OPEC AND THE NORTHEAST ENERGY CRISIS

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OPEC AND THE NORTHEAST ENERGY CRISIS

Thursday, February 10, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C.

The Committee met, pursuant to call, at 10:30 a.m., in Room 2154, Rayburn House Office Building, Hon. Benjamin A. Gilman [Chairman of the Committee] presiding.

Chairman GILMAN. The Committee will come to order. We are pleased to convene this hearing on OPEC and the energy crisis. We are joined this morning by two international energy policy experts from the Department of Energy and the Department of State, and by three witnesses representing the New York Energy Authority, the Petroleum Marketers Association, and the American Trucking Association.

Our two panels are going to be able to provide Committee Members with a comprehensive overview of the impact in the Northeast and throughout our Nation of the production cutbacks by the Organization of Petroleum Exporting Countries, OPEC, and the origins of the energy crisis affecting thousands of households and hundreds of businesses across the State of New York and New England.

With the price of home heating tripling over the past year, many of our low-income consumers and many of our small businesses in our districts and our states are hard-pressed to heat their homes and to keep their shops and their factories running. Hundreds of letters and calls have poured into our district offices and Washington offices describing the crisis from their own perspective, where to a large extent they are fighting a losing battle in trying to stay warm without going broke in the process.

Today we will try to find some answers from these witnesses who are here with us, and we are demanding to know how all of this happened and what our local, state and Federal policymakers are doing to ensure that it is going to be corrected as early as possible and does not recur. Many of us who have been around a while recall this happening many years ago when OPEC decided to do the very same thing in the past, cutting back on production and impacting upon our Nation.

We will also get firsthand reports from our witnesses today on the extent of the problem and a review of what our States are doing to try to meet this emergency, and how the Federal Government can and must do much more to help low-income families put at risk by the frigid temperatures across the Northeast, and to keep icebreaking tugboats in operation so that our ports and rivers remain open to barge traffic.

There are no simple answers on why or how we got into this crisis, but there can be little doubt that dramatically higher energy prices will boost inflation and could ultimately force the Federal Reserve to consider additional interest rate hikes.

Oil prices are higher today than at any time since the Iraqi invasion of Kuwait a decade ago. Production cutbacks decreed by the producer cartel, the Organization of Petroleum Exporting Countries, have caused worldwide stocks, including those in our Nation, to be drawn down to very low levels. This imbalance has resulted in the sharp climb in crude oil prices over the past year.

Late last year, OPEC was indicating that it might relax its production quotas if stock reached 1996 levels. But in early January of this year, the member states of OPEC reversed course and indicated they fully intended to maintain their cutbacks of about six percent of worldwide production, at least through March of this year, and possibly through June or later.

As our dependency on foreign oil has increased over the past decade, the Administration has regrettably fallen short in its efforts to persuade OPEC and non-OPEC nations alike to moderate their aggressive policies designed to punish oil-importing nations.

Together with the very cold weather this year and transportation bottlenecks, OPEC cartel-like operations have sent the price of heating oil surging throughout New England and New York. The price of oil reached $30 per barrel briefly during the week of January 21st, compared to about $12 a barrel of oil in the summer months of last year.

Yesterday I talked with a civil service employee in one of my counties who told me that his cost for heating oil has doubled from December of last year to January of this year; that he can only afford to replenish his supply of heating oil to the 150-gallon mark of his 300-gallon tank. In yesterday's edition one of our local papers, the "Times Herald Record," a prominent newspaper in my district, described the plight of many of our elderly low-income consumers who are being forced to turn up their thermostats in the face of sharply higher home heating costs.

That article describes the plight of 74-year-old Virginia Jump of Mount Hope, who has been forced to keep her oil furnace set at 80 degrees so that her thermostat can stay at 68, and that doesn't even keep the drafts at bay in her chilly two-bedroom home. She lives on a monthly Social Security income of $734, with no phone or running water because she can't afford those kinds of services.

Last week she paid $268 for fuel oil, double the price she paid just two months ago, and she is far from alone in that situation. Seniors on fixed incomes have been hard-hit by the dramatic increase in energy costs. According to Christine Noble of the Ulster County Office for the Aging, I quote, "It's affecting a lot of people. Seniors don't like to ask for help, but this year they don't have any choice."

So, in trying to address a domestic solution to the growing energy crisis, I think the Administration has been a day late and a dollar short with inadequate efforts to boost stocks of heating oil around the country and to find a proposal for our low-income consumers.

In its latest allocation of funding, our U.S. Department of Health and Human Services released $45 million in additional funding to the low-income Home Energy Assistance Program to the ten states of the Northeast and to Alaska, but my State of New York got less than its fair share, receiving $2.6 million for some 1.4 million low-income households, while New Hampshire received $5.4 million for just 47,000 low-income households. We have to make certain that there is more equity in the distribution of these funds.

I am hoping that someone in the Administration can let us know how we should explain the problem to our folks who are being hard-pressed.

Before turning to Mr. Gejdenson for his opening remarks, I would like to ask that the record be kept open for a period of five days for incorporation of additional relevant material related to our hearing, including statements by our witnesses, Joe Berti, Director of Operations of Speed Motor Express, a family-owned transportation business in Buffalo, New York; New York State Senator John Bonacic, Chairman of Senate Committee on Housing Construction and Community Development; Richard Jamieson of Rich's Towing, a small towing business in Spring Valley, New York; New York State Assemblyman, Howard Mills, of Goshen, New York; and New York State Assemblywoman, Nancy Calhoun, of Blooming Grove; and New York State Senator Bill Larkin, Steering Committee Chairman; Joseph Rampey, County Executive of Orange County, New York; Carl Morse of E.A. Morse and Company, a delivery company, Middletown, New York; and Rodney Kaufmann of Kaufmann Service Center, Gulf Service Station, Montgomery, New York.

[The information appears in the appendix.]

Chairman GILMAN. I am pleased to turn to our Ranking Minority Member, Mr. Gejdenson, for his opening statement.

Mr. GEJDENSON. Thank you, Mr. Chairman.

In watching the Administration's response, I almost thought I was back in the Reagan and Bush years rather than the Clinton years. Frankly, I do not know whether it has been a function of the great success that we have had in almost every other sector, but the reaction from the Administration in this area has been difficult to discern.

We look at any other energy sector in this country, and we have a strategy to deal with supply and demand. If you are a natural gas supplier, you have to make sure that you can adequately take care of your home heating reserves, and you have interruptible contracts with industrial users to make sure if there is a crisis that home residential people are not left without a supply.

What we find is those kinds of actions taken in the area of natural gas actually exacerbate the situation when it comes to home heating oil because, as industrial users are pushed away from natural gas, they go to number two. They go to fuel oil, increasing demand at a time when there is the lowest supply.

So what we essentially had here was a case where the gas companies managed load by getting rid of industrial users. Industrial users moved to fuel oil, putting additional pressure on those individuals who heated their home with number two.

Additionally, sitting on the strategic petroleum reserve like it was some ancient artifact that we ought to hang onto is irrational. For one thing, you get a lot of money for it if you sell it today.

Now, I understand there is a lag in this, but if the present supply problems exist in heating oil, you know what is going to happen when we come to summer drive time. We are going to have the same kind of pressures on the gasoline price.

We have seen some of this, and people do have an ability to reduce driving a lot more than they have an ability to reduce the heat in their homes. It seems to me, it does not take an energy genius to figure out what will happen if there is a short supply of fuel oil. We may see some of these pressures in the summer, and if we want to tell OPEC that they can manipulate our economy and supply, then we ought to sit on our hands. If we want to tell them it is a bad idea to do this, it's a great time to sell off some SPRO. You will make a little profit. When the oil price goes down, you can buy it back and actually make a profit for the Government, rather than just leaving the citizens to be victims of these countries that we have rescued so often.

The Chairman and I, we all have the same set of experiences. I know of a woman in Putnam, Connecticut, paying $2.66 a gallon. I think the Government ought to establish a program where not only is there a Northeast regional supply, but wholesalers ought to be required to have an adequate supply in place.

When you look at the fact in this year that we found ourselves below the 5-year average, I think something like 32 percent below the 5-year average, it does not take a genius to say at some point, we would have a couple of cold days in the winter, and people watching these energy supplies, which I imagine somebody must have, should have recognized there would be a problem.

So I think one of the things we have to do is tell the wholesale suppliers who operate in these regions that they cannot walk into a year with such an inadequate supply that even an average winter would give you trouble, never mind about a bad month or two in the winter. So I think one of the things you have got to take back to your agencies is make sure that wholesale suppliers have an adequate supply.

Home heating oil and diesel fuel stocks nationwide are down 2 billion gallons, 47 million barrels. Again, I do not know why we have a Department of Energy. The Republicans wanted to get rid of all of these departments. Maybe they were right if the only thing they do is collect statistics and leave consumers out there to OPEC's kind of actions. Then maybe they are right. Maybe we ought to get rid of these departments.

In one county in my district, New London County, we have 4,000 families applying for LIHEAP. That is a thousand more families than last year already. Now, some LIHEAP dollars are very nice for them, but inadequate in every one of our districts for the real need, and middle-class families are also getting killed. So it seems to me whether you have been a trucker trying to make your living driving diesel fuel or whether you are somebody heating your home or running a business, we have had a Government that basically said we are going to take American assets in the 1990's and American lives to protect Saudi Arabia and Kuwait from the terrible people in Iraq; and then, when Saudi Arabia and Kuwait got together to have a damaging effect on our economy, we did not hear anything. We hear nothing frankly from the Administration in this area, and the thing that we do have is use the Strategic Petroleum Reserve. But there is always a reason not to dip into it.

If we are not going to ever dip into it, then maybe we ought to get rid of it. I mean, it is just sitting there in the ground. Now would be a good time to get rid of it again because, on average, the barrels you would sell would bring you a higher price than it would cost you to put them back in there.

I think that when you look at the things we need to do, a regional reserve obviously makes sense. The commercial guys ought to have an adequate reserve at the beginning of a heating season. We would not let an electric company reduce its generating capacity, recognizing that if we had an average summer there would be brownouts across the country. If the electric utilities came to the Energy Department, and said, “We are going to close 14 plants on the East Coast because, if everything is cool and the temperature does not get above 70 in August, everything is going to be fine,” I assume the Energy Department might say this is a bad idea.

On the other hand, when we see OPEC reducing production, refined oil reserves dropping to a level that would endanger people in an average month, and we see no action, one has to wonder why we pay these salaries in these various departments.

Mr. Chairman, I am frustrated, as I think many Members are. I would like to put into the record two letters from the Thames Valley Community Council for Community Action, together with my prepared statement.

It may be too late to help people with heating oil, but the answer then is we still need to make sure we do not end up with a gas crisis coming into the spring and summer, and also you have got to send a message to OPEC.

The Gulf producers cannot just pick up the phone and say, “Gee, the terrible Iraqis are doing something. We need help,” and then they get to manipulate our economy every time they have a desire to enrich themselves. If they want to do that, fine. If we have SPRO, we ought to be using it to protect ourselves, to make sure we drive down the price of crude, even if it has no impact today. We ought to start doing this. It will bring us higher prices for the oil that is in SPRO. It will allow us then to rebuy that oil when the prices dip, and it will tell people the next time they want to mess with us, there will be a price.

If not, if I were OPEC, I would cut the production by another five percent with the response I have seen from the Administration.

I can understand why they sent guys who did not necessarily have the rank to answer all of these questions.

Thank you.

Chairman GILMAN. Thank you, Mr. Gejdenson.

Without objection, your request to enter into the record will be agreed to.

[The information appears in the appendix.]

Chairman GILMAN. Mr. Rohrabacher?

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

Mr. ACKERMAN. Just recall, Mr. Rohrabacher, that is the side of the room you defend the Administration from.

Mr. ROHRABACHER. Uh-oh.

Mr. Gejdenson's remarks reminded me of the story that, I might add, Ronald Reagan used to tell about a time during the blitz when some firemen noticed that in one of the burned-out buildings from the German bombings that there was a noise coming. They went into the building, and there, after going through the rubble, they found there was an older lady who was trapped there in the rubble, but still alive. As they tried to pull the rubble off of her, one of them found in the rubble also a bottle of whiskey which he immediately brought over to the elderly woman who was still trapped and said, "Here, why don't you have a drink of this." She said, "Hold on, now. That's just for emergencies."

When we are talking about our oil reserve, perhaps whether or not we are going to use it as a tool in times like this or whether this is an emergency or not, I think this is a very important discussion of what is the purpose of us having all of that oil if we are not going to protect the American consumer in times like this. I am not necessarily sure what the answer to that question is.

I would like to say that the issue that we are discussing today seems far removed from some of the policies that I believe directly impact on this issue and on oil prices and on the availability of fuel to the United States and the American consumer. Some of the policies of this Administration, however, have led directly to this situation, and not necessarily policies by the Department of Energy.

I will, for example, point out that today, because of policies of this Administration, we have a repressive anti-Western regime that harbors terrorists in Afghanistan, and I believe this can be tied directly to the policies of the Administration.

Because we have that hostile regime in Afghanistan, there have been no pipelines built through Afghanistan that would permit the oil that is in Central Asia to flow into the world market. These things seem far removed, but they directly impact on what we are talking about today.

If Central Asia's oil had been brought into the world market, it would have been impossible for OPEC to try to control prices and manipulate prices the way we are talking about.

I have been trying to get to the bottom of what our policy is in Afghanistan for several year, and I appreciate Mr. Ackerman, who has been supporting my legitimate call for the documents that are necessary to find out what American policy has been in Afghanistan.

Let me just report today to my colleagues and to the press and to whoever else is listening that the Administration is again stonewalling the efforts that I have made to try to determine whether or not there has been a covert policy by this Administration of supporting the Taliban in Afghanistan, and that I have been denied the documents that are in the time period that I have been requesting for two years.

There is some reason why the Administration does not want to give me those documents. Perhaps they are hiding something. I do not know what it is, but there is a reason. I called on the State Department today to fulfill their obligation from requests made by

Chairman Gilman and myself, backed up by Mr. Ackerman, that they provide us the documents necessary to find out what American policy has been in Afghanistan. Again, this may seem far removed from the fact that our people are suffering in the Northeast right now, but if you look very closely, it has everything to do with it. The fact that Central Asia is still isolated has something to do with the fact that oil pipelines have not been able to be put through Afghanistan, and without those oil pipelines in Afghanistan, OPEC rules the day.

So, with that, Mr. Chairman, I thank you for giving me this opportunity for an opening statement. I am interested in the testimony.

Chairman GILMAN. Thank you, Mr. Rohrabacher.

Mr. Menendez?

Mr. MENENDEZ. Thank you, Mr. Chairman.

I want to ask unanimous consent to have my entire statement in the record.

Chairman GILMAN. Without objection.

Mr. MENENDEZ. There is no doubt that an energy crisis exists in the Northeast. If you are from other parts of the country, you may not have felt a pinch, but certainly we have. In New Jersey, we are clearly at crisis levels.

Imagine your residential energy costs doubling in a matter of weeks. That is what we are facing. I do not know many families who have planned for this type of fluctuation in their monthly bills, but I can tell you there are not many.

We see the cost for home heating oil has more than doubled just since the middle of January. That means that the price of home heating oil has risen from about $1 per gallon to $2 per gallon in just a matter of weeks. To put this in perspective, home heating oil prices have not averaged more than $1 a gallon since the winter of 1991.

If average consumption remains constant and the cost for home heating oil this winter remains on the path we have seen so far, this could mean that a typical household could spend an additional $350 or $400 more in home heating cost this winter.

Many factors have contributed to the high cost of home heating oil in the Northeast, not the least of which is recent action taken by OPEC to control oil supply and thus increase the price for crude oil. However, the impact of these OPEC actions has been exacerbated by the increase in domestic crude oil prices. These price increases have prompted many refiners and marketers to draw from their existing stocks of lower-cost crude rather than buying today's higher-priced supply.

In this draw-down of domestic supply, it has left the United States particularly vulnerable to the additional stresses created by recent winter storms and colder weather, as well as interruptions in the delivery of home heating oil.

With OPEC's control of over 40 percent of the world's oil production and 77 percent of reserves, action by the cartel to control prices by controlling supply has obviously played a significant role in today's energy crisis. They have accomplished their goals. Not only did they achieve their goal of $21 a barrel, but prices have continued to increase to more than $25 per barrel.

So I hope that Secretary Richardson, who I understand will be meeting with OPEC Ministers before their March rendezvous, will be strong, will be clear and will be sending a very strong message about what we are willing to do. At the same time, I believe there is much more that we can do here at home to alleviate the overwhelming burden on consumers of home heating oil prices.

I support the Administration's decision to increase supply by deferring the purchase of five million barrels of crude for the Strategic Petroleum Reserve until the end of the heating season. However, I do not believe that, by any stretch of the imagination, is enough.

I have been actively, along with many of my other colleagues, encouraging the Administration to go even further and implement a draw-down of the Strategic Petroleum Reserve either through a sale or a swap of oil now to be replaced with interest by a date certain.

I cannot understand why the Strategic Petroleum Reserve was drawn down during the Gulf War under prices which were far, far below today's prices, why it is not being drawn now.

Winter weather does not wait for Government decisions. Our constituents in the Northeast cannot afford to wait any longer, and we look forward, Mr. Chairman, to the testimony, but more importantly the actions that will be take to give us some relief.

[The statement of Mr. Menendez appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Menendez.

Mr. Smith?

Mr. SMITH. Thank you very much, Mr. Chairman.

I do have a lengthy opening statement which I will not read, but ask that it be made a part of the record.

Chairman GILMAN. Without objection, the full statement will be a part of the record.

Mr. SMITH. I want to thank you for convening this very important hearing, notwithstanding some abatement in the weather which could obviously change in a day or two. We never know which way that is going to go.

It is very important that the fundamental gauging that is going on by OPEC and by all those in the pipeline be fully revealed and hopefully very aggressively fought against.

You fight fire with fire, Mr. Chairman, and you fight oil supply with oil supply. As my good friend, Mr. Menendez, just pointed out a moment ago, even during the Gulf War, we were paying less for home heating oil in New Jersey than we are right now. As a matter of fact, it was about 50 cents less per gallon than it is today.

I talked to one of the providers of home heating oil in my area, and he pointed out that in just one weekend the price had jumped 22 cents from Friday to Monday. That is outrageous. I smell a rat. We should all smell a rat, and hopefully, the Administration will be much more aggressive. Certainly draw-downs on the Strategic Petroleum Reserve will help resolve or at least be part of the solution, because we all know that supply dictates market price. If the supply goes up, the price will come down.

[The statement of Mr. Smith appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Smith.

Mr. Ackerman?

Mr. ACKERMAN. Thank you, Mr. Chairman. Let me thank you first for calling this timely meeting of our Committee.

I was delighted when I came into the room to see the new seating arrangement. I do not know if it was just something to make us reminiscent of the past or if it is a harbinger of things yet to be, but nonetheless we are happy to be back here on this side.

I, too, have a rather lengthy, but nonetheless brilliant statement that someone wrote, and I will spare us all today by asking unanimous consent to place it in the record, if there is no objection, Mr. Chairman.

Chairman GILMAN. Without objection.

Mr. ACKERMAN. I would like to make a point or two. First, this is kind of unusual. Usually, this is not the kind of cold war that we discuss in this Committee, but it certainly has international causes and international ramifications. So I thank the Chairman for holding this, albeit hastily, much-needed hearing.

It seems to me we have an opportunity to ameliorate the problem that exists. We have a strategic petroleum reserve. What is it for? I hope that our panel will address that because it seems to me that at least a major part of our country, the part that uses much of this oil—my State alone, I believe uses 20 percent of the home heating oil of the entire country, and our region accounts for even more than that.

It makes good economic sense, as the Ranking Member, the gentleman from Connecticut, pointed out. You have bought low. This is your opportunity to sell high. It will be low again, and you will have the opportunity to replenish the Strategic Reserve and yet gain a profit for the Government, not that that is the purpose. But you lose nothing by this and you will not be running the reserve into the ground. Instead, you will be providing a much-needed service to a region of the country that is suffering deeply.

I know there is a concern about doing this because there is an OPEC meeting on the 27th of next month, and there is a concern that perhaps a strategy such as releasing some of the reserve will cause some kind of retaliation on the part of some members of OPEC, or OPEC overall.

I would think that they have already reacted. They have preemptively reacted. They have made a decision to do exactly what they are doing, and if our Strategic Petroleum Reserve is there for some strategic purpose, I would like to know what the strategy is, if not to use it, to try to control this kind of preemptive strike by the oil producers.

That being said, I will yield back the balance of the my time.

[The statement of Mr. Ackerman was not available.]

Chairman GILMAN. Thank you, Mr. Ackerman.

Mr. Delahunt?

Mr. DELAHUNT. Thank you, Mr. Chairman.

I would just echo what others have said. I come from a State that has been particularly hard hit. I have not had a chance to read your testimony, Mr. Secretary, but what I would like to hear today is whether the Energy Department feels that there needs to be additional statutory authority to draw down from the Strategic Petroleum Reserve. I'd like to have an answer to that particular question.

I would like to express my own concern that was clearly articulated yesterday at a meeting that Members from the Northeast and New York and other States particularly impacted, with Secretary Richardson, about the need to take immediate action. There is no way that we can wait until March 27th, and I think from that meeting, there was a consensus from Members of Congress—and I should underscore on a bipartisan basis—that much of the crisis is now being driven by speculation.

There was a consensus that clearly the preferable approach to pierce, if you will, that speculative bubble is to engage in a drawdown, because history is very instructive in this regard when President Bush, as I am sure you are aware, drew down in the midst of the Gulf War. In a single day, the price plummeted by $10 per barrel, and I would pick up on the observation by Mr. Ackerman.

I think at this point in time, we are in very hard negotiations with OPEC, and I would suggest that is the best course of action on behalf of the people whom we represent because we know that sooner or later the prices are going to go back to a more reasonable level. So I would conclude and yield back by just making those observations.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Delahunt.

Mr. Salmon?

Mr. SALMON. Thank you, Mr. Chairman.

I congratulate you on this hearing. I think it is very, very timely.

Let me read a letter that I wrote to you back in April of last year. "Dear Mr. Chairman: Since March 1st, the price of gas in certain Arizona markets has increased by about 50 cents, considerably more than the prices have increased nationally. Gas prices now average about $1.40 in Phoenix and Scottsdale. In fact, a recent AAA survey found that the Arizona price for self-serve unleaded ranked as fourth highest in the country. While I understand there may be legitimate reasons for this increase, including refinery fires in California and, indeed, prices in States dependent on California gas have risen more than other regions of the country, there may be another factor, namely OPEC's recent agreement to fix prices. Accordingly, I write to request the International Relations Committee hold a hearing to explore the action that the Administration has taken or could have taken to prevent OPEC from fixing prices and the measures it is pursing to break the cartel's anti-competitive maneuver. I am gravely concerned that the Administration has neglected this matter, resulting in higher gas prices for millions of American drivers. Therefore, I believe it is imperative for your Committee, as it has done so on many occasions in the past, to provide guidance to the Clinton Administration on how to counter the OPEC cartel." That is what I wrote clear back in April of last year.

I am pleased now—I guess misery loves company. The fact that now the Northeast is suffering as well has caused Congress to take a very serious look at this. I think there are some real irregularities that have been going on for a very, very long time, and I feel like kind of the voice in the wilderness. I am tired of my constituents being molested by these oil prices, and now that it has hit Northeastern America, maybe we can get something done about this and fix the problem.

Thank you.

Chairman GILMAN. Thank you, Mr. Salmon.

Mr. Sanders?

Mr. SANDERS. Mr. Chairman, thank you very much for allowing me to join you today, and I really do congratulate you for calling attention to what is a crisis in Vermont and the Northeast and in many parts of the country.

Let me be very brief and tell you what I think of some of the things that the Government might be doing and tell you that I share the disappointment of others in terms of the meeting we had yesterday with Secretary Richardson. I think that there is not an understanding of the kind of urgency that exists in this country and the need for bold action on the part of the Administration. So let me very briefly talk about a number of steps that I think we should take.

First, the President should immediately release oil from the Strategic Petroleum Reserve. The fact is that in 1990, as I understand it, President Bush released a small amount of that oil, and the immediate impact was to lower the price per barrel of oil by $10. It seems to me that when prices are escalating as they are right now, it is appropriate for the United States Government to use the resources that it has to drive prices down, and I am disturbed that the President has not yet done that.

Second, I think it is appropriate that the Administration press OPEC and our other major foreign suppliers to increase their production of both crude oil and home heating oil exported to the United States. I think that there is something wrong when allies in the Middle East, for whom American soldiers lost their lives defending, are taking action which is having an enormously disruptive impact on millions of American families.

Third, I think that there has got to be a significant increase in terms of releasing the emergency LIHEAP funding for low-income Americans. A couple of weeks ago, the President released $45 million, but many of us fought to make sure that there would be at least $300 million in emergency LIHEAP funding. We are in a crisis situation. Fewer people are able to get LIHEAP resources, and we think that the President should now release all or almost all of that emergency funding.

Fourth, I think we need an immediate investigation of the alleged price-gauging by the oil industry. I do not want to go into that in great length, but I think there are people in the business and many consumers, people in Government, who are concerned about possible illegal activities that might be taking place, and it would be appropriate for the Attorney General of the United States to take a hard look at that.

Also, Mr. Chairman, yesterday, with a number of cosponsors, Democrats and Republicans, I introduced the heating legislation which would establish a home heating oil base reserve in New York Harbor. It seems to me that one of the tools that we have in order to prevent this kind of crisis from occurring again is to have established a home heating oil reserve so that when heating oil prices go up, we can release that oil into the market and lower prices. We have many, many cosponsors on that legislation. I am happy to say that Secretary Richardson indicated that his Department would be taking a serious look at it.

