

# Session 1 Energy Overview

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## Industry Perspective

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To provide at least one supplier's viewpoint, I will review some of my own experiences with emergency preparedness during the last few years. Although today there may be a so-called surplus of petroleum around the world and a glut, if you will (there is discussion of prices decreasing and they have to a certain extent), the economy is such that there continues to be fuel conservation efforts by the public. As a result we have seen the development of smaller vehicles where the mileage factor is important. I also believe there is a carryover from the period when people were truly concerned about getting enough petroleum products.

Although some prices of petroleum products are still high enough to make people look at their monthly fuel bills and say, "Hey, we are going to have to conserve"--on the other hand, there is not really the same kind of public pressure or interest in conservation that existed in 1979 and early 1980.

Actually, there is no better time to look at the energy problem than right now, at a time of calm. Care should be taken, however, in making such a comment because the Middle East is still unstable, and no one can predict what might happen in the region. Although the import level has dropped significantly, some important crude is still imported from the Middle East--enough to cause serious problems if there is a cutback. When the interdependence of the United States with other allies around the world is considered along with U.S. obligations under certain agreements [for example, the International Energy Agency (IEA) and some of the other arrangements with other countries], serious problems would develop if something should happen in the Middle East. So with that background, it is timely to examine the subject of energy contingency planning.

During 1983--certainly a year of calm, I probably attended six or eight energy seminars, conferences, or workshops. Add to that the energy-related hearings and the figure is probably closer to 16 or 18. The apparent reason for this is that on assuming office in 1981, the new Administration began to move toward a free-market approach. We totally support the free-market approach, but there are some minor adjustments that we think might be necessary to maintain a free market. This leads us to the measures that will be used in contingency planning, which is the subject of this conference.

Let us review history first. Early in 1981 the President terminated allocation controls on domestic petroleum. Later in 1981 the Emergency Petroleum Allocation Act of 1973, which authorized coupon rationing of gasoline, expired. Many of the states and metropolitan areas started examining their own contingency plans and thinking, "We are on the firing line here if anything happens." There was enough press coverage of possible energy problems to indicate that there could be more problems in the future. Having just recovered from the energy shortages of 1979 and 1980, state and local governments were extremely conscious of their obligations to their constituents. Certainly the people in political office and in the administrations in the various states did not want to be unprepared if an energy shortage occurred. So in early 1981 the states started to develop contingency plans on their own.

Shell Oil may have been more active in contingency planning at the state level than some companies because of having been through the shortages of the 1970s and having worked directly with state energy offices from the time of the 1973-1974 Arab oil embargo through 1979. As a result we started to visit the states in 1981 to find out what their plans were with respect to energy emergency preparedness. State officials indicated, in many cases, that they had definite ideas about what they were going to do. Some were in the process of developing regulations based on legislation already passed that gave the governor certain authorities. The wording in most of this legislation was quite nebulous, so it was up to the state energy office staff in many cases to structure the governor's authorities (to act in an energy emergency) into a format that would give him the power to react effectively to emergency situations.

In other states, officials were sitting back (in 1981) saying, "We are going to take a look at what the federal government is going to do. Maybe the government is going to do something, and frankly, in that case, we won't have to do anything." At the same time, there were only a few metropolitan areas actively working on energy contingency plans, but some of those that were active were just as effective as the states, and they were giving careful thought to their programs. Nevertheless, it was unusual to see local areas involved in energy contingency planning to any great extent in 1981.

Termination of the federal regulations in September 1981 resulted in the states becoming more active in energy contingency planning; however, many still thought the federal government was going to do something because the Congress was working on the Stand-by Petroleum Allocation Act (SPAA). The SPAA would have given the President energy emergency powers and Congress tried to tailor the legislation so that it would not be as onerous as the previous controls. As was mentioned earlier, there was a general consensus that most of the problems experienced during the energy shortage of the 1970s were caused by the controls.

However, the final SPAA was drafted in such a form that the President felt that he did not need energy emergency powers (particularly with a philosophy of the free-market approach), so he vetoed the legislation in the spring of 1982. After the presidential veto, more states and many of the metropolitan areas became more active in emergency contingency planning.

In visiting the various state energy offices we were concerned that many different kinds of ideas were being drafted, and many state officials were thinking of some type of allocation and pricing regulations similar to the ones issued in Washington in the past few years. We could visualize approximately 50 different allocation and pricing programs throughout the United States. Recognizing the problems encountered with only one source of that kind of activity--the U.S. Department of Energy (DOE)--we were greatly concerned.

