# P U B L I C   H E A R I N G

before

ASSEMBLY LEGISLATIVE OVERSIGHT COMMITTEE

on

ENERGY CRISIS

Held:
June 7, 1979
Senate Majority Conference Room
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Kenneth A. Gewertz (Chairman)
Assemblyman Dean A. Gallo
Assemblyman Walter J. Kavanaugh
Assemblyman William J. Maguire
Assemblywoman Greta Kiernan

ALSO:

Steven B. Frakt, Research Associate
Office of Legislative Services
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# INDEX


| | Page |
|---|---|
| Commissioner Joel Jacobson<br>Commissioner, New Jersey Department of Energy | 1 |
| Commissioner John Horn<br>Commissioner, New Jersey Department of Labor and Industry | 18 |
| John Jamieson<br>Deputy Commissioner, New Jersey Department of Transportation | 22 |

ALSO

| | |
|---|---|
| Letter from Commissioner Joel Jacobson to Senator William Bradley, U.S. Senator | 1X |

ASSEMBLYMAN KENNETH GEWERTZ (Chairman): The purpose of the hearing, as has been previously outlined, there is a very serious concern among members of the public, as well as the Legislature, as far as the effect of the energy crisis, as it affects the State, as to the availability of various fuel supplies, including not only that which is used for transportation, but heating oils. There is a further concern as to the availability, prices, and the effect on New Jersey as a State. The first person who will make his presentation is the Commissioner of Energy, Commissioner Jacobson. The Legislature is very much concerned about what this State's program is and in the event we should have to go to gas rationing, what the Department has put together. Commissioner?

COMMISSIONER JOEL JACOBSON: Thank you very much, Assemblyman Gewertz, Assemblyman Maguire. I know it is a routine thing to say, that you're happy to be at a hearing. I want to emphasize that I am very happy to be here and I have, for several months now, asked for an opportunity to come before committees of the Legislature, so that I could present an analysis of the problem as it affects our State, and hopefully, any corrective action that will be taken will be based upon facts and not emotion or conjecture. I'm delighted for the chance to be here.

First, several things, I think, must be emphasized. If you will pardon this uncharacteristic display of bureaucratic modesty, we are only one, obviously, of fifty states responding to what is a national and international problem. There is no way that the State of New Jersey, by itself, can extricate our citizens from the impact of what is a national and international problem.

Number two, this is somewhat compounded by the fact that our State, unfortunately, is not a producing state. We don't produce one drop of oil, one ounce of coal or natural gas. The only waterfall we have is in Paterson and the total electricity generated out of that probably could light the city hall in Paterson. Although, I must say that I am somewhat encouraged by the latest reports from the Baltimore Canyon, but even if our wildest dreams are realized here, it will be eight to ten years before any resources come from that source. So, we, ourselves, cannot offer any solution towards the current problem.

Secondly, we are victims, as is every other citizen of the State and country, of the institutional pattern that exists throughout the entire oil industry. Whether we like it or not, the allocations of energy, mainly oil, throughout this world is not controlled by any government agency. It is controlled by the industry and there have been some suspicions expressed in the past that when the industry takes an action, it doesn't necessarily seek to serve the public interest, but it somehow seeks to enhance its own economic interests.

With that background, I think, obviously, it becomes apparent that while we can jawbone and observe and criticize and identify causes, as a consequence, all we can do in the State is treat symptoms and I find that, frankly, frustrating, not to my liking, but I don't think even the State Legislature can provide me with the authority that is necessary to do the things that I think should be done.

I would like to discuss, as you indicated Mr. Chairman, two specific problems. One is the problem of supply and the other is a problem of price. Now, I sent, on May 8, a letter to the entire New Jersey congressional delegation, our two senators and our fifteen congressmen, and I sent copies to the entire Legislature. If you don't mind, I would just like to ask you to follow along with me, as I want to discuss, again, some of the items contained in that report. The letter deals primarily with the Administration's program for the decontrol of domestic crude. It is set forth upon four premises: a) that there's a shortage; b) that the oil industry has insufficient cash flow to drill for the resources that are necessary; c) that if we de-control the prices, then higher profits would provide the incentive to drill; d) as a consequence of this investment, plentiful, new resources will be sent forth.

If you will turn to page three, I think there is ample reason for cynicism and the quizical attitude about the validity of the shortage. I have here an analysis comparing several items for the week ending February 2, which is probably the period after the last ship from Iran arrived, somewhere around there, and the week of April 20. I have completed an additional analysis extending it to May 18, and the extension to May 18 merely serves to corroborate everything that is contained in this analysis, which is specifically the following: that the number of crude oil runs to stills, from May 18 to February 2, is down; the number of rotary rigs drilling is down; the amount of crude production is down; the utilization of refining capacity is down. However, imports are higher and crude stocks are higher. Now, that same quizical, cynical mind could ask the question, if crude is down, runs for stills are down, and the rigs drilling is down, and production is down, and utilization of refining capacity is down, but the imports and the crude stocks are up, what's going on? The quizical, cynical attitude could very well be that this is part of a man-made shortage that we are being told about. Now, my own judgement is that what has happened here is that the oil industry has its fingerprints all over this shortage, and while there has been a minor disruption caused by the lack of importation from Iran, the major gas and oil companies have seized upon this situation as their "Gulf of Tonkin" to write a scenario to serve their needs, specifically, decontrol, higher prices and higher profits. I must say that all of the statistical data indicates that this is a scenario. Let me make one immediate point. I have criticized the federal Department of Energy extensively for not having an individual, independent capability of determining statistical data in this nation. So, the figures I have used here are not the government's figures, but the figures provided by the American Petroleum Institute, the spokesman for the industry. I would assume that if they were going to use inaccurate figures, they would do so to make themselves look better. So, therefore, I would assume that these figures are accurate because they don't look too good.

Now, the second point about the companies' inability to generate sufficient cash flow to do the drilling and the digging that's necessary, on page four, you have a quick analysis of the increased income for the first quarter of 1979 over 1978. As you might see, they are extensively higher, considerably higher. Prior to this first quarter of 1979, the most profitable year in the history of the oil and gas industry was the year 1974. That was exceeded only by the first quarter of 1979. Now, I have to ask another cynical question. Isn't it peculiar that the two most profitable periods in the entire history of the oil and gas industry was 1974, when you and I and everybody else was sitting in those long gasoline lines, and the first quarter of 1979, when we're told that there is a disruption and shortage as a consequence of the revolution in Iran. I am further pointing out, as page 5 will show you, the intensive diversifications of the oil and gas industries as they spread out into other industries, and I've used this gag over and over again, but I'll repeat it, if the argument is that you need higher prices and profits to drill for more resources, the Mobil Oil Company dug and it drilled and it probed and it explored until it struck Montgomery Ward, which it promptly purchased. A list of the extensive diversifications is listed. They include copper mining, veterinary chemicals, newspapers, microbiology, plastics, dyes, automotive supplies, insurance, tape cassettes, retail groceries, all of these things which the oil companies are investing in. Under the free enterprise system, I support the concept that any corporation has a perfect right to do whatever he wants in terms of investment. I would hope they would have the good grace, however, to use their stockholders' money and not the consumers' money.

Now, while the companies have been diversifying, they've also been rather voluble in their largess in their remuneration toward their own executives.

ASSEMBLYMAN MAGUIRE: Excuse me, Commissioner. The question posed to you, Commissioner Jacobson, is, what are you and what is your Department doing for the people of the State of New Jersey during this crisis. I've gone through this scenario with you in the press and on the TV and on the radio many, many times, but what are you doing to help the people of the State of New Jersey, whether it is a man contrived crisis or a real crisis, what preparation are you putting down on paper to help us?

COMMISSIONER JACOBSON: Well, sir, I did think it would be better to understand what the problem is before we talk about the solution. If you don't want to hear this, however, I'll be glad to stop it.

ASSEMBLYMAN GEWERTZ: Well, I think what the Commissioner is trying to do is give us some background. We'll get to the specifics.

COMMISSIONER JACOBSON: Let me just make the one point about the Mobil Corporation, which paid Mr. Rawleigh Warner, its Chairman, in 1977, a total remuneration of $725,000 and in 1978, increased it to $934,000, a 29% increase, which, I think, exceeds the 7% wage guidelines set by the Carter Administration. Well, Assemblymen, I know you can read that. Perhaps I should move on.

My point is that the entire argument of the Carter Administration for decontrol falls in every example. There is no real shortage. There is no reason why the companies can't use their existing cash flow to drill and dig. There is no need to legitimatize political blackmail by increasing the price of domestic crude to the world level. It costs about 20¢ to produce a barrel and oil costs about $2.80 a barrel Now that it costs $20.00 a barrel, it will probably cost about 30¢ to make that barrel. Now, for the argument that we must, therefore, raise the price of domestic crude to the world level, in my judgement, exposes the fact that this price has not been pushed up by economic costs, but has been pulled up by politics, and the argument also means, in my judgement, that you are legitimatizing political blackmail.

Finally, the last point is, even if all these things were true, which I dispute, the incremental cost of a barrel of oil to be produced as a consequence of this program raises,depending upon whose statistics you use, from $100 to $200 a barrel, and I suspect that even Mr. Rawleigh Warner would hardly regard that as a bargain.

Now, to get to your question, the first thing that we have done in the State is try to respond to the supply situation. We are currently receiving, throughout the State, something on the average of 93% of our gasoline supplies in June of 1978. Now, I would point out, therefore, that this is a problem, but not a crisis. In 1977, this Department issued as one of its first official actions emergency regulations designed to provide us with the authority to take whatever action was necessary in the event of an emergency. This is triggered by a finding by the Commissioner of Energy that a shortage exists and a declaration of an emergency by the Governor. I do not believe, now, it is necessary for these emergency regulations to be put into effect. I repeat, we have a problem, not a crisis. I am happy to point out that the record of our utilization of gasoline in the past month indicates that the consumers of this State have heeded Governor Byrne's admonition to use less, to drive less, to avoid panic and that is precisely what has happened in this State. We have not had a repetition of the problem in California. In California, in February of 1979, the average sale to a motorist was 14 gallons. In the first week of May, it was 3 gallons. During the entire 73-74 crisis, the average sale was 4.7 gallons, which indicates plainly that the major reason for the long lines was not the fact that the people need gasoline, but they would get in line to "top off". If that becomes a problem in this State, we have the authority under the emergency regulations to institute odd-even and the half tank eligibility to eliminate the long lines. I want to point out, however, indicating the nature of the problem, not the crisis, that we could sail through,easily, the entire summer if we could reduce, per car, per week, one gallon of gas. One gallon of gas per car, per week in this State and we would be able to save the sufficient quantities of gas to offset that shortfall as a consequence of the diminished allocation.

Now, much more important, in my judgement, is what the State has been doing with regard to price. New Jersey is the only state in the entire nation, Governor Byrne asked the President for authority to monitor the price of the gasoline being charged by the retail dealer in an attempt to protect our consumers. The fact of the matter is that the federal government was incapable of effectively enforcing the legal price ceilings. I must tell you that,as we have tried to approach this, it is a rather difficult job. There are something like 6500 stations throughout the State of New Jersey and the manpower we have utilized is not sufficient to provide for an extensive monitoring. What we have done is highlighted, through the use of our hotline and by visual observation, those stations that are charging prices that appear to be in excess of the price ceiling.

