PUBLIC HEARING

before

NEW JERSEY ENERGY CRISIS STUDY COMMISSION

Held:
February 5, 1974
Holiday Inn
Trenton, New Jersey

MEMBERS OF COMMISSION PRESENT:

Mrs. Nina McCall (Acting Chairwoman)
Senator Alene S. Ammond
Senator Frank J. Dodd
Senator Barry T. Parker
Assemblyman John H. Froude
Assemblyman Thomas H. Kean
Gerald Garvey
Gordon Haym

Also:

Senator Joseph L. McGahn
Senator Wayne Dumont
Senator Anne C. Martindell

HEARING OFFICERS:

John F. X. Irving, Dean, Seton Hall Law School
John Fraeble, Seton Hall Law School

PANEL MEMBERS:

Irvin Glassman, Chairman, Center for Environmental Science, Princeton University

Wallace Oates, Associate Professor of Economics, Princeton University

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I N D E X

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MR. GERALD GARVEY: We have a busy day so I think we should move directly into the hearing. Our first visitors for this morning are Mr. Myron Holman of the independent Gas Pumpers of America and Mr. Frank Edwardi who runs a Sunoco station in Seabright.

MR. EDWARDI: Sea Isle City.

MR. GARVEY: Our two visitors were literally randomly selected to get us started in our fact-finding session today to give us some sense of what the actual gas station operator and dealer think about the current problems in the State.

The format for the day will be as follows: The presiding officer at the hearings will be the Chairman of the New Jersey State Energy Crisis Study Commission, Mrs. Nina McCall. The principal questioners in addition to Mrs. McCall will be Dean John Irving of Seton Hall Law School, Professor Wallace Oates of the Economics Department of Princeton University, and Professor Irvin Glassman of the Department of Aeronautical Engineering, also of Princeton University.

Also present this morning are Senator Alene Ammond of the New Jersey Senate and Mr. Gordon Haym, one of the public members of the Commission. From time to time, I suppose we may do some kibitzing, but the primary conversation, we would hope, will proceed between our witnesses who have come at our invitation and to whom I would like to express the State's thanks and that of the Commission, and those who have been set up as the principal questioners and discussion leaders.

Now I would like to turn over the hearing to Chairman Nina McCall.

MRS. NINA MC CALL (Acting Chairwoman): My apologies for being late. I know that the gas situation is a situation that everyone has. However, I'll tell you what happened to us. We had arranged to rent a car and were assured we would have enough gas to get here. The man from whom we were going to rent the car did not show up. We ended up coming down with enough gas to get here. I hope I find some before the end of the day to get back home. I must apologize for being late.

Now I want to turn the hearing over to Dean Irving who is the hearing officer.

MR. JOHN F. X. IRVING: Thank you, Mrs. McCall.

Ladies and gentlemen, good morning and welcome. I want to introduce, on my right, John Fraeble from Seton Hall Law School, who will assist me as hearing officer. I believe the other members of the panel have been introduced. On my immediate left is Professor Wallace Oates, Economist of Princeton University; and second on my left is Professor Irvin Glassman of the Center for Environmental Studies at Princeton University. He is Chairman of the Center.

Sir, your name is Mr. Frank Edwardi, and what is your business address?

F R A N K E D W A R D I: 4905 Landis Avenue, Sea Isle City, New Jersey.

BY MR. IRVING:

Q How long have you been a gasoline dealer?

A Almost approximately five years.

Q Before we go into any questions, is there anything you would like to say as a gasoline dealer about this crisis or can you give us any insights into it from your perspective? A Not really. I am just here to learn something to tell my customers what is going on.

Q All right. You are a Sunoco dealer, I take it.

A That's right.

Q Can you tell us how many gallons of gasoline are delivered to you each week? A It is based on a monthly allocation which is 80 per cent of 1972's figures. It could range from 14 to 25 thousand a month.

Q Are you paying more for that gas than you did last year? A Yes, sir.

Q What is the difference in the gallon price? Can you tell us that? A Well, it is about close to five cents a gallon more than last year's.