The free-market attitude of the Shell Oil Company stands firm. However, according to our analysis, it appeared that there might be some delay before the free-market pricing mechanism worked so that it dampened demand caused by high prices in an energy shortfall. Historically, the industry is slow to react to sudden price increases in crude oil--maybe because of fear of public reaction--but there is a delay factor involved. In addition, there are some potential problems with the Strategic Petroleum Reserves (SPR). In 1981 we were depending on not only the free-market approach but we were also depending on the SPR as the key tool for dealing with the problems of an energy shortage. The SPR still is the best method to use even though there is a possible delay.

In the future, there will be tests to determine whether the SPR is truly an effective tool; but to be certain, the states were taking no chances, and the political realities were such that the states and the metropolitan areas were starting to become quite active in developing their own energy contingency plans.

We tried to work with the metropolitan areas by offering consultation if they wanted a supplier's viewpoint. We were willing to talk and we were seeing more and more state and local governments willing to have a dialogue with the oil industry. During our visits we found that people in the states and metropolitan areas were quite straightforward and professional. As we talked to the people in the counties and some of the cities, we were concerned about having not only 50 state programs, but if a program were developed in each metropolitan area within a state, a serious complication could develop. Nevertheless, state officials were highly receptive to developing guidelines for themselves as well as for the metropolitan areas. This was helpful as far as we were concerned, and maybe on a national scale the states could develop a standard approach through the National Governors' Association (NGA).

There is at this time a National Governors' Association Task Force on Energy Emergencies, and again, it is encouraging that they are willing to

work, not only with the federal government (assisting the states in a coordinating capacity), but also with industry and consumer groups and anybody that can participate profitably and contribute something to their effort.

The petroleum industry is heading in that direction too. We may be a little slower than the NGA, but increasingly companies are moving toward similar positions with regard to state energy contingency planning as well as local and metropolitan planning.

Let me describe the states' current activities. Most states are looking at the free market and are willing to let it work as long as possible. They are also considering the part to be played by the SPR; but the concern, as I said before, is that there may be some delay. Therefore the states are looking at public communication and public information programs to increase public awareness. One of the biggest problems during past energy shortages was the potential for public panic. The public perception that consumers were not going to be able to get gasoline on weekends is a good example. Once that perception became widespread, the lines that started appearing at service stations on Thursday, Friday, and Monday got longer and longer. People were worried about whether they would be able to drive on the weekend and whether they could get to work on Monday.

Eventually, long lines became a problem at service stations all week. The panic factor also played a part in people topping off their tanks. When you start moving an average of maybe one-third to one-half a tank of gasoline around in every car as the norm and then boost it to almost a full tank, a considerable amount of gasoline is consumed, which causes some of the problems previously discussed.

Every state that we visited has worked on a public information program in an effort to avoid panic buying in any future shortage. They hope to allay the fears of those suppliers who might be reluctant to release supplies into the market as needed. State officials are working on conservation measures and demand-restraint measures such as speed limits and thermostat controls. Supply enhancement measures also are being examined which might mean that some environmental restrictions will have to be waived so that refineries can produce more petroleum products.

States are also considering advisory councils as part of a new approach to energy regulations and contingency planning. The idea was discussed before but now people are starting to take action and suggest that industrial users, consumers, and suppliers be included on advisory councils. Government officials (state and local) are saying, "We need advice as to just how serious the situation is because misinformation was one of the biggest problems in the past."

I can recall in Houston the TV news helicopter flying over the Gulf of Mexico and taking pictures for the evening news of tankers anchored. They had no idea of the normal distribution system, but they would say "All those tankers are full and they are just sitting out there waiting for the price to go up." The people who have waited in line for gasoline do not like to hear such stories. The oil companies got a lot of flak during the energy shortage but so did the people at the state level.

There were many problems during the energy shortage and much pressure on state officials and the petroleum industry. States were, of course, trying to work within the framework of federal government regulations during the shortages, and so was the petroleum industry, but there were restrictions that compounded the problems.

There is always a possibility that there could be regional or local metropolitan shortages, that is,

localized shortages within a state. There is concern about terrorism, natural disaster, and many events that might prompt a state to unilaterally implement some of the measures discussed. The measures discussed so far are not considered to be controls, really. I will mention one other measure, however, that is a kind of relief valve; it has solved (and may continue to solve) some of the short-term problems.