The bottom line is, Mr. Chairman, congratulations for holding this hearing. In my view, the Administration is not doing enough to respond to this crisis. There are a number of things that can be done immediately, and we should do them.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Sanders.

Mr. McHugh?

Mr. MCHUGH. Just briefly, Mr. Chairman. I do have a full statement that I would ask to enter its entirety.

Chairman GILMAN. Without objection.

Mr. MCHUGH. I just want to associate myself with the comments of all of my colleagues, particularly those from the Northeast. Let me say to my friend from Arizona, I am glad we are able to help, although I wish we could find other areas in which to cooperate, as I am sure he does, too.

I just want to underscore the very serious nature of this, and I am sure witnesses are beginning to get a flavor of our deep, deep concern. The fact of the matter is, in the Northeast, there are about 7.5 million households that use home heating fuel as a way to drive heat and hot water to their homes. About 75 percent, as I understand it, of the entire Nation's households that use that kind of fuel.

I was in a beautiful little community, about 2½ weeks ago, called Saranac Lake in my district. I stepped out of the car and I looked at the bank sign, and it was minus 27 degrees Fahrenheit. That was without wind chill. The wind chill brought it to about 80 degrees below zero. I think you can tell that this is not a question of frivolity. This is a question of literally life and death.

In my district, we have not seen and enjoyed the benefits of this great economic boom we hear about. Unfortunately, too many of my counties have double digit on unemployment, and 8 percent is considered a good unemployment rate at the present time in my district. That equates to a lot of people who are really struggling hard to keep their heads above water. When you have the kinds of increases to home heating fuel that have occurred in my part of the world, a 90-cents-a-gallon increase in just 3 weeks, for example, this becomes an issue of crisis proportion.

I understand the Administration now has concerns about their legal authority to release stockpiles out of the Strategic Petroleum Reserve. I wish we would have heard that a few weeks ago. I am surprised it took them that long to discover this little technicality. I do not happen to agree that that legal problem exists, and I would like to see us try to work through it. However, it seems to me if that is the only barrier, we could act pretty quickly in this Congress, or certainly I would hope so, to take the steps necessary to provide the Administration the authority that they need.

So, Mr. Chairman, let me add my words of thanks again to you. This is a question of, as I said, life and death, and I am just delighted that you have decided to take this very, very necessary step, and I would yield back.

Chairman GILMAN. Thank you, Mr. McHugh.

[The statement of Mr. McHugh appears in the appendix.]

Mr. Sherman?

Mr. SHERMAN. Thank you, Mr. Chairman.

I cannot join the colleague who just spoke in a concern for windchill factor, but I do commend the Chair for holding these hearings, and I represent an area that is as dependent upon the automobile as other districts are on home heating oil.

The Members of this Committee have often heard me describe America's foreign policy as that we would like the honor of defending other countries for free, and in return for that honor, we would like to make major trade concessions. Nothing perhaps illustrates this to a greater extent than the Gulf War and the preceding Desert Shield, where we had the honor of defending not only Kuwait, but also, let's face it, Saudi Arabia and all the Gulf states that would have been under Saddam Hussein. The ruling classes in those countries would have been liquidated or exiled, probably would have fled for their lives; and yet, we never even thought at that point to negotiate, for saving the existence of these ruling classes, perhaps some modification in OPEC approaches would be part of that bargain.

As a result, the very countries that we saved in last decade are blatantly getting together in what in this country we would call a conspiracy in constraint of trade to gauge us on the price of oil.

California has had its own unique problem here. We have in effect a separate market for gasoline because it is specially formulated to deal with our clean air standards. The price of gasoline, especially in Southern California, as my colleague from Southern California well knows, has often been 10 or even 15 percent higher than the rest of the country, and, of course, with OPEC, the rest of the country is paying a lot as well.

I would hope that the Justice Department would further study the possible antitrust implications of the high cost of gasoline unique to California, and at the same time our foreign policy not simply be to accept as fait accompli the idea that our friends would get together to try to raise the price of a commodity on which we are so dependent.

Finally, I do want to agree with my colleagues who have suggested that the strategic oil reserve be tapped at times like this, but we also ought to take advantage of low oil prices which we experienced, I believe, just a couple years ago to build and replenish that reserve. I do not want to see that reserve permanently decline each time we have a price crisis.

So I want to join my colleagues in concern for this issue and yield back the balance of my time.

Chairman GILMAN. Thank you very much, Mr. Sherman.

Are there any other Members seeking recognition? If not, we will proceed with our witnesses.

We are pleased to have with us today David Goldwyn, Assistant Secretary for International Affairs at the Department of Energy, and Deputy Assistant Secretary for Energy, Sanctions and Commodities, for the Bureau of Economic and Business Affairs at the Department of State, Peter Bass.

President Clinton nominated David Goldwyn to serve as Assistant Secretary of International Affairs at the Department of Energy in April of 1999. Prior to that appointment, Mr. Goldwyn served as a counselor to the Secretary of Energy, as senior advisor and counsel to the Ambassador to the United Nations, during which tenure he also sat on the Deputies Committee of the National Security Council, and has served under both Presidents Bush and Clinton at the Department of State. He has extensive private sector experience in international business through his long association with a New York law firm.

We welcome you today, Secretary Goldwyn.

We also have appearing on our first panel, Peter Bass, who served as a career civil servant with extensive experience in international economic and security affairs. He began his career with the U.S. Court of Appeals, then joined the State Department as attorney-advisor in the Office of Legal Advisor. Mr. Bass has served as special assistant to the Under Secretary of State for Political Affairs at the State Department. He served in the Office of the United States Trade Representative, and has served on the staff of the Secretary of State, Warren Christopher.

Mr. Bass has served on the staff of the National Security Advisor at the White House, and most recently was the chief of staff to Under Secretary of State, Stuart Eisenstadt.

We welcome you today, Mr. Bass.

Gentlemen, please proceed. You may put your full statement in the record and summarize, whichever you deem appropriate. Please proceed.

STATEMENTS OF DAVID L. GOLDWYN, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF ENERGY

Mr. GOLDWYN. Thank you, Mr. Chairman and Members of the Committee. Let me apologize for my rasp. I have got a little touch of laryngitis, which will help me keep my statement brief.

Let me say at the outset that Secretary Richardson and the other members of the Administration do take this crisis very seriously; that this is not just a matter of geopolitics, that they understand this affects people at home and in a severe manner. It is a matter of urgency that we are taking steps to address, steps which I will outline in my statement later this morning.

What I hope to do today is to talk a little bit about the current state of the oil market and the concerns we have over recent developments in the market, particularly on heating oil in the Northeast, and to talk about the actions the Administration has taken to address these concerns and also Secretary Richardson's energy diplomacy and the steps that he will take in the coming weeks.

As we all know, oil prices have more than doubled in the past year. Prices have increased from near historically low levels, around $11 in December 1998, to recent levels not seen since the Gulf crisis. This rise in price is largely attributed to the actions taken by OPEC to restrict supplies to the market.

Recently, the already tight supply situation in the market has been exacerbated by cold weather here in the United States, which has resulted in soaring heating oil prices. Beginning in March 1998, OPEC instituted three tiers of production cost which have actually totalled 4.3 million barrels per day.

OPEC member compliance with a third cut, which is effective in April of 1999, has created an increasingly tight market as crude oil inventories have been drawn down over the course of the past year. Overall, OPEC compliance with its quota has been running between 75 and 90 percent, which is quite high.

Largely as a result of production cutbacks by OPEC and its allies, in 1999 the shortfall in crude oil worldwide averaged over 1 million barrels per day. If OPEC keeps production in the year 2000 at the levels seen in the fourth quarter of 1999, our EIA estimates the shortfall in 2000 at between one and two million barrels per day.

Before last month's cold snap, the oil market was already tightly drawn. Inventories were low, and prices were already relatively high. The late January heating oil and diesel fuel price surges in the Northeast resulted from a combination of low inventories, weather, and supply problems.

At the beginning of January, load stocks on the East Coast were running almost 15 million barrels, or 21 percent below their 5-year average value for that time of year, and these load stocks as we have found leave little cushion to absorb sudden changes in supply or demand and increased the possibility of price spikes.

During the week ending January 21, weather in New England was nearly 21 percent below normal for this time of year. The cold weather not only increased demand, but also caused supply problems which are unique to the Northeast, with frozen rivers and high winds hindering the arrival of new supply. The region has continued to struggle since then to bring in new supply as strong demand continues. We believe that the combination of actions that we are taking over the short term, barring additional weather disasters, will correct the market imbalance promptly.

Over the past few weeks as the heating oil situation has worsened, the Department and Administration have taken a comprehensive look at ways to ease the situation. We have taken a number of actions. One is to enhance market monitoring of home heating oil markets in order to provide prompt information to the market. The second is the low-income home energy assistance emergency funds, which many of you have discussed this morning in directing Department of Health and Human Services to release to those funds to many of your States. Another is the waiver of carrier driving hours. The Department of Transportation has been approving requests for waivers, which accelerates the delivery of supply to markets badly in need of it. Another is to clear shipping lanes. The Department of Transportation also directed Coast Guard ice-breakers to help with clearing shipping lanes in the New York Harbor area. The Northeast is unique in having a predominant amount of the heating oil supply by barge traffic, and the clog in the New York Harbor is part of what has impeded supply to that area.

Yesterday afternoon, as the Congressman mentioned, the Secretary convened a meeting of the parties most involved in this crisis, State governments, utility representatives, fuel distributors, refiners, and transporters, to discuss the situation and identify what measures can be taken both now and in the future.

A number of the ideas are under active consideration, and by active consideration, I mean after that meeting broke up—and I think there were 10 or 12 suggestions made by the people at that meeting—the Secretary convened not only a task force within the Department, but working inter-agency to act on a number of those recommendations. We expect to make some announcements drawing from some of those suggestions very promptly, hopefully today or tomorrow.

The Secretary is holding a Home Heating Oil Summit in Boston on February 16th to meet with refiners, distributors, Government officials, and consumers to discuss the reasons for the recent problems and to develop ways the Government and industry can work together to better meet consumer needs.

Let's talk a little bit about the Secretary's energy diplomacy. The Department and other Departments regularly talk to both OPEC and non-OPEC member countries about marketing conditions and their impact. This sharing of information is a critical part of the effective functioning of the oil markets. It lets us identify whether we, and especially the major producers, have the same understanding of market conditions, stocks of inventories.

Over the past couple of months as stocks have decreased and prices have risen, the Department has had a number of discussions with various members of OPEC and with Mexico and with Norway. Secretary Richardson met with Minister Tellez of Mexico and Mr. Arnstad of Norway last week. He had met with Saudi Minister Ali Naimi and Kuwaiti Minister Saud Nasir Al Sabah in December, and he will meet with both Ministers again later this month, I think actually leaving next weekend when he travels to the Middle East.

In these conversations, what he has talked about is, first, our information analysis of the current state-of-the-oil market and our views of its impacts, especially the impacts these have on a world oil market with growing demand.

We have provided the best information obviously that we have on stock levels and near-term future trends. The bottom line we have told them, which is immanently clear to all of you, is that crude oil stocks in the U.S. are at their lowest levels in years and getting lower. Distillate and gasoline stocks on a week-to-week basis are lower than they have been in years. The point that we have made to OPEC and non-OPEC member countries based on this data is that they have already achieved their previously stated goal of reducing surplus oil stocks. The market is now extremely tight, so tight that any unfortunate event we have seen, like a cold snap, can generate price spikes in our market that need additional supply. I can repeat, this is the message which we are conveying both OPEC and non-OPEC members that we believe is the solution to these problems is that market forces need to operate freely, and this growing demand needs additional supply.

In conversations with producers, we have also talked about the impact of the actions they have taken to reduce oil supplies. First, we tell them as we have for many years that the free market should govern the forces of supply, demand, and price without the interference of organized groups of producers and without the interference of organized groups of consumers.

Second, we have told them that artificial supply constraints placed on the market are ultimately self-defeating even for OPEC. OPEC needs only to look at its own history for proof. Its efforts in the early 1980's restricting supply to support artificially high price goals led to a boom in non-OPEC production and a loss of OPEC market share.

OPEC asserts that price stability is its goal, but supply constraints exacerbate volatility in the market and lead to boom-and-bust tendencies, global instability, and an uncertain energy investment environment.

Third, we had expressed our concern that high oil prices inflict economic damage. This impact can fall on both the developed and the developing world. Many of the economies which OPEC and non-OPEC members rely on for their trade are struggling to recover from recession and will be greatly challenged by these high oil prices. If these economies flounder, everyone in the developing world will be hurt.

Fourth, we have cautioned these countries that restricting supply in a market that sorely needs additional oil does serious damage to the efforts that some in OPEC have made to demonstrate that they represent a reliable source of supply. When a supplier will not give you the supply you need, it is only natural that you would seek other sources of supply. So it will have long-term effects on the market.

In recent days, the public statements of many oil ministers have suggested that they do take our concerns about inflationary impact in the U.S. economy and the recessionary impact on other economies seriously. They have indicated they will take these considerations into account at their next meeting and act responsibly. This is by no means a guarantee or predictor of their action, but they are hearing what we have been telling them.

Secretary Richardson will carry this message to Kuwait and Saudi Arabia—he is leaving I think next weekend—to make sure that they understand what our position is. I spoke to the Secretary this morning, and he said he would be pleased to brief the Committee upon his return from that trip to discuss these issues with you.

That concludes my prepared testimony, and I would be pleased to answer any questions.

[The statement of Mr. Goldwyn appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Goldwyn.

Mr. Bass?

STATEMENT OF PETER BASS, DEPUTY ASSISTANT SECRETARY FOR ENERGY, SANCTIONS AND COMMODITIES, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. BASS. Thank you, Mr. Chairman and Members of the Committee, for the opportunity to testify here today on recent developments in the oil market, especially in view of the difficulties encountered in the heating oil market in the Northeast.

Let me just say that Secretary Albright and senior officials of the Department are also acutely aware of the difficulties that your constituents are experiencing and have asked me to brief them regularly.

Chairman GILMAN. Mr. Bass, would you put the microphone a little closer to you? Just bring it closer to you.

Mr. BASS. Okay. Does that work?

Chairman GILMAN. Thank you. That is better.

Mr. BASS. As I was saying, Secretary Albright and other senior officials in the Department are acutely aware of the difficulties that your constituents are experiencing now and have asked me and other officials at the Department to keep them fully briefed on the oil market conditions.

The Department of Energy can and indeed has provided a much better analysis than I can of the various factors that came together this winter to cause a run-up in heating oil prices, but one of the factors in the heating oil price increase was the increase in world crude prices, and I wanted to review with you briefly the approach this Administration and previous administrations have taken to handling oil issues since the oil shocks of the '70s and to review the role of major OPEC producers in the market.

Ensuring access to sufficient quantities of oil remains a critical and indeed strategic aspect of U.S. foreign policy. While oil's role in the U.S. economy has declined, the efficient availability of oil and other sources of energy remains vital to our economy and those of our key trading partners and allies. Energy disruption anywhere in the world can affect our economy directly through its impact on energy prices and indirectly through its impact on our major markets.

Disruptions can also increase the risk of political instability in areas of strategic importance to the United States and can increase the ability of certain states to pursue policies that threaten U.S. interests.

The U.S. policy toward domestic and global energy markets has helped foster a two-decade trend of greater choices and lower real prices for consumers as well as lower production costs for energy producers. However, there have been and will continue to be price swings in the U.S. and global energy market as countless consumers, producers, and marketers interact in a very flexible and competitive energy market.

Regional problems with refineries or transportation systems can create acute localized problems, reflected in difficulties with access to supplies and sharply higher prices. While crude oil prices are generally not the predominant factor in these regional supply problems, changes in global crude production and prices can be a complicating and exacerbating factor.

That brings me to the central topic of this hearing, OPEC crude oil production decisions and U.S. policy toward OPEC. First, let me say the U.S. Government has always had regular consultations with both OPEC and non-OPEC countries. These routine discussions continue to take place as they did before crude oil prices fell considerably in 1998 and early 1999 and when crude prices began increasing about a year ago.

At international fora attended by many energy producing and consuming countries, crude oil production and price levels also come up regularly, especially when prices are viewed as extremely low or extremely high. Our consistent position in these fora, regardless of where prices are at the moment, has been that we do not believe cartels should be coordinating production levels among producers to set prices. It is for that reason that the United States does not maintain a dialogue with OPEC as an institution, but bilaterally with key OPEC and non-OPEC producers. We believe markets should determine prices by reacting to the full range of individual decisions made by virtually infinite numbers of consumers and producers in the global energy market.

OPEC producers, as well as some non-OPEC producers, do not share our view that oil producers should not coordinate production levels to set prices. However, major oil producers recognize their strong interest in maintaining long-term demand for oil and ensuring that oil continues to be the fuel of choice for much of the world.

Oil producers recognize the importance of maintaining their reputations as reliable suppliers. Obviously, any problems with heating oil supply or prices that would encourage consumers to switch to non-oil alternatives would not be a welcome development for anyone in the oil business.

Mr. Chairman, assuring access to imported oil for the U.S. and our major allies and trading partners is and will remain a continuing critical objective for U.S. foreign and economic policy for the foreseeable future. At the same time, we need to view current market conditions in a historical perspective. It was 25 years ago that the energy consuming countries believed we were facing a bleak future of ever-rising energy prices, diminishing reserves, and the increased vulnerability of our economies to oil-based price shocks. The intervening years have been far less bleak than expected, and we are better off on all these fronts than two decades ago.

In contrast to the 1970's, when national oil companies rose to prominence, governments around the world are increasingly open to the benefits of foreign investment, privatization, and deregulation. Global-proven oil reserves have actually increased 50 percent over the last 25 years, while consumption is only slightly higher than in the late 1970's, despite a doubling of the size of the U.S. economy. Both production techniques and oil markets have become highly efficient, and active futures market results in almost instantaneous price responses to perceived changes in supply.

As a result of all these factors, oil prices when adjusted for inflation remain well below the real price levels of 1974 to 1985. Despite almost three decades since the U.S. consumer suffered, having to wait in long gas lines, something that I personally remember as does everyone I think in this room, the memory of that acute vulnerability still casts a long shadow over the oil market. The price jolts of the 1970's put a number of forces in motion with considerable influence on today's market. Higher prices had a major impact on oil demand and resulted in slower economic growth in the industrialized countries, and also intensified efforts to advance energy efficiency and conservation.

In addition, the oil price hikes of the 1970's encouraged the search for oil in new countries and regions and accelerated new production and consumption technologies and brought new alternatives to the dependence on oil.

A consistent U.S. Government approach since the early 1980's has reinforced the effectiveness of the market. One of the steps in the '80s was to deregulate domestic energy markets. That initial action set the tone for policy over the past two decades. Meanwhile, there was a concerted effort to reduce the Government role in the energy sector.

We have also let the benefits of generally lower oil prices flow through to end users, thereby increasing the economic benefits of lower oil prices and increasing market opportunities for energy producers.

We have strongly supported the free-flow of international capital. As these flows have come to be determined by market forces, they have helped to foster more efficient and productive allocation of investment. Downstream integration of major oil producers adds to stability in the oil market by increasing the commonality of interest between consumers and producers.

Producers have shown an increased understanding of new mechanisms for disseminating information and establishing prices, such as the futures market. They have also recognized both the importance of ensuring supply reliability and the need to avoid taking actions which harm oil's long-term competitiveness. On a global basis, the United States seeks good relations with oil producers around the world, recognizing that global economic growth depends on the availability of increasing volumes of oil.

In order to expand the availability of oil, we promote international efforts to remove barriers to energy, trade, and investment, as well as increased access for U.S. energy firms around the world.

I think this hearing today can have a useful role in illuminating some of the problems that occurred this winter, and I welcome the Committee's effort to shine a spotlight on the problem. I would be happy to answer any questions you may have.

[The statement of Mr. Bass appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Bass and Mr. Goldwyn.

We will now proceed with questioning our Administration witnesses.

As we look over this problem, it is apparent to all of us that the problem has been the supply by the OPEC nations, as they are restricting the supply. You talk about ice-breakers. You talk about reserves. It is a matter of trying to get the OPEC nations to turn on a spigot and allow the market prices to determine what the price should be.

I do not think any of the agencies, either State Department or Commerce Department or Energy Department, have done what we should be doing, and that is to convince the OPEC nations that if they were here as a citizen of our country, or a corporation in our Nation doing what they are doing, we would have them in court for conspiracy in driving up the prices. I do not think just sitting and talking with them is sufficient.

In looking over this chart that I have before me, we find that six of these nations, OPEC nations—and Mexico is an associate with them, making it seven—are dependent upon getting some assistance or military sales from our Nation. Now they are turning around and impacting upon our economy. What more can we or should we be doing than just sitting and talking with them or having Richardson go on over and talk to the Saudis? The Saudis can do a lot more in opening the spigot.

I resent, and I am sure my colleagues resent, the kind of attitude the OPEC nations have been taking because they want to get richer in a shorter period of time and forget about our people, who are being impacted by all of this.

Are you satisfied with what we are doing by just conferring with them?

Mr. GOLDWYN. If I can address just the part about the energy diplomacy and then defer to Mr. Bass on other actions that you mentioned, I think neither the Secretary nor the Administration is satisfied with what has happened so far. I do not underestimate our ability to motivate both OPEC and non-OPEC members to understand that the situation created right now is a market out of balance, that additional supply needs to be provided and quickly, and that it is in both their interests and our interests to do it.

With respect to the other actions, I will let Mr. Bass answer.

Chairman GILMAN. Let me ask you this. Suppose this Committee were to recommend that we impose sanctions against those nations that are impacting our Nation with this reduced supply. What is your response to that?

Mr. BASS. First, let me echo Mr. Goldwyn's remarks about the seriousness with which we take this problem.

On the specific issue of sanctions, I am not sure that any trade restrictions or sanctions are going to address the issue of ensuring a free flow of oil determined by the market.

Chairman GILMAN. We are certainly not getting a free flow by just sitting and talking to them. What more can we do?

Mr. BASS. I think it is very important for OPEC countries, including Saudi Arabia, to understand the market conditions in the United States. They, too, have an interest over the long term in ensuring themselves as a reliable supplier of oil, and they also have a direct interest in the continued robust economic activity of consumer countries, including the United States.

Chairman GILMAN. You just told us in your testimony that they had agreed to, I guess, a six-percent increase and they met that increase; and in January, they met again and they decided to continue because they were not satisfied with their overall return. That does not seem to make sense to us.

Mr. BASS. We hope through our mutual conversations which are quite serious and quite thorough about the state of the market, including the issues that Mr. Goldwyn referred to, they will understand the potential problems that artificial restrictions on supply can cause. I am sure this will be a topic that Secretary Richardson will take with him when he goes to Saudi Arabia next month.

Chairman GILMAN. Is there any Administration activity and inter-agency report on the origins of the surge in energy costs and how we can better meet these challenges now and for the future, and is there anyone preparing such a report?

Mr. GOLDWYN. Are you referring to the home heating oil crisis right now?

Chairman GILMAN. To all of the energy prices. It is home heating; it is gasoline; it is diesel fuel. We are hearing it from all aspects; kerosene.

Mr. GOLDWYN. In terms of analysis of the market, why these things have occurred and how they occur on a regular basis, our

Energy Information Agency regularly studies the market. That is the primary thing that they do.

The causes of the rise in prices over the last year are at this point pretty well known, and those are largely because of OPEC's decision to restrict supply and to eliminate what was a year ago——

Chairman GILMAN. Essentially, OPEC is causing our problem, is it not?

Mr. GOLDWYN. OPEC's production cuts were the primary factor in reduction of supply in the market. The increase in prices over this winter, though, as I mentioned in my testimony, are really from a combination of factors. It is not just the rise in crude oil supplies, although crude oil supplies are obviously a dominant factor.

Mr. GEJDENSON. A decrease?

Mr. GOLDWYN. Decrease, yes. Thank you, Congressman.

But also, it is low inventories, as Congressman Gejdenson mentioned, low inventories which did not anticipate a cold winter, the bad weather which not only caused an increase in demand, but unusual restrictions in supply which caused price spikes as well. So it was a combination of factors.

Chairman GILMAN. If we had supply, the higher temperatures would not impact upon the prices as much as having a sufficient supply out there.

What we are asking you is what is the Administration going to do to turn OPEC around at this point.

Mr. GOLDWYN. I think the answer is, short term, we are taking measures to provide relief to the Northeast, and we are talking to OPEC before they are about to make another decision about the situation in the market on why an adjustment in the production quotas is necessary and appropriate.

I have to say that while there have been no indications about what their decision is going to be, there has certainly been a change in rhetoric in the papers from many ministers. I am quoting from Minister Tellez's speech yesterday that he gave to the Cambridge Energy Research Associates.

Chairman GILMAN. The minister of which country?

Mr. GOLDWYN. Tellez of Mexico.

He said the recent run-up in oil prices has led some market participants to voice concern that the prices are too high, that inflationary pressures are now becoming significant, and that world economic growth may be adversely affected.

Chairman GILMAN. Is Mexico reducing its price?

Mr. GOLDWYN. I think I speak for all of us when I say these concerns are legitimate and should not be dismissed lightly.

He said that in terms of working with their colleagues, they will make decisions which will be responsible with the objectives of prime producers and consumers for sustained market growth through price stability, in place of an uncertain and harmful cycle of price spikes and collapses.

Chairman GILMAN. Yet, Mexico went along with OPEC, did they not?

Mr. GOLDWYN. The question is what happens next and what do we do next and will there be a change.

