

CATEGORIES: HEATING OIL

A Glossary Of Heating Oil Terms



Figure 1 Welcome to this handy reference for the world of heating oil, otherwise known as no. 2 fuel oil. (image: climateprogress.org and Nicholas Whitaker via heatingoil.com)

AFUE Rating: An acronym for Annual Fuel Utilization Efficiency, the AFUE rating indicates the percentage of heating oil that is successfully converted into actual heat for a home. The higher the AFUE percentage is, [the better the conversion rate from oil to heat](#). For example, an AFUE of 85 percent means that 85 percent of fuel is being successfully used to heat a home, while the remaining 15 percent is lost, in the form of exhaust.

Automatic Delivery: A service provided by some heating oil dealers to consumers with full-service contracts, automatic delivery relies on software systems that help dealers to monitor local temperatures and estimate heating oil consumption in order to accurately gauge a customer's supply. When calculations show that a consumer's supplies are low, oil companies will [automatically make a delivery](#). Often customers do not have to be home to receive oil and will instead be billed after the delivery.

Biofuel Heating Oil: A type of heating oil that is a [blend of petroleum-based heating oil and fuels derived from plant sources](#) (such as soybeans, corn, and

wood by-products). Biodiesel and ethanol are also types of biofuel. Bioheat, though often used interchangeably with the term biofuel, is a brand name trademarked by the National Biodiesel Board. Bioheat is the most popular biofuel heating oil in the United States. Advantages of biofuel heating oil are that it is partially made from renewable resources, it can be produced domestically, and it [releases less carbon than 100-percent-petroleum heating oil](#). Although many heating oil customers have the option to purchase oil blends consisting of petroleum and biofuel, obtaining one hundred percent biofuel is difficult because of a lack of large-scale production.

Budget Plan: A type of payment option for heating oil consumers, [budget plans](#) spread the cost of heating oil payments out over many months at a locked-in or variable rate. Budget plans allow for heating oil users to pay one flat rate every month of the year, as opposed to paying for heating oil deliveries as they are made in during the fall and winter.

Cash on Delivery (COD) Heating Oil: A type of pay-as-you-go service, COD heating oil allows the consumer to buy home heating oil from distributors without making long-term commitments or entering into a contract. Usually consumers must be home at the time of delivery and must pay the day of service with either cash or credit. COD heating oil is often provided at a discount because retailers are not obligated to perform maintenance on home heating systems or make regularly scheduled deliveries.

Contango: A situation in which the future price of a commodity is [higher than the commodity's "spot" or current price](#).

Conventional Oil: Oil that is derived by means of drilling wells into the earth's surface (either on land or on the water) and using the [oil field's naturally-occurring pressure](#) to push the oil to the surface. Since this is the standard and most common method of obtaining petroleum, the oil extracted this way is called "[conventional](#)."



Figure 2 In the U.S., one barrel of oil is equal to 42 gallons. (image: oil-trading-market.com)

Crude Oil: Also known as petroleum, [crude oil](#) is a dark and viscous liquid deriving from organic material that is thousands or millions of years old. Located in pools underground, crude oil can either be “heavy” or “light,” depending on the density and viscosity, and “sweet” if it has low levels of sulfur or “sour” if it has high levels of sulfur. Although relatively useless as is, crude oil can be refined to be used for [countless modern products](#) including gasoline, diesel fuel, and heating oil.

Derivatives: Often used as protection against investment risk, derivatives are financial instruments based on some other underlying asset. In theory, anything whose value is derived from the value of something else is a derivative. A [commodity futures contract](#)—for example, a futures contract for heating oil—is a derivative, since its value is derived from the value of the underlying commodity, and those purchasing futures contracts are not necessarily interested in purchasing the physical commodity itself.

Distillates: A term used to describe [heavy to middle-range fuels](#) that are derived from crude oil. Heating oil and diesel fuel are distillates and require more distillation than gasoline, which is lighter and less viscous.

End User: Used in the context of commodity or derivatives trading, [end user](#) refers to the individual who uses the purchased product and will not resell it. For example, those who purchase heating oil and use it to heat their homes are end users.