Now, let me tell you something about the price ceiling to indicate the complexity of this system. The legal price ceiling is computed by the following formula: what the price was as of May 19, 1973, plus three cents for inflation, plus an increased recovery for increased rent, plus an increased recovery for vapor recovery, plus unrecouped costs which can be banked based upon the difference between the legal price ceiling on the one day and the price being charged on the same day, all of which provides a complex, esoteric, nebulous, absolutely incomprehensible formula for determing price ceiling. Now, what we have done, through the process of our hotline, we've had our hotline open and people have called and indicated that they believe this particular station is charging in excess of the price ceiling. We have sent auditors to these stations where the violations appear to be eminent or present and most dealers, as you might suspect, don't have any records. He can't tell you what he paid on May 19, 1973 or May 21, 1975 nor do I think we should really expect him to do it. It's not really the type of activity one would expect of a gasoline retailer. So, it is impossible, in most cases, for them to provide the information. Even if they did, you would need a team of certified public accountants verify the prices being charged and particularly the banked unrecouped costs. Now, what this means is that if the retailer can prove that he charged below the legal price ceiling on a certain date, he can now add that price to the price being charged, legally. That is an open end invitation to charge as much as $1.40 per gallon of gas in this State. Again, I repeat, the rule, which is a federal rule, is totally incomprehensible and in my judgement unenforceable. What we are recommending, as a replacement, is a very simple formula consisting of three items, which can be easily calculated and very easily posted. If the federal government were to adopt this formula, we would ask all of the retailers in the State to post these items. The items consist of the following: what the dealer is currently paying for the dealer takeover at a wholesale price. As an example, the last figure I saw for Exxon Unleaded was 60.2¢ per gallon. The last figure I saw for Mobil unleaded was 61¢ per gallon and then we would say to the dealer, "Okay, on top of that", let's say the 61¢ for Mobil, "on top of that, you obviously have to add the 12¢ taxes you're being charged, 4¢ federal and 8¢ to the State, and perhaps we will permit you a dealer margin of 15¢, which would mean that in this instance, the price would be 88¢, 61¢ plus 12¢ plus 15¢." Now, this does several things. Number one, it is simple. You can understand it. You don't have to be a certified public accountant to compute it. Number two, it eliminates the open end aspect of the banking formula currently in effect and number three, it provides the dealer with a reasonable margin so that he too can survive. I must say that most of the pressures have been applied to the dealers and I'm not sure that they're necessarily guilty of the reasons for the abuse that's been heaped upon them. In any event, we are appealing to the federal Department of Energy to change that formula so that so that the price ceiling that I recommended can be put into effect and so that there can be some cohesion and some understanding of what is going on.

That, very simply, is my story. The supply problems are largely beyond our control. We have the responsibility of equitably and prudently distributing whatever supplies come into our State and we're prepared to do so under emergency regulations if it becomes necessary. It is my judgement that it is not now necessary.

With regard to price, there is no state in the nation which is making the effort to monitor the price and effectively protect the consumer. I would just make one last point. The statute that created my Department gives me the authority to monitor prices, not to regulate them and I would think if there was to be a more effective opposition,a more effective argument for the prudent protection of our consumer, you may very well want to consider providing the Department with the authority to regulate the price instead of just commenting on it.

ASSEMBLYMAN GEWERTZ: Are there any questions? Assemblyman Maguire?

ASSEMBLYMAN MAGUIRE: Commissioner, if you will refer to the figures that you used in your letter of May 8, which you said were supplied by the industry, the industry is claiming that you have misrepresented and misused their figures.

COMMISSIONER JACOBSON: I have not, sir. They have said that I have misused valid data. That is the expression they used. They said that the data is valid, but they accused me of misinterpreting it and I can't misuse it because it comes right out of the Oil and Gas Journal, which I'll be glad to show you, for everything that I've used here.

ASSEMBLYMAN MAGUIRE: Well, as one who has served on Appropriations for two years, and prior to that, been responsible for the preparation of probably 20 budgets, both at the county level and the municipal level, I know how figures can be manipulated. Indeed, I guess you can probably accuse me of having done it when I was Mayor, particularly during an election year. I think that in many instances, you are undoubtedly sincere and honest in your efforts, but you have been beating big business, all business, for as long as I have known you. Profit, to you, is a dirty word. It isn't to me. I have some knowledge of the petro-chemical industry. I'm not a stockholder, incidentally, and I know it requires huge amounts of money, as evidenced by the dry wells that have come up from the Baltimore Canyon. Where do you think this money should come from, the stockholders, the users of the energy? Where do you think it should come from, this experimental work?

COMMISSIONER JACOBSON: Assemblyman Maguire, I have never said that "profits" is a dirty word. You said that. I would concede to you, however, that extortion of profits may very well be a dirty word. Let me put something out to you, sir. I served for two years as a member of the Board of Public Utilities. I was subjected to intense, irate criticism from consumers, as utility rates continued to escalate. Under the regulating authority given to the Board of Public Utilities Commissioner, the return on common equity for every utility in this State ranges somewhere between 12½ and 13% and as a consequence of that, we are still subject to severe criticism for providing them with that income. I want to point out to you, sir, that the Mobil Oil Company earned a return in equity of 15.4%. Now, I don't know whether that is dirty or not, but it is certainly excessive.

ASSEMBLYMAN MAGUIRE: What do you think it should be?

COMMISSIONER JACOBSON: I think 15.4 is too high, particularly when they are raising prices as they are.

ASSEMBLYMAN MAGUIRE: Well, what do you think it should be if 15.4 is too high, 10.4?

COMMISSIONER JACOBSON: Well, if we were to regulate them, we could regulate them at 13%. Why should the citizens of this nation and this State be subject to repeated increases in the prices of gasoline and home heating oil while these companies are enjoying the highest profits in their history? Doesn't that strike you as being somewhat immoral?

ASSEMBLYMAN MAGUIRE: No.

COMMISSIONER JACOBSON: Do you support that?

ASSEMBLYMAN MAGUIRE: Yes.

COMMISSIONER JACOBSON: You're entitled to your opinion, sir. Let me point out another thing. In June of 1976, the price of home heating oil was 39¢ and the then Federal Energy Administration decontrolled the price and predicted that the price would go up 4¢ in thirty months. I'm going to tell you now, sir, that the price of home heating oil is 65¢ and I am predicting that this winter it will be 80¢. Now, do you think that's moral.

ASSEMBLYMAN MAGUIRE: Well, I think that's,perhaps, an unfair question. Isn't that tied into the availability of the crude oil and where the heating oil comes from? You used figures, I think, having to do with the supply of oil that was received from Iran, and that country is still suffering from the turmoil of going through a change in government, but you did not make reference to the fact that Iran was supplying not just the United States with crude, but other countries, and when they turned the valves off in Iran, countries where we used to make spot purchases, that source had dried up too, but you made no reference to that, sir.

COMMISSIONER JACOBSON: I would be delighted to make reference to that because that's the next thing that I'm going to be talking about, the fact that the oil companies, and even Mr. Schlesinger has said this, the oil companies are withholding crude for this nation because they find it more profitable to sell on the spot market, where the price may be $30.00 a barrel instead of the price being charged here. Now, do you think that's moral? Mobil Oil Company, domestic refining capacity, 896,000 barrels of oil a day; imports from Iran, July to September, 1978, 13,000, which is 1.5%. How can that cause the problem that we're having in this nation, 1.5%? What you're saying is that they're sending it to other countries. Sure, they are, for a higher price.

ASSEMBLYMAN MAGUIRE: Isn't that the free market, the free enterprise system?

COMMISSIONER JACOBSON: They have the free right to do that and I have the free right to criticize them.

ASSEMBLYMAN MAGUIRE: I will certainly do anything I can as an assemblyman to prevent further regulation on any industry, whether it is the petro-chemical industry or any other manufacturing industry. They are overburdened now with rules and regulations that eminate from the State House and the Capital. It is just wrong. I think that is the problem that we're suffering from now, overregulation, and you want to add to that. You won't do it with my support, sir.

COMMISSIONER JACOBSON: It's obvious we have a philosophical difference here in concept. You want a free market to apply. Let me ask you this, Assemblyman. The law of supply and demand, as I was taught in Economics I and II, should be the basis on which the free market operates. It works for coffee and sugar, but somehow it doesn't work for oil. If the argument for the free enterprise system is valid, as price goes up, several things should happen. Consumption should go down and production should go up, but the price of crude oil has escalated significantly, as you well know, in fact, precipitously in the last few years and the price has not generated decreased consumption. To the contrary it has generated increased consumption and it has not generated increased production. To the contrary, there has been less production. So, somebody has repealed the law of supply and demand.

ASSEMBLYMAN MAGUIRE: Well, I don't think we can compare the supply and demand of coffee with energy. There is an alternative to coffee. There is tea or water. But, there is no alternative to the man who lives 15 miles away from his job and there is no mass transportation. He must use his car.

COMMISSIONER JACOBSON: You're making my argument for me, sir.

ASSEMBLYMAN MAGUIRE: No, I'm not. I'm refuting the argument because there is an alternate for coffee, but for energy there is not.

COMMISSIONER JACOBSON: You're saying there is no elasticity in demand. That's precisely the argument I'm making. If I'm a working man and I can't get to work by mass transit, you can charge $10.00 for a gallon of gas and I'm going to have to pay for it or else I can't get to work. Now, if you don't want to regulate that system, sir, you and I have a strong difference of opinion.

ASSEMBLYMAN MAGUIRE: Well, that's obvious.

ASSEMBLYMAN GEWERTZ: Aside from the dialogue and theory, our basic concern is that if heating oil goes to 75¢ or 80¢ a gallon and gasoline runs to a dollar a gallon, how is the average person going to survive? That is one of my basic concerns, because the wage level of the average person working in the State is not going up in accordance with the amount of the prices that they are paying for those goods which they must have to survive. People that are on fixed incomes, should fuel oil be 80¢ per gallon, I don't know how they would heat their home, no matter what they keep the temperature on. So, our basic concern is, are the prices justified, and you contend that they are not, and if they are not, what can we do to make sure that the public is getting the proper information and that we're not going to gouged by some people that might have that in mind. Now, on the availability of fuel, do you have a system? Although we don't produce oil in the State of New Jersey, we certainly have large refinery capacities. Now, does the Department of Energy monitor the amount of storage that each refinery has, because there seems to be some question as to whether or not, at this point in time, the storage capacity is bulging at the seams and we seem to be acquiring a number of tankers, again, laying out at the breakwater waiting to come in because they can't refine the crude oil that they have because they have no place to store it in there refinery.

COMMISSIONER JACOBSON: Just this past week, Assemblyman, I have asked my staff to contact the four major refineries in New Jersey to indicate what their storage quantities are now, to give us a comparison of what they were a year ago, so that we can get a handle on that. I would like to point out that New Jersey, as you indicated, is a heavy provider of refinery capacity. Along the Eastern Seaboard, we allocate about 2% of the land utilized for refinery capacity. We produce something like 30 or 35% of the capacity. Unfortunately, that is not earmarked for New Jersey. Obviously, it goes into the interstate market. But, your question is something that I have already asked my staff to look into and I might add that we're going to do the same thing with home heating oil. The earlier thing you said, if the price goes to 80¢ a gallon for home heating oil this winter, there is nothing we can do about it. The only one who has the authority is the federal Department of Energy, to reimpose controls on that, which I have urged, obviously, to the disagreement of some people.

ASSEMBLYMAN GEWERTZ: We can disagree without being disagreeable, can't we, Commissioner?

COMMISSIONER JACOBSON: I think so, yes.

ASSEMBLYMAN GEWERTZ: Now, as far as the changes in prices, there are numbers of reports, for example, over the Memorial Day holiday, some stations raised their price from 86¢ a gallon or 82¢ a gallon up to in the high 90's or over a dollar a gallon and then after the holiday weekend, the price went down again. How does the Department address that type of situation?

COMMISSIONER JACOBSON: Okay, let me take on in particular. The Exxon station in Fort Lee,on Route 4 - I received that report - they were charging something like 84¢ a gallon on Thursday, before the Memorial Day weekend, and over the Memorial Day weekend, they were charging 99¢. I immediately sent a monitor there to determine the legal price. We also asked the local police in Fort Lee to verify it. They confirmed that the price being charged was 99¢. We sent auditors to the man the day after the holiday to inform him that he appeared to be in violation and gave him a notice of probable violation and he has thirty days to respond to that. The auditors went to that station and the man could not produce the records at that time. He said he would produce them within thirty days. I hope the records he produces are the accurate records. In any event, that particular instance, if this man is found guilty, we have the authority to impose fines. Obviously, we would demand a rollback. If anybody had kept a receipt of the sale, they would be intitled to recovery and there is one other thing, Assemblyman, that we intend to do. We intend to do it for two reasons, both in violation of the price ceiling and in violation of the federal regulation against preferential treatment. For example, if he is limiting sales to $3.00 for customer A, he can't provide his pal with a full tank. He has to be even handed about that. Any violation of the price ceiling or any station offerring preferential treatment will denied the set-aside allocation we have to meet shortages. So, we would use that in a punitive manner to prevent violations if we could.