Chairman GILMAN. What do we do next if they refuse to reverse their situation on prices? What do we do next? What do you recommend? We would like to hear the Administration recommend some significant steps to ease the burdens of the Northeast.

Mr. GOLDWYN. The short-term steps for the Northeast that I mentioned, and in the medium term, the investments that the Department makes in alternative sources of supply, not only energy supply in other parts of the world, is one area. Our work in the Caspian and Africa and Latin America to create other sources of supply is a way to provide diversity and better energy security. Technology provides a way to reduce costs also of producing energy, and energy efficiency and renewables provide alternatives as well. All those things are important to pursue.

Chairman GILMAN. Mr. Gejdenson?

Mr. GEJDENSON. Thank you.

It seems to me if I am OPEC, I would look at this and it is working. The reason they reduced supply is they wanted to get more money for their oil. So, simply going to OPEC and saying, "Gee, this is causing a problem here," I am sure their hearts are going to ring sadly for us, but their treasuries are obviously doing better.

So the question is not what OPEC is going to do because they represent other countries. The question is what are we going to do, you guys and us, because we represent the people in this country. If we just sit here and wait for the goodness of Saudi Arabia and Kuwait and Qatar and all of these wonderful countries to get around to the point where they want to help us out, it is going to be a very cold winter. So what are you going to do?

I have not heard anything here that makes me feel better today. You guys do not have the pay grade to come up with a new policy, but I suggest you go back and tell your bosses that in Congress, on a bipartisan basis, there is a feeling that the Administration is not getting the issue, and it is going to happen again this summer. It is just going to happen in a different product.

So it seems to me that, again, unless OPEC has some downside impact from its reduced production, it is going to continue to do it. Why wouldn't they? They make more money selling fewer barrels of oil. It does not take a genius to figure out that it is good for their treasuries. So they are going to continue to create a short supply.

What you have to do is make sure that the resources we have guarantee that the supply that is here is not being manipulated against the consumer. That is one.

The second thing is you want to increase the supply of crude because, unless there is an increased supply of crude, the price is going to continue to stay up there. They may switch to another product. They may go after gasoline in the summer and not short supply heating oil again until next fall or winter, but the end impact on the consumer is going to be the same.

The next thing you have to do in the free market that we generally live in, if in electricity and in natural gas there is a control mechanism to prevent short supply problems and the only elastic area is the demand on number-two fuel oil, you can be damn sure every time there is a cold spell, companies are going to be pushed off natural gas to number two, home heating demand goes up, corporate demand goes up, and you are going to have a short supply problem.

So the Government ought to make sure the wholesalers, or the Government in combination, have an adequate reserve. Do you presently monitor the supplies that are sitting there, Mr. Goldwyn?

Mr. GOLDWYN. Yes. I believe we do, yes.

Mr. GEJDENSON. So when did you know that we were running 47 million barrels below last year in home heating oil and diesel fuel?

Mr. COOK. We have been tracking it on a weekly basis for months.

Mr. GEJDENSON. Do you want to come up here and identify yourself? We will not get you in trouble.

Mr. GOLDWYN. He tracks home heating oil supplies on a weekly basis. I think they have been publishing them only on a biweekly or monthly basis.

Mr. GEJDENSON. So didn't somebody who sat there say even if we get an average month in the end of January and February, we would have trouble? Did somebody see that coming?

Mr. COOK. We have put reports out to that extent, yes.

Mr. GEJDENSON. What action, then, did you take?

Mr. COOK. My group just puts out the statistics.

Mr. GEJDENSON. The numbers. So now we are back to you and the guys above you.

It seems to me that collecting this information is nothing but a nice academic exercise, unless the response is that there is a policy change. So the policy change has to be either to demand that we switch production from gasoline to number two, or that we release crude trying to affect worldwide market availability of crude. If we do not do that, we are going to continue to get manipulated.

It seems to me the Secretary of State can take some action in our dealings with these countries; but it does come down to the immediate action by the Secretary of Energy, and the Secretary of Energy, I think—again, sees a little heat from the Northeast at the moment. You are going to see heat from across the country when gasoline prices this summer are up around $2 a gallon. So what we need to make sure is that we do not end up in that situation.

I did not get the sense from what Mr. Richardson said yesterday that he understands that. I think he is a very smart fellow. I have served with him. So you tell him, his friends in Congress understand he can figure this out, and that there is no reason to be sitting on that Strategic Petroleum Reserve now.

I am going to repeat myself again. You can make money selling the stuff, and you affect the world supply. We expect to see some response here.

This Administration understands that in a free market, at some point OPEC can control the price unless we do something besides go over there and beg them to recognize our needs. If we dump crude on the market from our reserve, that is going to have an impact on supplies.

So I certainly hope we are going to see a more responsive Administration in the weeks to come. Again, I do not blame the two of you. I think that people above you, though, have to initiate a policy that is going to give people protection.

It is one thing to be sitting there in the top one percent and see home fuel oil go to $2.66 or two bucks-plus a gallon. It is another thing when you are a senior citizen on a fixed income, a family with a kid in school. These people are being wiped out by this. The great American boom has left a lot of people still living at the very edge, and when this kind of stuff happens, those people are devastated. That is why we are in Government. We are not just here to watch the rosy scenarios and make reports.

Thank you very much.

Mr. ROHRABACHER. [Presiding.] Thank you very much, Mr. Gejdenson. I will move forward now, and the Chairman will be returning after he votes. Then I will go and vote.

Let me just note that I have not really heard a policy. Again, I am echoing what my friends have said here. From what you have said, I just get the idea that you are following this very closely. You have your experts looking at all the statistics and all the figures, but I have not heard a policy yet of how we deal with obviously an international price-fixing arrangement by people in countries and governments. This is a conspiracy against the American consumer.

With that in mind, how much money has this cost, this price-fixing effort by OPEC? How much has it cost the average American so far, and how much do we expect it to cost in the time ahead?

Mr. GOLDWYN. I do not have that statistic at my fingertips in terms of over the last year from a particular baseline, what the additional cost has been, but we can try to provide that to the Committee.

Mr. ROHRABACHER. How much is it costing those people in the Northeast now, per family? Are we talking about crude oil prices? Are we talking about $500? Are we talking about $1,000? What is the expense to the average American family by this price-fixing conspiracy?

Mr. GOLDWYN. The situation in the Northeast is obviously different than it is in the rest of the country. Prices have not spiked up nearly as high in other parts of the country where there are higher inventories, where there is easier ability to deliver the supply, than it has in the Northeast, but we have seen extreme volatility in the heating oil crisis from $1 to $2.

Mr. ROHRABACHER. You have been following this very closely. Obviously, you have not done anything about it, but you have been following the statistics very closely, supposedly. How much is it costing the average family in the Northeast because of this international price-fixing conspiracy?

Mr. GOLDWYN. That is a number that we can provide you, but not one that I have at my fingertips, Congressman.

Mr. ROHRABACHER. What was that?

Mr. GOLDWYN. That is a number that we can provide you, but not one that I have at my fingertips.

Mr. ROHRABACHER. All right. I will have to say that this is a hearing specifically on this issue; and I am disappointed that we have representatives of the executive branch who come here to testify on this issue and are not prepared enough to tell us how much it is costing the people of the Northeast, because that is what this hearing was supposedly called about.

You are the Government officials who are supposedly watching the numbers. If you are not making the policy, we should at least know the numbers.

Please tell my friend, Mr. Richardson, that there are people overseas who are taking helpless Americans and American families and stealing hundreds of dollars out of their pockets, and the average American family who is being hurt cannot afford this.

I believe in market. I am a free-market guy. This is not a product of a free market. This is a product of a controlled market that is manipulated by a price-fixing conspiracy. Bill Richardson, who is a good man and cares about people—because we served with Bill—should not be just sitting back looking at the figures and analyzing what the effect of this should be and trying to convince people that in the long run their price-fixing is not going to hurt them. I would expect that there would be something that would be proposed where we would be punching people in the nose for hurting our people.

We have people who are hurting American citizens and damaging, causing great pain to the standard of living and well-being of average Americans, honest people. Those honest people depend on our Government to watch out for them when they are unfairly affected by a manipulation of the market, and that is what is happening here today.

Mr. ACKERMAN. Mr. Chairman?

Mr. ROHRABACHER. Yes.

Mr. ACKERMAN. If I may have a minute, I just wanted to say that I do not know that we really have a reasonable expectation to have exact numbers or even estimates right now, because we do not know what the average American suffering through this crisis is doing with their thermostat, whether they are pushing it ahead or whether they are just suffering in the cold or what the temperature is going to be later tonight. So that seems to be a moving target, and I guess we are going to have to have a little patience to get the real numbers.

A quick question: one of our colleagues alluded to maybe there being some kind of conspiracy on the part of those within the industry here in our own country. Do you have any evidence to support that?

Mr. GOLDWYN. We do not have any evidence. In 1996, the same issue was raised when prices spiked at that time, and the study at that time indicated there was not manipulation by the big traders. In fact, they more or less broke even and there was not an economic incentive for them to do that. So it is not an area where you have jurisdiction.

Mr. ROHRABACHER. For my colleague's sake, let me just note that the price-fixing conspiracy that I was talking about there was the International Organization of Oil-Producing States, OPEC.

Mr. ACKERMAN. I meant our colleague on the right, Mr. Sanders.

Mr. ROHRABACHER. By manipulating supply, they are trying to manipulate price, obviously.

Let me just say if a group of countries, especially countries that we have defended in the Gulf, are involved with trying to hurt average Americans, our Government should have a policy that retaliates against that. There should be another shoe falling rather than simply just analyzing the figures.

I am deeply disappointed that we have not had that. Let me just give an example. We could suggest that we are going to withdraw certain support, defense support for that area.

The Venezuelans, for example, I understand are involved with driving this up. Perhaps we could tell the Venezuelans if they continue to be involved in a conspiracy to do damage to the American people that we will see that they do not get certain credits or that anyone investing in their country will not do so with Export-Import Bank backing. There are things that can be done to put pressure on countries like this that are trying to hurt our citizens. That is our job, to prevent our citizens from being hurt by artificial manipulations of the market. The market has to work. I agree with you, and I think the Administration is committed to that, but when we have people who are robbing people through this type of price-fixing, we expect more than what we have heard today.

I am going to have to put this in recess until I go and vote. We are in recess for ten minutes. Thank you.

[Recess.]

Chairman GILMAN. [Presiding.] The Committee will come to order.

Mr. Delahunt?

Mr. DELAHUNT. Thank you, Mr. Chairman.

I wonder, Mr. Secretary, could you respond to the question that I posed during my opening remarks. Is it the position of the Department that you need additional statutory authority to draw down under current conditions from the SPR, or do you believe you have that authority now?

Mr. GOLDWYN. No, sir. We do not believe that we require additional authority to make draw-downs under the SPR. The Administration's position is that under current conditions, in the current context, we should not draw down the SPR because the situation that we are in right now, while serious and requiring response, is not the kind of national emergency for supply disruption which the SPR legislation contemplated, and that there are other measures, better measures with which to respond——

Mr. DELAHUNT. But you are confusing me. Do you believe that given the current conditions, however you interpret them, that you have the statutory authority to draw down from the SPR?

Mr. GOLDWYN. I am trying to be direct and be clear at the same time.

Mr. DELAHUNT. Right.

Mr. GOLDWYN. The question about whether the current situation is an emergency or not is a judgment call.

Mr. DELAHUNT. Right.

Mr. GOLDWYN. It is a judgment call that the President makes, and the Administration's position is that these current conditions do not constitute that kind of emergency.

Mr. DELAHUNT. So what you are saying is it is the position of the Administration that the existing situation as of today is not an emergency that would warrant a draw-down?

Mr. GOLDWYN. That is correct. It is not the kind of emergency that would require or warrant a draw-down, and that other measures, a number of measures, some of which I have outlined this morning in trying to put additional supply in the market through energy diplomacy, are better alternatives.

Mr. BASS. If I might add, that is because the statute refers to a major market supply disruption.

Mr. DELAHUNT. What I am trying to get clear, Mr. Bass, if there is the need, if the Administration should feel it is appropriate—let's not call it an emergency, but it would be timely to draw down, do you have the statutory authority? Secretary Goldwyn indicated that he does feel that under the current conditions the statutory language authorizes a draw-down, but it is the position of the Administration that it is not an emergency. Do you disagree at all with his——

Mr. BASS. No.

Mr. DELAHUNT. Because I think it is really important, you have heard from Members of Congress. Again, I think it is important to note, that it is at least from the Members you have heard and from those who were present yesterday with Secretary Richardson, that this is an emergency. So we have a disagreement as to the judgment of whether an emergency exists.

I think that it has been alluded to, but I think we should speak directly to the reality, which is this particular crisis—let's call it a crisis rather than an emergency—this particular crisis has the potential to undermine the current economic prosperity if it continues to exist. Would you agree with that?

Mr. GOLDWYN. I am not an economist, but I think——

Mr. DELAHUNT. Neither am I, I can assure you, but let me ask you this. Has anyone in the Department made an assessment as to the impact on the economy if the status quo remains, and at what point in time, if you have done any economic modeling, does it undermine the prosperity that we have been enjoying now for some period of time? Either you or Mr. Bass are free to——

Mr. GOLDWYN. Let me take a try at the first two parts. There is no question that we are telling both OPEC and non-OPEC members that continuation of the status quo and, indeed, if they do not increase supply will put additional inflationary pressure, we believe, on the U.S. economy and threaten recession in other countries.

Mr. DELAHUNT. Do we have any time frames, though? Has the Department internally done an analysis of when those inflationary pressures would substantially kick in and threaten our national economy?

Mr. GOLDWYN. It is more in the province of the Council of Economic Advisors to do that kind of analysis.

Mr. DELAHUNT. Have they done anything that you are aware of?

Mr. GOLDWYN. Not to my knowledge. I am not aware of——

Mr. DELAHUNT. Mr. Bass, has the Department of State done anything?

Mr. BASS. The State Department has not, but there are, I think—certainly among the private market experts, there are agreed assumptions—I do not have them at my disposal—about what a given price increase does to GDP and inflation and so forth. So these figures are——

Mr. DELAHUNT. It would be nice if either one of you gentlemen could contact the appropriate agency and bring that forward, because this is more than just a home heating crisis, more than a potential gasoline crisis. This could put at very risk the success that this Administration has had over the course of the last nine years. That is why I suggest the frustration that you have been hearing is that time is of the essence here, and I dare say waiting until March 27th carries some risk. I am confident that Secretary Richardson will be consulting and having discussions with the appropriate oil ministers; but from February 10th to March 27th, we may get past the home heating crisis because the temperature obviously will get warmer, but we have the economy at risk here. That is why I cannot overstate the need for immediate action.

I know that he has trips scheduled. I really want to compliment the Chair because he is hearing from Members of Congress, but more importantly, the OPEC Ministers ought to be hearing the frustration from Congress. If there is not action by the Administration and an appropriate response by the oil producers, there will be action from this institution, albeit slow and cumbersome as is any legislative action, but there will be clearly a move to secure alternatives to oil in terms of energy sources.

We should have been doing this since the last crisis and have let our guard down, but this does not accrue to the benefit of the OPEC and major oil producers. I really hope that the oil ministers and those that are responsible in other countries for production and restricting supply are hearing this. Both parties are united not only on a regional basis and not only in the appropriate Committees of jurisdiction. Action is necessary now, or there will be proposals that I am sure they will not want to hear about. But there will be some call for retaliation.

You heard the Chairman. You heard the Ranking Member. There is great frustration.

Now, in these consultations that we have had with these various countries, can you indicate to us what their response has been?

Mr. GOLDWYN. Let me say a couple things. First, we will get back to you with the economic information, and while there may be a disagreement that this is a SPRO emergency, there is no disagreement that we have a crisis and that prompt action is required.

I guess I would prefer not to comment on the private conversations the Secretary has had with a number of these countries, especially on the verge of another trip back out to Middle East countries.

Mr. DELAHUNT. I can respect that, but I think at the next hearing we are going to anticipate and expect to hear the position of the individual countries that comprise the cartel, as well as other major oil companies. We in this particular Committee and elsewhere will want to know their specific response to the Secretary's message.

I am not going to, probe any further, but I think that those nations and their ambassadors ought to be put on notice that this institution in Congress will be awaiting an appropriate response. Clearly, in the long term, it is detrimental to their best interests. But we can't wait. We simply cannot wait, and action has to be taken now.

So, again, I want to thank you, Mr. Chairman, for calling this meeting, and I hope that the oil-producing countries are hearing this message very loudly and clearly. I would recommend that they expend the money simply to secure transcripts of the Members' comments here today, because I think it will bring home that message.

I thank you.

Chairman GILMAN. Thank you, Mr. Delahunt, and thank you for your comments with regard to the OPEC nations. I hope that our Administration witnesses are going to take that message to where it counts, because, otherwise, the Committee will be forced to take some other action.

Let me just ask one or two questions, and then we will go on to the next panel.

Is the Administration considering release of the remaining $255 million in emergency funding for the Low-Income Home Energy Program?

Mr. GOLDWYN. I believe a number of measures are under consideration, some that came up at the meeting yesterday the Secretary held. But I think those are under continuing consideration, so I have no answer for you.

Chairman GILMAN. Will you have an early decision on that?

Mr. GOLDWYN. We are hoping for one.

Chairman GILMAN. And can you let our Committee know?

Mr. GOLDWYN. Absolutely.

Chairman GILMAN. And I hope it will be fairly allocated when you do make some decision with regard to that.

In your testimony, Mr. Goldwyn, you note that the Department of Transportation has directed its Coast Guard icebreakers to help clear up the shipping lanes in the New York harbor. Is that being undertaken at the present time?

Mr. GOLDWYN. Actually, it has. It is a question of actual prioritization of which traffic gets through in order to make sure that those supplying home heating oil have priority. I understand the first step in that was for the Energy Department to request the Coast Guard to do this, and that has taken place.

With respect to what the Coast Guard has actually done to implement that, I am not certain.

Chairman GILMAN. Will there be funding available to pay for these icebreakers?

Mr. GOLDWYN. I was not aware that funding was an issue.

Chairman GILMAN. I gather it is, and I would hope you would explore that to see if there is any funding needed.

Mr. GOLDWYN. I will look into that, Mr. Chairman.

Chairman GILMAN. I want to thank our panelists for being here. We appreciate your patience, and we hope you will take back our message. There is a great deal of concern in the Congress about this, and we would not like to act peremptorily. We welcome your response to our Committee as to what the situation is with regard to OPEC before we act further.

Thank you very much, gentlemen.

Mr. GOLDWYN. Thank you, Mr. Chairman.

Chairman GILMAN. We will proceed to the second panel: Mr. Valentino, Mr. Huber, and Mr. Costello.

Our second panel is led by William Valentino, President of the New York State Energy Research and Development Authority. As president, Mr. Valentino is responsible for oversight of programs in energy, environmental research, hazardous waste management, energy efficiency analysis, and tax-exempt bond financing for the state. It sounds like you have got a full plate, Mr. Valentino. We welcome you.

Our second witness on this panel is John Huber, Vice President and Chief Counsel of the Petroleum Marketers Association of America. We thank you for being with us today, Mr. Huber.

We are joined also by Bob Costello, Chief Economist for the American Trucking Associations. We thank you, too, for being with us, Mr. Costello.

I think we have a good second panel. Gentlemen, you may summarize your statements or read your statements as you see fit, and your full statement will be made part of the record if you care to summarize.

Please proceed, Mr. Valentino.

STATEMENT OF F. WILLIAM VALENTINO, PRESIDENT, NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

Mr. VALENTINO. Thank you, sir. Distinguished Committee Members, I appreciate the opportunity to testify on behalf of Governor Pataki and the people of the State of New York. I am going to truncate my testimony even greater than I was before, because a lot of the data I was going to talk about has already been entered into the record.

Chairman GILMAN. Without objection, your full statement will be made part of the record.

Mr. VALENTINO. Thank you.

Some data I would like to add, however, is that 40 percent of New York's households use oil for space heating, so New York State residential customers bear the brunt of any increase in home heating oil.

We have talked about price. Over the last week, the price has increased by about 75 cents a gallon, and as a matter of comparison, last year the price of home heating oil in New York was about .91 cents. Obviously, the people have been talking about prices in the $2.50, $2.60 range.

The reasons for this have already been mentioned. Obviously, we are concerned about OPEC. There have been other contributing factors that I would like to mention. One of the factors that hasn't been mentioned is that it's our understanding that the petroleum industry, like other industries, has adopted a "just in time" resupply of inventory, and New York's heating oil bulk storage capacity has declined by about 20 percent over the last five years.

New York does not have refineries within its state. We depend on national efforts and refineries in other states, and we understand national refinery utilization rates have dropped. We understand that on the East Coast heating oil production was down 46 percent from a year ago.

By the third week in January, heating oil reserves had shrunk to 50 percent less than a year ago and below any comparable level of the past seven years.

Obviously, we were hit by the weather. I won't talk about the weather, but all things hit almost simultaneously, driving the prices through the roof, and obviously caught in the crossfire are the consumers.

Needless to say, Governor Pataki is concerned about the economic consequences of this unprecedented rise in prices and the effect on New York's citizens, particularly our elderly, our working poor, and our low-income consumers.

I want to just mention for the record, Mr. Chairman, some of the things we have done in New York and, by comparison, some of the things we are incapable of doing as a state. But faced with this immediate crisis, we did a number of things. We established emergency provisions for shelter and heating. We are in constant contact with our county energy emergency coordinators across the state, with the Coast Guard on icebreaking activities in the Hudson River and New York harbor, and with all the dealers and suppliers to assess the current situation.

Governor Pataki directed the Public Service Commission to voluntarily have utility customers who could switch be kept on natural gas rather than fuel oil. Our Department of Tax issued temporary certificates to heating oil distributors and trucking companies to allow them to buy heating oil from other states. Our Department of Environmental Conservation granted a one-week waiver to New York City municipal facilities to use slightly higher sulfur oil to meet their heating needs.

All these actions were directed at ensuring that nobody was cut off from heating oil, but there was very little we could do about the price.

On a national level, Governor Pataki has written the Clinton Administration asking for an immediate investigation into the factors that have driven those price increases and supply shortages.

But there are some other things, and we believe the Federal Government can take other actions. I am probably piling on, but I feel it is my responsibility to also say that we believe on the international side, which is clearly your domain and not ours, we believe we need to use our influence with OPEC, and also a lot of non-OPEC cartel producers who have never been a factor before. We believe that cartel control of production not only has reduced supply but created the perception of a shortage, which may have done as much as anything else to drive these prices through the roof. I do want to add that, one of the questions that came up earlier in the panel and wasn't answered, was we believe in New York State that the average homeowner will probably be paying somewhere between $250 and $350 a year in additional home heating oil purchases. That probably will equate to about an additional $92 million in the state this year.

Beyond OPEC, I know New York State is in the process of urging the U.S. Department of Health and Human Services to more equitably allocate additional LIHEAP funds. We also had the same experience that was relayed by a couple of the Members, but in the latest release of $45 million in emergency LIHEAP to ten Northeastern States and Alaska, for some reason New York did very poorly in the allocation. For example, while New Hampshire was mentioned, Maine was our comparison, and Maine received an additional $208 for each LIHEAP-eligible individual, while New York LIHEAP recipients received $37.68 on the same allocation.

Besides, I would like to go a little bit beyond LIHEAP. The heating oil problem has extended beyond LIHEAP-eligible people to working families and small commercial customers who can't meet their high-cost oil obligation. This is causing, in New York at least, a ripple effect among dealers who are not receiving full payment for deliveries. All this is creating cash flow and bank line of credit problems and a high risk of personal and company bankruptcies that could weaken the oil distribution system. A quick means to make funds available to those in need but not eligible for LIHEAP is needed.

Another important step the Federal Government can take is to ensure that there is adequate funding for the Coast Guard icebreakers. Without those five icebreakers in New York harbor and on the Hudson River, we would not have the product that we need.

We are hearing rumors that Coast Guard services—we have, I think, two 140-footers and three 65-footers—and we understand that they have considered funding cuts for those three 65-footers.

Chairman GILMAN. These are Coast Guard icebreakers?

Mr. VALENTINO. Yes, sir.

Chairman GILMAN. Have they been funded properly in the past?

Mr. VALENTINO. They have been. We have just heard rumors that within the Coast Guard budget there wasn't funding this year for those 65-footers, but they did find some funds for it.

Chairman GILMAN. Thank you.

Mr. VALENTINO. Finally, I guess the last comment, I would be somewhat remiss if I didn't say that we believe energy efficiency is the most cost-effective way to reduce our dependency on foreign oil, and we should do a little bit more in that regard.

I want to thank you for the opportunity to testify, and I will be glad to answer any questions you may have.

[The statement of Mr. Valentino appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Valentino.

Mr. Huber?

STATEMENT OF JOHN J. HUBER, VICE PRESIDENT AND CHIEF COUNSEL, PETROLEUM MARKETERS ASSOCIATION OF AMERICA

Mr. HUBER. Thank you, Mr. Chairman. I apologize for not having a written statement available, and I will make one available in the next two days.

I will primarily focus on the domestic situation. PMAA is a national association of petroleum marketers, and we represent residential heating oil retailers, 90 percent of which are small businesses.

Before beginning, I would like to join the Chairman in expressing concern for consumers. The high prices and cold weather of the last weeks will affect many of the working poor and middle class who lack excess disposable income. My members have discussed this problem with thousands of customers and, as this crisis eases, will turn their attention to easing the financial burden on those consumers.

