the most competitive oil prices on the market.

The board voted unanimously this week to stay with the consortium, which is composed of more than 40 other school boards and 20 towns across Connecticut.

The board is currently paying $3.52 per gallon for oil, a price the consortium locked in for 2008-09. However, with oil prices continuing to drop, and now hovering around $70 a barrel, Assistant Superintendent of Finance and Operations Rick Belden said the consortium has the opportunity to lock in at about $2.70 per gallon for 2009-10.

That drop in price alone could save the board $165,000 next year, Belden said. And if oil continues to drop as it has been over the past few weeks, Belden said more than $200,000 in savings could be realized.

Belden explained that a Torrington consulting company, Arum & Associates LLC, which heads the consortium, will seek out the most competitive oil prices, and bring the best offer back to the members of the consortium.

"It's been a great a thing for our district, and gives us a lot more buying power with the volume the consortium brings to the table," said school board Chairman Bruce Baker.

The entire membership is purchasing some 7 million gallons of oil per year.

Last year, before oil prices began to skyrocket, the school district was paying $2.05 per gallon, considerably lower than what the average homeowner was paying last winter.

Belden said the district purchases a little more than 200,000 gallons of oil per year to heat the town's five schools.

Seymour, as well as the other towns and school boards in the consortium, is obligated to continue to pay the $3.52 per gallon cost until Aug. 31, 2009, when the current contract expires, Belden noted. Other towns in the consortium are Ansonia, Middlebury, Southbury and Washington, Conn.

Jean Falbo-Sosnovich can be reached at jean.sos@snet.net. For more Valley news, visit the View from the Valley blog at www.nhregister.com.

Comments

Attached is a pdf file of George Gombossy's Consumer Advocate column in the 11/8 edition of the Hartford Courant. George defends heating oil retailers that sold contracts to consumers,

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"Joe from Middletown asked me if I would write a column "to shame" oil dealers to tear up the contracts. Its not going to make me popular, but I told Joe I could not do that. Oil dealers paid money up front to make sure they could provide the oil at the promised price. They would lose money if they tore up the contracts that they and their customers signed in good faith. Lock-ins is like buying stocks. If the stock goes up you are a happy camper, and if it goes down, you can't go to the seller and say you want your money back, I think people knew that when they