ASSEMBLYMAN GEWERTZ: Alright, now, as far as the record keeping, if a station does not have the records, based on the fact that they don't keep them that far back, wouldn't pt be reasonable that you could then go to the source from which he has obtained his fuel, he has to buy it from some supplier, if it is an Exxon station, I assume it comes from Exxon or vice versa, would not the company have the records of that sale to that particular station to verify that?

COMMISSIONER JACOBSON: They wouldn't have the, probably wouldn't have the increase to be recovered because of the higher rents or the vapor recovery and the banking costs. They would have to know what he was charging on that particular day on the pump. They would only know what they charged him for the gas. Again, the current formula is absolutely incomprehensible.

ASSEMBLYMAN GEWERTZ: Well, is the public paying increased costs, basically, because of the increase in crude oil prices or is it a combination of holding back supplies waiting for prices to go up, coupled with companies raising the rent more substantially than they have in the past, which is then added into the cost of the gasoline?

COMMISSIONER JACOBSON: I think it is a variety of factors. Certainly, the increased cost of crude is a most important factor. I want to say, I think the vast majority of the gasoline retailers in this State are honest; that they have not saught to exploit a shortage. There are some who are not and we're gdoing to nab those. These poor guys are overrecovering - that's a euphimism for stealing - they're overrecovering in pennies. I would hope that the federal government would be equally aggressive in getting the overrecovery of the billions, which we heard some of the majors have been engaged in. But, it is a vast variety of factors and I want to emphasize that I think the vast majority, overall majority of our retailers are not exploiting this to their own economic benefit.

ASSEMBLYMAN GEWERTZ: Assemblywoman Kiernan?

ASSEMBLYWOMAN KIERNAN: Commissioner, I wish to apologize for being late this morning. As you know, I come, probably, as far as anyone does to the State House and I had to get gas on the way down. I was interested in your comment about monitoring price, but not regulating it. Does that mean that you are statutorally allowed to monitor and just make an announcement that you have seen the price change and not do anything about it, that price change as it goes along?

COMMISSIONER JACOBSON: I know what it doesn't mean. It doesn't mean regulate. I think it means to observe and that's what I've been doing, noisily.

ASSEMBLYWOMAN KIERNAN: And in this case, in the Fort Lee case, for example, you then went up and said, "You've gone too far and we're going to stop you with the next step and you're not going to get the allocation."

COMMISSIONER JACOBSON: We issued a notice of probable violation, which means he has to justify that price of 99¢ by producing the records. He could not produce them the day we sent our letters to the station, but he said he will produce them subsequently. My only point is that I hope he produces honest records.

ASSEMBLYWOMAN KIERNAN: On the regulation, I find interesting the comments of Assemblyman Maguire that it seems that we have a very mixed feeling in the State House and in the country about regulation. On the one hand, you have the same people who would like to see us deregulate liquor prices, but do not touch milk prices, and here we have another liquid that we're talking about regulating and still no agreement on philosophy or on government's position in this area. Has it been considered that, perhaps, that if it was a regulated price for automobile fuel that it would based within a certain scale, it would be from a certain point to a certain point and that would be allowable so that a local gasoline dealer could adjust his prices to have a fair market and not be put in the same bind as, perhaps, someone who had lower overhead costs?

COMMISSIONER JACOBSON: Well, that's what I recommended in my formula. This would be the ceiling. The ceiling would be composed of the product cost, the taxes, plus a 15¢ margin. He wouldn't have to charge that. He could charge less if he felt that by competition he could increase his sales. But, that would be the ceiling and any variety or variation on that would be legal.

ASSEMBLYWOMAN KIERNAN: Also, on the side of taxes, might it be something we should consider, that we change the formula for taxing motor fuels, instead of a certain cents, a certain percentage of the sales price?

COMMISSIONER JACOBSON: I don't have any strong feelings on that.

ASSEMBLYWOMAN KIERNAN: How are you planning to enforce the price ceiling and preferential treatment? How are you going to find out who is giving that preferential treatment?

COMMISSIONER JACOBSON: I'm delighted with the cooperation we've received from the Attorney General and the Colonel of the State Police, Superintendent of the State Police, who have sent a telex to every municipal department asking for their cooperation, which they have very graciously extended. When we receive a complaint on out hotline, about a violation of either preferential treatment or price ceiling, we immediately relay that to the local police so that we can verify the price on the pump, so we have something on the record. With regard to preferential treatment, this would require an admission by the retailer or evidence by the complainant. We've asked for written complaints so that we can pursue that.

ASSEMBLYWOMAN KIERNAN: It seems like that's going to be a difficult one to pinpoint. I know that local stations very often have their local businesses, depending upon being able to service their own customers and some of them in small towns find that when the larger stations are closed, they get people they never saw before and they're never going to see again, who are taking away from, what they consider to be their regular customers. I certainly understand what you want to do and it is certainly proper. It is just a little difficult, I think, on the enforcement side.

COMMISSIONER JACOBSON: I understand that. The problem is that it is a federal regulation. That's the law, whether I like it or not, and I am obviously obligated to uphold it. Also, I must express an opinion. I don't want to tolerate the elitism of a surly gas attendant any more than I want to tolerate the economic tyranny of a major oil company.

ASSEMBLYWOMAN KIERNAN: I agree. Thank you.

ASSEMBLYMAN MAGUIRE: I would like to get back to, Commissioner, to what your Department is doing if, indeed, the situation becomes worse, as the allocation of fuel to the lifesaving departments, police, fire, etc., mass transportation. Have you done anything in this area and did you share that information or input from the Committee on Energy in the Senate or the Assembly?

COMMISSIONER JACOBSON: Nobody has asked me for it, but I have it here because I anticipated it coming. Let me give you an example of what's going on, Assemblyman. By the way, we have an office with about 20 people and I suspect, if you call that office, you're going to get a busy signal because we're being swamped with phone calls and, frankly, are looking for a supplemental appropriation to put people to work, so that we can do this job. Here's an example of--

ASSEMBLYMAN MAGUIRE: Those that lost, June 5, will probably be given a job. That's been the pattern.

COMMISSIONER JACOBSON: For the month of March, 1978, we received nine requests for allocations of gasoline and we allocated 383,000 gallons, March of 1978. In March of 1979, we received 892 requests and we allocated 13,000,000, almost 14,000,000 gallons of gasoline. I anticipate that for the month of June we are going to receive in excess of 1000 requests asking for allocations between 20 and 25,000,000 gallons and all we have available for distribution is 15,000,000 gallons. So, obviously, there are going to have to be some priorities established. I agree with you.

ASSEMBLYMAN MAGUIRE: Have you done that yet?

COMMISSIONER JACOBSON: Yes, we have. The priorities are, obviously, to maintain essential services, police and fire; to, wherever possible, provide for a propping up of our tourist industry; and, also, to utilize it as a punitive measure against those who are violating regulations of the law.

ASSEMBLYMAN MAGUIRE: If there are going to be regulations, so that you don't leave here with a sour note, I would like your method of establishing prices, rather than the federal government's. I'm not sure I'd like either one, but I'll take yours, if I have to make that choice.

COMMISSIONER JACOBSON: Thank you. By the way, we are going to appeal, formally, to the federal D.O.E. to change it. There's no way, really, of monitoring it, no way of enforcing it. Let me point out something else out here. I don't want to be supercritical of the administration, but I notice these things and I have to talk about them.

The oil companies are going to allocate based upon last year's supply. If there has been an increased growth, there's an expanded formula to provide for a higher allocation dependant upon increased growth. So, for example, the stations on the Garden State Parkway, which are 150% over last year, mainly because of the casinos, would be getting a larger share. A municipality, which would not have increased growth because they don't sell, they just utilize, now finds itself getting a diminished share as a consequence of these allocations, and it's all wrong, but that is the federal regulation.

ASSEMBLYMAN GEWERTZ: Well, we can't have that. Commissioner, let's assume that you're getting 93%, and there may be more gallons available, but let's assume that for some odd reason the administration sees fit to transfer fuel to other sections of the country, by whatever method, and now, instead of getting 93%, you go down to 75 or 80%. Now, in the event that you would have to go to some form of rationing of fuel to the person going into a gas station, what do you have as a plan in stages, A, a modified rationing, and B, the worst that could occur?

COMMISSIONER JACOBSON: First, I don't think the situation that you posed is going to happen. The Department of Energy has indicated that the allocations will be equitably distributed in the future, as they have in the past, the same allocation, no variation and there was a slight attempt to tilt a little bit more toward California, as a consequence of the situation there, and there was an instant uproar and an immediate backing down by the federal government. So, I really don't think that's going to happen. But, let me assume that that is going to happen, a rationing program must be put in place by the federal government and as you know, the Congress rejected the President's plan primarily because every representative and senator was pursuing his own parochial interests. There is not, now, a rationing plan in plan in place. The odd-even plan is not a rationing plan. That doesn't save one drop of gasoline. All it does is concern itself with, hopefully, the prudent distribution. So, the answer to your question, sir, is that we have no rationing plan in effect and that's a requirement from the federal government.

ASSEMBLYMAN GEWERTZ: Would it be wise for the Department to come up with some ideas in the event that things really begin to deteriorate?

COMMISSIONER JACOBSON: Well, the major concern that I have is to avoid topping off. That appears to be the panic response that has caused all the problems, and I have suggested, as an alternative to the half-tank eligibility, which means you can't fill up if you have a half-tank, another program. I must say that since I talked about it, there has been widespread misunderstanding of what I suggested. I suggested something on a take or pay basis. If you have a large car and you go into the station and hand the guy ten bucks and if your car can take ten bucks, you take it. If you can't, you're going to have to give him the $10.00 anyhow. The idea is not to penalize the motorist, but is to keep him out of the line until he can take $10.00 worth of gasoline. Then, I also said, which was not reported--

ASSEMBLYMAN MAGUIRE: Remember the Boston Tea Party?

COMMISSIONER JACOBSON: Let me finish this first, because this is where I got in a lot of trouble. I also said that where there is a smaller car, that the figure might be $5.00. So, obviously, a compact car would not have to wait until he needs $10.00, he can get it when he needs $5.00. Yes, sir? I wasn't there in Boston, but I remember reading about it.

ASSEMBLYMAN MAGUIRE: I would like to, if I may, sum up the plan that you have for the people of New Jersey. You have the power to establish odd-even. You have the power to prevent topping. You have a plan for rationing, if, indeed that becomes necessary. Is that right?

COMMISSIONER JACOBSON: No, sir.

ASSEMBLYMAN MAGUIRE: Allocation, maybe that's it.

COMMISSIONER JACOBSON: Allocate, yes sir.

ASSEMBLYMAN MAGUIRE: You have the power to allocate to police, fire, first aid squads, etc.?

COMMISSIONER JACOBSON: The set-aside, sir, which is only five percent of the total resources coming into the State. We have 15 million gallons, roughly, per month, for June to allocate.

ASSEMBLYMAN MAGUIRE: These people that called you, and you estimate that there will be 1000 this month-- if I called you, could I go get gas someplace?

COMMISSIONER JACOBSON: What happened is this, sir. We knew how much we had, 15 million gals. We received calls from retailers and municipalities all over the State. By the middle of the month, all those requests will be in. We'll know what the total demand is and we'll be able to determine how much of that we'll be able to meet with our 15 million gallons and we will then establish the priorities to serve the purposes I indicated earlier. So, it may very well be that everybody will get less than they asked for and they probably will.

ASSEMBLYMAN MAGUIRE: Are you saying that you will not establish the plan until we have the crisis? Don't you have a plan now?

COMMISSIONER JACOBSON: We've been doing it for years. It's in place.

ASSEMBLYMAN MAGUIRE: That's what I'm trying to find out. What is it?

COMMISSIONER JACOBSON: I told you.

ASSEMBLYMAN MAGUIRE: Five percent of the 93% that we're going to get, you can withhold for emergency purposes, is that right?

COMMISSIONER JACOBSON: That's right.