Unfortunately, for the past three weeks their sole attention has been on making sure your constituents have product. They recognize the impact of the financial drain, but it is critical that all steps be taken to ensure that product is available.

It should also be noted, as Mr. Valentino noted, that this is creating a crisis for the small businesses I represent. Their cash flow and credit lines have been stretched beyond breaking points, and many undoubtedly will be filing for bankruptcy at the end of the season.

The Committee is interested in why this happened and why so severely in the heating oil sector. There are two words that I think explain a lot of it. OPEC is a critical component of it and has led to the modest but strong and continued upward pressure on prices. The second is inventories and the backwardization in the market.

Backwardization is considered by industry leaders to be the most important factor. That is a market signal that the prices of crude product prices will fall over time. As a result, the industry is unwilling and cannot afford to hold inventory. As we found out with this last three-week period, inventories are critical to being able to absorb price increases. Now, we are setting prices on a daily and hourly basis. As to whether a barge can get into New York harbor or whether it is delayed by high winds on the high seas, all affect daily pricing. That is an unacceptable situation for the industry and for consumers.

This volatility, as we know, is very bad for the industry and very bad for consumers. The price should be much lower and should be in the 70- to 80-cent price per gallon range for wholesale based on OPEC. But OPEC is one of the people that creates that volatility and the misperceptions in the market. As noted in the DOE testimony, indications that supplies were going to increase in January, which were not founded, led the industry to continue to be lean through the winter. If there is an anticipation that prices will fall as supplies become more available, everybody hesitates to take in inventory.

These types of false signals to the market need to be stopped. As the Committee has focused on us, we have governments making policy decisions that affect consumers in the U.S. that do it without repercussions, that do it in a coherent, conspiratorial fashion. We need to control that to the best of our ability.

I want to mention some bright spots. There are very few, but I will mention them.

Customers did receive oil during this crisis. Everybody worked together—the states, the industry—to ensure that oil did flow to consumers.

LIHEAP funds did become available. The hours of service were relaxed by government. Government was responding. The Coast Guard was keeping the waterways open. That is critical.

The other thing that has been a bright spot, as Mr. Valentino mentioned, is efficiency of equipment has increased over the years. Consumers are using half the amount of oil they were using 20 years ago. That is a critical part of the impact on the end consumer. Unfortunately, our Government has not sought to fund that type of research and development to continue that trend, something the PMAA has to work for vigorously every year. We would hope the Department of Energy will be willing to change its position and support movements to ensure residential research continues.

A couple of the other problems that we think need to be addressed: We think that there needs to be better information on international stocks of oil. Traditionally, stocks of heating oil have flowed back and forth between Europe and the U.S., depending on demand, and I think there was anticipation that more flow from Europe would come this year. However, they did continue to consume all the oil that was sent over there earlier in the year.

The industry needs to be better apprised of what the international stocks of distillate are. Interruptibles, which have been mentioned by many Members of the Committee, have raised some interesting issues. They have been typically termed "industrial users," but those industrial users are actually hospitals, schools, nursing homes. It has been critical that the heating oil industry has stood up and made sure that those customers did get oil. We believe that the suppliers of those interruptibles need to bear some of the burden of making sure that supplies are available for those consumers throughout the winter. We think, and have suggested it many times, that interruptible consumers also have supplies of heating oil on hand so that they don't jump into our market and immediately send the price of oil spiking.

We intend PMAA to work with the states, the National Association of Energy Officials, and the Department of Energy to try to educate consumers to these problems and try to develop systems within the industry and within private consumers that will allow them to mitigate future problems. We will invest a lot of time and effort into that over the coming months.

Finally, we do think that inventory, as I mentioned earlier, is critical. Many Members of the Committee have mentioned the regional product reserve. PMAA members have never supported that. However, we do feel that Government must start helping us develop the incentives to have inventory in place. It has been the policy of this Government to discourage inventories through environmental regulations for many, many years; and, therefore, we are starting to bear the burden of those shortages and tightness of supplies. We need to all work together to make sure these types of spikes don't happen again.

Thank you, Mr. Chairman.

[The statement of Mr. Huber appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Huber.

Mr. Costello?

STATEMENT OF ROBERT COSTELLO, CHIEF ECONOMIST, AMERICAN TRUCKING ASSOCIATIONS

Mr. COSTELLO. Thank you, Mr. Chairman. I am Bob Costello, Chief Economist of the American Trucking Associations. We appreciate this opportunity to testify before this Committee on the diesel fuel crisis that is devastating our industry.

In order to meet the freight needs of the country, thousands of motor carriers who are ATA members need Government action now. As the Nation enjoys the benefits from this record-long economic expansion, an expansion of which the trucking industry has played an integral part, I fear that the rise in oil prices and the rapid surge in diesel fuel could bring all that to an end.

The trucking industry is the backbone of this new economy. As more and more consumers simply point and click to buy a vast array of merchandise on the Internet, they depend on an efficient and productive trucking industry to deliver those goods in a timely manner.

But trucks deliver far more than just goods bought on the Web. They transport nearly every commodity consumed. In fact, 81 cents out of every dollar spent on freight transportation goes to trucking. The Nation's 3 million truck drivers haul 6.7 billion tons of goods annually. Furthermore, over 70 percent of communities in the U.S. rely exclusively on trucks to deliver the freight they consume. This is clearly a vital industry that comprises nearly five percent of GDP and employs 9.6 million people nationwide.

Trucking is only becoming more and more important to the U.S. economy because of its reliability and flexibility. As increasingly more businesses reduce costly inventory, they depend on trucks to bring them the goods and supplies they need exactly on time. This ability of trucking to keep down costs for further industries has been fundamental in suppressing inflation in recent years. But I fear all this could come to an end with the recent surge in diesel fuel prices. Instead of propelling the economy, trucking could be a significant drag if the industry does not receive relief soon.

Diesel fuel is often the second highest expense for truckers and comprises up to 20 percent of their operating budget, especially for smaller companies. In addition, the trucking industry consumes nearly 30 billion gallons of diesel fuel each year. So as the national average price of diesel fuel rose from 96 cents a gallon a year ago to $1.30 by the end of 1999, as published by the U.S. Department of Energy, we were somewhat concerned. But it was not until the recent spike that our industry has spoken out.

Since January 1st of this year, the average price per gallon has shot up 17 cents, or 12 percent, but that is not the worst of it. On the East Coast, the situation is grim.

Since the beginning of the year, the East Coast average price per gallon has increased 25 percent to $1.63. Specifically in the Central Atlantic States and New England, the price has risen an astounding 43 percent and 55 percent, respectively, in only six weeks. In the Central Atlantic area, the average price per gallon is just under $2, with the New England price at $2.12.

Our members have told us of a considerable number of ridiculous price increases in an extremely short period of time. For instance, some areas of New York State witnessed 30-cent increases or more in only a few days.

Then there was a trucker that pulled into a New York State truck stop one night to sleep. When he awoke eight hours later to fill up his truck, the price had jumped nearly 15 cents from the night before.

Before the recent spike, trucking companies had profit margins of only two to four percent on average. Now many small-and medium-size companies are actually losing money on every single haul.

While there are some pretty big carriers out there, over 70 percent of the Nation's 400,000 trucking companies operate six or fewer trucks. So as all trucking companies are feeling the crunch, it is these 280,000 companies that are being pummeled.

Let me try to put this current fuel crisis in context. The trucking industry is now operating at near capacity limits due to a booming economy and an acute driver shortage. If the industry does not get some fuel relief soon, it is likely that a significant number of small and medium-size companies will be forced to close their doors and park their trucks; and at least in the short run, the larger trucking companies will not be able to pick up the slack. This will cause a significant number of bottlenecks in the supply chain, and freight will start to pile up at docks. This situation will slow the economy much faster than any interest rate hikes from the Federal Reserve.

Other modes of transportation will not be able to fill the void. First of all, they are also being severely impacted by fuel prices. Second, only trucks can deliver goods to grocery stores, malls, hospitals, and schools, to name a few. In our letter to President Clinton, a copy of which is attached to this testimony, we are asking the Government to get involved in a few ways.

First, we believe it is necessary to release oil from the Strategic Petroleum Reserve. The 9.6 million taxpayers that work in trucking-related jobs have helped to buy that oil, and we are now asking that some of it be released. This will have an immediate impact and should provide a substantial amount of relief.

Second, we are asking that the Government enter into immediate talks with OPEC and try to convince them to start producing more oil. We should remind them of the assistance we provided only a decade ago, keeping them at arm's length from an Iraqi dictator. It would also be helpful if the Small Business Administration would provide loans for companies trying to survive in this difficult time, as Energy Secretary Richardson suggested yesterday.

In conclusion, just imagine any type of company trying to survive when the second highest expense is escalating as fast as diesel fuel apparently is. It is nearly impossible. The growth of both the trucking industry and the aggregate economy relies on a quick solution to this problem. I truly believe our economic stability depends on it.

I thank you for your time, and I would be happy to entertain any questions.

[The statement of Mr. Costello appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Costello, and I thank our panelists for their testimony.

Mr. Valentino, what steps is Governor Pataki taking to help home heating oil distributors overcome their resupply problems around the State?

Mr. VALENTINO. Sir, beyond my testimony, what we have tried to do is get as much supply from other states as we can. We have done that through licensing and making it easier for our truckers to go out of state. Some of the other things we have done is try to reduce the sulfur content, but pretty clearly, the number of things we have available to us are limited.

We look to the future, however, and there is a number of things we probably will try to do. We will probably try to increase gas pipelines into the State of New York, particularly for interruptible customers. We are probably going to encourage our people to lock in a fixed rate contract at the beginning of the season, and we are going to try to look at bulk purchasing for low-income people because, generally, lower-income people pay at the highest rate—to see if we can help them out a little bit.

Chairman GILMAN. To all of our panelists, you have been looking at this shortage. What conclusions have you drawn with regard to the cause of the shortage?

Mr. HUBER. It, certainly, Mr. Chairman, has been a number of factors—as I indicated, the low inventories being the most important. There have been several years of warm weather in the industry; and this was a strong and severe cold for an extended period of time that really made the inventories, which were tight as they were, go even farther down, which made us ride on a spot market where price wasn't really even a factor in getting supply. Getting supply itself was the critical factor, which spikes prices in those settings.

Chairman GILMAN. Mr. Costello?

Mr. COSTELLO. On average, it costs $150 more to fill up a truck now than it did a year ago. This is an industry with well over a million trucks. It is a substantial increase that could be upwards of at least $100 million.

Chairman GILMAN. Mr. Valentino, do you care to comment?

Mr. VALENTINO. Not much more than what I said earlier in my testimony, sir, but I think that as we look at the standard price differential between the wholesale price of home heating oil and crude oil, it is generally 52 cents a gallon. In the last couple of weeks, this differential went up to about 83 cents a gallon—to a wholesale price of $1.35 a gallon. So the standard differential now is up to about 83 cents, and generally it should track the OPEC prices. The OPEC price is going up.

There is a lot of data that we have to collect, and it is probably going to take us a couple of months to sort all this stuff out.

Chairman GILMAN. Has New York been shortchanged in the allocation of funds in the LIHEAP Program?

Mr. VALENTINO. That is a good question, and actually we are working with Human Service people trying to understand the allocation formula. But in this latest allocation of emergency LIHEAP funds, if we do a per capita comparison with the other states looking at the eligible clients, in some cases it is three and four-fold for the other states as compared with New York. So we have asked for a clarification as to how the allocation——

Chairman GILMAN. Who have you addressed that to?

Mr. VALENTINO. We have worked within the State of New York and our Office of Temporary Disability and Assistance, which work with HHS. So we have directed it back through state channels to the Federal Government.

Chairman GILMAN. We would welcome it if you would let us know when you get an appropriate response to your inquiry.

Mr. VALENTINO. Yes, sir, we will.

Chairman GILMAN. If you would forward that to the Committee, we will make it part of this record.

Chairman GILMAN. Gentlemen, all of the panelists, should the DOE release oil from the Nation's Strategic Petroleum Reserve to help us with this problem?

Mr. COSTELLO. Absolutely. I think that we are in a critical situation with the trucking industry. As I stated in my testimony, many, many, literally thousands of carriers are losing money on each and every haul because of this rapid increase in prices.

I think we have come to a point where if the price doesn't lower, we could have significant bottlenecks because trucking companies simply will have to park their trucks.

Chairman GILMAN. Mr. Huber?

Mr. HUBER. We are hesitant to have the Government play a major role in the markets. We think that it would have been critical several weeks ago for a major statement and some jawboning to get some of the OPEC—SPR oil released as a way to break some of the market psychology that was letting oil drift up and rise so rapidly.

Chairman GILMAN. Mr. Valentino?

Mr. VALENTINO. We are also hesitant—obviously, we would like some more supply. I think to activate a drawdown from the SPRO it would take probably a number of weeks. Some people have said six to ten weeks to draw down the crude oil, transport it to refineries, and deliver a refined product. In all likelihood, the current price spike will have passed. I leave it up to the experts on the Federal level to decide what constitutes an emergency.

I think we are somewhat hesitant as well about releasing the SPRO.

Chairman GILMAN. Gentlemen, do you have any recommendations for any policies we ought to put in place, local, state, or Federal, to ensure we don't have a repeat of the ongoing energy crisis?

Mr. HUBER. I will make a couple quick comments. We are looking at a change in the refinery capacity in this country that is significant. We are going to have ever sharper and more stringent requirements for the fuels that we use, both for diesel and gasoline, which leads to reduced production, makes us less of an international player in buying fuel, and which makes the U.S. a segregated market. All those create difficulties long term. We need to be much more cautious in making environmental changes that have those secondary implications.

Second, we also have fuel locked-in in the U.S., so that we are not producing. We again need to be more careful in allowing fuel to be produced in the United States, which is one of the few major free market suppliers of oil in the world. We have to encourage production because we are always going to be subject to OPEC and countries restricting supply. We need to be much more cautious on that in the future.

Chairman GILMAN. Do you think, gentlemen, we should establish a fuel oil reserve in the Northeast? Comments?

Mr. HUBER. We do not think that a regional product reserve is appropriate at this time. There are lots of storage in the U.S. and in the Northeast. It has to be encouraged to be filled. It needs to be handled by the private sector. People need to be doing more forward purchasing. Whether it is the trucking industry, the heating oil consumers, state governments, the airlines, we need to ensure that they have supplies available for the long term. We need to recognize that we are dealing with a volatile product and ensure that people are forward purchasing so we don't run into tight inventories.

Chairman GILMAN. Any other comments by Mr. Costello?

Mr. COSTELLO. Yes, I would definitely say that we would probably encourage something like that. There are many, many small trucking companies out there that simply can't afford to have big reserves set aside for when there are supply problems. It is these companies that haul a significant amount of freight, so anything that could help in making sure there is enough supply we would encourage.

Chairman GILMAN. Mr. Valentino, do you want to comment?

Mr. VALENTINO. Yes, there are a couple of concerns we would have about that, and we haven't studied it in detail. But I believe it would be a great deal of expense to maintain these reserves, and as I understand the technology, it isn't like maintaining crude. I think you have to have additives, churn it around. It is a pretty expensive proposition, and, obviously, that would be passed along to the consumer and one would have to really judge whether the cost/benefit was there.

I worry that companies would reduce their stocks by a like amount if they believe Government is in the storage business, and then in New York, I would probably have responsibility for releasing it. I often wonder, what would be the direction—when would we consider it an emergency? When the price goes up 25 percent? When the price goes up 50 percent? We would be interfering with the markets. But those are just my preliminary thoughts.

I would like to clarify one thing, Mr. Chairman. I had said that we had requested LIHEAP assistance through our health and human services organizations within the state. One of my colleagues just gave me a letter from Governor Pataki to Secretary Richardson requesting it directly that way.

Chairman GILMAN. Thank you. One last question. What steps should the Administration here in Washington take to meet your trucking crisis?

Mr. COSTELLO. I think definitely selling off some of the Strategic Petroleum Reserve would help.

Chairman GILMAN. As Mr. Valentino mentioned, it could take six weeks before you get the benefit of that.

Mr. COSTELLO. I also think the market would react to that, and as I said, back during the Gulf War time, the prices dropped substantially, immediately. I think that would help in relaxing the market and perhaps, I think, would drop prices.

Chairman GILMAN. Just the decision to release would help.

Mr. COSTELLO. Yes.

Chairman GILMAN. Any other last thoughts that any of our good panelists have? We can't thank you enough for being here. Any last thoughts you would like to leave with the Committee.

Mr. HUBER. We just want to express our thanks for the Committee's consideration of this critical issue. Your concern, I think, does help the industry move forward and makes us look more closely to solutions, and hopefully we can revisit with the Committee and other Members as better developed solutions emerge that will protect us in the long term.

Chairman GILMAN. Thank you, Mr. Huber.

I would like to encourage the panelists, if you have any further thoughts you would like to add for the record, don't hesitate to send them on within the next few days to our Committee, and we will make them part of the record.

Again, our thanks to you for being here today and offering your comments.

The Committee stands adjourned.

[Whereupon, at 12:50 p.m., the Committee was adjourned.]

A P P E N D I X

FEBRUARY 10, 2000

Opening Remarks for Chairman Benjamin A. Gilman
OPEC and the Energy Crisis in the Northeast
Thursday, February 10, 2000

I am very pleased to convene this hearing on OPEC and the Energy Crisis. We are joined this morning by two international energy policy experts from the Department of Energy and the Department of State, and by three witnesses representing the New York Energy Authority, the Petroleum Marketers Association and the American Trucking Associations.

Our two panels will be able to provide Committee members with a comprehensive overview of the impact in the Northeast and throughout the nation of the production cutbacks by the Organization of Petroleum Exporting Countries, and the origins of the energy crisis affecting thousands of households and hundreds of businesses across New York and New England.

With the price of home heating tripling over the past year, many low-income consumers and small businesses in my district and my state are hard pressed to heat their homes, and keep their shops and their factories running. Hundreds of letters and calls have poured into my district and Washington offices describing the crisis from their own perspective, where to a large extent they are fighting a losing battle in staying warm without going broke in the process.

Today, we will try to find some answers from those witnesses who are demanding to know how this happened and what our local, state and federal policy makers are doing to ensure that it is corrected as fast as possible and does not reoccur.

We will also get first hand reports from our witnesses today on the extent of the problem and a review of what New York is doing to try to meet this emergency, and how the federal government can and must do much more to both help low income families put at risk by the frigid temperatures across the Northeast, and to keep ice-breaking tug boats in operation so our ports and rivers remain open to barge traffic.

There are no simple answers on why or how we got into this crisis, but there can be little doubt that dramatically higher energy prices will boost inflation and might ultimately force the Federal Reserve to consider additional interest rate hikes.

Oil prices are higher today than at any time since the Iraq invasion of Kuwait a decade ago. Production cutbacks decreed by the producer cartel, the Organization of Petroleum Exporting Countries (OPEC), have caused worldwide stocks, including those in the U.S., to be drawn down to very low levels. This imbalance has resulted in the sharp climb in crude oil prices over the past year.

Late last year, OPEC was indicating that it might relax its production quotas if stocks reached 1996 levels. But in early January of this year, its member states reversed course and indicated that they fully intended to maintain their cutbacks of about six (6) percent of world production, at least through March of this year, and possibly through June or later.

As our dependency on foreign oil has increased over the past decade, the Administration has unfortunately fallen short in its efforts to persuade OPEC and non-OPEC nations, alike, to moderate their aggressive policies designed to punish oil-importing nations.

Together with the very cold weather this year and transportation bottlenecks, OPEC cartel-like operations have sent the price of heating oil surging throughout New England and New York: the price of oil reached $30 per barrel briefly during the week of January 21.

Yesterday, I talked with a civil service employee in Sullivan County who told me that his cost for heating oil has doubled from December of last year to January of this year, and that he can only afford to replenish his supply of heating oil to the 150 gallon mark of his 300 gallon tank. In yesterday's edition the *Times Herald Record,* a prominent paper in my district, described the plight of many elderly low-income consumers who are being forced to turn up their thermostats in the face of sharply higher home heating costs.

The article describes the plight of 74 year-old Virginia Jump of Mount Hope, who has been forced to keep her oil furnace set at 80 degrees so that her thermostat can stay at 68. And this doesn't even keep the drafts at bay in her chilly two-bedroom house. She lives on a monthly Social Security income of $734 with no phone or running water, because she cannot afford the phone service or the repairs to her plumbing.

Last week she paid $268 for fuel oil, double the price she paid just two months ago. And she is far from alone in her situation. Seniors on fixed incomes have been hard hit by the dramatic increase in energy costs. According to Christine Noble of the Ulster County Office for the Aging, "It's affecting a lot of people...seniors don't like to ask for help, but this year they don't have any choice."

In trying to address a domestic solution to the growing energy crisis, the Administration has been a day late and a dollar short, with inadequate efforts to boost stocks of heating oil around the country and to fund a proposal for low income consumers.

In its latest allocation of funding, the U.S. Department of Health and Human Services released $45 million in additional funding for the Low Income Home Energy Assistance Program to the ten states of the Northeast and Alaska, but New York got less than its fair share, receiving just $2.6 million for some 1.4 million low income households, while New Hampshire received $5.4 million for just 47 thousand low-income households.

I am hoping that someone in the Administration can let me know how I should try to explain this to Virginia Jump.

Before turning to Mr. Gejdenson for his opening statement, I would like to ask unanimous consent that the record remain open for a period of 5 days for incorporation of additional relevant material related to our hearing, including statements by......

*** Joseph A. Berti, Director of Operations, Speed Motor Express, a family-owned transportation business in Buffalo, New York;**
*** New York State Senator John J. Bonacic, Chairman, Senate Committee on Housing, Construction and Community Development;**
*** Richard Jamieson of Rich's Towing, a small towing business in Spring Valley, New York;**
*** New York State Assemblyman Howard Mills of Goshen, New York;**
*** New York State Assemblywoman Nancy Calhoun, of Blooming Grove;**
*** New York State Senator Bill Larkin, Steering Committee Chairman;**
*** Joseph G. Rampe, County Executive of Orange County, New York;**
*** Carl D. Morse, of E. A. Morse and Company, Incorporated, a delivery company in Middletown, New York;**
and
*** Rodney Kaufmann of Kaufmann's Service Center, a Gulf service station in Montgomery, New York.**

Mr. Gejdenson:

The first panel of witness we have today include representatives from the Administration:
The Honorable David Goldwyn, Assistant Secretary for International Affairs at the Department of Energy, and

Peter Bass, Deputy Assistant Secretary for Energy, Sanctions and Commodities, for the Bureau of Economic and Business Affairs at the Department of State.

President Clinton nominated David Goldwyn to serve as Assistant Secretary of International Affairs at the Department of Energy in April, 1999. Prior to this appointment, Mr. Goldwyn has served as Counselor to the Secretary of Energy; Senior Adviser and Counsel to the Ambassador to the United Nations, during which tenure he also sat on the Deputies Committee of the National Security Council; and he has served under both Presidents Bush and Clinton at the Department of State, and has extensive private sector experience in international business through his long association with a New York law firm.

We welcome you, today, Secretary Goldwyn.

Also appearing on our first panel is Peter Bass, who has served as a career civil servant with extensive experience in international economic and security affairs. He began his career with the U. S. Court of Appeals, then joined the State Department as attorney-adviser in the Office of the Legal Adviser. He has served as Special Assistant to the Under Secretary of State for Political Affairs at the State Department, has served in the office of the United States Trade Representative, and served on the staff of Secretary of State Warren Christopher. He has served on staff of the National Security Advisor at the White House, and, most recently, was Chief of Staff to Under Secretary of State Stuart Eizenstat. We welcome you, today, Mr. Bass.

On our second panel today is led by Mr. F. William Valentino, President of the New York State Energy Research Development Authority. As President, Mr. Valentino is responsible for oversight of programs in energy, environmental research, hazardous waste management, energy efficiency, analysis and tax-exempt bond financing for the state. We welcome you here, today, Mr. Valentino.

Our second witness on this panel is Mr John Huber, Vice President and Chief Counsel of the Petroleum Marketers Association of America. Thank you for appearing here today, Mr. Huber.

Our final witness on the second panel today is Mr. Robert Costello, Chief Economist for the American Trucking Associations. Thank you for coming here today, Mr. Costello.

Opening Statement of Representative Sam Gejdenson
Ranking Democratic Member
Committee on International Relations

February 10, 2000

Mr. Chairman, I am pleased to join you today in holding this hearing to explore what the federal government can do internationally and domestically to address the home heating oil crisis that is gripping the northeastern United States. Consumers in my state of Connecticut have been especially hard hit, and they need relief now. I believe the federal government should pursue a range of actions to boost supply, drive down price and aggressively combat any price gouging and other anti-competitive actions.

The situation in the northeast is acute. Between January 3 and February 7, the average retail price of a gallon of heating oil in Connecticut increased from $1.08 to $2.00. Prices were as high as $2.25 per gallon. These prices are the highest ever in my state and are twice to three times higher than last year. On Monday, I received a call from a woman in Putnam who paid $2.66 per gallon. A gentleman from East Lyme called to explain that he paid $155 for 200 gallons of oil in December 1999. By the end of January, he was forced to pay $277 for 150 gallons.

Increases of this magnitude are adversely affecting every citizen, every family and every business. Low income families and seniors are desperately seeking emergency assistance through LIHEAP. In southeastern Connecticut alone, 4,000 families have applied for LIHEAP assistance through the Thames Valley Community Action Agency (TVCCA). This is 1,000 more families than at this time last year. This outpouring of need is being repeated across Windham, Tolland and Middlesex counties. And, with oil prices more than twice as high as last year, LIHEAP dollars only go half as far.

