MASSACHUSETTS ENERGY MARKETERS ASSOCIATION

What Has Caused the Increase in Heating Oil & Energy Costs?

History has shown that the prices of home and commercial energy products—including heating oil, propane, natural gas, and electricity—as well as transportation fuels such as gasoline, diesel fuel, and jet fuel, can be affected by events occurring in the United States and around the world. Military conflicts, severe weather, supply disruptions, changes in energy demand, and fluctuations in financial and commodity markets can all influence energy prices.

Why Have Heating Oil and Other Petroleum Products Become More Expensive?

One of the major factors affecting petroleum prices in 2026 has been the ongoing U.S.-Iran conflict and the resulting disruption and uncertainty surrounding oil shipments through the **Strait of Hormuz**, one of the world's most important petroleum shipping routes. Reduced vessel traffic and uncertainty about future supplies have increased the risk premium in global oil markets.

The conflict has also contributed to significant disruptions in global petroleum refining and refined fuel supplies. These disruptions have been particularly important for products such as diesel and heating oil. Global refinery output has also been affected by events in the Middle East, Russia and Ukraine, while demand for distillate fuels has remained strong. U.S. refineries have increased production, but domestic inventories of distillate fuels have nevertheless come under pressure.

Crude oil prices have risen substantially during the conflicts. Brent crude, the major international benchmark, has traded above $100 per barrel at points during 2026. And crude oil prices are expected to remain highly volatile during the 2026-2027 winter season.

It is important to remember that the price of crude oil is only one part of the cost of heating oil. The price of the refined product itself can rise significantly when oil refinery capacity, refinery inventory, transportation, or international supplies are disrupted. These factors further demonstrate that the increase in heating-oil costs cannot be attributed solely to the price of crude oil.

How Is the Price of Heating Oil Determined?

The price of heating oil is influenced by several factors, beginning with the price of crude oil and the cost of refining it into a usable fuel.

A major benchmark for U.S. distillate products is the **New York Harbor Ultra-Low Sulfur Diesel (ULSD) futures contract traded on the New York Mercantile Exchange (NYMEX)**. This benchmark is widely used in the pricing and trading of diesel, heating oil, and other distillate products. Market prices can change throughout the trading day as buyers and sellers react to developments in global petroleum markets.

The price consumers pay for heating oil, however, is not simply the NYMEX price. The final retail price also reflects the cost of refining, transportation, storage, insurance, taxes, wholesale margins, retail operating expenses, and other costs associated with getting the fuel from the refinery or import terminal to a customer's home or business.

From the Refinery to the Customer

The next step in the supply chain involves wholesale petroleum suppliers and fuel terminals. Heating oil supplied to New England can come from domestic refineries as well as international sources. Because New England has no petroleum-refining capacity, the region depends heavily on fuel arriving by ship, pipeline, rail, and truck from other parts of the U.S. and from abroad.

Wholesale suppliers purchase and store heating oil at large fuel terminals throughout the Northeast. They incur costs to transport, store, insure, and handle the fuel before selling it to local heating oil companies. Those costs, along with market conditions and operating expenses, are incorporated into the wholesale price.

Local heating oil companies then purchase fuel from wholesale suppliers and pick it up at regional terminals. Some companies purchase fuel in advance of the winter heating season, while others purchase supplies on a more frequent basis. The retail price charged to customers reflects the company's wholesale cost as well as delivery expenses, labor, equipment, insurance, overhead, and other business costs.

What About Natural Gas, Propane, and Electricity?

The same global events that affect petroleum markets can also influence the prices of other energy products, although the relationship is not always direct.

Natural gas prices in New England can be affected by regional pipeline capacity, weather, demand, storage levels, and broader energy-market conditions. Because natural gas is the predominant fuel used to generate electricity in New England, changes in natural gas prices can have a significant effect on wholesale electricity prices. ISO New England reports that natural gas generated approximately 54% of the region's electricity in 2025.

Petroleum products can also play a significant role in the electric system, particularly during periods of extreme winter weather. Some natural gas-fired power plants in New England are capable of switching to distillate fuel, such as heating oil or diesel, when natural-gas supplies are constrained. During the January 2026 winter storm, petroleum-fired generation temporarily exceeded natural gas generation in New England.

Consequently, higher fuel costs can put upward pressure on electricity prices, particularly when fuel supplies are tight. However, electricity prices are determined by a much broader set of factors than heating-oil prices, including public utility regulators, natural-gas prices, generating capacity, transmission constraints, weather, demand, and the availability of other generation resources.

Summary

The recent increase in heating oil and other energy costs is the result of **multiple factors**, with the U.S.-Iran conflict and disruptions to global oil and refined-fuel supplies being major contributors in 2026. The Strait of Hormuz, refinery disruptions, inventories, transportation costs, international demand, and broader market conditions are all influencing petroleum prices. **Your local heating oil retailer has no control over the global energy markets, and they do not profit from increases in refined products from crude oil.**

For heating oil customers, the most important point is that the price of gasoline at the pump or on a home delivery invoice is not determined by crude oil alone. It reflects the cost of crude oil and refined products in the broader market, plus the costs of refining, transporting, storing, distributing, and delivering the fuel to the customer.

Because global energy markets can change rapidly, heating oil, gasoline, diesel, natural-gas, and electricity prices can rise or fall quickly in response to changes in supply, demand, weather, geopolitical developments, and financial markets.

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