ASSEMBLYMAN GEWERTZ: That doesn't mean that the people who are buying the fuel are not buying it through their normal sources. They would only go to the Commissioner in the event that their normal source is unable to supply them. For example, if your municipality is buying from Texaco and they need so many gallons to operate and Texaco says, "We're sorry, but at this point we can't give you your normal purchases." Now, they, then, would file with the Department of Energy a request for additional allocation, which would come out of the 5% that he has to distribute on an emergency basis. Is that correct, Commissioner?

COMMISSIONER JACOBSON: That's correct.

ASSEMBLYMAN MAGUIRE: Suppose more and more of us take your suggestion or your recommendations or those coming from the Executive branch, that we use our cars less, and we turn to mass transportation and we find that public service now has enough riders to put on 25 more buses to handle that load, how would you allocate gas, additional gas or diesel, to other sources to sell to public service, for example?

COMMISSIONER JACOBSON: The only time we would allocate it is if they requested it. If they have sufficient supply, there is no need for an allocation. This is an emergency source.

ASSEMBLYMAN MAGUIRE: If they are adding to the fleet, say 100 to 125 buses, and they've been buying from Texaco and Texaco can't give them anymore now then they gave them last year, how do they get the diesel fuel and the gasoline to operate those other 25 buses, out of your 5%?

COMMISSIONER JACOBSON: The only time they would come to us is if they didn' have sufficient quantities to meet their original needs and then, we have this 5% to move around.

ASSEMBLYMAN GEWERTZ: You see, Texaco, they might have customers that they lost because other companies have picked them up or they've moved out of the State or they went out of business so that normal supplies from Texaco to public service is probably not affected at this time.

ASSEMBLYMAN MAGUIRE: Do you have a plan, Commissioner, for the allocation of heating oil, come winter?

COMMISSIONER JACOBSON: Yes, sir.

ASSEMBLYMAN MAGUIRE: Is it predicated upon the same percentage, 5% of this total?

COMMISSIONER JACOBSON: That's correct.

ASSEMBLYMAN MAGUIRE: Suppose those nasty guys from Exxon want to build--

COMMISSIONER JACOBSON: Oh, they're nice fellows.

ASSEMBLYMAN MAGUIRE: They want to build a new office building in Clinton, New Jersey. They've never been on line before. Now, they're going to need more heating oil. Do you think they'll run a pipeline from Linden to the plant or do they have to go through you to get a new allocation?

COMMISSIONER JACOBSON: Like I said, the only reason we have this allocation is to meet emergency problems of short supply.

ASSEMBLYMAN GEWERTZ: Commissioner, let me ask you something. What does the Department of Energy do and what program do you have to make sure the metering devices at gasoline stations are, in fact, accurate so that if it says you're getting 15 gallons, you are, in fact, getting 15 gallons? Also, do you check the deliveries or do you have some way of monitoring deliveries, the deliveries of bulk quantities, say, to a gas station to some other retail outlet to assure that they are getting,,really, what they are paying for?

COMMISSIONER JACOBSON: The Division of Consumer Affairs and the Department of Weights and Measures handles that. That's not my department, but they do that to check the accuracy of the pumps. They also check whether you're really getting unleaded gas in an unleaded tank. We've heard accusations of mixing regular in the unleaded and consequently, catalytic converters are blowing up, etc. But, that's all in Mr. Adam Levin's department.

ASSEMBLYMAN GEWERTZ: Didn't the federal government have some kind of program where they were going out monitoring?

COMMISSIONER JACOBSON: Yes, but they really can't handle it. In our state alone, with the 6500 stations they have a regional office in New York and I don't know how many people they have working with them. There is no way they can monitor that. Weights and Measures has about 150 people that go around the State and do an effective job, in my judgement.

ASSEMBLYMAN GEWERTZ: But, all of the pumps and monitoring devices are checked by the State Department of Weights and Measures, as opposed to carrying this around.

COMMISSIONER JACOBSON: That's correct.

ASSEMBLYMAN GEWERTZ: Have you been finding that the pumps are--

COMMISSIONER JACOBSON: They have occasional lapses. They've pursued, effectively, those violations. They've been very helpful to us in monitoring price ceilings.

ASSEMBLYMAN GEWERTZ: Now, in a state like New Jersey, which is a corridor state, we obviously have large numbers of people traveling through the state that are transient people. Now, as that increases or more and more people are going to the shore communities, that would have a tendency to eat up our fuel supplies. Now, does that mean that people who are residents of the State, people who must depend on their vehicles for getting back and forth to work, is there some plan or some thought in mind that if you get a tremendous boom in people passing through and they eat up the allocation, what happens to our people? How would you then get fuel to maintain your normal daily routine?

COMMISSIONER JACOBSON: The emergency plan which imposes upon you and me the odd-even obligation - we cannot get in line every day - does not apply to out of state drivers, and, by the way, in other states it would not apply to our drivers. We think this is the fair way to go. We would not impose penalties upon out of state drivers here and do not anticipate they will be imposing those penalties on New Jersey drivers.

ASSEMBLYMAN GEWERTZ: Is there a requirement under the Department of Energy, because I've noticed myself in the last two weeks, almost running out of gas. I mean I'm down to the last 9/10ths of a gallon looking for a gas station that's open. Does the Department require that service stations post, in a conspicuous place, their hours so that someone who would normally use that station knows that it is not going to be open after a certain planned time or on certain days they are going to be closed so that you don't spend a lot of needless time looking for a place or are there any bulletins that go out in conjunction with the retail gas dealers so that someone in a specific area, be it given to the municipality, knows that certain stations are open? Because, if people are really in a bind, the first thing they will do is call the local police and say, "I'm out of gas, where can I go," and at this point in time, I don't think anybody really knows.

COMMISSIONER JACOBSON: We do not have the authority to do it now. We do have it under out emergency regulations. However, I must tell you that the Retailers' Association and Mr. Ferrara have been very helpful and very cooperative and we've discussed with them the problems. For example, in a shore area where a station might close on Sunday, to sort of rotate it. Half the stations are closed on one Sunday and half the next Sunday so that they can all take care of their diminished supplies and, at the same time, provide the public with service.

ASSEMBLYMAN GEWERTZ: But, how does the public know who is open and who isn't after a certain period in the night or on--

COMMISSIONER JACOBSON: Under the free enterprise system, we can't do a thing until the emergency rules and regulations are adopted.

ASSEMBLYMAN GEWERTZ: Great. We intend to speak to the retailers.

COMMISSIONER JACOBSON: We can make a voluntary appeal to them and I'm sure that they would respond, but I don't have the authority to do it until those emergency regulations are triggered.

ASSEMBLYMAN GEWERTZ: Well, you can certainly write a letter at this point in time asking, as a convenience to the public, that that be simply posted.

COMMISSIONER JACOBSON: We have been doing that.

ASSEMBLYMAN GEWERTZ: Assemblyman Gallo?

ASSEMBLYMAN GALLO: I apologize for being late and I'm not sure whether or not you've covered anything in the area of the storage capacity in the state. If you have, I'll defer and get the information afterwards. If not, I would like to ask that question to you, whether or not we have active figures which indicate that the storage capabilities and what the storage is at this particular time.

COMMISSIONER JACOBSON: Just this past week, I asked my staff to get the figures from the major refineries in the state. We're also anticipating from the jobbers for home heating oil to determine exactly what the storage capability is today and what it was a year ago.

ASSEMBLYMAN GALLO: The reason I ask that question, I've also been trying to secure that information from some of our federal representatives and I've had some difficulty because there has not been requirements, I guess, in reporting forms to give storage capacity and what the present storage is at this time. There has been a great deal of feeling by citizens of this State,and I guess other states, and as legislators, we get it from them directly, as you get it in your position, that there is a great abundance of this fuel oil out there, and as the pennies go up, and when you are talking about millions of gallons of storage that are stockpiled, this is a sizable amount of dollars that the oil companies are reaping in and that was the question that I was trying to get an answer to, and I thought the question was logical and I thought the answer would be rather easily obtained, but evidently, even your Department--here we are in the State of New Jersey and we don't know what our capacity is as far as our storage nor do we know what the capacity is, at the present time, in those storage tanks.

COMMISSIONER JACOBSON: Last year, I held a series of hearings to which we invited the major oil companies and similar questions to that and that question were often answered with the response, "It's proprietory information." In effect, it's none of our business.

ASSEMBLYMAN GEWERTZ: Well, we're going to make it part of our business.

COMMISSIONER JACOBSON: I would hope so.

ASSEMBLYMAN GALLO: You say you've asked for that information.

COMMISSIONER JACOBSON: And a lot of other information.

ASSEMBLYMAN GALLO: Okay. Does your Department have the teeth to effectively get that information, the authority to demand that kind of information?

COMMISSIONER JACOBSON: We can request it. It is proprietory information and they are properly denying it to us. The only question is, defining what is proprietory information.

ASSEMBLYMAN GALLO: And, do you know of any other avenue that you can go, to get that information?

COMMISSIONER JACOBSON: Like I said, this last week, I tried again and I'm kind of hoping that,in the context of the climate that you just described earlier, there may be a willingness for us to get that information now.

ASSEMBLYMAN GALLO: If there is not a willingness, is there another avenue that you have at your disposal?

COMMISSIONER JACOBSON: If you give me the authority of a subpoena, I can certainly do that.

ASSEMBLYMAN GEWERTZ: Well, we can give ourselves the same authority.

ASSEMBLYMAN GALLO: If, in fact, you are successful, would you make available to this Committee that information as soon as possible?

COMMISSIONER JACOBSON: Oh, absolutely. The implication here is, obviously, the point that you are making, that the stocks have increased considerably and that they are being witheld from the market in anticipation of higher prices, which is fundamentally what I've been yelling about, noisily, for quite a while.

ASSEMBLYMAN GALLO: Thank you, Mr. Chairman.

ASSEMBLYMAN GEWERTZ: Mr. Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Just a few points here. We have done some investigating as far as the storage of home heating oil. We then found out that the federal regulations supercede the state regulations as far as tanks. The concern that I've been seeing, there are so many tanks, storage tanks above ground that we see as we're riding around, that I found that many of these are empty because of the fact that they were not diked coming into the requirements as far as the federal regulations. In checking with Washington with the fellow who drafted the regulations, it is so broad as far as navigable waterways, unless we can make some changes, if you have existing storage tanks, even though they're empty, they're still in violation, supposedly. So, it would mean that these tanks would have to be taken down and removed so that they are not in violation. The state regulation calls for 400,000 or more as far as aggragate gallons. So, I think that that is an area that we could study and I think it is something that we have to have our federal people move on. I would just like to briefly touch on something that the Chairman mentioned as far as--it sort of touches on fraud when you're talking about seals and meters and pumps and what have you. I happen to be in the oil industry and I would like to present the positive side because we see it on T.V. where the State trucks are following up people and the fuel dealers and then you get the calls from the people. The legitimate fuel dealers are mostly community people and they are in the State of New Jersey as citizens and taxpayers and it is a large taxpaying group. They are individuals who are concerned and legitimate. Now, you have peddlers and other people who are still going to be the cheats in any industry. But, you take the members, for example, of the New Jersey Fuel Merchants Association, I would say, almost unequivocally so, that 99.44% are pure. So, I get disturbed when we have hearings and I see or hear on the radio or in the press that the oil dealer is the fellow who is going to try and cheat the public. The fellow who is now trying to survive is the oil dealer because back when oil was costing 10¢ a gallon and they were selling it for 17¢ a gallon, they had that 70% margin and today, when oil is costing something like 55 or 56¢ a gallon and they are selling it for 65¢ and they are working for 20% with all their cost increases, and now the individuals are being strapped with all the high prices, so the dealer, in order to have a cash flow, has to go to the banks with 12 and 15% to borrow money. At the end of the year, he is just hoping that he stays in business. But, the concern I have also is on controls or what control do you have or propose as far as gas, where stations close. You see many, many vacant stations now. There were allocations from the major oil companies for those stations. What has happened to those allocations or can we do something here in the State of New Jersey if the major companies have reduced, as far as output? Certainly, with the numbers of cars and the increased traffic, the gallonage is going up more, but station A on Fourth and Center Sts. had a 50,000 gallon a month allocation or a half a million gallons and he's out of the business. Why can't we, as State government, mandate that this half million gallons goes into our reserves instead of going back into the majors' to be distributed however they feel it should?