Dramatically higher prices have also hit middle class, working families who do not qualify for fuel assistance, but most absorb these increases on their own. Businesses, especially trucking companies and others involved with transportation, are being adversely impacted as fuel-switching has pushed the price of diesel higher and higher.

Although there are many factors driving the current situation, dramatically lower supplies of heating oil in the northeast, and nationwide, are a root cause. According to the Energy Information Administration (EIA), existing distillate fuel stocks nationwide are 47 million barrels -- nearly 2 billion gallons -- below last year. This represents a reduction of more than 32%. And supplies continue to fall dropping by nearly 7 million barrels -- or 294 million gallons -- during the week between January 28 and February 4. The supply shortfall is even more pressing in the northeast. Based on EIA analysis, distillate fuel stocks are currently 13 million barrels below an historic five-year average.

Just as supplies were dropping, the demand for oil was up significantly as temperatures plummeted below average in New England. The Department of Energy estimates that during the last 16 days of January, residential heating oil consumption was 9 million gallons per day higher than it would have been if temperatures were normal. At a time when we could least afford it, supplies continued to slump as prices soared.

Some small dealers in eastern Connecticut have literally run out of oil and been unable to purchase new supplies on the wholesale market for more than a day. Production cuts by OPEC and other major oil-exporting nations, which receive significant amounts of U.S. economic and military aid, are a major contributing factor to this supply crisis. Moreover, I am dismayed to learn that some refiners have made the decision to reduce the amount of home heating oil produced. This defies explanation and demands investigation.

I welcome the witnesses from the Administration. However, frankly speaking, I am deeply disappointed that the Administration has failed to act aggressively to address this crisis. Many of my colleagues and I urged the President and Secretary of Energy to release oil from the Strategic Petroleum Reserve weeks ago. Unfortunately for consumers in eastern Connecticut, no action has been forthcoming. If the Administration had taken this step, additional supplies of heating oil could be entering the market today exerting downward pressure on price. On Tuesday, I urged the Secretary of Energy once again to act immediately to release oil from the strategic reserves. It appears that he is unwilling to take this much needed action.

On the international front, I am eager to hear from the witnesses about how our government is working to encourage OPEC nations to boost production. I wrote to Secretary Albright late last week urging her to use every diplomatic avenue available to encourage our OPEC allies to boost production. Saudi Arabia, other Persian Gulf nations and South American countries, such as Venezuela, all receive significant American military and economic aid. At a time when the taxpayers who make this aid possible are suffering, our government has every right -- and an obligation -- to pressure OPEC countries to change their policies to provide some relief.

I believe the federal government needs to take several actions to address this problem. First, the Administration needs to act now to release oil from the Strategic Petroleum Reserve. This is the one step that is completely within our discretion -- we don't have to wait for other nations to act. Second, we need to pressure OPEC countries to boost production. Third, we should create a heating oil reserve in the northeast. I have joined Mr. Sanders and several other colleagues in introducing legislation to establish this reserve using available commercial storage facilities in the New York area. This reserve would have several advantages over the existing reserve: it will be close to our region and it will contain a refined product.

Mr. Chairman, our government needs to act now to boost the supply of oil here at home and worldwide. I am anxious to learn from the witnesses about how to cope with this problem today and in the future.

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CHAIRMAN

Committee on International Relations
Statement Rep. Chris Smith
February 10, 2000

Thank you Mr. Chairman. I appreciate the opportunity this important hearing presents to discuss the rapidly escalating price of fuel oil in the Northeast.

Fuel oil is crucially important in the Northeast, and especially in New Jersey, where over 800,000 families heat their homes with oil. Unfortunately, these extraordinary oil price increases, which came at a time when New Jersey and the Northeast were experiencing the coldest temperatures. This created a heating crisis for thousands of families who had their budget suddenly strained while trying to cope with the coldest temperatures. While we are now enjoying some temperature moderation today, we all know winter is not over and it can get extremely cold again.

Fuel oil customers and dealers in my state of New Jersey have been reporting that they are experiencing the greatest price increases in decades and the highest prices ever. The retail price of home heating oil in New Jersey recently topped $2.00 a gallon, that is about double the price a couple of months ago and $.50 over the price during the Gulf War of 1991 when fuel oil was understandably limited.

Furthermore, the price home heating oil and diesel fuel is unstable and fluctuating on a daily basis. Fred Van Looy the Vice President CTC Transportation, which is located in my district, recently informed me that the price of diesel fuel jumped $0.22 over one-weekend. Obviously, normal market forces usually do not result in such erratic drastic price changes. Trucking companies and private bus companies like CTC are rightly worried about what will happen if the skyrocketing price of diesel fuel does not come down to earth.

Immediate action is needed to restore a normal market for oil prices in the Northeast. The President and Secretary of Energy Bill Richardson have to realize that it is time to draw crude oil from the Strategic Petroleum Reserve (SPR) and release more Low Income Home Energy Assistance Program (LIHEAP) funding. This will bring some relief for home owners and truckers and moderate speculation in the petroleum market. Apparently just the threat of releasing some of our crude oil is already lowering the spot market price. These programs were created to serve our citizens' needs -- not the other way around.

Secretary of Energy Bill Richardson has indicated that diplomatic activity with the Organization of Petroleum Exporting Countries (OPEC) is being planned. This is the time when the U.S. needs to let our oil producing allies know that we would appreciate their assistance in pressing OPEC to act cautiously and reasonably.

I am also interested in hearing the views of our witnesses about what effect the expanded Iraqi sale of oil under the "oil for food" program will have on petroleum prices.

Middle-class families and senior citizens on fixed incomes who heat their homes with oil cannot afford the unexpected doubling of their heating oil expenses. Unfortunately, this winter many families in New Jersey and the Northeast are being forced to decide whether they want to keep warm or purchase needed food and medicine.

ROBERT MENENDEZ
13TH DISTRICT, NEW JERSEY
VICE CHAIR OF THE DEMOCRATIC CAUCUS

COMMITTEE ON TRANSPORTATION
AND INFRASTRUCTURE
SUBCOMMITTEES:
AVIATION
WATER RESOURCES AND ENVIRONMENT

COMMITTEE ON INTERNATIONAL
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FOR IMMEDIATE RELEASE
February 10, 2000

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STATEMENT BY THE HONORABLE ROBERT MENENDEZ (D-NJ) ON *OPEC AND THE NORTHEAST ENERGY CRISIS*

WASHINGTON, D.C. – Rep. Bob Menendez (D-NJ) issued the following statement regarding the *Organization of Petroleum Exporting Countries (OPEC) and the Northeast Energy Crisis* during the House Committee on International Relations Full Committee Hearing on February 10, 2000:

"There is no doubt that an energy crisis exists in the Northeast. If you happen to represent other areas of the country, you may not be hearing about it, but I can assure you that, based on calls and letters from my constituents, we have reached the crisis level in New Jersey. Just imagine your residential energy costs doubling in a matter of weeks. How many families have planned for this type of fluctuation in their monthly bills?

"That's exactly what my constituents are facing in New Jersey this winter. The cost for home heating oil has more than doubled just since the middle of January. That means that the price of home heating oil has risen from about one dollar per gallon to two dollars per gallon in just a matter of weeks. To put this into perspective, home heating oil prices have not averaged more than one dollar a gallon since the winter of 1990-1991. If average consumption remains constant and the cost for home heating oil this winter remains on the path we've seen so far, this could mean that a typical household could spend an additional $350 or more in home heating costs this winter.

"Unfortunately, there is no simple solution to this crisis. Many factors have contributed to the high costs of home heating oil in the Northeast, not the least of which is recent action taken by OPEC to control oil supply and, thus, increase the price for crude oil. However,

the impact of these OPEC actions has been exacerbated by the increase in domestic crude oil prices. These price increases have prompted many refiners and marketers to draw from their existing stocks of lower-cost crude rather than buying today's higher-priced supply. This drawdown of domestic supply has left the U.S. particularly vulnerable to the additional stresses created by recent winter storms and colder weather, as well as interruptions in the delivery of home heating oil.

"With OPEC's control over 40% of the world's oil production and 77% of reserves, action by the cartel to control prices by controlling supply has obviously played a significant role in today's energy crisis. OPEC's quota agreement last March to increase prices from $10 to $21 per barrel was achieved, in large part, by limiting production by about 1.4 million barrels per day. Not only did they achieve their goal of $21 per barrel, but prices have continued to increase to more than $25 per barrel.

"OPEC will be meeting again in March to evaluate their quota agreement and the current market. I am pleased to hear that Secretary Richardson is meeting with OPEC Ministers and other oil-producing countries to encourage them to change their behavior not only for the benefit of consumers, but also in the interest of the world economy.

"However, at the same time, I believe there is much more that we can do here at home to alleviate the overwhelming burden on consumers of home heating oil. I support the Administration's decision to increase supply by deferring the purchase of 5 million barrels of crude for the Strategic Petroleum Reserve (SPR) until the end of the heating season. However, I have been actively encouraging the Administration to go even further and implement a drawdown of the SPR, either through a sale, or a "swap" of oil now to be replaced with interest by a date certain. I am pleased to hear that this approach is under consideration, but I encourage the Administration to act quickly. Winter weather doesn't wait for government decisions. Our constituents in the Northeast can't afford to wait any longer.

"The recent release of $45 million from the Low-Income Home Energy Assistance Program (LIHEAP) provided much-needed temporary relief for many low-income families in the Northeast. However, costs have remained high, which means we will have to

continue to tap into LIHEAP funds, particularly if other actions fail to control costs.

"No one event alone brought us to this crisis point and no one solution will rein in the costs my constituents are facing in New Jersey. Therefore, we must work diligently on a multi-faceted solution that includes short-term relief for those struggling to heat their homes, as well as an increase in the oil supply through the Strategic Petroleum Reserve and diplomatic discussions with OPEC and other oil-producing countries."

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STATEMENT FOR THE RECORD
CONGRESSMAN JOHN M. MCHUGH
INTERNATIONAL RELATIONS COMMITTEE HEARING
OPEC AND THE NORTHEAST ENERGY CRISIS
FEBRUARY 10, 2000

I would like to thank Chairman Gilman for holding this important and timely hearing on the Organization of Petroleum Exporting Countries (OPEC) and the Northeast energy crisis. Representing a New York/Canadian border district, I have witnessed first-hand the negative impact of the rise of fuel prices on residents in our region.

As my colleagues know, last year, OPEC, along with Mexico, Norway, Russia, and Oman, agreed to cut an additional 2.1 million barrels per day production. OPEC has stated it intends to maintain those cuts until March 2000. These levels have significantly reduced worldwide stockpiles of crude oil and refined petroleum products, impacting prices throughout the world. OPEC's slowdown has caused the demand for oil to exceed the supply.

OPEC's reduced production, combined with the high demand for heating oil and low stocks of fuel, has sent prices soaring. This is particularly true for people in the Northeastern United States who rely heavily on oil to heat their homes and run their businesses.

Our Governor, George Pataki, underscored the gravity of the situation for New Yorkers when he recently noted that approximately 7.5 million Northeast households rely on oil to heat their residences and provide hot water. That number represents 75 percent of all households nationally that consume heating oil. In New York, 3 million of the State's 6.8 million households use home heating oil. Needless to say, consumers in New York, particularly low-income consumers, have been hard hit by the skyrocketing prices of fuel oil during this bitterly cold winter.

The increase in oil prices has also affected New York's farms and businesses. For example, there are hundreds of farmers in my district who depend upon diesel fuel to run their operations. Coupled with falling milk prices, the increase in fuel prices is just one more burden upon them that they can ill afford. I have also heard from business people in my district who are barely able to operate their independent trucking firms. Several such companies have told me that their fuel costs increased by 50 percent in one month alone and are only expected to rise.

A number of us in the House have embarked on several initiatives to address the negative impact of the sudden increases in fuel oil prices. We have repeatedly urged President Clinton to press OPEC and our major foreign suppliers to increase their production of both crude oil and home heating oil exported to the United States. In the shorter term, it is imperative that an immediate release of oil from the Strategic Petroleum Reserve be undertaken to help stabilize the current price of fuel oil. Without such an initiative, the hard- pressed of the Northeast will face the remaining weeks of winter with the prospect of ever increasing prices. Heat in winter is hardly a luxury, it is a matter of life and death. It is my hope, Mr. Chairman, that this hearing will help us to address an issue that is truly of crisis proportions.

Congressman Joseph Crowley
Committee on International Relations Hearing
February 10, 2000
Issue: OPEC and Home Heating Oil Crisis

- Thank you Chairman Gilman and Ranking Democrat Gejdenson for holding this hearing today

- Chairman Gilman represents a district north of mine in New York State and I know that many of his constituents, like mine, are suffering from excessively high prices to heat their homes; many of the small business owners in his district, like mine, are suffering financially under the ever increasing costs for fuel and diesel; and the consumers of his district, like mine again, are paying a lot more to fill up their car at the pump then they should be

- There are a number of reasons why these prices are so high - some of which include price gouging and the issue of high domestic price differentials are those that I am taking up with the Attorney General and the House Committee on the Judiciary

- But, today, as a member of the House Committee on International Affairs, I have another opportunity to personally address the crisis in energy supply in America - this time at the distribution end and more specifically, the supply strangulation being committed by OPEC

- This is a serious problem that needs to be addressed by Congress

- In March 1999, OPEC as an international oil cartel has publicly expressed their goal of cutting oil supplies to increase their profit margins - hurting the American consumer and our overall economy

- Since then America has seen the price of a barrel of crude oil rise over $14 a barrel - or an increase of 33 cents a gallon

- These are the same people that brought us the 1977-1979 oil shortage, and they are at it again. Cutting supply to raise their profit margin, at the expense of the American public

- I hope that this hearing will send a signal to OPEC that these actions must be stopped. I understand that Sec. Richardson is going to try to use diplomacy to end this production reduction, well I guess we are here to send another message.

- Although the next OPEC ministerial meeting is not until March 27, these anti-consumer practices must be stopped immediately

- I am pleased that representatives from the Department of State and Energy were able to attend, as were F. William Valentino of the New York State Energy Research Development Authority and John Huber from the Petroleum Marketers Association of America.

STATEMENT OF

DAVID L. GOLDWYN

ASSISTANT SECRETARY

OFFICE OF INTERNATIONAL AFFAIRS

U.S. DEPARTMENT OF ENERGY

BEFORE THE

COMMITTEE ON INTERNATIONAL RELATIONS

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 10, 2000

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to appear before you today to talk about the current state of the oil market and the concerns we have over recent developments in the market, particularly on heating oil, and to discuss actions that the Administration has taken to address these concerns.

As we all know, oil prices have more than doubled in the past year. Prices have increased from near historically low levels, around $11 in December 1998, to recent levels not seen since the Gulf crisis. This rise in price is largely attributed to the actions taken by the Organization of Petroleum Exporting Countries (OPEC) to restrict supplies to the market. It's been nearly 20 since the United States did away with its price and allocation controls - we had controls on the market and found them to be an utter failure. Controls gave us market distortions and gasoline lines. Controls instituted under President Nixon were eventually done away with, on a bi-partisan basis, in 1981. Successive Administrations and Congresses have held to the notion that the free market is generally the best arbiter of supply, demand, and price. We have held to this view in all our discussions with oil producing countries.

Recently the already tight supply situation in the market has been exacerbated by cold weather here in the United States, which has resulted in soaring heating oil prices. My testimony today will provide a current analysis of the market, describe some policy actions that we've taken, and also describe the energy diplomacy that we've undertaken with various oil producers.

Current State of the Market

Beginning in March 1998, OPEC instituted three tiers of production cuts, which eventually totaled 4.3 million barrels per day. OPEC member compliance with the third cut, effective in April 1999, has created an increasingly tight market as crude oil inventories have been drawn down over the course of the past year. A continuing crude oil supply shortage is driving crude prices up and causing refiners worldwide to draw down stocks as the higher crude prices squeeze margins. In 1999, the shortfall in crude oil worldwide averaged over 1 million barrels per day, largely as a result of production cutbacks by OPEC and other major exporters. If OPEC keeps production in the year 2000 at the levels seen in the fourth quarter of 1999, EIA estimates the shortfall in 2000 will be 1-2 million barrels per day.

Northeast Prices Surged Due to Low Inventories, Weather, and Supply Problems

The late January heating oil and diesel fuel price surges in the Northeast resulted from a combination of low inventories, weather, and supply problems. Low stocks leave little cushion to absorb sudden change in supply or demand, and increase the possibility of price runups. At the beginning of January, distillate stocks on the East Coast were running almost 15 million barrels, or 21 percent, below their 5-year average value for that time of year.

Weather in all heating demand regions in the United States had been warmer than usual from November through the first two weeks of January, but that changed abruptly. During the week ending January 21, weather in New England was nearly 20 percent colder than normal for this time of year. The cold weather not only increased demand, but also caused supply problems, with frozen rivers and high winds hindering the arrival of new supply. It was reported that utilities were buying distillate both for peaking power and, along with industrial and commercial users, to substitute for interruptible natural gas supplies, further adding to the market pressure. Finally, refinery outages at the end of the week sent more buyers into the market as local supplies were temporarily drained, and prices spiked. The region has continued to struggle since then to bring in new supply as strong demand continues.

While other regions had low stocks and cold weather, the Northeast saw the unusual heating oil and diesel price surges as a result of:

- Its being the largest regional market in the country for heating fuel, representing about two thirds of total U.S. heating fuel used during the peak winter demand months;
- Its heavy reliance on stocks during the peak winter demand months;
- Its reliance on waterborne supply that can be affected by cold weather; and
- Its large, short-term swings in demand coming from the large utility and interruptible gas consumers jumping into the heating oil market, on top of the increase in demand from home heating oil customers.

Heating Oil Prices Soared in the Last Half of January

Residential heating oil prices increased steadily from early in 1999 through the middle of January 2000 largely as a result of increases in crude oil prices, the feedstock from which heating oil is made. All petroleum-based products followed this trend. However, prices for heating oil and diesel fuel (i.e., distillate fuels) in the Northeast turned sharply upward in the third week of January, while Midwest prices increased only slightly. In the two weeks after January 17, New England residential heating oil prices rose over 60 cents per gallon to average $1.79 on January 31, and diesel fuel prices increased 53 cents per gallon, averaging $1.97 by January 31 ($2.12 by February 7).

Retail heating oil and diesel fuel prices follow the spot distillate markets, and crude oil prices have been the main driver behind distillate spot price increases until recently. Crude oil prices rose almost $17 per barrel (40 cents per gallon) from mid-February 1999 to the middle of January 2000. The week ending January 21, heating fuel spot prices in the Northeast spiked dramatically, rising from about 76 cents in New York Harbor (NYH) on January 14 to over $1.26 on January 21. **Spot prices since have remained highly volatile, peaking Friday, February 4 at $1.77 (NYH), and closing at $1.02 on Tuesday, February 8.** Gulf Coast prices were not spiking, but were probably pulled slightly higher as the New York Harbor market began to draw on product from other areas, again indicating the Northeast focus of this problem.

Low Inventories for Gasoline As Well

Please note that gasoline stocks are also very low. Normally gasoline stocks are built up in the late fall through January and used in February and March as refineries undergo maintenance and turnarounds prior to the summer high demand season. With refiners having to focus on heating oil this January and possibly even February, it is unlikely gasoline stocks will be built sufficiently to support the usual maintenance schedules. Additionally, the East Coast depends on gasoline imports as well as domestic production. Europe, which is a major supply source, is also low on gasoline stocks.

Recovery is Occurring, But Recurrence is Possible

Weather permitting, the distillate market imbalance should be resolved within several weeks. Refining capacity is adequate to meet the Northeast's distillate needs, but there is some delay before new supply gets to the areas needing product. It takes time for refineries to change operations, and for product to move through the distribution system. Although high prices can speed the process, factors such as bad weather can slow recovery. Unfortunately, even when the current problem is resolved, we may see recurrences, as stocks are likely to stay low for the remainder of the winter.

Administration Actions

Over the past few weeks as the heating oil situation has worsened, the Department and Administration have taken a comprehensive look at ways we could ease the situation. To date, we've taken the following actions, among others:

Enhanced Market Monitoring: On January 26, the Secretary directed the Energy Information Administration to step up its monitoring of home heating oil markets. EIA is publishing its data on home heating oil supplies and prices on a weekly basis rather than biweekly.

Home Heating Oil Summit: The Secretary is holding a meeting in Boston February 16 with refiners, distributors, government officials, and consumers to discuss the reasons for the recent problems and to develop ways that the government and industry can work together to better meet consumer needs.

LIHEAP: The Administration directed the Department of Health and Human Services to release Low Income Home Energy Assistance (LIHEAP) emergency funds totaling $45 million to Alaska and ten Northeastern and Middle Atlantic states. This is the second release of LIHEAP emergency funds for fiscal year 2000. Additional amounts released to the states for assistance to eligible families ranged from $1 to $10 million. LIHEAP funds may be used to pay for urgent home heating needs.

Waiver of Carrier Driving Hours: The Department of Transportation has been approving requests for waivers of Federal Highway Administration regulations limiting the number of hours per day and per week that motor carrier drivers are allowed to drive. Trucking companies and product distributors seek short-term waivers of driver hour limits when emergency situations arise. When the Governor(s) of the affected area (s) declare a state of emergency, the FWHA Regional Directors have authority to approve short-term waivers. The FWHA has indicated that they will help with waivers as requested.

Clearing Shipping Lanes: The Department of Transportation also directed its Coast Guard icebreakers to help with clearing shipping lanes in the New York Harbor area. The Coast Guard will help with the prioritization of tanker arrivals if the Department of Energy requests this assistance.

Yesterday afternoon, the Secretary convened a meeting of the parties most involved in this situation; state governments, utility representatives, fuel distributors, refiners, and transporters to discuss the situation and identify what measures can be taken both now and in the future. We have a number of ideas are under consideration in the Department and the Administration, and we hope to be able to make some further announcements in the next few days.

Energy Diplomacy

Secretary Richardson routinely consults with his counterparts in various countries. Over the past couple of months we have had a number of discussions with various members of OPEC and with Mexico and Norway. The Secretary met with Minister Tellez of Mexico and Minister Arnstad of Norway last week. He had met with Saudi Minister Al-Naimi and Kuwaiti Minister Saud Nasser Al-Sabah in December, and he will meet again with both ministers later this month when he travels to the Middle East.

There have been common elements in these discussions. They have dealt with two sets of issues. First, they have enabled us to share information and views on the current state of the oil market. Secondly, they provide us an opportunity to ensure that these producers understand our views on the action that they have taken to restrict supply to a growing world oil market.

Sharing of Information

Our goal of sharing information tries to ensure that we both have the same understanding of what is happening in the market, and if we don't, where those differences lie. Today's world oil market is a 75 million barrel per day enterprise. Over the past 25 years the market has evolved from a mix of a few oil producing countries and large oil companies trading oil through long-term contracts to today's highly sophisticated marketplace where the price of oil results from the deliberations of hundreds of buyers and sellers around the world, all viewing the proceedings on their computer screens.

The oil market rests upon a foundation of information on supply, demand, and stocks, much supplied by our own Energy Information Administration. When OPEC decided to reduce its production in 1998, one of its stated goals was to reduce the relatively high level of oil stocks that had built up in storage around the world. OPEC reduced production three times and it has been successful - stocks of oil have been drastically reduced. Still, it seems that some in OPEC may not be convinced that they have enjoyed enough success in reducing stocks.

In our discussions with producers, we've provided the best information we have on stock levels and shared our views on near-term future trends. The bottom line - crude oil stocks in the U.S. are at their lowest levels in years and getting lower. Distillate and gasoline stocks, on a week-on-week basis, are lower than they've been in years.

The point we've made to OPEC, based on the best data we have, is that OPEC has achieved its major goal of reducing surplus oil stocks. The market is extremely tight, so tight that any unfortunate event - a cold snap for example - can generate price spikes. Our data depict a market that needs additional supply.

Sharing of Views

In conversations with various producers we have also shared our views on the action they've taken to reduce oil supplies.

> Free Market: We have been consistent in stating our belief that the free market should referee the forces of supply, demand, and price - without the interference of organized groups of producers, without the interference of organized groups of consumers.
>
> Lesson of History: Artificial supply constraints placed on the market are ultimately self-defeating. OPEC has only to look at its on own history for proof - its efforts in the early 1980's to restrict supply to support artificially high price goals lead to a boom in non-OPEC production. OPEC sacrificed market share that it may never recover. Furthermore, such constraints exacerbate volatility in the market and may lead to boom/bust tendencies, global instability, and an uncertain energy investment environment.
>
> Economic Damage: We know from the experience of past oil crises that high oil prices inflict economic damage. Such economic damage can fall particularly heavily on

developing nations. In the current situation, economies struggling to recover can have their job made all the harder. Many of the countries adversely affected are trading partners with oil-producing nations. If these economies founder everyone will be hurt.

Reliable Supply: Restricting supply in a market that sorely needs additional oil does serious damage to the efforts some in OPEC have made to demonstrate that they represent a reliable source of oil supply. When one supplier won't give you the supplies you need, it's only natural that you would seek other sources of supply. This will have long-term effects in the market.

This concludes my prepared testimony. I would be pleased to answer any questions.

Testimony

before

House Committee

on

International Relations

by

Peter E. Bass

Deputy Assistant Secretary

Energy, Sanctions, and Commodities

U.S. Department of State

Thank you, Mr. Chairman and members of the Committee, for the opportunity to testify here today on recent developments in the oil market, especially in view of the difficulties encountered in the heating oil market in the Northeast. The Department of Energy can provide a much better analysis than I of the various factors that came together this winter to cause a run-up in heating oil prices. But, one of the factors in the heating oil price increase was the increase in world crude oil prices, and I wanted to review with you briefly the approach this and previous Administrations have taken to handling oil issues since the oil shocks of the 1970s and to review the role of major OPEC producers in the market.

