HEATING OIL MARKET STUDY

RESPONSE TO STATEMENT OF SCOPE - HIGHLAND FUELS LIMITED

8th April 2026

Overview

Highland Fuels is one Scotland's leading independent fuel distributors and a proudly employee-owned business. Established in 1957, the company has built a strong reputation for reliability, service, and deep commitment to the communities it serves.

Operating from a network of depots across the mainland and islands of Scotland with reach extending from the Scottish Borders to as far north as Shetland; Highland Fuels supplies a broad range of customers across domestic (heating oil), agricultural, commercial, marine, and public sectors. The company also manages a portfolio of petrol forecourts in partnership with trusted brands such as JET, Esso, Morrisons, and Londis.

Rooted in its Highland heritage and committed to sustainable growth, Highland Fuels continues to invest in a service-driven future for its customers, communities, and employee beneficiaries.

Highland Fuels recently expanded its energy offering by launching Highland Electricity, enabling the supply of electricity to homes and businesses across Scotland. This strategic move reflects the company's vision to meet evolving energy needs and progressing towards a lower carbon future, providing competitive tariffs and the convenience of a single trusted supplier for both heating oil and electricity.

The group has annual turnover of c.£350m and employs c.300 employees.

We support the CMA's objective of ensuring that the market delivers fair outcomes for consumers, particularly in light of recent volatility in global oil markets.

We believe it is critical that the study fully reflects the structural, geographic and operational realities of the sector to ensure that any conclusions or remedies are proportionate and do not inadvertently undermine supply resilience – particularly for the rural and remote communities across the mainland and islands of Scotland.

<u>Q1: Scope of the Market Study</u>

We broadly agree with the CMA's proposed scope but recommend several important refinements.

1. Greater emphasis on end-to-end supply chain dynamics

Heating oil pricing to consumers cannot be properly understood without reference to upstream factors. Heating oil distributors operate within a complex supply chain that is highly exposed to: -

- International refined product markets and European supply / demand landscape.

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- Exchange rate movements (USD/GBP)
- Only 3 x UK refineries directly produce heating oil / Kerosene
  - Humber Oil Refinery (P66)
  - Pembroke Refinery (Valero)
  - Stanlow Refinery (Essar)

Note: Fawley Refinery (Esso) produces Jet A1 specifically for the Aviation market - not for domestic heating oil consumption.

- Reliance on import economics to bridge the supply / demand shortfall - particularly for Jet Kerosene and Diesel) and associated cost to serve.
- The closure of Grangemouth Refinery has had a detrimental impact on the wholesale cost of petroleum products in Scotland because of transitioning to an import terminal.
- Limited oil terminal infrastructure and storage constraints across Scotland
- Low throughput volumes at remote terminals across Scotland (as compared to other UK regions) resulting in higher unit operating costs
- Stockholding and working capital requirements for suppliers including impact of interest rates

During periods of geopolitical disruption, wholesale costs can increase sharply and will be reflected on an intra-day basis by suppliers. Against this, distributors must continue to meet confirmed delivery commitments often at previously agreed prices creating margin constraints and financial losses (as was the case following the commencement of the conflict in the Middle East).

The CMA should therefore incorporate a full supply chain analysis, including wholesale procurement (covering both UK refining and the importation of finished product), terminal storage, and regional supply chain and distribution constraints.

2. Recognition of geographic cost-to-serve differences

Scotland and particularly the Highlands and Islands present materially different operating conditions compared to other parts of the UK: -

- Delivery routes frequently exceed 50–100 miles per drop round
- Ferry dependent supply chains to ensure lifeline services to island communities
- Weather-related disruption (snow, flooding, high winds) impacting deliveries and ability to serve efficiently.
- Low population densities, reducing delivery and drop efficiency

By way of illustration, a delivery route in the Highlands may involve 8–10 drops over a full day, compared to 20+ in more densely populated regions of England or Northern Ireland.