COMMISSIONER JACOBSON: The federal regulation offers an alternative base period for computing the basic allocation depending upon growth. For the month of October of '78 to February '79, if the growth of those, average growth of those five months exceeded 10%, they would use that as the base period rather than the earlier period. So, if you have an allocation of 80% of last year, but your growth is over that 10% figure, your allocation is obviously higher than 80%.

ASSEMBLYMAN KAVANAUGH: If you're out of business, what happens to that allocation?

COMMISSIONER JACOBSON: I see what you mean. It's lost. You're saying that we should get that for our State.

ASSEMBLYMAN KAVANAUGH: Yes, we should receive it instead of sending it off to another state.

COMMISSIONER JACOBSON: I agree.

ASSEMBLYMAN GEWERTZ: Assemblyman Maguire?

ASSEMBLYMAN MAGUIRE: One final question. The State is the operator of probably one of the largest fleets in New Jersey. What is the State of New Jersey doing to conserve fuel?

COMMISSIONER JACOBSON: Governor Byrne has issued instructions to every department head to use 5% less gasoline this year than last year. I have effectively done it in my own department. I know the other department heads are doing the same thing. I want to indicate that when the Governor issued his appeal, there was an immediate drop in the sales of gasoline and my point is, I think the consumers have heeded the Governor's admonition and if you look at this morning's newspaper, the oil industry is very surprised to find out that they have 5 million gallons of gasoline more than they expected.

ASSEMBLYMAN MAGUIRE: Did the State, if you know, after the Governor handed down this edict, sell 5% of its fleet or do we still have the same number of cars?

COMMISSIONER JACOBSON: I don't know the answer to that.

ASSEMBLYMAN GEWERTZ: Commissioner, if you know, since you have some expertise in the area of public utilities, the major push toward nuclear power was based on the fact that it would lessen the demand for oil or other sources of fuel to generate electricity. Now, we have a number of nuclear generating facilties, not only in this State, but in the surrounding states, that are polling their electric power. Now, with that in mind, that should release additional supplies of other fuels into the marketplace. Now, has that happened and if so, where have those fuels gone?

COMMISSIONER JACOBSON: I don't have the figures with me, Assemblyman, because I didn't anticipate being asked that, but I can provide you that any utility that generates power for a nuclear station will compute for you the amount of oil that is saved, as a consequence of that nuclear generation and I would also like to point out that they save you money. That is the argument they would present to you.

ASSEMBLYMAN GEWERTZ: Then, why do I keep getting higher fuel adjustment costs each month?

COMMISSIONER JACOBSON: The answer to that would be that if we didn't have nuclear power, it would be even higher. I'm quoting the industry.

ASSEMBLYMAN GEWERTZ: In your function in the Department of Energy, are you monitoring the various trends, as far as the public is concerned? For example, even though you may go to smaller cars that consume less fuel, there seems to be more and more cars on the road and consequently, we may be saving fuel per car, but with the increased number of cars, we're still eating up whatever fuel reserves we have. Is there some study or some information that the Department of Energy has done of the trend of the public?

COMMISSIONER JACOBSON: I have made a study, but I just observed in the press that since the crisis has developed, the sales of the large cars from Detroit have diminished and the sales of the small cars, mainly imports, have increased considerably. So, there's no question that the consumer himself is tilting toward that direction.

ASSEMBLYMAN GEWERTZ: It seems to me, and I'm not an expert on refining, but it would seem to me that per barrel of crude oil, you can get more regular gasoline than you can unleaded because of the process.

COMMISSIONER JACOBSON: They have just taken steps this past week to encourage the production of unleaded with a series of things. They've slowed up the phase-down of no-lead. They've reauthorized the use of MMT to produce roughly 5% more unleaded. They've also provided the producers a 2¢ per gallon recovery for producing unleaded. All of these things are designed to encourage the production of unleaded which, roughly, is now 40 or 45% of the market and increasing steadily, as all new cars require the use of unleaded.

ASSEMBLYMAN GEWERTZ: It seems to that the government in the requirements for pollution control devices, catalytic converters, whatever, have really caused a part of the problem itself, because the mileage is less and it is certainly more of a problem. I've built a few racing engines in my time and it seems to me that if you have fuel injection rather than the carboration, it could run on regular gasoline as opposed to unleaded, and if you could get additional gallons of fuel per barrel of crude oil from regular as opposed to unleaded, then that would appear to be the way that they should fly. Someone told me that it is something like three more gallons, you can get three more gallons of leaded gasoline as opposed to one gallon of unleaded.

ASSEMBLYMAN KAVANAUGH: It's about 8% difference.

ASSEMBLYMAN GEWERTZ: Alright, Commissioner, thank you. We're going to take a few minutes break here until Commissioner Horn gets here.

(at which time a recess was had)

ASSEMBLYMAN GEWERTZ: Okay, we can reconvene. One of the problems that we see is the effect of the shortage of energy on New Jersey's business and industry and the tourism industry which is very, very important our well being. So, Commissioner, if you might be able to give us some your thoughts, it would be appreciated.

COMMISSIONER JOHN HORN: Thank you. Let me just make this statement and then I will respond to the business questions that you might have.

The Department of Labor and Industry is deeply concerned with the present gasoline shortage because of the possible harmful effects upon the tourism industry. It will be useful to examine our tourism industry, its reliance upon the fuel supply and vulnerability to a shortage in the gasoline supply.

The tourism industry employs over 100,000 people and produces revenue from such diverse areas as commercial lodging, restaurants, boating, travel related goods, skiing, campgrounds, amusement parks and of particular importance are our shore resorts during the summer seasons. All of these areas rely upon some form of transportation to provide customers. We refer to these travellers as the clients of our tourism industry. Let me explain the importance of these clients.

The second largest industry in the State of New Jersey is tourism. New Jersey receives eight percent of State taxes from tourism and travel. On a state level during 1976, we ranked tenth in the nation in terms of travel generated employment. In that same year, in-state expenditures by travellers reached $3.1 billion and that's just in the travelling end of it. The recent successes of Resorts International and the expected arrival of additional gaming and resort facilities ensures that this figure has already become even greater. But, what benefits will our great resort, convention and gaming centers provide if no one can get there?

There are two additional points to consider as well. Tourism is labor intensive, employing many minimum skill workers, who, if displaced, would have few job alternatives. The industry itself is dominated by small businesses, which cannot withstand business declines as well as large corporations. The business of tourism should be of major concern to the people of New Jersey. Any harmful effect upon this industry must be avoided.

New Jersey's tourism relies, to a certain extent, upon the "impulse" driver who will visit our resorts even for a day. These travellers, facing an uncertain supply of gasoline would likely be deterred from travelling. By staying home, the revenue and resulting employment would be lost. For these reasons, it is important that an energy plan be devised which people clearly understand and support.

In devising an effective plan, two main points should be remembered. First, in dealing with gas usage, personal travel provides minor benefits to the economy, while tourist travel provides employment revenue. Secondly, the concept of restricting gas supply on weekends must be avoided, specifically a ban on weekend gasoline sales. Any plan lowering demand by another method would be much more acceptable.

Such action would give people supporting the tourist industry a choice of whether to travel or not. To deny them this choice provides little hope for both the tourism industry and the significant contribution that industry makes to New Jersey. The basic truth is that rising prices may be absorbed by tourists, while service station closings cannot.

The response by our State to the tourism industry has been helpful so far. We are aware of the Department of Transportation's efforts to provide some public transportation to the shore area for our tourists. The successful attempts of our shore communities to provide open gasoline stations on the weekend have been essentially to convince tourists of the availability of fuel. Our main arteries, the Garden State Parkway and the New Jersey Turnpike, have publicly assured motorists that their stations will be open, although limits on purchases may exist. Any action by our State Department of Energy's set aside program to provide fuel to New Jersey's resort area stations would also be of immense help and we applaud that action.

It is very difficult, at this time, to predict what energy plan will finally be adopted in Washington and whether supplies will remain scarce or become plentiful when a certain price is reached. Only time will tell, but one fact remains. If travellers are uncertain as to the availability of gasoline, they will not travel very far.

What is needed now in New Jersey is a "team" effort to keep our tourism industry healthy. By working to provide an adequate fuel supply and assisting the media in assuring that gasoline will be available, we can continue to effectively promote New Jersey's shore as being within a "tank of gas" from the New York, New Jersey, and Philadelphia metropolitan areas.

In closing, let me simply say that there must be a fuel priority for tourism which would at least allow the ability to move our citizens and our neighbors to New Jersey resorts during peak leisure time periods.

The total income from tourism, with the multiplying factors, is measured at about $7 billion a year and that's how it becomes the second largest industry in the State of New Jersey.

As to your question as to how a gas shortage might affect industry, you might remember that we just been ranked by a cosmo study by an outfit out in Chicago, which said we were 47th out of 48 states. We have just analyzed that entire study and I have just given an interview to the newspapers and I've also given copies to the Governor's office and to counsel's office on our findings in that study. Of course, one of the reasons for the 47th ranking was the cost of energy in the State of New Jersey, of which we were able to refute some of those remarks. We feel that we we are now starting, as you know, job transportation for employees, to take them off the unemployment lists. It's been very successful up in the Middlesex area and we're expanding it now to the Camden area. This is a program where we take people who have no transportation off the unemployment rolls and provide them with jobs, get them to those jobs, up to ten weeks, and we have found that only one person out of the few thousand who have already been placed in Middlesex has run the ten week limit. Most of them, in two or three weeks, find their own mode of transportation. But, that program would also be affected and also the van-pooling that we've started could be affected. So far, we haven't had any problems with industry along those lines. The fuel oils that they use for the generating of the energies in the plant, some of them have changed over to gas, which has helped. You might remember, in your area especially, the glass industry especially, in the southern part of New Jersey, when we shut all industry down for one week and the whole southern part of the State for two weeks. Campbell Soup now is able to convert from fuel oil to gas and back again. So, many of the companies have put in the converters to assist them in any shortages that may become evident.

ASSEMBLYMAN KAVANAUGH: With the converting back and forth between the gas and now the opening up of the gas for the residential market, are we being somewhat short-sighted, because my major concern is that a lot of this stuff is coming up on the pipeline and if push comes to shove and this pipeline is changed over to crude and we get back in a pinch, industry is going to have to draft off a lot of this natural gas used specially in industry. What's going to happen to the residential market, now that we're encouraging conversions?

COMMISSIONER HORN: I remember the shortage that we're talking about and it was not the fact that there was a shortage of gas, but it was the fact that Texas, they had stickers down there, "Let the bastards freeze," and things like that. They didn't want to sell their gas outside of the state and they had to pay more for it inside their own state. So, the problem was the supply coming through the pipelines. There was sufficient amounts of gas, which has been evident since the price got where they wanted it. So, it just didn't seem fair to the Texans, if they had to pay more and give it out to somebody else who could buy it for less. At that time, we were saying that there was plenty of gas, but it wasn't coming through the pipelines. I think there are sufficient amounts of gas, natural gas because they have what they call their "uncapped oils" at those times and we charged them to the "uncapped oils" and we flew to Washington with the Governor and his delegation. We met with the people down there and they readily admitted that the supply was there, but they weren't going to turn it loose and there was no law that could force them to turn it loose until they got their price. When they got their price, the gas was there and I think that gas will be there.

ASSEMBLYMAN GALLO: When we're talking about industry and we're talking about areas that are intensified users of energy, I received a number of calls from people that are, industries that are dealing in the glass business, itself, which is highly intensified in the utilization of energy. Now, they had talked with their, I guess, unions and people as to going to a four day work week. Everything seemed to be alright until there was a Hill-Burton law, federal law, which said that if they worked over eight hours, they had to be paid overtime. They were explaining to their employees that they were talking about a ten hour work day and giving them Friday off, which would allow them to shut down for a three day period and conserve a great deal of energy. The employees seemed to be very acceptable to the proposal, but then, it was brought to their knowledge that this Hill-Burton law would make it mandatory that the employer would have to pay two hours of overtime. Now, has there been any movement by your Department to, in view of this, and I'm sure your Department must heard things of this nature along with Commissioner Jacobson on that. Has there been any movement to the federal government, in view of the shortages that now exist, to see whether or not that can be resolved?