Q And have you added that to the price of the gas per gallon sold to the consumer? A Yes, sir.

Q May I ask you this: Is the profit you now make on the gas, regular gas, more? A No, sir, it is about the same. It is about the same I made last year.

Q Can you tell us approximately what a person like yourself does make on the sale of a gallon of gasoline? A Between 6 to 8 cents a gallon.

Q That is constant this year as last year? A Yes, sir.

Q Do you have any insights as to whether there is more gasoline available for delivery than you are now receiving? A I really don't know, sir.

Q You don't know.

MR. IRVING: Let me yield to Professor Oates.

BY MR. OATES:

Q Mr. Edwardi, could you describe for us in a little more detail the type of contract you have with your supplier. I gather you are getting something like 80 per cent. Do you know anything of the source of this number? Why is it you are getting 80 per cent and not 90 per cent or 70? A That is what our representative tells us we are getting. That is what you receive.

BY MR. GLASSMAN:

Q Who tells you this? A Our representative.

Q Who is your representative? A Mr. Lamanowski.

Q Is he with Sunoco? A Yes, he is a Sunoco salesman. We are just as much in the dark as anyone else, I think.

Q I take it then you are limited as a brand distributor to purchases of gasoline from the sales representative. Would it be possible for you, say, even under normal circumstances to purchase gasoline from another distributor? A No, sir.

Q By the nature of your contract, you purchase from the sales representative of Sunoco and from no one else. Is that right? A Yes. That is in the contract.

Q Are there any other sort of tie-ins you have with Sunoco, any other obligations you have in addition to the purchasing of gasoline solely from the Sunoco representative? A Well, you must buy their motor fuel products - that is their oil and gasoline - and you must run a neat, clean station.

Q Are there other sorts of products besides the oil that you must buy from Sunoco Company? A No, sir.

Q Essentially oil. How long is this contract that you have with Sunoco? For what duration is this? Do you sign it annually? A One year - annually.

Q You sign a new contract each year? A Yes.

Q And presumably, it would be conceivable, would it, at the end, with the expiration of the contract, to shift to another distributor? Is this a serious option? A I don't think I'd be able to do something like that. They own the building on me now. I am not an owner of the station; I lease it from Sun Oil.

Q In fact, supposing at the end of the year they decided they wanted to lease the station to someone else, would you have any legal claim you know of to a renewal of that lease? A Not really. They have to find fault with you in order to terminate your contract. They have to notify you 30 days before your contract runs out and they have to give you a pretty good reason why they are terminating the contract. But I will say one thing for the oil companies - it is pretty hard to get thrown out of a leased station. You really have to let it run down or not take care of anything to have them toss you out.

Q Incidentally, I think it would help all of us if we could understand a bit better the nature of the business of running a gasoline station and I think much of what these hearings is about is to clarify for all of us the nature of the petroleum supply system from the crude, at one end, to the sale of gasoline products at the other. There has been some talk recently about the fact that the gas-pumping part of the operation of a service station really is not the most profitable side; it is the servicing of automobiles that brings in the major part of the revenues, of the profits, actually net income, from renting such a station. Could you shed some light on this? Is this accurate in terms of your own operation?

A Well, it is pretty good - it is pretty accurate. My business in sales is just about four months. It is a seasonal thing, I'd say, from the end of May through the summer months and part of September. And you can make a good profit on gasoline if you pump a good volume of gas. If you pump 100,000 a month - it's a good profit.

Q Right. A Basically the gasoline is more or less a convenience for a customer, although you have to pump gas to bring the customers into your station. I'd say the gasoline - the profit on gasoline - today is enough to cover your overhead, pay your electric bill, pay your help and any other bills you have. The main thing is to get them inside for the rest of the services.

Q So that after covering essentially the costs of your operation, the servicing aspect of it is a major input into the profit of operation. Could you also tell us how the number, how many cents per gallon you will charge, is determined? Does the supplier indicate to you what that number ought to look like? How much discretion have you in that? A Well, I think when we receive a price rise, if it's 2 cents, it's 2 cents more at the pump. In other words, if the government says you can raise your gas 2 cents, your oil companies raise the price 2 cents, we raise it to the consumer 2 cents. If the government says the dealer can make a penny more, we will raise it 1 cent.

