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DETERMINANTS OF HOME HEATING OIL PRICES

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You wanted to know what determines the price of home heating oil and why its price closely tracks that of diesel fuel when there are additives in diesel fuel and the two fuels are subject to different taxes.

The primary determinant of the price of both home heating oil and diesel fuel is the price of crude oil. Nationally, the Energy Information Administration (EIA), part of the U.S. Department of Energy, estimates that the cost of crude oil accounts for 63% of the retail price of home heating oil. The other components are refining costs (13%), distribution and marketing costs (12%), and taxes (12%). For diesel fuel, the cost of crude oil accounts for 61% of the retail price. The other components are refining costs (11%), distribution and marketing costs (16%), and taxes (12%). These proportions vary geographically.

The retail price of home heating oil closely tracks that of diesel fuel. Table 1 compares the average retail prices of the two products in New England from October 2011 through March 2012 using EIA data (Connecticut data are not readily available). During the past heating season, diesel fuel was consistently more expensive than home heating oil, but the difference was less than 5%, ranging from 6.2¢ to 16.9¢ per gallon.

Table 1: New England Price per Gallon for On-Road Diesel and Home Heating Oil

Month	10/11	11/11	12/11	1/12	2/12	3/12
Diesel	\$3.924	\$4.020	\$4.009	\$4.049	\$4.158	\$4.256
Home heating oil	\$3.755	\$3.916	\$3.869	\$3.964	\$4.096	\$4.155
Difference	16.9¢	10.4¢	14¢	8.5¢	6.2¢	10.1¢

Source: EIA <http://www.eia.gov/petroleum/data.cfm#prices>

A similar trend occurred at the wholesale level. According to Steve Guveyan, executive director of the Connecticut Petroleum Council, the New York City wholesale price of diesel fuel in the northeast has typically been 6¢ to 9¢ more per gallon than home heating oil over the past year. While most of the diesel fuel and home heating oil used in Connecticut lands in New Haven, the New York City and New Haven prices are quite similar.

The close relationship in price reflects the fact that home heating oil is essentially the same product as diesel fuel. Diesel fuel can be used in home heating equipment, although the reverse is not true since diesel fuel is subject to more stringent sulfur standards. The higher cost of diesel reflects these standards and the higher taxes on diesel compared to home heating oil. These higher costs are partially offset by the higher cost to deliver home heating oil. Part of the higher delivery costs reflects the fact the trucks used to deliver home heating oil are smaller than those used to deliver diesel fuel.

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