COMMISSIONER HORN: Well, I'm not too familiar with the Hill-Burton law. I do remember when we were talking about the four day weeks. It was not so much the Hill-Burton law but the union contracts that provided time and a half over eight hours and the unions were not ready to give up time and a half for over eight hours. I can point up to you that we in the Department of Labor are and have been working on a pilot program for a few years now in Atlantic City. We are on a four day week for those who want to.

We're talking about, in the entire Department, at this time, which provides workers, and we haven't talked to the unions yet, but we haven't had any problems in the Atlantic City area, where employees would come to work and work 7:30 to 5:30. Half the crew would off on a Monday and half the crew would off on a Friday, and we found that in Atlantic City--and it's voluntary--40% of the people took advantage of it. 60% of the people work five days and 40% work four days. They come to work 7:30 in the morning to 5:30 at night and one half is off on a Monday. Excuse me, 90% are doing it and 10% wanted to stay on the same hours, and I can imagine that for some reasons, maybe taking care of their children at home, they can't leave that early or they have to be home earlier. So, we made it voluntary and it has been very successful in Atlantic City, the four day week.

ASSEMBLYMAN GALLO: So, through your Department, though, you are initiating support for that where you have been asked by industry to come up with some guidelines?

COMMISSIONER HORN: Well, we can't interfere with the labor agreements there. We would like to see a four day week. It would cut down on a lot of travel, but I think that will have to be worked out between, in those plants where they have contracts that provide time and a half for over eight or time and a half for over forty. It would have to be worked out between the union and the company.

ASSEMBLYMAN GALLO: Right now, you're saying that the Hill-Burton Act has no--

COMMISSIONER HORN: I'm not able to say. I don't know that much about the Hill-Burton Act.

ASSEMBLYMAN GALLO: I would think that maybe we should get some advice from our staff as to whether or not the Hill-Burton Act would disallow, even if the union had agreed to it, a change to a four day week, whether or not this would prevent them from doing this.

COMMISSIONER HORN: I know there are laws on the federal books, and you know too, for time and a half over forty hours. I thought that the time and a half over eight was left strictly up to the bargaining agents, because there are some companies who still don't have time and a half over eight.

ASSEMBLYMAN GEWERTZ: We'll check that. Commissioner, as far as the tourism aspect is concerned, I notice on the Atlantic City Expressway, for example, which carries the bulk of the traffic between the Philadelphia-Washington-Baltimore area to the shore points, that that service station, and there's only one on the Expressway. So, if, for some odd reason, you don't get fuel before you get on the Expressway or, for some odd reason, the stations in Atlantic City are either out of gas or not open, that station is constantly running out of different grades of fuel and I know that I have been getting a number of complaints from people that are afraid of putting some other grade of gas in their car because I think it is not only illegal but it does damage to the automobile itself and I'm just wondering whether or not the Department might not take a look at that.

COMMISSIONER HORN: I thought all the major highways and expressways had no problem getting gas and they were limiting sales. Now, you're telling me that the Atlantic City Expressway is running out?

ASSEMBLYMAN GEWERTZ: They're running out of unleaded fuel.

COMMISSIONER HORN: Okay, I'll look into that.

ASSEMBLYMAN GEWERTZ: I think when it was built the storage capacity was not sufficient because of the increase in the amount of traffic now on the Expressway.

COMMISSIONER HORN: You're right. There's only one gas station on that entire road. I'll look into that.

ASSEMBLYMAN GEWERTZ: If, for some odd reason, we did end up in some modified form of a crisis, what would be the Department's position as far as the priority? In the event that you had to go back to some modified form of rationing to business and industry, has the Department given any thought as to what the priorities would be? Because, I know that I worked with you the last time when we had all the problems with restuarants, when they were limited, in some areas, to certain hours, and one of the problems that our Committee has is that we don't want to be caught in a situation like we were before, that we were reacting to a crisis and people were out of work for a period of time because we really weren't prepared for what happened.

COMMISSIONER HORN: Of course, you know, the administration, I serve on the task force for state employees alone. We're doing a study now and we're computer matching people who work in the entire Department. We have some 7500 people in Labor and Industry. We're computer matching people who work in the same areas to start forming car-pools, to get more than one person coming in a car coming to work. The Department of Transportation is doing the same thing and the Department of Environmental Protection is doing it and we're doing it in a stage fashion, as far as our own employees are concerned. I know that our Planning and Research is starting to devise a plan where we could work something out with industry under the same set-up, to carpool again like we did--of course a lot of you people arent' old enough to remember--back in the second World War, when you were operating on an A, B or C sticker. You saw very few cars that weren't full of people. You didn't see one person riding down the road. They were all carpooling and we're trying to arrange projects like that with industry.

ASSEMBLYMAN GEWERTZ: But, excluding the car pooling, suppose, as Assemblymen Gallo and Kavanaugh alluded to, suppose we did have now, again, a shortage of fuel oil, which industry may heavily rely on and they don't have the conversion where they could use natural gas or vice versa. Would the Department or could you get some type of priortized list of businesses, in the event catbacks had to be made, you know, which ones would be a priority as far as the availability of energy, as opposed to something else? I'm only saying that. I don't anticipate that we will see it, but if it happened--

COMMISSIONER HORN: I can't see that happening, but if it did happen, it would be a real difficult situation to start picking a priority business. How do you prioritize businesses?

ASSEMBLYMAN GEWERTZ: Maybe by the amount of employees, the type of industry. In other words, manufacturing, obviously, would have a higher priority.

ASSEMBLYMAN GALLO: He's made a very valid point. It would be very difficult.

COMMISSIONER HORN: I wouldn't even know where to start on that one.

ASSEMBLYMAN GEWERTZ: I have nothing further. Thank you very much, Commissioner. Deputy Commissioner Jamieson from the Department of Transportation?

DEPUTY COMMISSIONER JOHN JAMIESON: Thank you, Mr. Chairman.

ASSEMBLYMAN GEWERTZ: How are you Commissioner? One the problems of energy and fuel consumption, one of the areas that the Committee would like to pick your mind on is, what the Department of Transportation is doing to provide additional mass transit because of requests for people to use their cars as least as possible, and whether or not there could be some modification as far as traffic flows are concerned in some areas to reduce the congestion so that cars are not stuck. For example, I notice on some of the highways, the State highways particularly, there seems to be a need for a recycling of the signalization because when it was originally set, the traffic on that road now has changed substantially. Subsequently, you have some lights that are holding traffic longer than they should and you've gotten long lines and the reverse road is lesser traveled and subsequently should be sequenced on a shorter cycle, thereby allowing the traffic to flow more freely and use less fuel while people are sitting in these traffic lines. So, if you could respond to those couple basic areas and from there, we have some further questions.

MR. JAMIESON: Yes, Mr. Chairman. I appreciate the opportunity to testify. I think if we look first at the, take a few minutes on the overall shortage that we're into at this point, the evidence is that this is what we call a light shortage, as compared to what can happen, and from our perspective, the travel patterns seem to shift. First, within our present travel habits, people tend to combine trips, tend to pick up certain efficiencies of what they've been doing. So, maybe for the first few percentages of the shortage, you don't see a great need for public transportation. After there is--and this is speculation at this point as we haven't had these very moderate or severe shortages--but as you move into what you call a moderate shortage, then the public has to find other means of travel and at that point, you would see public transportation playing an entirely different role or an increasingly important role. The third phase of shortage that we would expect to occur is where we get into a severe situation which does call for gas rationing and then, it goes beyond your public transportation system. You would be supplementing it with the school bus services, the taxis and so forth. So, this is really the second dip into what you could call a light shortage, the one we had in '73 and '74 and now this situation.

The Department is monitoring the highway travel and the transit problem during the summer shortage. We have not seen a great deal of reduction in highway travel. It is occurring on the expressways, the parkways and perhaps we're running into a little different clientele. On our State highways, you are running into a lot of the work trips, a lot of trips that just have to be made and they are continuing to do so.

The public transportation, we are checking periodically with the various providers of public transportation to see if there are buildups in the usage of their equipment. Do they, then, in turn, have recommendations where they want services, or do they see opportunities to expand service? We are monitoring this on a bi-weekly basis, and so far, there hasn't been that need. As I indicated earlier, we're into what we call a light shortage. It hasn't been cause for additional equipment in the bus fleets.

ASSEMBLYMAN GEWERTZ: So, in other words, even though the cost of fuel has escalated substantially, and even though the availability has somewhat lessened, people are not turning to public transportation as an alternative?

MR. JAMIESON: That's correct. During this light shortage period, and I think we saw this in '73 and '74 too, that the travel, at that point, dropping, but not to the point where people made major shifts in mode.

ASSEMBLYMAN GEWERTZ: So, the major problem you're facing is how to get the motorist out of the car?

MR. JAMIESON: Yes, and during a situation such as this, our first efforts are to see what we can do to accelerate existing activities. We have stepped up our car pooling activities, our van pooling promotional activities. We are reorganizing, within the Department, a ride sharing setup, so that we can be more effective with the private sector and for State employees, assisting them in their opportunities for car-pooling and van-pooling. So, that is the major activity underway at this time. We would hope to get out additional information on public transportation as new services are added. At this time of year, different services are added to the services to the beach and we will try to make sure that that information gets out to the public.

ASSEMBLYMAN GEWERTZ: How about modifications to existing roads to eliminate traffic buildups or bottlenecks? Is there a priority item or priority list strictly based on congestion as such?

MR. JAMIESON: Mr. Chairman, you brought that up and I think it is a good point. We have not, to my knowledge, been doing that and it is one we should work into our contingency plans for these petroleum shortages and go out and look at where we can move the traffic at a more uniform speed.

ASSEMBLYMAN GALLO: We can give you a large list.

MR. JAMIESON: I imagine you could.

ASSEMBLYMAN GEWERTZ: I would imagine that that would be a very high priority item on the Department's list be cause often times you can create a smoother traffic flow just be recycling the light, which only requires an adjustment.

MR. JAMIESON: That's a very good point, and we did not have that in our plans.

ASSEMBLYMAN GALLO: When we talk about mass transit, and I know there is a great deal of discussion on the takeover of TNJ and other lines, but for the life of me, I can't figure out why, when other lines have registered sizeable increases in ridership, why the State's, and all the figures that I've read, show a continual drop in ridership and yet, a continual higher subsidy. Can you tell me shy?

MR. JAMIESON: I believe what you are refering to now is, over the last few years, the ridership has dropped, regardless of the availability of the petroleum, and my opinion is that there has been changes in our development patterns. We're seeing industry dispersed and people moving away from public transportation and they are, in effect, moved into the automobile.

ASSEMBLYMAN GALLO: Yet, I come from a county, Morris County, which is surburban, yet it has urbanized areas and our ridership has gone up 41% in almost direct opposition to State figures with TNJ and some of the others where they have gone down 41%.

ASSEMBLYMAN GEWERTZ: Commissioner, I think what the Assemblyman is saying is that maybe you should very carefully look at where the lines are going that you are subsidizing because as the patterns change, you may find that lines that were profitable or breaking even over a period of time, because of the shift in population, now are no longer profitable and maybe those lines should be, the amount of buses on those lines should be reduced as opposed to increasing buses on other lines, where you could conceivably develop additional ridership because the population has shifted that way and so has business and industry. I think one of the major problems that we have in some parts of this State is the unavailability of good public transportation and that really keeps the industrial growth to nothing because business and industry is not going to locate anywhere that does not have a good mass transit system.

ASSEMBLYMAN GALLO: That's true and I appreciate your comments, Mr. Chairman. I think the alternatives, if you've listed it in three different segments, as you get into that second segment, the demands, I think, are going to be put on mass transit in a much higher level and I think now that we're in this situation that plans should be set up so that you're going to be able to have the availability of meeting the market-place and the need.

MR. JAMIESON: Yes, I certainly agree and I think, nationally, last year, we saw ridership go up about 5%. I don't think we've reached that in this State and over the years, that hasn't been the case. In many of these other states, they are rebuilding the systems to fit, as you say, the needs of the community, a more community centered type of system, whereas in this State, we have been focusing on existing lines, trying to preserve those systems, just to keep them alive.