Q This is the way we are operating with the existence of the pricings; if we were to go back prior to the time in which there were actual ceilings as a matter of government policy, how then was that number arrived at? Again was there a suggested number to you by the supplier, a suggested price per gallon? A Yes, just what they raised our price.

Q What would have happened, for example, should you have decided to charge 2 cents a gallon less than the suggested price? Would that ever have been a serious alternative for you? A You'd really lose money on that. For example, if you are paying 42 cents for a gallon of gas and the consumer was paying 46 and you dropped that to 44, you are only making 2 cents a gallon. It would be ridiculous to drop that price.

Q You might find you were able to sell more gallons of gasoline, however, for that price. A If you can sell a lot of gallons of gasoline, if you can get the gas to sell.

Q I see. Let's hypothetically assume that you were able to reduce the price of gasoline by a couple of cents and indeed your quantity of sales started to mount rapidly; do you think you would have any difficulty getting the additional gasoline to sell? A Yes, sir.

MR. IRVING: Professor Glassman?

BY MR. GLASSMAN:

Q In your leasing arrangement with Sunoco, does that require that Sunoco deliver a certain amount of fuel to you per year or that you pump a certain amount of fuel per year or per month or any given period? When you have this lease with the requirements from you that you purchase a certain amount of gas from Sunoco or, in the contract do they guarantee they will supply you with a certain amount of gas during this particular period? A No, sir.

Q There were no such requirements? A No.

Q When the salesman told you you were to receive 80 per cent of last year's allotment -- A Not last year's allotment.

Q -- '72's allotment - on a monthly basis, I would assume you have been receiving that 80 per cent.
A Yes, sir.

Q On a regular delivery basis? A Last month it wasn't the regular delivery basis. They told us we'd have deliveries - if you require two loads a month, say, your allocation is 16,000 gallons a month, they will send you two loads, say, the 15th and the 30th, for example. If you require three loads, if your allocation requires three loads, 21,000 gallons, you will get three deliveries. They make up the delivery dates. If you wanted gas that month, they'd tell you when they will deliver the gas to you. Last month was the only month they did that way.

Q So all in all you would simply state that you have been receiving this 80 per cent of the '72 allotment and that you'd have to adjust your customers' sales by 20 per cent. How have you chosen to take care of your customers or the people who drive into your station, considering the fact that you have 20 per cent less gasoline than you sold in '72, which probably is 20 per cent or maybe 25 per cent or maybe even 30 per cent less than you could sell at the present time, given there weren't shortages by other stations. Do you understand my question, Mr. Edwardi? A Yes, sir. I haven't done anything really. When I receive my allotment of gasoline, I just sell it.

Q You don't restrict dollar sales, volume sales or anything like this? A No.

Q Has this made your service station profitable to you? Can you still stay in business? Has it weakened your position financially as a businessman? A Yes, sir, financially.

Q Substantially, I mean. Is it marginal now where you can stay in business? A Well, yes and no. I could work 14 hours a day by myself 7 days a week and stay in business or I could work 8 hours a day and go out of business and hire 2 more extra men on duty.

MR. GLASSMAN: I understand. It is very clear what you are doing.

BY MR. OATES:

Q Essentially what you have to do is make up in terms of revenues through increased services to make up for the loss in revenues from pumping gas. A Yes, sir.

Q How many hours a day roughly are you pumping now? A Well, about 10 hours a day.

Q You have sufficient gas? A Not really. I'm sorry. It should be 9 hours a day. At one time it was 10. After September, it was 10. I laid a night man off and cut an hour out and it is now to about 9 hours a day, 5 days a week -- 6 days a week.

Q How many hours actually are you finding now that you are closed down because of no fuels to pump, no gasoline to pump? A Sixteen hours. Sixteen to twenty-four hours a day.