Assuring access to sufficient quantities of oil remains a critical, indeed, strategic aspect of U.S. foreign policy. While oil's role in the U.S. economy has declined, the efficient availability of oil and other sources of energy remains vital to our economy and those of our key trading partners and allies. An energy disruption anywhere in the world can affect our economy directly through its impact on energy prices and indirectly through its impact on our major markets.

Disruptions also can increase the risk of political instability in areas of strategic importance to the United States and can increase the ability of certain states to pursue policies that threaten U.S. interests.

U.S. policy toward domestic and global energy markets has helped foster a two-decade trend of greater choices and lower real prices for consumers as well as lower production costs for energy producers. However, there have been and will continue to be price swings in the U.S. and global energy market as countless consumers, producers and marketers interact in a very flexible and competitive energy market. Regional problems with refineries or transportation systems can create acute localized problems reflected in difficulties with access to supplies and sharply higher prices. While crude oil prices are generally not the predominant factor in these regional supply problems, changes in global crude production and prices can be a complicating factor.

That brings me to a central topic of this hearing: OPEC crude oil production decisions and U.S. policy toward OPEC. First, let me say the U.S. government has always had regular consultations with both OPEC and non-OPEC countries. These routine discussions continue to take place as they did before crude oil prices fell considerably in 1998 and early 1999 and when crude prices began increasing about a year ago.

At international fora attended by many energy producing and consuming countries, crude oil production and price levels also come up regularly, especially when prices are viewed as "extremely low" or "extremely high." Our consistent position in these fora regardless of where prices are at the moment has been that we do not believe cartels should be coordinating production levels among producers to set prices. It is for that reason that the United States does not maintain a dialogue with OPEC as an institution, but bilaterally with key OPEC and non-OPEC producers. We believe markets should determine prices by reacting to the full range of individual decisions made by a virtually infinite number of consumers and producers in the global energy market.

OPEC producers as well as some non-OPEC producers do not share our view that oil producers should not coordinate production levels to set prices. However, major oil producers recognize their strong interest in maintaining long term demand for oil and in ensuring that oil continues to be the fuel of choice for much of the world. Oil producers recognize the importance of maintaining their reputations as reliable suppliers. Obviously, any problems with heating oil supply or prices that would encourage consumers to switch to non-oil alternatives would not be a welcome development for anybody in the oil business.

Mr. Chairman, assuring access to imported oil for the U.S. and our major allies and trading partners is and will remain a continuing critical objective for U.S. foreign and economic policy for the foreseeable future. At the same time, we need to view current market conditions in historical perspective. Twenty-five years ago, the energy-consuming countries believed we were facing a bleak future of ever-rising energy prices, diminishing reserves, and the increasing vulnerability of our economies to oil-based price shocks.

The intervening years have been far less bleak than expected and we are considerably better off on all these fronts than two decades ago.

- In contrast to the 1970s when national oil companies rose to prominence, governments around the world are increasingly open to the benefits of foreign investment, privatization, and deregulation.

- Global proven oil reserves have actually increased 50 percent over the last twenty-five years.

- Oil consumption is only slightly higher than in the late 1970s despite a doubling of the size of the U.S. economy.

- Both production techniques and oil markets have become highly efficient; an active futures market results in almost instantaneous price responses to perceived changes in supply.

- As a result of all these factors, oil prices, when adjusted for inflation, remain well below the real price levels of 1974 to 1985.

How did we get here?

Despite almost three decades since U.S. consumers suffered having to wait in long gas lines, the memory of that acute vulnerability still casts a long shadow over the oil market. The price jolts of the 70s put a number of forces in motion, with considerable influence on today's market. Higher prices had a major impact on oil demand and resulted in slower economic growth in the industrialized countries and also intensified efforts to advance energy efficiency and conservation. In addition, the oil price hikes of the 1970s encouraged the search for oil in new countries and regions, accelerated new production and consumption technologies, and brought new alternatives to dependence on oil.

A consistent U.S. Government approach since the early 1980s has reinforced the effectiveness of the market.

- ❖ One of the first steps in the 1980s was to deregulate domestic energy markets.
- ❖ That initial action set the tone for policy over the past two decades.
- ❖ Meanwhile, there was a concerted effort to reduce the government role in the energy sector.

- ➢ We have also let the benefits of generally lower oil prices flow through to end-users thereby increasing the economic benefits of lower oil prices and increasing market opportunities for energy producers.
- ➢ We have strongly supported the free flow of international capital. As these flows have come to be determined by market forces, they have helped to foster more efficient and productive allocation of investment.
- ➢ Downstream integration of major oil producers adds to stability in the oil market by increasing the commonality of interests between consumers and producers.
- ➢ Producers have shown an increased understanding of new mechanisms for disseminating information and establishing prices, such as the futures market.
- ➢ Producers have also recognized both the importance of assuring supply reliability and the need to avoid taking actions, which harm oil's long-term competitiveness.

On a global basis, the United States seeks good relations with oil producers around the world, recognizing that global economic growth depends on the availability of increasing volumes of oil. In order to expand the availability of oil, we promote international efforts to remove barriers to energy trade and investment, as well as increased access for U.S. energy firms around the world.

I think these hearings today can play a useful role in illuminating some of the problems that occurred this winter. I welcome the Committee's effort to shine a spotlight on this issue, and I look forward to answering any questions you may have. Thank you, Mr. Chairman.

PETROLEUM MARKETERS ASSOCIATION OF AMERICA
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TESTIMONY OF JOHN HUBER ON BEHALF OF THE PETROLEUM MARKETERS ASSOCIATION OF AMERICA
BEFORE
THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
RAYBURN HOUSE OFFICE BUILDING ROOM 2154
10:00 A.M.
THURSDAY FEBRUARY 10TH, 2000

Thank you Mr. Chairman and committee members. I would like to thank you for allowing me the opportunity to testify before this committee on behalf of PMAA.

I am John Huber, Vice President and Chief Counsel for the Petroleum Marketers Association of America. PMAA is the national association of petroleum marketers and we represent residential heating oil dealers, ninety percent of which are small businesses. Today I will primarily focus on the domestic situation.

Before beginning I would like to join the Chairman in expressing concern for consumers. The high prices and cold weather of the last few weeks will affect many of the working poor and middle class who lack excess disposable income. My members have discussed this problem with thousands of customers and as this crisis eases, they will turn their attention to easing the financial burden. Unfortunately for the past three weeks their sole focus has been on making sure your constituents have product. In such circumstances, prices are of secondary importance. It should also be noted that this is creating a crisis for heating oil businesses. The high cost of products has stretched their credit limits and most are in a cash flow crisis.

There are two main reasons that this crisis occurred. Low inventories and backwardization. Backwardization is a term used to describe the free market aspect and pricing of the crude oil market. Backwardization signals the price will fall. In such markets, refiners will not produce or store much product. Marketers and retailers will not buy or store excess product and customers delay purchasing. The result is lean inventories. As inventories become lean, volatility rises. In less than a week prices rose 100 to 200 percent and then lost the entire gain the following day.

The product market moves on a daily and hourly basis and large inventories are not available to either flood the market or dampen prices. Structurally and internationally, the inventories were not there.

OPEC certainly has a role in pricing, as curtailed production will raise prices. However with backwardization, the markets signals increased production and lowered prices in the future. Therefor a free market response is frozen and a political decision by OPEC can undermine the market.

There are a few bright spots that did come out of this crisis. First the customers did receive product, despite tight conditions. This required long workweeks and much aggravation. Second, governments at every level responded quickly. LIHEAP funding was released so that low-income families would not go with out heat. The hours of service rule for drivers was waived so that product could be delivered to customers. Standards were relaxed and the Coast Guard acted quickly to keep the waterways free of ice for the heating oil barges.

Over the past twenty years, great improvements have been made in technology and equipment. New houses are more energy efficient and that has resulted in the reduction of consumption, which moderates impact. In the last twenty years, oil consumption per household has decreased from 1600 gallons to 800 gallons. We continue to advance towards a more fuel efficient home heating oil sýstem.

I would like to make a few suggestions for the future. We need to have better information on international stocks of oil. We have to do something about interruptibles like industrial users, hospital and schools, to ensure that they have product but don't disrupt our markets.

PMAA intends to work with the National Association of State Energy Officials and its members to educate customers and dealers and to develop methods to reduce impact.

PMAA will work with its members to develop ideas and solutions which will encourage inventory responsibility and to ensure a less volatile market. We will report to you on these ideas.

Testimony of
F. William Valentino, President
New York State Energy Research and Development Authority

before the

United States House of Representatives
Committee on International Relations

February 10, 2000

NYSERDA

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Chairman Gilman, Congressman Gejdensen, distinguished committee members and guests. I appreciate the opportunity to testify before you today on behalf of Governor Pataki and the residents of New York State, concerning the energy supply and price problems that we have been facing in New York State these past weeks. With respect to my testimony, the data are not all in, but hopefully I can help frame the issue.

There is not another state in the union that relies on heating oil more than New York State for its heating needs. Forty-three percent of New York's households use oil for space heating. That's 2.9 million households. Nearly 80% of those homes are concentrated in the New York City Metropolitan area, including Long Island. New York's residential sector is the largest consumer of heating oil and kerosene, or distillate fuels in the nation. New York State accounts for 20% of the total U.S. distillate demand. As you can see from those numbers, New York's residential customers bear the brunt of any increase in heating oil prices.

Over the past three weeks, retail home heating oil prices in New York have increased by more than 75 cents per gallon. On January 17, 2000, the statewide average price was $1.24; on Monday February 7th, that price was $2.02 per gallon. To put this statewide price in perspective, last year at this time the average price for a gallon of heating oil was 91 cents. As mentioned just a minute ago, the concentration of residential customers is in the NYC metropolitan area and Long Island, where prices are running at about $2.25 a gallon, more than double that of a year ago. I'm sure that Congressmen King, Ackerman, and Crowley are well aware of that fact. The lowest price in the State is in the North Country region (Congressman McHugh's district) where the price is about $1.70 a gallon.

That's critical in New York, because over the four-month winter heating season, from November through February, New York's residential, commercial, and industrial customers combined consume, on average 13.1 **million** gallons of distillate fuel **per day.** While a small portion of that demand is for kerosene, which has also been a concern in New York these past few weeks, you can begin to see the huge economic impact that I am talking about.

Before moving on to look at some of the market forces that have been driving this situation, the subject of kerosene which I just mentioned is very important to New York as well. While only a relatively small amount is used for space heating, kerosene is used as a blending agent for heating oil and diesel fuel to prevent jelling and improve viscosity in low winter temperatures. Shortages of kerosene have a major effect on the heating oil market.

While I don't believe there is a definable single factor that you can point to as the ultimate cause of the current price spike, there are a number of market factors that have contributed which bear mentioning.

From a historical perspective, we can look back at the second quarter of 1999 when crude oil prices began to rise from a low of $11 a barrel at the beginning of the year, to nearly $30 a barrel (267% increase) during the last week of January. Certainly, this price escalation was influenced by several factors. While domestic economic growth and economic recovery in the Pacific rim contributed, the most significant factor was the production cutbacks by OPEC and non-OPEC producers which began in March 1999. This worldwide reduction of 4 to 5 million barrels per day in crude oil production resulted in a corresponding reduction in petroleum products, which meant that the system had less slack to meet higher demand levels when the sustained cold weather snap arrived.

I just used the term "slack" to describe a market situation where additional supplies are not just sitting around for use. The petroleum industry, like other industries, has adopted "just in time re-supply" of inventories. This change in industry practice has had a large impact in New York, because according to NYS Department of Environmental Conservation data, New York's petroleum bulk storage capacity has declined by 15% and our heating oil storage capacity has declined by nearly 20% over the past five years.

As anyone from the Northeast region can tell you, winter is fickle. This past December saw record temperatures roll in, but not record cold temperatures, they were record mild temperatures that continued into early January. When the extreme cold weather arrived in the middle of January we experienced a sharp increase in demand by all sectors simultaneously. For the two-week period ending January 29, the temperature was 56% colder than last year at that time, and 18% colder than normal. This spike in demand was critical because following on the heels of extremely mild weather, sufficient supplies were not available.

The combination of increased demand and insufficient supplies created greater competition among buyers, including interruptible natural gas customers and electric generators, that served to drive already high prices higher. An interruptible gas customer is generally a large fuel user who contracts for below-market natural gas prices throughout the year in exchange for switching to an alternative fuel when the utility needs gas capacity or when the temperature reaches a designated degree number. To the best of my knowledge, we have not experienced any supply shortfalls for natural gas, but we are beginning to see a tightness in the propane market. However, some believe that interruptible natural gas customers and electric generators are major contributors to the sharp increase in demand, and the corresponding higher prices for petroleum products. We are looking into this situation in New York to see what effect interruptible gas customers and electric generators had on the supply and price of petroleum products.

Given the competition for product that occurred during the cold snap, and the fact that competition was driven in part by low regional supply stocks throughout the entire winter season, leads me to another major market force that has played an important role, refinery utilization.

New York does not have any refineries within the State. We rely on refineries in New Jersey, Pennsylvania, the Gulf Coast, and overseas to meet our product needs. National refinery utilization rates dropped to about 84% for the week ending February 4, 2000. At the end of December refineries were operating at 89.7% of capacity. A year ago, when the oil markets were calm, the comparable utilization rate was

94%. Heating oil production on a national basis was down 16% from a year ago. Here on the East Coast, heating oil production was down 46% from year-ago levels.

These refining patterns raise questions both nationally and regionally. Before the January cold snap, national heating oil stocks were nearly 30% lower compared to last year, and Middle Atlantic States' (NY, NJ, Delaware, Pennsylvania) heating oil inventories were 16% less than a year earlier. By the third week in January, these heating oil reserves had shrunk to nearly 15 million barrels, or 50% less than a year ago and below any comparable level of the past seven years. At the same time however, diesel fuel production on a national level increased over 7% and on the East Coast by over 23%.

This combination of factors has had a number of effects on the different fuels that New Yorkers depend on. We are still experiencing tight supplies of home heating oil and propane, with kerosene remaining in short supply. The kerosene situation is beginning to loosen with additional supplies moving into New York harbor and upstate terminals, but the price remains expensive and market participants are still "allocating" supplies in some areas.

Caught up in all of these market forces are the consumers. Everyone from residential heating customers to hospitals, public health and safety agencies, trucking firms, and motoring public is feeling the effects of these price increases. While some predictions were made about possible price increases due to known factors like the OPEC cutbacks, these sudden and dramatic price increases are way outside the expected norm.

Take for example, the fact that the average price difference between a gallon of #2 heating oil and crude oil over the past year hovered around 52 cents per gallon. Over the past week, the price differential increased to $1.35. A whopping 83 cents over the historical price spread.

Needless to say, Governor Pataki is concerned about the economic consequences of this unprecedented rise in petroleum prices and the effects on New York's citizens, particularly our elderly, working poor, and low-income consumers, which I will discuss later in my testimony. But certainly our first concern has been public health and safety issues.

Quoting Governor Pataki, "New York is no stranger to adversity" and thankfully so. In the past few years New York has seen nature's forces take a toll on our state with floods, ice storms, and other natural disasters. Those crisis situations have helped the State refine our emergency response capabilities and this threat to the health and safety of our residents was no different.

From our first contact with industry officials about impending home heating oil shortages, the State's emergency response was initiated. Governor Pataki directed NYSERDA , the State Emergency Management Office, the Public Service Commission, and the Consumer Protection Board to establish an around-the-clock coordinated effort . Telephone hotlines were established immediately to handle emergency calls for shelter or heating assistance and to report suspected instances of price gouging. The State began contacting county energy emergency coordinators across the State to assess their local situation. Contact with the U.S. Coast Guard on ice-breaking activities on the Hudson River and New York harbor was occurring on a daily basis to ensure delivery of available stocks, as well as daily contact with industry officials. Daily calls were being placed to dealers to assess supply problems and price trends. Heating oil distributors were also supplied with contact information for their customers in the event they experienced a shortfall in supply.

The Governor also took action on a number of regulatory fronts to help overcome some of the supply and resupply problems that New York encountered. These included:

* Directing the State Public Commission to work with New York's utilities to voluntarily keep their interruptible natural gas customers on natural gas rather than switch to fuel oil;

* Directing the State Department of Taxation and Finance to issue temporary interstate certificates to instate heating oil distributors and trucking companies to allow them to import heating oil;

* The State Department of Environmental Conservation in conjunction with NYSERDA granted one-week waivers to allow New York City municipal facilities to use slightly higher sulfur content fuel oil to meet their heating needs;

* The Governor has also asked the State Consumer Protection Board and NYSERDA to investigate the causes of the current shortage and recommend measures to prevent a re-occurrence.

On a national level, Governor Pataki has written the Clinton Administration asking for an immediate investigation into the factors that have driven these price increases and supply shortages.

But where do we go from here? What other actions can be taken?

On the International side, which is your domain, I believe we need to use our influence with the OPEC and non-OPEC cartel producers to increase production. This is critical. Cartel control of production has created the perception of a shortage which has been the driving force behind these price increases. This situation has created calls in some areas for Government to be the allocator of fuels. That would be extremely difficult, and someplace I hope we never have to go.

Next, I know New York State is in the process of urging the United States Department of Health and Human Services to more equitably allocate additional emergency Low-Income Home Energy Assistance Program funds to New York's low-income and working poor families.

The Federal LIHEAP program is extremely important to New York because we have more than 1.4 million eligible households within the

State. This year, 500,000 to 600,000 households will be served by the program.

These Emergency funds are critical right now with New York's families struggling to meet the rising cost of fuel. Just recently, the Department of Health and Human Services released $45 million in emergency LIHEAP funds to 10 Northeastern states and Alaska. For some reason, New York did very poorly in this allocation. For example, Maine which has nearly 50,000 low-income households that heat with oil and receive LIHEAP benefits, got an additional $10.3 million. In contrast, New York with significantly higher demand only received $2.6 million of the distribution. There appears to be no justification for the disparity in how these emergency LIHEAP funds were allocated.

Besides easing the financial burden on those eligible for LIHEAP assistance, we need to address how the heating oil price problem has extended beyond low-income households to families and small commercial customers who cannot meet their oil cost obligations. This is causing a ripple effect among dealers who are not receiving full payment for deliveries, which is in turn creating cash flow and bank line of credit problems. This situation is creating the potential for personal and corporate bankruptcies that could weaken the oil distribution systems. A quick means to make funds available to those in need, but not eligible for LIHEAP is needed.

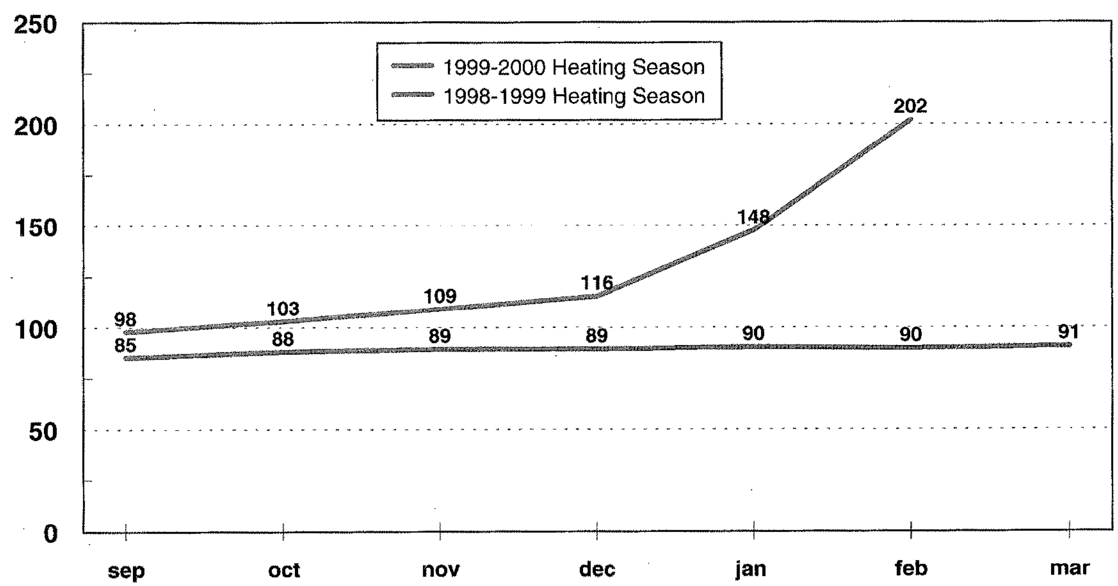
Another important step the federal government can take to help New York State is to ensure that adequate funding is in place for the Coast Guard ice breakers that work to keep New York's waterways clear for movement of petroleum products and other commerce. We are hearing rumors that services may be cut back by the Federal Department of Transportation which is the parent agency of the Coast Guard. Should the number of Coast Guard ice-breakers be reduced, as we are hearing, it would definitely imperil health and safety. Part of the current crisis is attributable to resupply difficulties, and if not for these critical vessels working to keep New York's waterways open, we would be much worse off than we are today.

Last, but certainly not least, I would be remiss if I did not comment on our need to decrease our dependency on imported oil. We must redouble our efforts to develop renewable energy resources and to promote energy efficiency. New York State has increased funding four-fold for R&D and energy efficiency as part of our transition to competition. We can't do it alone. It will take a commitment on the part of Congress and the Federal Department of Energy to join the states as partners in this effort.

Currently, the DOE has a $6 billion budget, but only a nominal amount of that is dedicated energy efficiency funding. We have tremendous potential, and situations like the one that has happened in the Northeast should serve as the lighting rod to spur us to action, ensuring that we have a secure energy future for our children and their children.

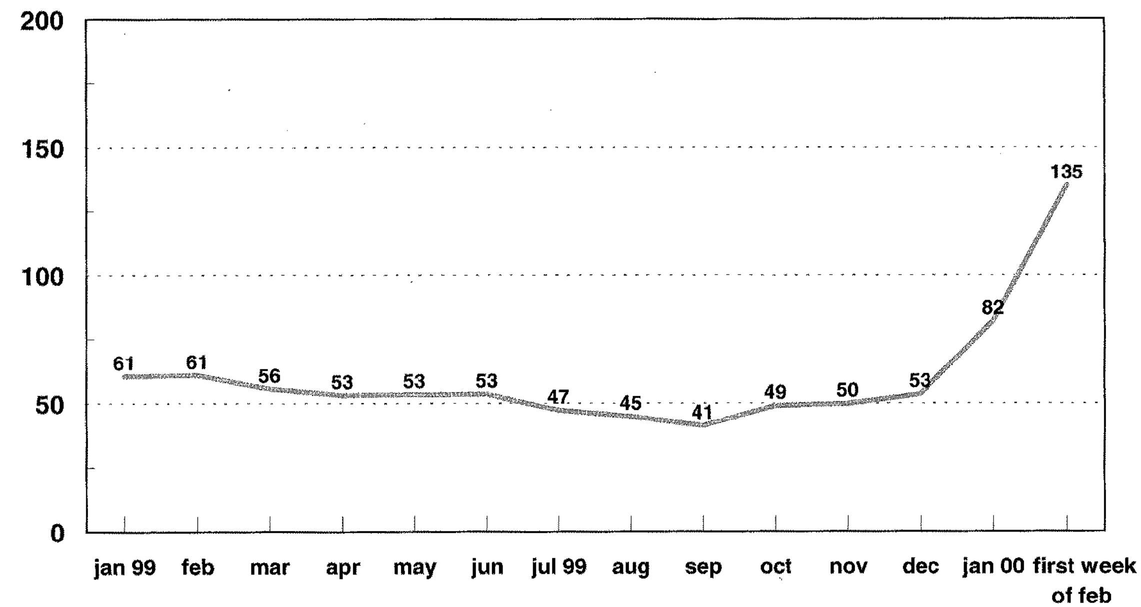
Once again, thank you Chairman Gilman for the opportunity to testify today. I would be more than happy to answer any questions you may have.

NY - No. 2 Home Heating Oil Prices
cents per gallon - monthly average



Source: NYSERDA, Energy Analysis Program, NYS SHOPP Survey Data

Price Differential Between NY - No.2 Retail Heating Oil Prices and WTI - Spot Prices of Crude Oil
cents per gallon - monthly average



Source: NYSERDA, Energy Analysis Program, NYS SHOPP Survey Data

AMERICAN TRUCKING ASSOCIATIONS
2200 Mill Road ★ Alexandria, VA ★ 22314-4677

Statement of

Bob Costello
Chief Economist
American Trucking Associations
(703) 838-1799

Hearing on
OPEC AND THE NORTHEAST ENERGY CRISIS

House Committee on International Relations

February 10, 2000
10:00 a.m.
2154 Rayburn House Office Building

Chairman Gilman, Ranking Member Gejedenson and Members of the Committee, I am Bob Costello, Chief Economist of the American Trucking Associations. We appreciate the opportunity to testify before this Committee on the diesel fuel crisis that is devastating our industry. In order to meet the freight needs of the country, the thousands of motor carriers who are ATA members need government action, now. As the nation enjoys the benefits from this record long economic expansion, an expansion that the trucking industry has played an integral part of, I fear that the rise in oil prices and the rapid surge in diesel fuel could bring all of that to an end. The trucking industry is the backbone of this new economy. As more and more consumers simply point and click to buy a vast array of merchandise on the Internet, they depend on an efficient and productive trucking industry to deliver those goods in a timely manner. But trucks deliver far more than just goods bought on the Web - they transport nearly every commodity consumed. In fact, 81 cents out of every dollar spent on freight transportation goes to trucking. The nation's three million truck drivers haul 6.7 billion tons of goods annually. Furthermore, over 70 percent of communities in the U.S. rely exclusively on trucks to deliver the freight they consume. This is clearly a vital industry that comprises nearly five percent of the gross domestic product and employs 9.6 million people nationwide.