Energy Information Administration (EIA): The [United States Energy Information Administration, or EIA](#), is an agency housed within the US Department of Energy and works to develop and create energy-related [data](#), [forecasts](#), and analyses to be used for policy making, public education, and assisting the market.

Front-Month Contract: Commodity futures have different contracts for each month in the future, and [front-month contracts](#) are the futures contracts whose expiration date is nearest to the current date. The front-month contract would be the shortest futures contract an investor could buy.

Full-Service Heating Oil: A method of acquiring home heating oil from dealers in which consumers enter into a full-service contract with heating oil retailers. Consumers who buy [full-service heating oil](#) typically pay more per gallon of heating oil (as opposed to cash on delivery heating oil) but in return are covered for heating system maintenance (parts and labor), routine delivery,

emergency service, and are often given price-lock or price-cap options and budget plans.

Futures Contract: A contract in which a broker agrees to sell a commodity (such as heating oil, natural gas, and crude oil) to a buyer [at a certain price in the future](#).

Heating Oil Boiler: Also known as a hydronic boiler and used in hot water systems, a [heating oil boiler](#) burns heating oil to heat water, which is then [circulated through piping](#) into radiators, baseboard heaters, or radiant systems (usually installed in the floor) before eventually returning to the boiler.



Figure 3 The value of a futures contract is the value of the commodity expected for that point in the future. (image: dharmaputra via photobucket.com)

Heating Oil Burner: A key component of the heating oil system, the [heating oil burner](#) ignites the oil and air mixture in the combustion chamber and generates heat.

Hedging: A method to limit investment risk, [hedging](#) is when an individual makes a second investment in a related security in order to reduce or limit the risk of price fluctuations. Investors concerned about the value of the dollar will often buy futures contracts of commodities priced in dollars, such as crude oil or heating oil. A commodity will keep its value as the dollar declines, so more dollars will be required to buy the same amount of the commodity. This raises the commodity's price in dollars, which offsets investors' losses in currency holdings.

Hydrofracking: Short for hydraulic fracturing, [hydrofracking](#) is a mining or drilling technique using chemicals to break up underground rocks to allow easier access to resources. Mostly used for natural gas extraction, it is also common in oil drilling and is even sometimes used to revive flagging drinking water wells. It is also used for some solid (as opposed to liquid or gas) mineral resources. Because of hydrofracking's use of various [toxic chemicals](#) to hold open fissures in underground rock, the technique is [highly controversial](#).

International Energy Agency (IEA): An intergovernmental organization headquartered in Paris and founded during the energy crisis of 1973-74. The [IEA](#) works to advise its 28 member countries in securing reliable and affordable energy. The IEA also advises members on energy security, economic development, and environmental protection.

New York Mercantile Exchange (NYMEX): Owned by CME Group and serving as the world's largest physical [commodity futures](#) exchange, the New York Mercantile Exchange serves as a venue for people to purchase [futures contracts](#) and options for commodities. Among the many things traded through NYMEX are crude oil, heating oil, and natural gas.

OPEC: An acronym for the Organization of the Petroleum Exporting Countries, [OPEC](#) is an intergovernmental organization currently made up of 13 oil producing nations (Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela) that seeks to stabilize global oil prices and obtain a steady stream of revenue from exports by coordinating crude oil production. Because of its structure and organization, many describe OPEC as a cartel that works to eliminate competition and whose coordination of oil production allows it to [manipulate oil prices](#). OPEC is arguably most famous for the [1973-1974 oil crisis](#) in which Arab member nations collectively refused to sell oil directly to the United States, the Netherlands, and Denmark because of their support of Israel in the 1973 Yom Kippur War.

OTC Trading: Short for over-the-counter trading, OTC trading refers to an [informal method of trading securities](#) in which individuals trade using email or telephones rather than on the trading floor in a formal exchange such as the New York Mercantile Exchange. Many investors are attracted to OTC transactions because their outside-of-market operation makes them [less subject to national laws and trading rules](#).