Q A week? A In '72 I used to run my business from 7:00 in the morning until 9 o'clock at night. That was in the wintertime. Summertime I ran from 7:00 to 11:00 o'clock. Last summer, it ran from 8 o'clock in the morning until 7 o'clock at night - that's three months, the summer three months.

BY MR. GLASSMAN:

Q May I pick up this 20 per cent reduction in the total amount of gasoline delivered to you. Would you give me some idea what this amount is per month or on a yearly basis? How many in total volume? Really I am asking how much did you pump in a year and how much it is projected you will get less per year. A Last year, I think I pumped 432,000 gallons. If you take 20 per cent of that --

Q Go ahead. A The problem is there - the allocation, the 20 per cent they take off of you, is fine. They started last summer where it was 10 per cent. They took 10 per cent off. I don't think they realized a man's business would increase. I can truthfully say my business increased last summer, I'd say, maybe 20 per cent from the previous year. Now that meant that my allocation actually was 30 per cent lower. Like I said, I opened from 8:00 to 7:00.

Q We all have friends in the trade. I know in my field of engineering I go to meetings. I am sure you have your associations and friends also in the business. It is common nature that a good businessman wants to talk to other businessmen who are also in the field. I would assume you would follow the same category. You look like a good businessman. What do your colleagues say? What do the people who own the gas stations across the street or the guy down the street say? I know in Princeton the two gas stations close together cooperate quite extensively. The man across the street who sells a different brand, has he been cut by 20 per cent, by 10 per cent, by 5 per cent? What does he tell you? A Basically we are all cut the same 20 per cent. This month he was cut 50 per cent of his allocation.

Q He was cut 50 per cent? A That's what he told me. I don't know how true it is, but that's what he told me. The fellow down the street from him was cut 50 per cent.

Q Are you afraid you will be cut 50 per cent?
A Not really. I found my allocation to be 20 per cent.

Q He was cut 50 per cent. Has he been told-- again this is sort of speculation - we realize it can be stories or it can be truth. But did he tell you that his allotment will now be 50 per cent hereafter, starting next month, of the '72 allotment or just cut 50 per cent this month and maybe next month he will be back to his 20 per cent allotment? A He told me it would be cut 50 per cent for this month. He didn't say anything about the previous month.

Q What is the prevailing sentiment amongst your dealer friends as to the future? What fears have you generated? I mean, basically what I am trying to do is get information on how, perhaps, through proper actions we could be of help to you. What are your present fears and speculations as to what will happen to your business? And I agree it can only be speculations. We don't know. But the purpose of this hearing is to try to find out how everyone can help each other - from the oil companies delivering the oil, to the guy who has to make his living dispensing the gasoline, and, of course, to the consumer who needs the gas to get to work. The purpose of this hearing is to try to find out enough information so that New Jersey, in particular, will not suffer unduly. That is our objective. How do you think we can help you is what I am asking. A Our biggest problem is to come. The summer months are approaching. Ours is a resort area. With this shortage in the country today, you are not having people travel to the south, not having people going north. They are coming down to the shore area. Our real estate people informed us in our town that they are booked solid. Here it is February. I hate to see summer come with an 80 per cent allocation for June, July and August down at the shore area. I don't know what we'll do. I think people will come from the city and just sit, which will hurt a lot of businesses. They will come down and sit on the beach, eat home, and won't travel like they used to. That's the problem we are going to have this summer.

Q Mr. Edwardi, may I ask you this: Would you recommend the person in business like yourself sell gasoline on a first-come, first-served basis, as you do? Should that be the recommended State policy for the sale of gasoline? A This is my opinion. I think so. You are selling a product. You shouldn't have to limit this product, although there is a shortage, but that is here and there.

Q May I ask you one question about your lease with Sunoco? Does it say anything about your obligation to increase your sales annually, sales of oil or gasoline? A No, sir.

Q You are not in trouble if your volume does not increase under ordinary circumstances? A Well, they'd want to know why.

Q But there is no specific clause in the contract indicating that your volume should increase under ordinary conditions? A I don't think so.