And trucking is only becoming more and more important to the U.S. economy because of its reliability and flexibility. As increasingly more businesses reduce costly inventory, they depend on trucks to bring them the goods and supplies they need exactly on time.

This ability of trucking to keep costs down for other industries has been fundamental in suppressing inflation in recent years.

But I fear that this could all come to an end with the recent surge in diesel fuel prices. Instead of propelling the economy, trucking could become a significant drag if the industry does not receive relief soon.

Diesel fuel is often the second highest expense for truckers and can comprise up to 20% of their operating budget, especially for the smaller companies. In addition, the trucking industry consumes nearly 30 billion gallons of diesel fuel each year. So as the national average retail price of diesel fuel rose from 96 cents a gallon a year ago to $1.30 by the end of 1999, as published by the U.S. Department of Energy, we were somewhat concerned. But it was not until the recent spike that our industry has spoken out. Since January 1st of this year, the average price per gallon has shot-up 17 cents, or 12%. But that is not the worst of it. On the East Coast, the situation is grim. Since the beginning of the year, the East Coast average price per gallon has increased 25% to $1.63. Specifically in the Central Atlantic states and New England, the price has risen an astounding 43% and 55%, respectively, in only six weeks. In the Central Atlantic area, the average price per gallon is just under $2.00, with the New England price at $2.12.

Our members have told us of a considerable number of ridiculous price increases in an extremely short period of time. For instance, some areas of New York State witnessed increases of 30 cents or more in only a few days. Then there was the trucker that pulled into a New York State truck stop one night to sleep. When he awoke eight hours later to fill up his truck, the price had jumped nearly 15 cents from the night before.

Before the recent spike, trucking companies had profit margins of only 2-4%, on average. Now, many small and medium sized companies are actually losing money on every single haul. While there are some pretty big carriers out there, over 70% of the nation's 400,000 trucking companies operate six or fewer trucks. So as all trucking companies are feeling the crunch, it is these 280,000 companies that are being pummeled.

Let me try and put the current fuel crisis in context. The trucking industry is now operating at near capacity limits due to a booming economy and an acute driver shortage. If the industry does not get some fuel price relief soon, it is likely that a significant number of small and medium sized companies will be forced to close their doors and park their trucks. And, at least in the short-run, the larger trucking companies will not be able to pick up the slack. This will cause a significant number of bottlenecks in the supply chain and freight will start to pile-up at the docks. This situation will slow the economy much faster than any interest rate hikes from the Federal Reserve. And other modes of freight transportation will not be able to fill the void either. First of all, they are also being severely impacted by higher fuel prices. Second, only trucks can deliver goods to grocery stores, malls, hospitals, and schools, to name a few.

In our letter to President Clinton, a copy of which is attached to this testimony, we are asking the Government to get involved in a few ways. First, we believe it is necessary to release oil from the Strategic Petroleum Reserve. The 9.6 million taxpayers that work in trucking related jobs have helped to buy that oil and now they are asking that some of it be released. This will have an immediate impact and should provide a substantial amount of relief. Second, we are asking that the U.S. Government enter into immediate talks with OPEC and try to convince them to start producing more oil. We should remind many of them of the assistance we provided only a decade ago, keeping them at arms-length from the Iraqi dictator. It would also be helpful if the Small Business Administration would provide loans for companies trying to survive through this difficult time, as Energy Secretary Richardson suggested yesterday.

In conclusion, just imagine any type of company trying to survive when their second highest expense is escalating as fast as diesel fuel currently is. It is nearly impossible. The growth of both the trucking industry and the aggregate economy rely on a quick solution to this problem. I truly believe our economic stability depends on it. I thank you for your time and would be happy to entertain any questions.

AMERICAN TRUCKING ASSOCIATIONS
2200 Mill Road ★ Alexandria, VA ★ 22314-4677
www.truckline.com

Driving Trucking's Success

Walter B. McCormick, Jr.
President and Chief Executive Officer

January 26, 2000

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Nation faces an economic crisis as a result of the huge and unwarranted hikes in the price of diesel fuel. A year ago the national average price of diesel fuel was $0.964 per gallon; today it is $1.418 per gallon -- a 47% increase in one year. In the last week, the price leapt from $1.307 to $1.418 per gallon, a staggering increase of 8.5% in a single week. This cannot continue if America's economic health is to be preserved.

The national diesel fuel crisis has a direct and strong adverse impact on the American trucking industry, because trucks move most of America's freight, and diesel moves most of America's trucks. Unless the Federal Government acts promptly to combat the drastic increases in the price of diesel fuel, the transportation backbone of the American economy -- the trucking industry that accounts for 81% of the country's freight revenue -- will break.

On behalf of the thousands of motor carrier members of the American Trucking Associations, Inc., I request that you take the following actions immediately, in addition to such other actions as may be appropriate, to deal with the diesel price emergency and restore reasonable price stability at lower price levels in the diesel markets:

1. Direct the Secretary of Energy to take such action as may be necessary to draw down and distribute sufficient quantities of petroleum from the United States Strategic Petroleum Reserve. This approach to the diesel price emergency -- a prompt increase in supply -- will help the free market correct diesel price inequities promptly.

2. Direct the Secretary of State to enter into discussions on an emergency basis with the countries that are members of the Organization of Petroleum Exporting Countries, to ask that cartel to free its members to increase oil production. The Secretary should make a special effort to seek an oil production increase by the countries on the Arabian Peninsula, whose continued existence and current prosperity is due to the decision of the United States to send a half million troops to their defense only a decade ago. Such an increase in production will help in the longer run in the effort to correct diesel price inequities.

(703) 838-1804 ★ Fax: (703) 684-5751 ★ wmccorml@trucking.org

3. Direct the Secretary of Defense and the Administrator of General Services to take such action as may be necessary to incorporate into the Government's truck transportation contracts provisions for payment by the Government of a surcharge to cover the costs of diesel fuel increases.

4. Ask the Attorney General of the United States to commence an investigation into any illegal diesel price gouging and profiteering.

America has enjoyed an unparalleled period of prosperity in the past decade. To continue that prosperity, avoid disruptions in America's most vital transportation industry, and forestall a return to the ravages of inflation, prompt action by your Administration to solve the diesel crisis is essential.

Sincerely,

Walter B. McCormick, Jr.

Walter B. McCormick, Jr.

cc: The Secretary of State, Washington, D.C. 20520
The Secretary of Defense, Washington, D.C. 20301
The Attorney General, Washington, D.C. 20530
The Secretary of Energy, Washington, D.C. 20585
The Administrator of General Services, Washington, D.C. 20405

Statement of the American Petroleum Institute

Submitted to

The U.S. House of Representatives
Committee on International Relations

Washington, D.C.
February 10, 2000

The American Petroleum Institute (API) is pleased to present a statement on the heating oil situation in the United States. API represents over 400 companies engaged in all aspects of the oil and natural gas industry, including exploration, production, refining and marketing.

We understand that rising prices do impact consumers and that you are faced with demands to address this situation. However, the situation is not new, as prices have risen before. Such increases are the result of complicated market forces that operate globally as well as locally.

This is not to say that the particular confluence of events, which occurred in recent weeks, was not extraordinary. What it does mean is that the world market, as well as local supply-demand conditions, will occasionally create price spikes. However, as history has shown, these variations are "righted" by the market, when it balances supply and demand.

Supply, demand and price

The price of crude oil, obviously, is the dominant influence on the price of all petroleum products. Crude oil currently accounts for approximately 60 percent of the price that marketers pay for product. The current price of crude is about $28 per barrel. A year ago, the price was a little less than $12.00, more than a 140 percent jump.

OPEC* has been a critical factor. While many market watchers may have believed OPEC's ability to move world markets was diminished, what we have witnessed since March of last year would belie that notion. OPEC has removed over four million barrels of crude per day from production—and gotten cooperation from non-OPEC oil producers to further reduce production. Couple this with an increase in world demand for petroleum, especially in the Far East, and it is having a real impact on supply, pushing prices higher.

The increase in demand has also been local. Extremely cold weather in the Northeast has increased demand for home heating oil and forced natural gas suppliers to curtail or eliminate deliveries of natural gas to "interruptible" customers. These natural gas customers usually pay lower prices for gas on the condition that they can be interrupted if their suppliers need their gas for other customers such as residential users. When these customers are interrupted, they usually switch their purchases to petroleum supplies, thereby raising the demand for petroleum by an unpredictable amount.

It's important to remember, too, that extreme temperatures have had a temporary impact on supply and price by increasing transportation and delivery disruptions. Barge traffic was slowed or stopped in many locations in the northeast. As a result, supplies at some terminals were severely reduced.

Inventories

Reports in the press have created the impression that suppliers have pinched supply in order to drive up the price. On the contrary, the decline in inventories reflects the role played by stock draws in meeting demands for winter distillate. Over the past three weeks, the industry has moved 17 million barrels of distillate fuel oil out of inventory into the market, mostly on the East Coast. This was the largest such drawdown of inventories for any three-week period in five years. In addition, last year's record inventories were approximately 150 million barrels. This actually represented too much inventory based on market conditions and the warm weather during the 1998-1999 winter season. Today's 106 million barrels could be drawn down by 21 million barrels before reaching the important 85 million barrel level estimated by the National Petroleum Council to be needed to keep the distribution system operating.

Finally, it is important to keep in mind that until the recent cold snap, the number of heating degree-days was actually lower than last year's very warm winter. Therefore, both in terms of production and stocks, the industry was and continues to be prepared to meet DOE estimated demand and consumers' actual demand.

Occasionally, consumers suggest that refiners should increase inventories to better protect them against a possible heating oil price spike. While each refiner makes its own decisions about inventory levels, if each had increased inventories to last year's levels, for example, it would have been at far greater cost than any savings consumers might have realized. Refiners would have had to order additional crude at more than twice last year's prices. Increased inventories would not then have protected consumers from higher fuel prices. Increased production, inventory and storage all come at a price.

It is true that the inventories kept available by primary suppliers and retail marketers are not regulated. However, a supplier who fails to estimate correctly the level of inventories that he or she will need pays a stiff penalty in a competitive market. If inventories are too low, the suppliers lose customers to their competitors. If too high, the suppliers bear higher costs than their competitors. Market incentives allow for any such departures from optimum inventory levels to be self-correcting. Thus market incentives insure that private, unregulated suppliers of distillate adequately prepare for each winter. Since the end of World War II, no national disruptions have occurred in service due to an inadequate supply of heating oil.

Production

Although the stock draw down has been the main response to increased heating oil demand over the past several weeks, production of home heating oil this heating season is above average. (In PAD I, for example, production is up by approximately 20% in the past week.) Companies look more to stocks, already refined and often closer to market, to meet demand as the end of the heating oil season draws to a close.

Prices

Despite some recent upswings in price, today's retail heating oil prices are still less than the jump in worldwide crude prices. According to the U.S. Energy Information Administration, national average heating oil retail prices during the week of January 31, 2000 averaged approximately $1.66 per gallon ($1.74 on the East Coast), with crude prices at about $28 per barrel. At this time last year, the average retail price was $.86 per gallon, with crude prices under $12 per barrel. This comparison shows that while crude prices have increased 140 percent over last year's prices, retail prices have risen 92 percent. It would appear then that retail prices not only have a direct relationship to the spiraling wholesale price of crude, but have been more restrained than some critics would have the public believe.

Protection for consumers

There are some things consumers can do to protect themselves against sudden price increases during winter cold snaps. Many heating oil retailers allow customers to lock into a single price at the start of the winter season, thus protecting themselves against sudden price hikes. In addition, to a certain degree consumers can choose when to have their tanks filled, and can usually buy some of the heating oil they require off-season at a lower price.

For low-income consumers, who may be particularly vulnerable to rapid changes in heating costs, assistance is available from the low-income home energy assistance program (LIHEAP).

What government can do

In the short term, the government can consider a number of actions including: temporarily allowing the use of fuel with a higher sulfur content to increase home heating oil supplies; reexamining the capacity of the United States Coast Guard's ice-breaking fleet; considering temporary changes to motor carriers transportation regulations to expedite the highway delivery of home heating oil; more quickly and equitably releasing Low-Income Home Energy Assistance Program funds; and, considering expanding Small Business Administration emergency loans to home heating oil dealers.

Government also can help the overall supply situation by improving access to domestic oil and gas resources and by avoiding the imposition of unilateral trade sanctions, which not only rarely achieve intended goals but also can restrict our sources of international oil.

We can reduce our reliance on foreign supplies and also potentially exert downward pressure on international crude oil prices by opening our best oil and gas prospects—such as those offshore and in the Arctic National Wildlife Refuge in Northern Alaska—to responsible exploration and development. Currently, many of these areas have been placed off-limits by the federal government.

Nevertheless, even with development of these resources, the United States would continue to need to rely on foreign oil supplies. Thus, it is important that we maximize the diversity of our suppliers to help ensure the reliability of a continuous flow of oil imports. Unfortunately, U.S. unilateral trade sanctions narrow our sources of supply, frustrating achievement of this important objective.

In recent years, unilateral economic sanctions increasingly have become the policy tool of choice in the conduct of U.S. foreign policy. One of the favorite targets of these recent sanctions has been major oil producing countries. The U.S. currently has sanctions in place against countries comprising over 10 percent of world oil production and 16 percent of estimated remaining oil resources.

While the motivation for such actions is understandable, their rationality is far more elusive. Our experience to date suggests that:

- Such unilateral measures alone have had little significant effect on altering the behavior of the targeted regimes.

- The cost of such measures has been borne disproportionately by U.S. firms.

- The "signal" sent out by this pattern of ineffective policy is one of growing isolation and disengagement from some of the world's most disturbing problems, rather than one of active global leadership.

Moreover, the counterproductive effects of these current unilateral economic sanctions to date are small relative to the effects expected in the future. Over the next dozen years, sustaining growth in the world economy—and in the U.S. economy—will require continued massive expansion in world oil supply. Much of this expansion will be needed from countries already sanctioned. Moreover, U.S. international oil companies—among the best in the world—will need to play an important role in facilitating this expansion.

In addition, new sanctions threatened by existing and prospective legislation could potentially drastically widen the scope of U.S. isolation. New sanctions under consideration could eventually cover countries currently comprising over two thirds of current oil production and over 80 percent of estimated remaining resources.

In short, U.S. policymakers face a dilemma. Rapidly growing supplies of oil and gas will be required to sustain world economic prosperity, and diverse, ample foreign supplies are needed to help ensure our own country's economic growth. The drive to impose unilateral sanctions is a direct obstacle to both of these objectives.

Conclusion

In conclusion, we share the concerns you have for the health and welfare of your constituents—who are also our customers. The price increases have imposed hardships on consumers, particularly those with lower or fixed incomes. These increases were brought on by short-term shocks that resulted from sudden changes in supply and demand. Just as prices are up now, they will turn down when factors change. And, they will change. Yet in a free market economy, we have seen time and again that price movements ultimately create balance between supply and demand. We are confident that if we continue to allow the marketplace to work, this balance will be maintained.

ONE HUNDRED SIXTH CONGRESS

CONGRESS OF THE UNITED STATES

COMMITTEE ON INTERNATIONAL RELATIONS

HOUSE OF REPRESENTATIVES

WASHINGTON, DC 20515

TELEPHONE: (202) 225-5021

February 4, 2000

The Honorable Madeleine K. Albright
Secretary of State
U.S. Department of State
Washington, DC 20520

Dear Secretary Albright:

I write to urge you to initiate a dialogue with our international allies in the Organization of Petroleum Exporting Countries (OPEC) and other major oil exporting countries in order to increase the worldwide petroleum stock.

As you know, millions of Americans depend upon heating oil to survive the cold winter months. In Connecticut and the rest of the northeast it has been a bitter January, and heating oil prices have soared. Indeed, last night the wholesale price of heating oil climbed twelve cents, and the price at the New York harbor cash market for home heating oil was rising as high as \$1.69 per gallon. Regrettably, these high prices are translating into retail prices of well above \$2.00 per gallon, which is more than double last year's prices.

Regrettably, OPEC's decision to remove 6% of world production from the market in order to work off excess inventories and bring prices back up is having a drastic impact on the northeast. The United States depends upon oil imports for more than 50% of its crude supply. In addition to acting quickly to draw down the Strategic Petroleum Reserve, we must engage our allies and partners in a dialogue about increasing the supply of oil on the world market. With the economies of Asia on the rebound, petroleum is in greater demand. There is no reason to allow stocks to fall to such low levels in the future. Over the past several years the US has gone to great lengths to assist our allies in the region – I believe it is now the United States which is in need of assistance and consideration from our allies.

Again, I strongly urge you to engage our allies to increase their oil production and ease the burden from the American people. I look forward to working with you on this and other important issues.

Sincerely,

SAM GEJDENSON
Ranking Democratic Member

WASHINGTON OFFICE
2304 RAYBURN BUILDING
WASHINGTON, DC 20515
(202) 225-2076
http://www.house.gov/gejdenson/
bozrah@mail.house.gov

DISTRICT OFFICES:
2 COURTHOUSE SQUARE, 5TH FLOOR
P.O. BOX 2000
NORWICH, CT 06360
(860) 886-0139

94 COURT STREET
MIDDLETOWN, CT 06457
(860) 346-1123

SAM GEJDENSON
2D DISTRICT
CONNECTICUT

RANKING MEMBER
COMMITTEE ON
INTERNATIONAL RELATIONS

Congress of the United States
House of Representatives
Washington, DC 20515

February 8, 2000

The Honorable Bill Richardson
Secretary of Energy
James Forrestal Building
1000 Independence Ave, SW
Washington, DC 20585

Dear Mr. Secretary:

I write to urge you to immediately recommend that the President draw down the Strategic Petroleum Reserve (SPR) in order to help alleviate unprecedented home heating oil prices and supply shortages in the northeast.

I applaud your decision to meet with ministers from the Organization of Petroleum Exporting Countries (OPEC) later this month regarding the global petroleum supply problem that has contributed significantly to the crisis in the northeast. As you may know, I recently wrote to Secretary of State Madeleine Albright urging her to pursue a similar approach. I believe this diplomatic effort is crucial to developing a long-term response, but more immediate action is needed.

For this reason, I was disappointed to read that you have postponed a decision about drawing down the SPR until after you meet with representatives of the OPEC nations. Frankly, the residents in my district and all across the northeast cannot afford to wait that long. With prices more than double what they were a year ago, consumers are finding it difficult to purchase oil and meet their other basic needs. I understand that you are discussing alternatives to a direct draw down of the SPR that would still bring much needed supply to the market. Although options vary, action must be swift. Indeed, even if the SPR is drawn down immediately, it will take time for the oil to appear on the market. Nonetheless, it would be a reassuring measure for the people of the northeast. Moreover, it might result in an immediate reduction in price as occurred when the SPR was tapped during the Gulf War.

Now that prices are so high, the SPR should be used to protect consumers and small retailers who desperately need assistance. Clearly, this is the sort of emergency which the SPR was created to address. Again, I urge the prompt draw down of the SPR.

Thank you for your attention to this matter, and I look forward to hearing from you.

Sincerely,

Sam Gejdenson

SAM GEJDENSON
Member of Congress

SG:skn

STATE OF NEW YORK

GEORGE E. PATAKI
GOVERNOR

January 21, 2000

Dear Mr. President:

As I am sure you are aware, prices for home heating oil and diesel fuel in New York State have escalated to inexplicable levels in the past few days. While petroleum supplies and demand in this State have always been sensitive to weather conditions, economic activity, and global events, the recent increase in prices is unprecedented.

Our latest reports show that as of January 17, 2000, the average price for residential home heating oil was $1.24 per gallon, while on January 3 the average price was only $1.19 per gallon. Our reports are predicting that by next week, prices could reach as high as $1.70 per gallon. This would represent a 43% increase in prices over a three-week period. I am writing you to express my concern over this issue and ask your help in beginning an inquiry to determine the cause of this price escalation.

The recent price increases, combined with the extremely cold temperatures we have experienced in the past few weeks, are very troubling because many New York State residents rely on public assistance to help pay for heat. To help alleviate the burden these residents experience, I am also calling on you to release emergency Low-Income Home Energy Assistance Program (LIHEAP) funds. The emergency LIHEAP funds are essential for us to ensure the public health and safety of those at risk of losing their heating service because they are not able to pay their bills.

I appreciate your prompt attention to this most urgent matter.

Very truly yours,

George E. Pataki

The President
The White House
Washington, DC 20500

EXECUTIVE CHAMBER STATE CAPITOL ALBANY 12224
http://www.state.ny.us

STATE OF NEW YORK

GEORGE E. PATAKI
GOVERNOR

January 21, 2000

Dear Mr. President:

On behalf of the citizens of New York State, I urge you to immediately release emergency Low Income Home Energy Assistance Program (LIHEAP) funds to offset the recent price increases in heating oil.

These recent price increases have placed a heavy burden on New York's low income and elderly households. The current benefit level is not expected to be sufficient to meet the heating needs of program recipients during the coldest months of this season. Therefore, the release of the emergency program funds at this time can ensure that New York's program is adequately funded to meet additional demands.

I am requesting your immediate attention to this request.

Very truly yours,

The Honorable William J. Clinton
President of the United States
The White House
Washington, D.C. 20500

EXECUTIVE CHAMBER   STATE CAPITOL   ALBANY 12224

STATE OF NEW YORK

GEORGE E. PATAKI
GOVERNOR

January 21, 2000

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The recent price increases, combined with the extremely cold temperatures we have experienced in the past few weeks, are very troubling because many New York State residents rely on public assistance to help pay for heat. To help alleviate the burden these residents experience, I am also calling on you to work with President Clinton to release emergency Low-Income Home Energy Assistance Program (LIHEAP) funds. The emergency LIHEAP funds are essential for us to ensure the public health and safety of those at risk of losing their heating service because they are not able to pay their bills.

I appreciate your prompt attention to this most urgent matter.

Very truly yours,

George E. Pataki

Honorable Bill Richardson
Secretary of Energy
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington DC 20585

EXECUTIVE CHAMBER STATE CAPITOL ALBANY 12224
http://www.state.ny.us

NEW YORK STATE LEGISLATURE

February 19, 2000

Hon. George E. Pataki
Governor
State of New York
State Capitol
Executive Chamber
Albany, New York 12247

Re: Home Energy Assistance Program Funding

Dear Governor Pataki:

As Chairman of the Assembly Energy Committee and Ranking Member of the Senate Energy and Telecommunications Committee, we write to request that your administration revise the eligibility requirements for the Home Energy Assistance Program. By changing the formula for eligibility, tens of thousands of working New York families will have greater access to these much-needed funds.

As all New Yorkers are abundantly aware, the price of heating oil has increased dramatically in our state during the last two months. According to testimony before our respective committees, the price has more than doubled from last year's levels and, in some cases New Yorkers are paying more than two dollars a gallon to heat their homes in the height of the winter season.

Under the current eligibility formula, New Yorkers earning 150 percent of the federally adjusted poverty level may receive assistance. As additional federal funds become available, we would request that criteria be changed (as allowed by federal program guidelines) to make individuals and families earning sixty percent of the state's median family income eligible to participate in this program. We estimate that this change would allow many thousands of New York families to benefit from such a change. We also understand that your administration can revise the plan without legislative approval.

This move becomes particularly significant in the wake of President Clinton's announcement this week that he will make more federal funds available for home heating subsidies. By making these changes, more New Yorkers can tap into this vitally important federal assistance programs.

Governor Pataki
Page Two

New Yorkers deserve fair access to these federal funds and by making these changes quickly; we can all help our constituents adjust to these high prices. We request that you make these changes as soon as the new funding announced this week becomes available.

Additionally, we would request your help in persuading the leadership in Congress to quickly approve President Clinton's request for an additional six hundred million dollars in HEAP funding. To date, the Republican leadership in Congress has shown great reluctance in increasing funding for this crucial program, which is so important to hundreds of thousands of New York families.

We are ready to assist you in any manner that is necessary to accomplish these changes. Thank you for your prompt attention to this request.

Paul D. Tonko
Assemblyman Paul D. Tonko
Chair
Assembly Energy Committee

Senator Richard A. Dollinger
Ranking Democrat
Senate Energy &
Telecommunications
Committee

Cc: New York Congressional members
New York State Assembly Energy Committee members
New York State Senate Energy and Telecommunications Committee Members

02/09/00 17:31 FAX 914 357 0984 B. A. GILMAN MON → RICH ☑002
02/09/00 WED 17:08 FAX 914 255 9262 SENATOR BONACIC

THE SENATE
STATE OF NEW YORK

JOHN J. BONACIC
SENATOR 40TH DISTRICT

CHAIRMAN
COMMITTEE ON
HOUSING, CONSTRUCTION & COMMUNITY DEVELOPMENT

COMMITTEES
BANKS
COMMERCE, ECONOMIC DEVELOPMENT & SMALL BUSINESS
JUDICIARY
LABOR
LOCAL GOVERNMENT

TESTIMONY OF NEW YORK STATE SENATOR JOHN J. BONACIC
Chairman, Senate Committee on Housing, Construction, and Community Development

Chairman Gilman, thank you for allowing me to present testimony today. I commend your efforts to get to the bottom of the home heating and energy problems that are presently plaguing New York State and the Northeastern United States.

As Chairman of the New York State Senate Committee on Housing, Construction, and Community Development, I am acutely concerned about the sharp rise in oil costs. These costs come both in terms of increased home heating costs and increased motor fuel costs.