The study should prioritise regional segmentation, recognising that price variation often reflects legitimate cost-to-serve differences rather than weak competition.

3. Avoid over-weighting short-term price movements

The focus on recent price increases risks misinterpreting normal commodity market dynamics. Heating oil prices are inherently volatile and reflect: -

- Rapid wholesale price movements (up and down)
- Differing purchasing positions by fuel distributors (contract vs spot purchasing)
- Inventory price risk carried by distributors

Importantly, it should be recognised that price decreases are passed through quickly due to the competitive nature of local and regional markets.

The CMA should consider assessing pricing action across both rising and falling market movements, rather than focusing solely on periods when prices have sharply increased.

4. Inclusion of supply resilience as a core consideration

The current scope focuses heavily on price and margins but gives less emphasis to: -

- Continuity of supply during peak winter demand
- Investment in road tanker fleet, bulk fuels depot storage infrastructure, health & safety and employment costs.
- Emergency delivery capability

Maintaining a supply service in remote and rural Scotland (especially in the islands) often results in significant redundancy in resource capacity, which has cost implications versus more densely populated areas of the UK.

The CMA should also include the importance of security and resilience of supply as a critical requirement especially for remote and rural communities where there is limited alternative and affordable energy provisions.

Q2: Characteristics of a Well-Functioning Market

We agree with the CMA's proposed characteristics but consider that they require expansion.

1. Sustainability of supply

A well-functioning market must ensure that suppliers can: -

- Operate viably across all regions – including remote and rural areas where lifeline services are being provided distributors that directly support and serve communities.
- Continue to invest in tank storage infrastructure, road tankers and service delivery in order to maintain the supply chain against a backdrop of falling demand for heating oil (and petroleum products more generally).

Actions that may result in a detrimental impact to operating margins risks supplier exit, particularly among smaller regional distributors that will directly reduce competition over time.

Despite supply chain challenges faced by distributors, encouragingly the UK market continues to remain highly fragmented with multiple market participants (including on-line marketplaces) that provides for a highly competitive landscape and plenty of choice for the consumer.

2. Cost-reflective pricing

Price variation should not be assumed to indicate market failure. In practice, differences reflect: -

- Regional wholesale purchase costs (reflecting differences in supply chains / cost-to-serve)
- Delivery distances, delivery times, and customer accessibility
- Order quantities (e.g. 500 Ltrs vs 1,000 Ltrs vs 2,000 Ltrs)
- Urgency of delivery

For example, small, urgent "out-of-oil" deliveries in remote areas are significantly more costly to fulfil than planned bulk deliveries.

3. Realistic consumer behaviour

Unlike metered energy markets such as electricity and gas: -

- Heating oil purchases are much more intermittent ranging between 3-5 times per year per household and often very weather related.
- Order quantities influenced by prevailing price of oil and overall affordability (average drop sizes have been impacted by wider cost of living challenges).
- Many customers prioritise reliability and consistency of service over marginal price differences between suppliers.
- High customer satisfaction and loyalty that is reflective of quality service provision that is being provided by distributors.

This affects how competition operates in practice.

4. Service-based competition

In rural Scotland, competition frequently centres on:

- Being competitively priced
- Reliability and speed of delivery (lead times)
- Local presence
- High levels of customer service
- Payment options (On order, on invoice, payment plans, Pay-In-Three)
- Value-add services e.g. supply of tanks, boiler maintenance, tank telemetry etc
- Recognised as a trusted supplier

These factors are critical but not easily captured through price transparency metrics alone.

<u>Q3: Does the Market Currently Function Well?</u>

The market exhibits many features of effective competition but also faces structural factors.

Areas of strength include: -

- Active local competition - In most areas, customers have access to multiple suppliers, including independent operators, national distributors and online marketplaces e.g. BoilerJuice.
- High service standards - particularly in rural areas, suppliers prioritise continuity of supply, including prioritising vulnerable customers and blue light services, hospitals and care homes during extreme weather (e.g. snow and storms).
- Responsive pricing - wholesale price reductions are typically passed through rapidly due to competitive pressure.