BY MR. OATES:

Q Can I follow with a couple of last-round questions? Following up on Professor Glassman's point, Mr. Edwardi, have you gotten any feed-back from dealers in other parts of the country as to what sorts of allotments they are getting and what their experience is with shortages relative to the dealers in this area in our State? A I'd say mainly in New Jersey it's all about the same. We are all having a hard time receiving gas. I have a friend of mine who has a gas station in King-of-Prussia. He put an advertisement in the paper. He'd love to sell more gas. He has more than enough.

Q So your sense of it is that the shortage is indeed more acute in the State of New Jersey than in certain other areas? A It seems that way. I had friends drive to Florida and didn't have a bit of trouble. They got off the ferry at Cape May and had a hard time finding a station.

Q I'd like to back up, if I might, to be sure I have this straight. We talked a bit earlier about pricing on this. The suggestion was earlier that if indeed you were to charge a price somewhat lower - and this is under normal times, not under shortage times - somewhat lower than that that is sort of the standard or suggested posted price, that you probably could not get sufficient allotment of fuel actually to meet the increased demand that that might generate. Am I paraphrasing you correctly on this? A Now?

Q Yes. A At this time?

Q During normal times, if you were to cut the price of gasoline a cent or two below the suggested posted price, this would presumably, I would think, increase your sales. But you doubt really that you could get the fuel to meet this increase in sales. A Not really. If there was not a shortage, I think you would receive all the fuel you could sell, no matter what price you sold it.

Q I see. So during normal times then, if you were to cut your price, say, a couple of cents per gallon below the normal posted price, the result being a substantial increase in volume, you think the supplier would be happy to provide the additional supply? A Oh, yes.

MR. OATES: O.K. Thank you very much.

BY MR. IRVING:

Q Just one other question, Mr. Edwardi: Can you tell us how you pay for your monthly allotments of gasoline? Do you have a credit arrangement with Sunoco or do you pay cash each month? A Well, the way they require the payment, you sell what is in the ground. That's their gas. When your next delivery comes, you pay for the gas you sold.

They drop that load in the ground and hand you a statement. And when your next load comes, then you pay for the back load. It is not required that you pay for the load of gasoline that has been dropped off. Although some stations, you have to. I am not sure about the other oil companies. But that is the way they arrange it.

Q What you are saying to us is that you pay for it as you use it. A Yes.

MR. IRVING: All right. Thank you. Are there any other questions from the panel?

MR. GLASSMAN: I have none.

MR. IRVING: Well, I do want to introduce Senator Barry Parker who is here. We are happy to have you, Senator, this morning. Senator Frank Dodd of Essex is here. We are happy to have you. Senator Ammond is here of Camden. And, Senator Dodd, would you introduce the gentleman on your right? I am sorry I do not know him.

SENATOR DODD: Senator McGahn from Atlantic County.

MR. IRVING: We are appreciative of the interest of all of you elected officials in this energy crisis.

Mr. Edwardi, feel free to stay there if you like. We will now talk to Mr. Holman. You may have something to offer as the other discussion projects.

I understand, sir, your name is Myron Holman.

M Y R O N H O L M A N: That is correct.

BY MR. IRVING:

Q Will you give us your business address, sir?

A We go under the name of Gas Pumpers of America Corp, #1 Valley Street, Hawthorne, New Jersey.

Q Would you identify that as a trade association, sir?

A We are a distributor, a New Jersey distributor, owned by

Albert Shotmeyer.

Q The Gas Pumpers of America then is a corporation?
A Yes.

Q The name implied to me that somehow you spoke for more than yourself and I take it that is not so. You speak for only your own corporation? A My corporation, yes.

Q Do you, in fact, have a local outlet for gasoline?
A We have ten outlets.

Q Where are they, sir? A They go under the name of "You Save." They are located in Bergen and Passaic Counties, Morris County, Sussex County, and we have one in New York State.

Q Does that name then identify you as an independent?
A As an independent. We are an independent distributor and we buy our gasoline -- we have been buying our gasoline from Cities Service Oil Company.