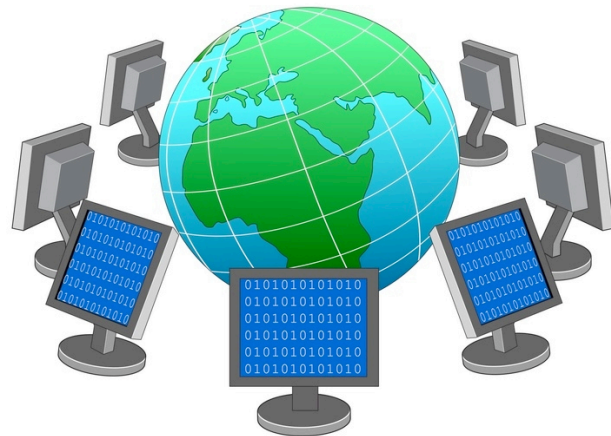


Figure 4 OTC trading is controversial because it promotes risk through the very fact that its exchanges are not transparent to the public or to the other traders in the market. (image: orexprofitingpro.com)

Position Limit: A limit placed on the number of options and futures contracts an individual investor may hold within a certain market. [Position limits](#) are set

by regulatory bodies to facilitate stability and fairness in given markets by reducing the influence one investor or group of investors have over prices.

Price-Cap Contract: An agreement between heating oil distributors and consumers, price-cap contracts establish a maximum price a customer will pay for heating oil. In contrast to [price-lock contracts](#), the per-gallon price of heating oil can fluctuate beneath the maximum (or “capped”) price.

Price-Lock Contract (also known as fixed-price or lock-in contract): An agreement between heating oil distributors and consumers, [price-lock contracts](#) give customers the option of locking into a fixed per-gallon price of heating oil for the duration of the heating season. Price-lock contracts are designed to protect the consumer from sudden price increases. The [downside for consumers](#) is that the price will remain fixed even if the market price of heating oil drops.

Service Contract: A contract between heating oil consumers and dealers that establishes the maintenance and repair for which the dealer will be responsible. [Service contracts](#) are a standard feature of full-service heating oil. Most service contracts include service and/or replacement of certain heating system parts for free.



Figure 5 Shale oil, the "rock that burns."
(image: Douglas C. Pizac/ AP via rand.org)

Shale Gas: Shale gas is natural gas trapped beneath shale rock deep underground. Currently the Marcellus Shale Formation that stretches from Kentucky and eastern Ohio through upstate New York has garnered great attention because the formation is believed to contain up to [500 trillion cubic feet of shale gas](#). A common method for extracting shale gas is hydraulic fracturing or “[hydrofracking](#).”

Shale Oil: A type of unconventional oil, [shale oil](#) is derived from oil shale, a sedimentary rock that contains a solid oil “precursor” called kerogen. Although not quite petroleum as is, kerogen can be produced into oil by means of applying

great amounts of heat to the rock which allows for the extraction of kerogen and its conversion into oil. The world’s largest oil shale reserves are in the

Green River formation, located throughout portions of Colorado, Utah, and Wyoming.

Speculator: An individual or organization that trades commodities with hopes of financial gain through buying and selling of contracts according to fluctuations in market prices. A [speculator](#) buys and sells commodities but does not intend to ever physically take possession of the commodity.

Tar Sands: A type of [unconventional oil](#), tar sand (also known as “oil sand”) is a mixture of sand and thick, tarry oil called bitumen. Bitumen is highly viscous petroleum that must be processed before it can be used for heating and power. There is an estimated 12 to 19 billion barrels worth of tar sands in the United States; however, these amounts are miniscule in comparison to the tar sands in Canada and Venezuela. With estimates suggesting that the world possesses around 1.3 trillion barrels of conventional oil, the recoverable estimates for tar sand oil could increase world reserves by over 25 percent.

Unconventional Oil: Also known as non-conventional oil, [unconventional oil](#) is petroleum obtained by any means other than the conventional method of drilling and pumping it out of the ground (either on land or at sea). The two predominant sources of unconventional oil are from tar sands and oil shale. Some believe that with increased efforts and technological advances, oil derived from tar sands and oil shale could double or even quadruple the global availability of oil.

This article was posted on **Thursday, January 2010** at **11:15 am** and is filed under *Articles and Heating Oil*.

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New York, NY 10013
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