Home-ownership is known as the "American Dream". However, with unpredictable home-ownership costs, that dream will become less of a possibility for New Yorkers and Americans. Today, one of the largest unpredictable costs facing New Yorkers is the overwhelming increase in the price of home heating fuel. This dramatic increase has caused a crisis in many homes in my Senate District and should be stopped as soon as possible.

In January, I co-sponsored a resolution that passed the New York State Senate which memorialized President Clinton to release an emergency supply of crude oil from the Strategic Petroleum Reserve and to release the emergency reserve funds held in the Low Income Home Energy Assistance Program. It is critical that these steps be taken for many of New York's families. Presently 750,000 New York Families receive assistance from the Low Income

☐ ALBANY OFFICE: ROOM 413 LEGISLATIVE OFFICE BUILDING, ALBANY, NY 12247 (518) 455-3181
☐ DISTRICT OFFICE: 279 MAIN STREET, SUITE 202, NEW PALTZ, NY 12561 (914) 255-9656
☐ DELAWARE CO. OFFICE: 111 MAIN STREET, DELHI, NY 13753 (607) 746-6675

Home Energy Assistance Program. These families, along with countless other New Yorkers, are facing the strain of high home heating costs. They are in need of relief by any means possible.

The effect of the costs we are presently seeing will be to require consumers to dedicate more of their funds toward basic necessities such as keeping their home warm. In many families throughout the Northeast, this will present a serious challenge given that the economic revival that has reached so many places in this country has not fully found its way to upstate New York, including the Catskills and Hudson Valley region that I represent.

A spin-off effect for those families with discretionary income will be that they will have less buying power. This will cause less spending and the overall economy in the Northeast will suffer. Whether that effect will be substantial or measurable will solely be determined based on how quickly this problem can be resolved.

It is imperative that the Federal Government adjust its energy policy to meet the needs of New Yorkers. Failure to do so will continue to require people to choose between warmth and other basic necessities.

Mr. Chairman and Members of the International Relations Committee, I respectfully urge you to urge President Clinton to persuade the Organization of Petroleum Exporting Countries (OPEC) to increase petroleum production in an effort to resolve this serious energy crisis that we in New York are facing.

Thank you for giving me the opportunity to testify today.

Respectfully Submitted,

JOHN J. BONACIC
New York State Senator
Chairman, New York State Senate
Committee on Housing, Construction, and Community Renewal

02/09/00 17:32 FAX 914 357 0984 B. A. GILMAN MON → RICH 011

WILLIAM J. LARKIN, JR.
SENATOR, 39TH DISTRICT
CHAIRMAN
MAJORITY STEERING COMMITTEE
PLEASE RESPOND TO:
☐ ROOM 915
LEGISLATIVE OFFICE BLDG.
ALBANY, NY 12247
(518) 455-2770
☐ 1093 LITTLE BRITAIN ROAD
NEW WINDSOR, NY 12553
(914) 567-1270
INTERNET ADDRESS:
LARKIN@SENATE.STATE.NY.US

THE SENATE
STATE OF NEW YORK

CHAIRMAN
RACING, GAMING & WAGERING COMMITTEE
COMMITTEES
BANKS
ELECTIONS
HEALTH
HOUSING, CONSTRUCTION & COMMUNITY DEVELOPMENT
INSURANCE
MENTAL HEALTH & DEVELOPMENTAL DISABILITIES
VETERANS & MILITARY AFFAIRS

STATEMENT FROM SENATOR BILL LARKIN

The sudden rise in home heating oil prices is alarming. We need to immediately address this issue in partnership with our federal government representatives. The State Senate recently held hearings to gather testimony from industry analysts as part of our investigation of the sharp rise in oil prices. We must work quickly to ensure that homeowners continue to have access to affordable heating fuel, especially our low-income families and seniors living on fixed incomes. When prices dramatically increased a few weeks ago, the Senate immediately passed a resolution calling upon Congress to release stockpiled oil reserves from the Strategic Petroleum Reserve. We also requested the release of $40 million in funds to New York from the Home Energy Assistance Program (HEAP). We must work with Congress to investigate why oil prices increased so drastically in such a short period of time so that we can reduce prices again, get this situation under control for the remainder of winter, and prevent this from happening in the future.

❑ District Office: 41 High St., Goshen, NY 10924, (914) 291-3631
❑ Albany Office: Room 544, Legislative Office Building, Albany, NY 12248, (518) 455-5991

news from
assemblyman
HOWARD D. MILLS

95th ASSEMBLY DISTRICT

FOR RELEASE: IMMEDIATELY

STATEMENT FROM ASSEMBLYMAN HOWARD MILLS ON NORTHEAST ENERGY CRISIS

"The Northeast energy crisis has hurt New York's working poor and lower middle class the most. They simply cannot afford major increases in home heating bills every month. The federal government, including President Clinton and Energy Secretary Bill Richardson, must move swiftly to help correct this ever-growing crisis. If oil prices continue to increase and the current cold spell persists, many working families will be forced to choose between heat and other basic necessities. We can't let that happen," said state Assemblyman Howard Mills (R,C-Wallkill).

-30-

2/9/00

ASSEMBLYWOMAN
Nancy Calhoun

FOR RELEASE: IMMEDIATELY

CALHOUN CALLS FOR FEDERAL RESPONSE TO FUEL OIL EMERGENCY

Assemblywoman Nancy Calhoun (R,C-Blooming Grove) today called upon the Clinton Administration to take responsibility for the growing Northeast heating and fuel oil crisis, and to make assistance available to the region's low income families and senior citizens who are most at risk of losing their heat.

"It is no coincidence that OPEC has unilaterally limited the U.S. supply of oil during our most vulnerable time of the year when demand for heating fuel is high. But, with oil prices rising and available domestic supplies dwindling over the past several months, the Clinton Administration should have identified this problem sooner. While it may be too late to pressure OPEC to increase oil production, there are other short-term options for the federal government to pursue to ease the crisis," Calhoun said.

Calhoun specifically called for the targeted use of the nation's strategic petroleum reserve to lower fuel prices in areas hardest hit by the price surge, as well as the immediate release of $40 million in federal Low Income Home Energy Assistance Program (LIHEAP) funds.

-more-

"The effect of the spike in oil prices is being felt everywhere. In addition to higher heating costs, we may also see the cost of consumer products to rise as a result of increases in the price of diesel fuel used by truckers to ship goods into the region," said Calhoun.

Calhoun also urged residents at risk of losing their heat as a result of the fuel oil crisis to call her office during business hours for emergency assistance. Assemblywoman Calhoun's New Windsor office can be reached at 914-564-1330.

The State Emergency Management Office (SEMO) has also established a toll-free hotline at 1-888-697-7366 for New York residents in need of assistance.

-30-

1/25/00

Testimony of NYS Assemblyman Jacob Gunther
Re: Fuel Crisis
2/9/00
House International Relations Committee

Dear Mr. Chairman:
My name is Assemblyman, Jacob Gunther and I represent the 98th Assembly District which encompasses all of Sullivan County and parts of Orange County more importantly, I am a homeowner, husband and father of three children. I do not need my constituents and homeowners to call me to understand the spiraling cost of home and motor fuel in recent months. It is relevant to add that I have received thousands of letters and phone calls from my constituents, including my mother and father, asking me to explain and or investigate the crisis presently confronting us.

Addressing this committee as a NYS Assemblyman and as a consumer of various petroleum products I do not know the cause of the outrageous and unconscionable increases in fuel prices.

Please note, I have voted for NYS resolutions in the Assembly urging NYS Attorney General Eliot Spitzer and President William Clinton to investigate and mitigate the aforementioned increases.

The weekly increases in fuel prices are extremely troubling and I would respectfully request your committee to conduct a full investigation to ascertain why the cost of fuels are at completely unreasonable levels. Furthermore, it is my hope Mr. Chairman that the HIRC coupled with the support of the Administration will do everything in its power to reduce and stabilize the rising cost of petroleum products.

As I am sure you are aware whether you own an automobile or not, whether you own a home or not, buy, rent, lease, or utilize public transportation or public housing these cost increases are unconscionable and I urge you to recommend any appropriate measures and make every effort to assist the American people to bring fuel costs back to an acceptable level.

Mr. Chairman, I would like to take this opportunity to extend my appreciation to you and your committee for bringing this most important issue to the fore and if I can be of any further assistance please do not hesitate to contact me.

Once again, thank you for this opportunity to share my testimony before this committee.

Respectfully submitted,
Jacob Gunther
Member of Assembly

02/09/00 17:55 FAX 914 557 0904 B. A. GILMAN MON → RICH 013
FROM : PHONE NO. : +++ FEB. 09 2000 04:28PM P2

JOSEPH G. RAMPE
COUNTY EXECUTIVE

February 9, 2000

Honorable Benjamin A. Gilman
House of Representatives
2431 Rayburn Building
Washington, D.C. 20515

Dear Congressman Gilman:

This has been one of the coldest winters in memory in an area that is known for being the largest user of heating oil in the Country. With the dramatic doubling of the cost of oil over the past few months, many of our residents, especially our senior citizens, are forced to keep lower temperatures in their homes. As a result of the lower indoor temperatures, many people will become ill.

Because a large amount of money is now being spent by homeowners on oil, many people don't have the funds to buy other essential items like, clothing, food and medical supplies.

The Home Energy Assistance Program (HEAP) that is funded through the Federal Government is based on the oil prices as of last year, this means that residents in need are only getting only half the oil they need on an emergency basis.

The dramatic rise in the cost of oil has not only created a financial crisis for many of our residents, but is also creating a very serious public health problem. Since this is a multi-state and national problem, I urge the Federal government to expeditiously find ways to provide relief to homeowners.

Sincerely,

Joseph G. Rampe
County Executive

ORANGE COUNTY GOVERNMENT CENTER GOSHEN, NEW YORK 10924 TEL: 914-294-5151

SPEED
TRANSPORTATION
We Make Shipping Simple

February 9, 2000

Dear Congressman Gilman,

I thank you for the opportunity to testify at the fuel hearing on February 10, 2000. However, on such short notice I am unfortunately not able to attend so instead, I submit the following:

On January 24, 2000, the price of diesel fuel, was $1.85 per gallon, up from $1.35 per gallon the night before. Today the posted price is **$2.32 per gallon**. That is a 75% increase in less than 3 weeks. Our industry expects an increase in price, annually, during the winter months, but 75%, in New York State is out of line!

I am the forth generation of our family owned business which was established in 1946. The name of the business is Speed Motor Express of Western New York Inc. Co., located in Buffalo, New York. Speed Motor Express is a $6 million local and long haul transportation company that has a 60 employee payroll. Since deregulation the trucking industry has become a highly competitive and a severely cutthroat industry. New York and Northeast based carriers cannot offer their customers a competitive rate with the fuel cost increasing so drastically. We tacked on a fuel surcharge to our customers, but majority refused to pay it, due to the fact, they can move their freight for the same rate with an out of state carrier.

Tractor trailers average 5 miles to the gallon of diesel fuel. When the price of fuel was $1.35 our expense was $.27 per mile for fuel. Since the price has increased by $1.00, our fuel expense has increased to $.46 per mile. Last quarter of 1999 we consumed 89,722.6 gallons of diesel, using these numbers Speed Motor's fuel expense would increase from approxemately $466,557.52 annually to $825,447.92 annually, nearly a 50% increase, THIS IS UNACCEPTABLE!

As I sit and write, I ask myself, how much longer can we be profitable? How long will it be before it is cheaper to just park the trucks? Please help save the 60 jobs Speed Motor employees and all the other New York and Northeast based carriers. I urge Congress to act immediately to rectify this situation. Thank you very much.

Sincerely,

Joseph A. Berti

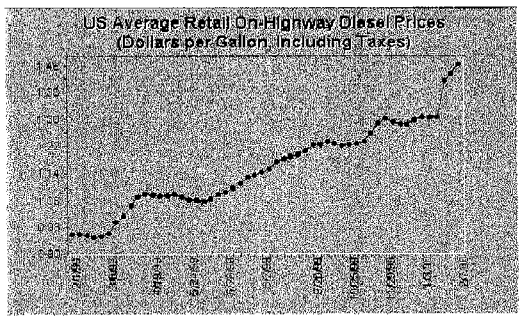
Joseph A. Berti
Director of Operations
Speed Motor Express

P.O. Box 738 • 1460 Military Road • Buffalo, NY 14217
(716) 876-2235 • Fax: (716) 876-8515 • www.speedtransportation.com

EIA Retail On-Highway Diesel Prices

Prices in Dollars Per Gallon

Date	National U.S. AVG.	East Coast PADD 1	New England PADD 1A	Central Atlantic PADD 1B	Lower Atlantic PADD 1C	Midwest PADD 2	Gulf Coast PADD 3	Rocky Mountain PADD 4	West Coast PADD 5	California
02/07/00	1.470	1.626	2.122	1.961	1.437	1.406	1.397	1.393	1.454	1.534
01/31/00	1.439	1.564	1.966	1.847	1.405	1.370	1.395	1.367	1.465	1.545
01/24/00	1.418	1.505	1.836	1.694	1.394	1.369	1.382	1.357	1.452	1.541
01/17/00	1.307	1.312	1.441	1.385	1.269	1.286	1.276	1.327	1.406	1.480
01/10/00	1.307	1.302	1.374	1.384	1.260	1.294	1.276	1.332	1.404	1.478
01/03/00	1.309	1.303	1.372	1.375	1.265	1.301	1.274	1.331	1.401	1.481
12/27/99	1.298	1.290	1.367	1.373	1.248	1.296	1.257	1.332	1.373	1.454
12/20/99	1.287	1.280	1.358	1.369	1.235	1.277	1.258	1.335	1.363	1.442
12/13/99	1.288	1.281	1.354	1.370	1.236	1.282	1.255	1.338	1.361	1.432
12/06/99	1.294	1.285	1.355	1.367	1.244	1.291	1.256	1.336	1.375	1.459
11/29/99	1.304	1.290	1.344	1.369	1.252	1.307	1.262	1.332	1.386	1.469
11/22/99	1.289	1.272	1.320	1.356	1.232	1.292	1.242	1.322	1.385	1.472
11/15/99	1.261	1.240	1.291	1.320	1.202	1.257	1.214	1.300	1.387	1.491
11/08/99	1.234	1.214	1.284	1.297	1.172	1.225	1.186	1.288	1.369	1.469
11/01/99	1.229	1.214	1.279	1.295	1.173	1.220	1.188	1.289	1.335	1.429
10/25/99	1.226	1.213	1.276	1.288	1.175	1.219	1.187	1.288	1.318	1.389
10/18/99	1.224	1.211	1.288	1.287	1.171	1.216	1.184	1.284	1.318	1.389
10/11/99	1.228	1.215	1.288	1.290	1.176	1.217	1.193	1.290	1.327	1.397
10/04/99	1.234	1.223	1.283	1.295	1.187	1.228	1.197	1.291	1.312	1.398
09/27/99	1.226	1.212	1.255	1.284	1.178	1.218	1.190	1.292	1.311	1.384
09/20/99	1.226	1.209	1.239	1.275	1.178	1.220	1.193	1.298	1.306	1.397
09/13/99	1.209	1.191	1.226	1.251	1.163	1.196	1.176	1.298	1.312	1.401
09/06/99	1.198	1.175	1.207	1.238	1.145	1.182	1.163	1.295	1.322	1.423
08/30/99	1.194	1.171	1.205	1.232	1.142	1.174	1.154	1.290	1.336	1.441
08/23/99	1.186	1.160	1.199	1.225	1.129	1.164	1.142	1.275	1.353	1.473
08/16/99	1.178	1.147	1.189	1.215	1.114	1.153	1.139	1.260	1.364	1.493



For additional information please contact the Energy Information Administration's National Energy Information Center at (202) 586-8800.

File Last Modified: 02/07/00

RICH'S TOWING
24 HOUR SERVICE

February 09, 2000

Dear Congressman Gilman,

My name is Richard Jamieson and I would like to address a crisis now unfolding in the transportation industry. The problem is the skyrocketing cost of diesel fuel. I operate a small towing business in Spring Valley, NY consisting of five tow trucks. In November, 1999 I was paying $1.25 per gallon of fuel. As of February 7, 2000 the price has risen to an incredible $2.39 per gallon, and all economic indicators point to even higher prices in the near future. I have had to increase my towing rates for all of my customers and as we all know they will in turn have to raise their rates to the consumer. If the price continues to rise, very shortly I will be forced to absorb the increases myself as my customers will not stand for yet another increase. I use between 200 to 300 gallons per week and employ 6 people. At the rate diesel fuel is going I may be forced to lay off at least one person to offset these increases. I do not want to do this as I care for all of my employees but unfortunately it may become necessary for our survival. I have also addressed this concern with The Empire State Towing Association and through several phone conversations it is apparent that it is a concern for all of us out here. I have also learned that diesel fuel, a close cousin to home heating oil is one of the cheapest items to refine. That fact raises another concern of why is this effecting only home heating oil and diesel fuel and not all other petroleum products such as gasoline.

Any assistance in this matter would be extremely appreciated. Your reputation as a great leader gives me hope that you can get to the bottom and correct this crisis.

Sincerely,

Richard E. Jamieson
President

59 Church Street, Spring Valley, NY 10977 (914) 352-8341

02/09/00 17:33 FAX 914 357 0984 B. A. GILMAN MON RICH P. 02

E.A. Morse & Co., Inc.

February 9, 2000

Congressman Benjamin Gilman
2449 Raybrun Building
Washington, D.C. 20515

Dear Ben,

Over the past few weeks our cost of diesel fuel has risen from $1.25 to $2.25 per gallon, an 80% increase. This unreasonable increase has caused an extreme hardship for us in trying to control our delivery costs.

As an alternative to increasing prices on the products we sell, we have chosen to implement a **"temporary fuel surcharge"**. This implementation has created an uproar from our customers who will not accept this temporary charge.

It is my understanding that this increase is due to a marketing ploy by the OPEC Cartel creating a shortage so that they can raise their prices.

We really need the Government to intervene in this matter. Thank you for your help in this matter.

Very truly yours

Carl D Morse

Carl D. Morse
V.P./ Secretary

P.O. Box 728, 11-25 Harding Street, Middletown, New York 10940
800-800-1730 or 914-346-4700 • Fax: 914-342-3381 • E Mail: eamco@aol.com

6-04-1995 3:53AM FROM KAUFMANNS GULF 914 457 4135 P.1

2-9-2000

Kaufmann's Servicenter
P.O. Box 217, Rt. 17K
Montgomery, NY 12549

Dear Congressman Gilman

I am writing to you in regard to the sky-rocketing prices of fuel. I have been in business from 1953 to present day. The wholesale price has risen from $1.34 per gallon on December 6th 1999 to $2.25 per gallon on February 8th 2000. Our gallonage has dropped off from an average of 1,000 gallons per day to approximately 700 gallons per day.

Our commercial accounts which have deliveries every day are forced to cut down and make their deliveries every 2nd or 3rd day since they can not afford to run their trucks. This in turn is forcing their buyers to increase their orders. As a matter of fact, some of our contract drivers have had to park their trucks because they can't afford the price of fuel to move their product.

I have many commercial accounts. I get an average of one load of fuel per week. The fuel has to be paid upon delivery. I have had to resort to my personal account for payment of the fuel, since my accounts are on a 30-day basis. There is something definitely wrong when a person has

6-04-1995 3:54AM FROM KAUFMANNS GULF 914 457 4135 P. 1

to dip into his own pocket to make ends meet in the business.

I would appreciate any help or answers in getting to the bottom of the drastic increase in prices. When we had the gas shortage back in the early 70's the prices didn't sky rocket like they have now.

Sincerely,
Rodney A. Kaufmann

KAUFMANN'S
SERVICENTER
RTE 17K - P.O. BOX 217
MONTGOMERY, NY 12549-0217

TRIPLE PETROLEUM, INC.
PO BOX 958
PINE BUSH, NY 12566
(914) 744-2311

Congressman Benjamin A. Gilman
44 East Avenue
Middletown, NY 10940

To Whom It May Concern,

Last year at this time the average cost of fuel for an oil company was 42 cents per gallon. Within the last month fuel oil costs have soared to $1.77 per gallon. What does this mean to the small businessman? Last year it cost us $252,000 to purchase the fuel for our customers, this year with the major increase it will cost us over $1,062,000 to purchase the same amount of fuel. This is an increase of over $810,000.

Most of our customers are on a fixed income. They are either elderly or are a husband and wife who are probably bringing in an average income of around $30,000. An average customer uses around 1200 gallons of fuel per year with 80% of that being used from November through March. Last year the average retail price was 82 cents per gallon, costing our customers $984.00. With this unbelievable increase it is now costing them approximately $2.17per gallon bringing their bill up to $2,604.00.

Yes, I am fortunate to own my own business, but not for long. I had to use my house and everything else I own for collateral just to buy the oil for my customers. Yes, my customers will pay me back but it will take longer then normal because of the amount. Interest rates have gone up, fuel oil prices have tripled so my profit margin has been cut by 15%, all because of a man made crisis. I had to hire an extra secretary just to answer the phone to try to explain to our customers what was going on. Today, I read in the paper that the President was releasing $45,000,000 to help the people in need during this crisis. If I did my math correctly, he will need that alone just to cover the people who are on HEAP and Social Services now, not leaving any for the average homeowner. HEAP helps some people but not the small businessman, it takes 60 to 90 days to receive this money, but the major oil companies only allow us 2 days from time of purchase before they draft payment from our checking accounts. Our customers are extended 30 days credit, with a delivery at this time of year averaging every 21 to 26 days it creates a very bad cash flow resulting in us having to borrow more money just to operate our company normally. With these wild increases I do not know of many small business owners that have $1,000,000 in equity to give. It is only a matter of time before they push the small businessman out and big business takes over, creating a monopoly out of a crisis situation. To help the situation out, the Government should be able to offer the small businessman either low interest or interest-free loans.

I am not just speaking for myself but for the 50 or more small oil dealers in our community alone. We need help and we need it now! Please do not wait until our season is over and we no longer need it, or are no longer here to receive your help.

A Very ~~Concerned~~,

Joseph Pilitteri

THAMES VALLEY COUNCIL FOR COMMUNITY ACTION, INC.

The Community Action Agency Serving Southeastern Connecticut Since 1965

Deborah Monahan, Executive Director

Honorable Sam Gejdenson
U.S. House of Representatives
2304 Rayburn House Office Bldg.
Washington DC, 20515

Dear Mr. Gejdenson:

In times that call for the making of difficult decisions, it is heartening to know that you remain steadfast in your determination to ensure that the right thing is done. Thank you for recognizing the importance of increasing LIHEAP funding levels due to the drastic spikes in the prices of heating fuels.

Clients are extremely worried money will run out for the Fuel Assistance Program. The phones do not stop all day. Over 4,000 households have applied to date in New London County alone. They cannot believe the price for fuel has more than doubled and need to know if monies will be available, or should they give up other necessities. We cannot have people choosing between paying for heat and paying for food or prescriptions.

The benefits of LIHEAP are numerous and impact on the quality of people's lives in major ways.

A few examples of what some of our clients are thinking:

1) "I cannot put into words how we felt when we saw the oil truck pull into our driveway. Frankly, if it weren't for you my daughter and I would have frozen to death. We sincerely hope this is the last year we need to ask for help."
2) "With oil prices so high, a poor market for selling a house, and a very poor job market.. especially for a senior citizen.. I would undoubtedly have lost my house without assistance with my fuel bill."
3) "Thank you so much for your tremendous efforts to help us out. You've truly been a blessing to us. I've never been in this position before and find it difficult to ask and receive help. It makes me uncomfortable and embarrassed, but with fuel prices so high, I couldn't appreciate your help more."
4) "Medical circumstances beyond our control had placed myself and my daughter quite literally in a life-or death situation. Without your fuel assistance we would have frozen With oil prices so high we keep the thermostat at 55 degrees and supplement the fuel heat with our wood stove. Thanks again for providing the essential warmth for my daughter and myself to survive."

The Energy Assistance Program was first created to help protect the poor and elderly from the price shocks of the 1979 oil shortage. Unfortunately during the winter of 1999-2000 we are in crisis again due to an exceptionally cold winter and skyrocketing fuel prices.

Again thank you for your support and not forgetting our citizens most in need.

Sincerely,

Christopher Sardo

Christopher Sardo, Director
Energy Assistance Program

Administrative Office – One Sylvandale Road - P.O. Box 215 - Jewett City, CT 06351
(860) 889-5241 FAX (860) 376-8782
Norwich Office – 401 W. Thames Street - Unit 201 - Norwich, CT 06360
(860) 889-1365 FAX (860) 885-2738
New London Office - 38 Granite Street - New London, CT 06320
(860) 444-0006 FAX (860) 444-0059

THAMES VALLEY COUNCIL FOR COMMUNITY ACTION, INC.
The Community Action Agency Serving Southeastern Connecticut Since 1965
Deborah Monahan, Executive Director

Honorable Sam Gejdenson
U.S. House of Representatives
2304 Rayburn House Office Bldg.
Washington DC. 20515

Dear Mr. Gejdenson:

TVCCA estimates an increase of up to 1,000 additional households applying for fuel assistance during the 1999-2000 program year. We have already taken an additional 500 applications in New London County. We are finding that many of our new applicants are over the income guidelines. With the price for fuel more than twice the amount that it was during the beginning of the heating season households are having a difficult time paying a $300.00 to $400.00 fuel bill

These skyrocketing fuel prices are putting a strain not only on the elderly and poor but also middle America.

Sincerely,

Christopher Sardo, Director
Energy Assistance Program

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