Q How long have you been in this business?
A Well, we have been in the gasoline business -- Mr. Shotmeyer has been in the business for about 40 years. But it was only at the beginning of 1972, February of 1972, that Mr. Albert Shotmeyer separated from his brother who was running the Shotmeyer Brothers Petroleum Corporation under the Mobile brand. And at that time, Mr. Albert Shotmeyer got a contract from Cities Service Oil Company for 48 million gallons of gasoline a year, which ran for three years. We could buy up to 48 million gallons of gasoline a year. Obviously, we started out at that time with one station in February of 1972. That month we sold 8,000 gallons of gasoline. Our purpose and intention was to run these independent stations, selling to the customers at the lowest possible prices we could. At that time we started out at 29.9 cents when most everybody else was up to 37 and 38 cents a gallon. Then we continued adding stations to our chain during 1972. By November 1st of 1972, we had eight

stations. In 1973 we added two stations, and in the meantime we have supplied other stations which we took over on a contract basis with gasoline, up to the end of 1973. So by the end of 1973, we were selling approximately 2 million gallons of gasoline a month. The price was probably the lowest in Bergen and Passaic Counties.

Q Before we go into that, sir, it is not clear to me at the moment what your relationship is to the company. A I am the Executive Vice President.

Q Of the corporation? A Yes, Gas Pumpers of America.

Q Do I understand that the corporation has a three-year contract -- A With Cities Service, yes.

Q -- for the purchase of 48 million gallons of gasoline? A Yes, but that has been reduced downward since that time.

Q By how much, do you recall? A Right now, they just signed a new contract. In December they signed a new contract for 2 million gallons of gasoline a month from the Cities Service Oil Company. It was 1,800,000 for the second year, but for the third year, it would be 2,000,000. The first year it was 48.

Q Was that a contract that was voluntarily entered into by your corporation and Cities Service? A Oh, yes.

Q Let me ask about the eight outlets that you have briefly. Are those eight outlets on leased property? A No, they are owned by our corporation.

Q I see. So that the corporation owns eight -- A Ten.

Q I'm sorry. Thank you -- owns ten local outlets and sells gas under an independent name "You Save" through a contract for 2 million gallons of gas per month from Sunoco? A Cities Service.

Q Cities Service. Before we go any further do you have any basic statement you want to make about your role as an independent in this gas crisis? A The only thing I can say, I can say right now before we go further that with the Federal energy regulations, Cities Service will no longer supply us. They will not honor the contract.

Q Do they say why they will not? A Because of the Federal regulations. They can sell us only what they sold us during the same month of 1972.

Q But in 1972, you --- A We were just starting out. We didn't buy any gasoline from them until July of 1972.

Q Well then, what future is there for your ten stations? A That is what we would like to know.

Q The State of New Jersey hopes to find some information that will be helpful to you. A Very good. I hope so. We are working with the Federal Energy Office in New York, trying to get a base supplier, a new supplier, and a new base amount for the year of 1974.

Q How much gasoline do you now have? A We are out of gasoline now.

Q So that the ten outlets are not functioning? A They are closed now.

Q Do you have any impressions, sir, as to whether the amount of gasoline available to the distributor is being distributed on an equal basis? I don't mean to put words in your mouth. But do you feel that the termination of the contract is avoidable? A I think it is avoidable if they get the directive from the Federal Energy Office, if they will direct them to supply us or continue supplying us with some gasoline anyway.

Q Has your impression been that your supplier has been supportive of your efforts to stay in business as an independent? A Yes, I believe they have.

MR. IRVING: Let me yield to Professor Oates for the moment.

BY MR. OATES:

Q Mr. Holman, I think one of the things that might be useful for us to explore is in what way the position of running an independent station differs from that, say, of Mr. Edwardi who is a branded distributor. Mr. Edwardi indicated that a substantial part of his operation really consists of servicing as well as a pumping operation. Does that apply equally to your operation or are you more heavily dependent, say, on the pumping aspect?