ASSEMBLYMAN GALLO: We've heard that in a number of areas and I guess there was testimony given at one of the hearings that we had competing lines, where private, totally private, no subsidy, was complaining to, I don't know whether it was this Committee that I was on or another committee, indicating that they were competing with a subsidized bus line and, you know, the State did nothing about it. Here we are, we're sitting with a subsidy now registered at what, $60 million per year and I would think that we would have some muscle in saying to those lines, "We're not going to interfere with the private line that's successful." You know, you're off that line and concentrate somewhere else where the need may be there and there is no private line that's making dollars and not needing the subsidy.

MR. JAMIESON: I believe Commissioner Gambuccini has indicated that we want to make every attempt to make the total system as cost effective and productive as we can and it is readily apparent, if the Public Transportation Corporation were developed, even in this session, there would be a considerable amount of time that you would be operating with a mixture of systems, public and private, and we need, as you suggest to have, a very coordinated system and where the private carrier can do this at less cost to the public, then that would be the preference and that would be a very important step to have out of the way before you run into a moderate or severe oil shortage.

ASSEMBLYMAN GALLO: Is it true, what the Commissioner has said, that for $60 million we have little to say as to what happens with that, as far as where it goes, the controls?

MR. JAMIESON: Under the present procedures that were described by the State as to what we have to do, yes.

ASSEMBLYWOMAN KIERNAN: Not to turn this into a hearing on the takeover bill, but I understand part of that is because the Department had never written regulations until very recently to implement the kind of program that was started as a stopgap measure ten years ago. So, there is a lot more to this story that we'll be hearing in the next couple of weeks. I just wanted to get back to another side of transportation and that is the van-pooling and car-pooling operations that you are undertaking at the present time. Can you tell us a little bit about how it's going?

MR. JAMIESON: Yes, I'm very pleased to do that. In years past, our efforts on the van-pooling and car-pooling have been to, when asked, to assist people in using a computer to match up groups of people, taking the data and running it through the computer to find out where they were coming from and where they were employed, preferably working at their place of employment because that's when you can get their attention through their employer. That part has worked quite well. What we're trying to do now is to put more effort on marketing or helping the employees understand what the opportunities are so that we can go into an employer, at his request, come in, sit down with groups of his employees, preferably coming from certain directions and if there is just enough in a certain area for car-pooling, assist them in organizing a car-pool, training somebody from their personnel department to keep the car-pools maintained, to have a counselor in personnel to help them because once they're organized, they tend, also, to fall apart. We've had a federal program whereby we could provide them interest free loans to secure vans, if there were eight or more people in an area that agreed that they would sign up for a van. We had that program available. We have also encouraged employers, not just the Department of Transportation, but particularly the Department of Energy, to do it themselves without a federal law, to go and set up the van-pool programs. So, that comes first. If they will do it themselves, fine. If they need a federal loan, we try to assist them in securing that. Those are the two major efforts. At this time, in changing our techniques, we're trying the techniques on our own Department right now. We have that in process. We have the questionaires out, throughout the Department. Requests are back in and we'll be running them through the computer next week. We will then go out and talk to the employees after we've had a chance to see whether they could best be served by car-pools or organizing van-pools or by better use of public transportation or even using a subscription bus. If you can get a large number of people, thirty or forty people, together, you might best serve their needs by providing a bus service. So, we're trying to put all ride sharing opportunities together into one package and talk to the employees at one time and we're using our own Department as a test and we would hope, maybe tomorrow, we're going to talk to the heads of four other departments on the same subject, it will be a phase II and then there will be a phase III, which would come in the Fall. We will do that regardless of whether there is a shortage or whether the crisis stays where it is or not. We think it is a very healthy thing to do.

ASSEMBLYMAN GEWERTZ: Commissioner, how about express lanes for three or more passengers? I know that on some State highways it won't work, but obviously on some of the interstates and some of the expressways, during certain hours when you would have peak travel or during the shore tourism business, do you have express lanes other than that which goes into New York or has the Department been doing any studies for other portions of the State?

MR. JAMIESON: Yes, Mr. Chairman, there is a second program underway for the Garden State Parkway, the free section in the northern part of the State, that is under construction now. That will come to completion sometime this Fall and that will be for car-pools, van-pools and very few buses that would be using it. It is going to take a very intense marketing effort to encourage people to use that fourth lane in this fashion. But, it is our intent, when the new lane opens up, to have it marked and signed for car-pools and van-pools.

ASSEMBLYMAN GEWERTZ: How about the marking of highways to indicate service stations that are, in fact, open? I know it takes a little cooperation, but working with the retail gas dealers, it creates a problem, particularly for people who are passing through the State, like on I295, to know that there is fuel, where you don't have any stations directly on the highway and you know, I've picked up a couple people, even coming back and forth to Trenton, that have run out of gas and there's no place to go. They were'nt familiar with the area and I would think, as a service, it might not be a bad idea to consider that type of signing.

MR. JAMIESON: Mr. Chairman, that's another good suggestion for emergency measures that we could look into. It is a little bit sticky. For example, how do you sign on State property for the benefit of one operator and not another?

ASSEMBLYMAN GEWERTZ: No, I would think that the signing should just read, "Service Station" and an arrow, not indicating a specific station, but more or less the general area or a ramp that you can go off of in order to get fuel.

MR. JAMIESON: I think that is an excellent suggestion to have as a standby measure. I think this brings back the fact that we have to prepare for these emergencies. They're going to be off and on from now on.

ASSEMBLYMAN GEWERTZ: That's exactly the point that we're trying to make. You may get more information out of this than we will.

ASSEMBLYMAN MAGUIRE: I don't know whether this was touched upon before I rejoined the meeting or not, but I have great difficulty with the role played by the Department of Transportation in enforcing their own rules and regulations--at least I think it came from you--having to do with "a turn on red". I read in the paper rather recently that 50% of the intersections where they have "no right turn on red", that those signs are not legal signs, but nothing is being done about them. Would that come under DOT's jurisdiction?

MR. JAMIESON: Yes, it does. It is under our responsibility. We have published the regulations as to how these signs can be put up. There were a number of criteria established. I believe that the city and county engineers that may be responsible for some them did follow the criteria. They are fairly liberal criteria that are being used. I am not aware that 50% are illegal.

ASSEMBLYMAN MAGUIRE: I'm quoting the newspaper, and they're always accurate, you know that. Does the municipality and the county have discretionary powers given to them by DOT on the installation of these signs?

MR. JAMIESON: They have to be approved, but we had some fairly generous criteria established and there may be some that the interpretation was on the generous side of this. I can't quite pull it back, then, to how you could determine these are illegal. I'm sure that we approved the signs that are up there. If there are some up there without the approval, we will get that information.

ASSEMBLYMAN GEWERTZ: Commissioner, what is the Department doing as far as--because you operate quite a large fleet of vehicles as an entity yourself--as far as developing specifications for more fuel saving equipment and the use of State vehicles?

MR. JAMIESON: Mr. Chairman, in, I believe it was March, when we saw this occuring, we put out some directions to our field people. One of them was to cut down on maintenance survaillance. I believe they were out every day and they were asked that patrol back to every other day. We looked for more efficient use of our equipment on the road. On some jobs, where they were getting in and out of vehicles frequently, they had left the vehicles idling, we asked them to shut them off. We took those kinds of measures. I can't report right here just how effective that has been, but this has been in effect since March.

ASSEMBLYMAN GEWERTZ: Is your Department and your trucks going to diesel power as opposed to continuing to buy vehicles that are large block gasoline engines which use quite a bit of fuel?

MR. JAMIESON: Mr. Chairman, I do not know what our effort is in the switch from gasoline.

ASSEMBLYMAN KAVANAUGH: That has to get into the usage of the vehicle too because, like in the trucking business, they're running trucks like 18 hours a day.

ASSEMBLYMAN MAGUIRE: I think there should be more intersections where you would be allowed to turn right on red.

ASSEMBLYMAN GEWERTZ: Oddly enough, a woman got a ticket for failing to turn right on red and went into court on the basis that even though it says that you can make a right-hand turn, there was traffic coming and she felt it was unsafe and they ticketed her for failing to make the right turn.

ASSEMBLYMAN KAVANAUGH: Couldn't this be rectified immediately by a letter from the Commissioner's office to all communities stating that such and such an area has been approved and if the signs are not in accordance with the regulations, they must cease and desist immediately.

MR. JAMIESON: Yes, we can do that. We'll respond back to the Committee on that.

ASSEMBLYMAN GEWERTZ: Thank you, Commissioner.

ASSEMBLYMAN MAGUIRE: Commissioner, before you go, this edict that was handed down in March, you say you don't have a handle yet on the actual savings, whether it is 5% or 10%. Will you, at some point in time, be able to come back and say, "Well, a year ago this month, we used a thousand gallons of gas, but this month, a year later, because of the restrictions, we're only using 900 gallons?"

MR. JAMIESON: Yes.

ASSEMBLYMAN GEWERTZ: Thank you, again, Commissioner.

(Hearing concluded)

STATE OF NEW JERSEY
DEPARTMENT OF ENERGY

JOEL R. JACOBSON
COMMISSIONER
NEWARK, N.J.

May 8, 1979

Honorable William W. Bradley
315 Russell Senate Office Bldg.
Washington, DC 20410

Dear Senator Bradley:

I am writing this letter to set forth my arguments in opposition to the Administration's program to decontrol the price of domestic oil.

The rationale behind the decontrol program is fourfold: a) a severe shortage of oil and gasoline exists; b) the major oil and gas companies have insufficient cash flow to engage in widespread exploration for new resources; c) decontrols are necessary to raise prices, expand profits and provide the incentive for new exploration and development; and d) significant new resources will thus be developed as a consequence of decontrols, higher prices and higher profits.

In my judgment, each of the four assumptions is invalid and of course, any program based upon such assumptions is, necessarily, equally invalid. The whole program suggests highway robbery being committed on the American consumer.

I would like to analyze each of these four assumptions.

A. The Shortage

Proponents of decontrol assert that a major shortage of gasoline and oil exists, perhaps, even more serious than the situation created by the OPEC boycott during the winter of 1973-74.

There are significant differences between then and today.

1. In 1973, the shortfall of oil from the OPEC nations amounted to 1,500,000 barrels per day. The maximum shortfall from Iran was 500,000 barrels per day.

2. The United States had a 54-day supply of crude oil when the OPEC boycott began in 1973. We had a 70-day supply of crude when the disruption in Iran took place.

3. In 1973, there was no such thing as a Strategic Petroleum Reserve. Today, there are 80 million barrels of oil in the Strategic Petroleum Reserve, although it would be good planning if someone in the federal Department of Energy had thought earlier of installing the pumps to extract it, if necessary. I'm told the pumps are still en route.

4. In 1973, production from Alaska was 200,000 barrels per day. Today, Alaska is producing 1.1 million barrels per day, with a potential of over 2 million barrels per day.

There appears to be no effective rebuttal to my fundamental argument that nothing in today's situation compares with the severity of the 1973-74 OPEC boycott.

5. The maximum quantity of oil normally imported from Iran amounted to only 5% of our total supply. As soon as the disruption occured, and while ships from Iran were still en route to this nation -- it takes more than 30 days to travel here -- several major oil and gas companies were already cutting back distribution by 10% to 15%.

Let us appraise the impact of the Iranian shortfall on some specific companies.

The Mobil Oil Corporation has a domestic refinery capacity of 896,000 barrels per day. During the months of July, August, and September of 1978 -- long before the Iranian disruption -- Mobil imported from Iran 13,000 barrels a day, or an amount of oil equal to 1.5% of their domestic refinery capacity. In the middle of February, Mobil announced a 9% cutback in distribution, retroactive to January 1, 1979.

A cynic might properly ask how could a shortfall of only 1.5% trigger such a severe response from the Mobil Oil Corporation?