One example of this measure might be emergencies or hardship situations where the transit system needs fuel. Assume the transit system is adding equipment and suppliers have cut back to 80 or 90 percent of normal use. Also, the system has taken on an additional load because people are not driving their cars. There is no fuel available for whatever reason. It is evident that the transit system has a problem. To help resolve this problem there is a special emergency measure called the set-aside program or an emergency pool of fuel. We support this concept on a limited basis and for emergencies only. If it is needed and is activated (by the governor) a considerable amount of pressure can be taken off the system. State-industry cooperative use of a set-aside program can solve a fuel shortage problem quickly because its use is so close to the normal free-market distribution. As an emergency tool it uses the oil supplier's normal equipment and distribution system.

To briefly explain set-aside: when the governor declares an emergency, all suppliers hold aside 2 or 3 percent of their fuel. Whoever has a true emergency can be helped because the supplier is instructed to take care of the emergency. As noted before, good communication is important because if there is a state set-aside emergency pool, the metropolitan areas or the transit companies do not have to call suppliers to see where they stand. Also, hardship cases are not saying, "I cannot get it from my supplier--can you serve me?" Instead, they can go to the state and state officials can say to the fuel supplier (oil company), "Please take care of your customer." The state would authorize a certain amount of fuel from the set-aside or emergency pool because it would be for a special purpose, not just an open-ended account. The state would require requests from consumers with emergency needs to be specific and justified. Of course, the transit company is not the only group that might need emergency fuel; there is a whole range of user-types, which might include farm interests or one particular farmer, an area of the state, or lines at service stations. Many emergencies could occur; the possibilities are limitless.

One of the dangers here is that we have seen some states considering establishing a priority system for allocating emergency fuel where the top priority list would include the transit company, the hospital, the police department, the fire department, and the ambulance service. This approach can become complicated because of the difficulty in defining priority. If someone is just outside the definition of a priority, there can be delays in solving the problem. Once a priority customer receives a certain amount of emergency fuel, he can end up with that amount of additional fuel indefinitely. What we are talking about in the case of the emergency pool or set-aside is taking care of the immediate problem, yet the entire community is required to do its share in conserving fuel.

At this point, I would like to refer to the questions that were mentioned in the introductory letter

for this conference. What is the progress in contingency planning since the 1979-1980 energy crisis? I would sum up by saying that the development of detailed state-level plans, the dialogue between the states and the petroleum industry, and the willingness on the part of all sides to communicate has been the key element of progress. The second question concerned assessing the new environment of deregulation in determining how it will affect contingency planning. The new environment of the free market left some uncertainty in the minds of many state officials and metropolitan planners as to what the federal government might do. That uncertainty was reduced, however, because state and local governments have been firm in their planning approach.

I believe DOE will play a coordinating role, but the real responsibility for energy contingency planning has been moved to the state level. The DOE is encouraging cooperation and improvement of communication among all groups.

Examples of the new cooperative atmosphere are the activities that are taking place with special groups trying to address the problem of energy contingency planning. The DOE, in cooperation with Georgetown University, set up a study group with a cross-section of all the people that have an interest in emergency preparedness. A similar special study group called the Keystone Energy Security Project, also includes users, suppliers, and people from state and local government.

As I have watched the developments in improved dialogue on contingency planning, I have recently seen the DOE working with the Executive Reserves. Here again, the DOE is seeking people with expertise to cooperate and work with the Department on emergency preparedness.

There are still complications, such as those involving advisory committees. These are conflict of interest and antitrust complications that have to be worked out. The states may say, "We will excuse you in an emergency situation from conflict of interest or antitrust," but those particular problems can rise above the state level to the federal level, even if only one state is involved. So there is still a concern; however, there are indications that these problems can be resolved. It should be understood that all of this might be resolved by a simple piece of legislation, but again, I refer to communications and dialogue. The NGA Task Force, the Keystone Group, the Executive Reserve, the Georgetown seminars, and other such activities would benefit from antitrust protection legislation. All of these groups are heading toward a standardized emergency preparedness approach. Fortunately, all of them start with the free market. They are saying, "keep it simple." Most states are also saying, "we really do not want allocation regulations now if set-aside will do the job." Since 1981 I believe most states, local governments, and user groups have developed a new appreciation of the problems with the kind of regulations or controls that existed before; they are all now leaning toward a simple set-aside.

So in conclusion, we are saying the political and practical realities are there. There are now some 46 to 48 states that have emergency distribution powers. Rather than have the governors, under differing plans, take over inventories and distribution controls, let us start with the free market and let us use the tools which let us stay with the free market while working together to do the most effective job of solving our mutual problems.