Key challenges for market participants: -

1. Price volatility

Heating oil prices are directly influenced by: -

- Global oil prices and especially the North West European markets
- Currency fluctuations (GBP vs USD)
- Sudden demand spikes e.g. snow and prompt cold weather conditions

- Supply constraints e.g. shipping / weather delays / refinery & terminal maintenance

These are all outside control of the fuel distributor

2. Perceived lack of transparency

Customers may compare: -

- Different geographic areas (e.g. North of Scotland vs Central Belt or NW / NE England).
- Different order quantities (e.g. 500 Ltrs vs 1,000 Ltrs vs 2,000 Ltrs)
- Different delivery lead times (next day vs 5-days)

This can create an impression of inconsistency of pricing, even where pricing is still cost-reflective within the specific locality.

3. Peak-period constraints

During cold weather or spells of bad weather: -

- Demand can increase significantly within a short period
- Product supply and delivery logistics capacity becomes temporarily constrained due to import vessels operating on scheduled delivery rotations (planned at least one month prior to terminal delivery)

During such periods distributors move to prioritising deliveries, including clearing aged orders and focussing on existing, vulnerable or priority customers.

Q4: Differences Across the UK

The heating oil market differs significantly across the four nations.

Scotland

- Highly rural in many regions
- Higher delivery costs and logistical complexity
- Greater exposure to weather disruption
- Totally reliant on imported product coupled with limited wholesale supply

Northern Ireland

- Much higher reliance on heating oil (c. 70% of homes use heating oil)
- Highly fragmented market with multiple heating oil suppliers

- Different policy and regulatory landscape
- Ability for cross border supply from the Republic of Ireland

England & Wales

- More densely populated markets
- Lower average delivery distances
- Greater overlap between suppliers

A uniform analytical approach risks overlooking these key structural differences between the four nations. The CMA should adopt a regionally differentiated framework, particularly distinguishing remote and rural markets.

Q5: Vulnerable Consumers

We strongly support a focus on vulnerable consumers and would point to the work distributors already perform together with external agencies. Furthermore UKIFDA (trade association) developed the Cold Weather Priority Scheme which is designed to identify those individuals most at risk and to ensure UKIFDA members can prioritise deliveries during cold weather and/or supply shortages.

Agencies such as the Fuel Bank Foundation, Advice Direct Scotland and Westray Fuel Grant already provide direct support payments to vulnerable consumers across Scotland which we help to facilitate.

Q6: Competition Between Suppliers

1. Nature of competition

Competition is typically: -

- Local or regional
- Based on price, delivery lead times and customer service

2. Multi-dimensional competition

Suppliers compete on: -

- Price
- Delivery reliability and lead times (order to fill)
- Quality of service (response, competitiveness, professionalism & accuracy)
- Reputation and relationships

3. Pricing complexity

Prices vary based on: -

- Purchase costs (timing)
- Delivery quantities / drop sizes
- Location / distances
- Competitor action

This variability is a normal feature of the market and its performance.

4. Risks of intervention

Certain interventions (e.g. rigid price transparency requirements or price controls) could: -

- Reduce flexibility
- Increase operating costs for participants
- Disincentivise smaller suppliers
- Lead to redundancies & loss of skills

Over time, this may reduce competition and harm consumers.

Conclusion

Highland Fuels supports the CMA's objective of ensuring fair outcomes for consumers. However, it is essential that the market study reflects the operational realities of the sector; particularly in rural Scotland (and especially in the Islands) where higher costs and logistical complexity are inherent.

Any interventions should strike a careful balance between improving transparency and protecting vulnerable consumers, while maintaining a resilient and competitive supply base capable of serving all regions of the UK.