Here is the full impact of the Iranian shortfall for Mobil and for other major oil companies:

| Company | Domestic Refinery Capacity barrles/day | July-Sept. '78 Iran imports | % Iranian crude |
|---|---|---|---|
| Mobil Oil Corp. | 896,000 | 13,000 | 1.5 |
| Sun Company | 484,000 | 8,000 | 1.6 |
| Shell Oil Co. | 1,135,400 | 19,000 | 1.7 |
| Texaco, Inc. | 976,000 | 25,000 | 2.5 |

And the cynic might ask how shortfalls amounting to, respectively, 1.5%, 1.6%, 1.7%, 2.5%, of a major oil company's domestic refinery capacity could precipitate such severe shortages?

6. The last ship to leave Iran with oil for the United States following the disruption there arrived in the United States in late January. Immediately thereafter, the supply from Iran dried up completely.

Here is an analysis of the operations of the major oil companies in the United States in the 10 weeks between February 2, and April 20, 1979.

| | Week ending February 2, 1979 | April 20, 1979 | % Change |
|---|---|---|---|
| Crude runs to stills | 15,103,000 | 14,254,000 | - 5.9% |
| Rotary rigs drilling | 2,158 | 1,946 | -10.8% |
| Crude production | 8,701,000 | 8,535,900 | - 2 % |
| Crude stocks | 299,611,000 | 323,684,000 | + 8 % |

Furthermore, the average utilization of refinery capacity has fallen from an average of 87.2% for the month of January, 1979 to an average of 84.8% for the month of April, 1979.

A still more cynical question -- based upon this analysis -- might easily be: If utilization of refinery capacity is down, and crude runs to stills are down, and rotary rigs drilling are down, and crude production is down, but crude stocks are up, does this not appear to be an industry-orchestrated scenario to cut production, sit on a stockpile and wait for decontrol and higher prices?

7. The normal inventories of gasoline in this nation throughout the years of 1976, 1977 and 1978, average a 34-days supply.

For the week ending April 20, 1979 -- more than four months after the Iranian disruption triggered a tremendous "shortage" of gasoline, -- the inventory of gasoline stocks amounted to a 32-day supply.

My interpretation of these factors, based primarily upon statistical data provided by the American Petroleum Institute, leads me to ask a simple question: "What shortage?"

It appears more likely that the oil industry has determined to use the Iranian situation as its Gulf of Tonkin for its carte blanche to persuade the administration to do whatever it pleases.

B. <u>The Insufficient Cash Flow</u>

In 1974, the oil industry recorded the highest profits in its history. The profits earned during the first quarter of 1979 have exceeded that record level.

Here is an example of the first quarter earnings and the percentage increase over a year earlier:

| | |
|---|---|
| Exxon | 37% |
| Socal | 43 |
| ARCO | 61 |
| Gulf | 61 |
| Texaco | 80 |
| Mobil | 81 |
| Pennzoil | 95 |

Isn't it peculiar that the two most profitable periods in the entire history of the oil industry were, first, 1974 -- when everyone was waiting in those long lines for gasoline -- and second, the first quarter of 1979, when we're told the shortfall of crude from Iran has caused a "shortage."

But, if the statements of the majors appear to indicate a shortage of cash flow for exploration, the actions of the majors confirms the abundance of cash flow for diversification.

Here is a list of several major oil companies and their recent non-energy acquisitions:

How U.S. oil companies
are making non-energy acquisitions

| Company | Acquisition (year) | Business |
|---|---|---|
| Exxon | .Compania Minera Disputada (Chile)(1977) | Cooper mining |
| | .Jefferson Chemical (Britain)(1974) | Veterinary chemicals |
| Texaco | .Jefferson Chemical (Canada)(1974) | Chemical marketing |
| Mobil | .Marcor (1978) | Merchandising packaging |
| Gulf | .Kewanee Industries (1978) | Chemicals |
| Standard Oil | .Analog Devices* (1977) | Components |
| (Indiana) | .Cetus* (1977) | Microbiology |
| | Sinclair-Koppers (1974) | Plastics, dyes |
| | .The Observer (Britain)(1976) | British newspaper |
| Atlantic | .Anaconda (1977) | Nonferrous metals |
| Richfield | Continental Cables & Conduits (1977) | Electrical conduits |
| | .I/C Engineering (1977) | Process control |
| | .Solar Technology Int'l (1977) | Photovoltaic cells |
| Shell | Polymer Div. of Witco Chemical (1977) | Plastics |
| | .Starla-Werken (Sweden)(1974) | Automotive exhaust systems |
| | ETS R. Bellangr (France)(1976) | Automotive exhaust systems |
| | Harmo Industries (Britain)(1976) | Automotive parts |
| Tenneco | .International Foam Div. of Holiday Inns (1976) | Flexible polyurethane foam |
| | .L.D. Properties (1977) | Almond orchards |
| | Monroe Auto Equipment (1977) | Hydraulic shock absorbers |
| | Philadelphia Life Insurance (1978) | Insurance |
| | H.P. International (1975) | Industrial distribution |
| | .St. Johnsbury Trucking (1975) | Trucking |
| | .Audio Magnetics (1976) | Tape cassettes |
| Sun | Stop-N-Go (1976) | Retail grocery chain |
| | Walter Norris (1976) | Industrial distribution |
| | .Applied Financial Systems (1977) | Computer software |
| | .Kar Products (1977) | Equipment distribution |
| Union | Molycorp (1977) | Rare earths |
| | .Adtek (1974) | Design, construction, engineering |
| Occidental Petroleum | .Squamish Chemicals (Canada) (1975) | Chemicals |
| | .Zoecon* (1977) | Pesticides |
| | .Anchor Construction (1974) | Heavy construction |
| | .McClinton Bros. (1974) | Construction materials |
| | .North Western Arkansas Asphalt (1974) | Heavy construction |
| | Lehigh Valley Chemical (1975) | Chemicals |
| Ashland | Levingston Shipbuilding (1975) | Shipbuilding |
| | .AB&H Processing (1976) | Mining |
| | Coastal Chemicals (1976) | Chemicals |
| | .Commonwealth Equipment (1976) | Mining |
| | General Oils (1976) | Petroleum |
| | .Highland Tractor Service (1976) | Mining equipment |

*Less than 50% acquisition .Acquisition involving cash

In a free enterprise system, it is obvious that a corporation is free to invest its money as it sees fit. I would hope, however, that when diversifying, the major oil companies would have the good grace to do so with -- not the consumers', but -- their stockholders' money.

One must never understate the selective generosity of the oil industry. While the American consumer may be hard-pressed to appreciate this generosity, executives of the major oil companies have reason for considerable gratitude.

Here is an analysis of the remuneration paid to the top executives of several companies for the years 1977-78.

| Company | 1978 Total | 1977 Total | % Increase |
|---|---|---|---|
| Atlantic Richfield Co. | | | |
| Robert O. Anderson, chmn. | $720,000 | $627,000 | 14.8 |
| T. F. Bradshaw, pres. | 610,000 | 439,000 | 38.9 |
| Louis F. Davis, vice-chmn. | 537,000 | 388,000 | 38.4 |
| Continental Oil Co. | | | |
| Howard W. Blauvelt, chmn. | $550,000 | $472,000 | 16.5 |
| Ralph E. Bailey, deputy chmn. | 377,000 | 307,000 | 22.8 |
| Exxon Corp. | | | |
| C. C. Garvin, Jr., chmn. | $768,000 | $696,000 | 10.3 |
| H. C. Kauffmann, pres. | 507,000 | 456,000 | 11.1 |
| Mobil Corp. | | | |
| Rawleigh Warner, Jr., chmn. | $934,000 | $725,000 | 28.8 |
| William P. Tavoulareas, pres. | 801,000 | 621,000 | 28.9 |
| Herman J. Schmidt, vice chnm. | 441,000 | 398,000 | 10.8 |

One bright fact emerges from this analysis. However rigidly the Administration may plan to impose a 7% wage guideline, these guidelines should cause no concern for oil company executives.

It would be interesting, nonetheless, to learn how the Administration justifies decontrols, higher prices, higher profits, booming executive remuneration for the oil industry, and simultaneously, a 7% wage guideline for the rest of us.

C. Decontrols

Last week, the U.S. Department of Energy alleged that 7 major companies had overcollected \$1.7 billion from refineries since December 1977. The major indictment was that the oil industry has made facile paper transfer of oil from "old" wells into "new" or "stripper" wells which meant roughly, that each company would sell oil with a legal price ceiling of \$6.00 at the higher-controlled price of \$13.00 or the uncontrolled OPEC-set world level of \$16, \$17, or \$18 or whatever it happens to be at that moment.

These most recent allegations, however, follow on the heels of previous indictments, all of which reach a total of 67 enforcement actions with a potential overcharge of \$3.5 billion.

Now, the Administration has offered a plan of decontrol which would place a cloak of legality over these predatory practices.

The consequences of decontrol are easy to appraise. If the Administration succeeds in its plan, the price of gasoline will jump 20¢ a gallon within a year. American consumers will be contributing \$15.1 billion additional revenues to the producers by 1981 and over \$50 billion by 1985. The average increase in costs for each American household will be \$205 more in 1981 and \$790 in 1985.

The decontrol argument is based upon the twin theories that higher prices will discourage consumption and that greater profits will increase production.

A look at recent history reveals that both theories are anything but infallible.

Since 1973, the price of Number 2 home heating oil has risen 184% but, instead of going down as in the theory, consumption has actually risen 17%.

For the vast majority of American consumers, the demand for petroleum products is inelastic and they will be forced to pay whatever they must for heating oil or gasoline because the alternatives are cold homes or unemployed workers with no means of transportation to and from home and worksite.

During the years 1972-78, oil prices have risen 179%, but production has not risen -- as in the theory -- but has actually fallen.

Price manipulation cannot solve the problems of production and consumption. There are too many human variables in the equation which cannot be calculated in a cool macroeconomic formula.

The Administration's decontrol program, so vociferously applauded by the oil industry is a prime example of "we pay, they profit".

D. Decontrol and New Production

But, the industry protests, decontrol and higher profits will provide us with the additional resources we need for our energy needs.

The estimate of how much additional oil will be produced depends upon whom is keeping score.

If the Congressional Budget Office is correct and the additional production will amount to 200,000 barrels a day, the incremental costs for producing each barrel of oil will be $220 over the $16.57 now being charged by OPEC.

But, even if the industry is correct and new production will reach 660,000 barrels a day, the cost per barrel will be $66 over the current $16.57 OPEC price.

One would be hard-pressed to make the argument that $84 for a barrel of oil is a bargain.

The Administration's justification for raising the domestic price to the world level has no basis in sound economics.

In 1972, the price of a barrel of oil was approximately $2.50 and the cost of producing it was approximately 20¢ a barrel.

Today, the OPEC price is $16.57 -- one must look quickly, because it appears that the price increases almost daily -- and the cost of producing that same barrel is now approximately 30¢ a barrel.

If the cost of producing a barrel of oil has risen from 20¢ to 30¢ while the price of that barrel has increased from $2.50 to $16.57, it is obvious that costs of production have not pushed that price up, but that the cost of politics has pulled that price up.

By recommending that domestic oil prices be permitted to flow to the world OPEC level, the Administration has offered a program to legitimatize political blackmail.

The substance of the Administration's program is faulty. The procedural approach also leaves much to be desired. If the Administration were genuine in its desire for an excess profits tax to accompany decontrol, President Carter could have sent a simple message to Congress such as:

"When the Congress passes and sends to my desk an effective excess profits tax, I will sign simultaneously, both that excess profits tax and the authorization for the decontrol of domestic oil prices. Without the first I will not sign the second."

Unfortunately, the Administration has not linked these two issues, and as a consequence, its sincerity is suspect.

In brief summary, then, it is my judgment that the "shortage" appears to be contrived, the oil companies were never richer, the additional oil to be produced may cost 5 times more than the current OPEC price, and decontrols will amount primarily to a major rip off of the American consumer.

After hearing Massachusetts Senator Edward M. Kennedy criticize the Administration for supporting the oil industry's plans for decontrol, President Carter labeled it as "A lot of baloney".

Senator Kennedy might easily have responded by sending President Carter the following telegram:

"Dear Mr. President, In Georgia, you may believe you are getting baloney. In Boston, we know we are getting scrod."

Sincerely,

Joel R. Jacobson

Joel R. Jacobson
Commissioner

DATE DUE

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