



Briefing: Heating Oil Supply

- The UK domestic heating oil market is fairly unique within the EU in using a product known as dual-purpose kerosene (DPK). DPK is also used as aviation jet fuel – its main use.
- From 1st January 2008, the use of kerosene, gas oil and other petroleum derived liquid fuels with a sulphur content exceeding 0.1% (other than jet fuel) will be prohibited within the EU. The current limit is 0.2%.
- The UK, in common with the rest of EU, does not produce enough kerosene and imports product from the Middle East, Russia and South America to satisfy aviation fuel requirements. This product may well be above 0.1% sulphur content and was commingled with domestic production to provide DPK prior to 1st January 2008.
- After this date, unless segregated in separate tanks, aviation fuel imports may no longer be commingled into DPK.
- Other EU Member States use gas oil for domestic purposes and are therefore not affected in the same way by this new regulation.
- Some 1.5 million UK households use domestic heating oil, mainly in remoter rural areas away from mains gas supply.
- Areas with particularly high dependence on heating oil include South West England, Wales and Northern Ireland.
- Suppliers are working hard to overcome issues associated with this change. Whilst overall UK demand will be met, effects could include longer delivery times, mainly in southern England, so customers should take this into account when ordering.

Background

The supply of kerosene, gas oil and other petroleum derived liquid fuels with a sulphur content exceeding 0.1% will be prohibited within the EU from 01 January 2008. The previous limit was 0.2%. This requirement is contained within the 1999 EU Sulphur Content of Liquid Fuel Directives, as amended by the 2005 Sulphur Content of Marine Fuels Directive. In England and Wales, the Directive is being implemented under The Sulphur Content of Liquid Fuels (England and Wales) Regulations 2007.

The reduction in the permitted sulphur limit has potential ramifications for the supply of both domestic heating oil and gas oil in the UK. Although heating oil demand has been broadly static since 1970 with the advent of mains supplied natural gas, some 1.5 million UK households use domestic heating oil. These households tend to be located outside the large urban areas and are concentrated in more remote parts of the country, away from mains gas supplies. Areas with particularly high dependence on heating oil include the South West, Wales and Northern Ireland.

The UK is fairly unique in the EU in that a product called Dual Purpose Kerosene (DPK) has been used for domestic heating purposes, rather than the gas oil utilised more commonly across Europe. DPK, as its name suggests, is

kerosene held in a common storage infrastructure and either used for aviation fuel purposes, or 'marked' and distributed as domestic heating oil.

Total DPK demand in 2006 amounted to 16,657 million tonnes, of which 9,500 million tonnes (57%) was produced from UK refineries and 7,100 million (43%) was imported.

The greater part of this total (76%) was used as jet fuel, with 2.5 million tonnes (3 billion litres) used as domestic heating oil.

Supply

Meeting the new EU regulations will require separate storage and distribution for jet fuel and heating oil, as imported kerosene from the Middle East and Russia is unlikely to meet the tighter sulphur specification required for heating oil, hence the old DPK 'pool' is impractical in some circumstances.

The indications are that some suppliers may withdraw from the market as the cost of compliance may make the production and supply of heating oil uneconomic.

The UK Government was made aware of this possibility many months ago and reviewed options to help alleviate supply disruption.

However, the majority of suppliers are confident of being able to source sufficient quantities of heating oil meeting the new regulations, such that overall UK demand will be met.

Consumer impacts

However, there are likely to be impacts upon distribution of heating oil in Southern England, possibly affecting consumers in areas of Berkshire, Dorset, Hampshire, Isle of Wight, North Somerset, Surrey, Sussex and Wiltshire, as a result of longer distribution distances.

This could increase the time delay between order and delivery from 2-3 days to one working week. Heating oil distributors are advising customers to build this extra time into their calculations when ordering fuel, particularly during cold weather.

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