

The Heat Is On

This is a note on the mechanics (and not necessarily the merits) of the release of the Northeast Home Heating Oil Reserve. The recent run-up in heating oil prices will obviously result in pressure to release barrels from the heating oil reserve. The reserve currently holds 2 million barrels of heating oil in four terminals in the northeast between New Jersey and Rhode Island. The barrels are held in terminals of three companies: Amerada Hess Corp., Williams Energy Service and Motiva Enterprises.

The Energy Policy and Conservation Act of 2000 sets the conditions for its release. The release, which is at the discretion of the President, may be triggered if there is a finding that there is:

- A dislocation in the heating oil markets, or
- A regional supply imbalance exists and its negative impact on the region would be materially improved with a release of the reserve.

The law defines a dislocation to have occurred only when: (1) the price differential between crude oil and the residential price of heating oil in the Northeast exceeds 60% of its 5-year monthly moving, (2) the condition continues for 7 consecutive days, and (3) the differential continues to increase for the most recent week for which price information is available.

¢/gal	Residential Heating Oil	Average Spot WTI	Heating Oil Crude Differential	5-Year Average Difference	Differential Required For Release
12/2/02	1.30	64	66	66	105
12/31/02	1.42	77	65	66	105
1/20/03	1.48	79	69	71	114
1/27/03	1.52	82	70	71	114
2/03/03	1.56	79	77	72	116

Despite the dramatic run-up in retail heating oil prices over the past two months of nearly \$11/bbl (from \$1.30/gallon on 12/2 to \$1.56 gallon on 2/3) we are nowhere near the differential required to trigger the reserve. The following table highlights the relevant data.

The required difference for formal release is substantially higher than the actual difference. Retail prices would have had to have been 39¢/gal higher or \$1.95/gal rather than \$1.56 for the threshold to have been reached.