A We have no repairs. None of our stations do repairs. We sell only gasoline. It is like the Hess operation.

Q Right. So your operation then really is essentially 100 per cent dependent for income on the pumping?

A On the pumping of gasoline and adding oil occasionally upon request.

Q Where do you get your oil from? A We have bought it from two different sources. We just purchased a large shipment from Cities Service Oil Company and another independent, Imperial Oil Company.

Q So these are just periodic purchases then?

A Yes, they are.

Q You don't have a long-term contract?

A No, we have no contract to purchase that.

Q Could we go back and explore the nature of the contract with Cities Service. You said that it was originally a three-year contract that you signed with them and this was signed in '72, right? A That was signed in March of '72. In fact, it went into effect April 1st, 1972.

Q So in principle, other things unchanged, that should have been in effect at this present moment.

A That's correct.

Q And you should have been able -- from the numbers you have been providing us, it sounds like you could have purchased all the gasoline you wanted. That 48 million number was above what you would have purchased over the three-year period. A It was 48 million the first year. We could have purchased 48 million the first year, but then it was mutually reduced to 22 million the second year.

Q Right. A Just in December, they mutually agree and signed the contract for the third year.

Q I thought there was an agreement at the outset of this three-year period as to a total? A Yes, we adjusted it.

Q Why did you "mutually agree" to a smaller quantity? A It was to be adjusted each year. The price and the amount were to be adjusted prior to the beginning of the next year.

Q I see. So part of the original contract was for a readjustment of quantity at the beginning of each year. A Yes, quantity and price.

Q So the real jam, I take it, that you find yourself in now is that the allocations are based on 1972 supplies and at this time in 1972 you weren't even pumping gasoline? A That's right.

Q So in effect, you are technically by the allocation guidelines eligible for no gasoline, and that's what you are getting. A That's right.

Q Obviously with these places sitting closed right now, you have a very difficult situation. How long do you guess that you can ride this thing out before essentially folding up shop permanently? A I don't know. We are in hopes we will get it. We are not too glum about the thing. We feel that we will eventually get some. If we can't get it from them, we will probably have to buy some of the real high-priced stuff.

Q How would you go about doing that, could you tell us? What sorts of other access might you have to other sources of supply? A We get telephone calls almost every day from people who want to sell gasoline for about 54 cents a gallon. You have to pick it up some place else, down in Texas or Oklahoma or some other state. But that's a problem for us.

Q I see. They are not local calls, are they? They are not local suppliers? A No.

Q But there are suppliers in other parts of the country who were willing to make available to you gasoline supplies on the order of 50 some odd cents? A I got a call the other day from somebody who had 5 million barrels of gasoline in Tunisia for sale. We couldn't handle that.

Q But he would have been willing to sell some portion of that to you is that right? A He wanted to sell the entire 5 million barrels within 4 months.

Q What kind of a price was he talking about? A Thirty-three cents a gallon. That would be in Tunisia.

Q Presumably an independent survives by being able to pump gasoline at a price somewhat less than that of a branded distributor. If you are going to have to sell gasoline -- Wait a minute. I guess that is not clear either. At least during this period of shortage, it would seem that an independent presumably could pump gasoline, given the lines that I encountered on the way here this morning, at a price in line with branded distributors. I am sure you could sell it at 75 cents a gallon right now. A We were one of the first in our area to have the long lines. That's when we had the gasoline. Most of the others didn't have it. That was in the latter part of '73 that lines began to form because we had it and we had a satisfactory supply. They were doing around 150 to 200 thousand gallons a month. Now that dried up. So you can see what a big impact that will have on the communities.

Q That's right. But it does sound as though there are gasoline supplies available at this moment if you are willing to pay the price.

BY MR. IRVING:

Q May I ask you this, Mr. Holman, by way of developing that further? Have any of these phone calls to you offering you gasoline come from any of the major companies? A No, they are from brokers.

Q Brokers, do I understand, largely from the midwest? A Yes.

BY MR. OATES:

Q Could you explain to us what a gasoline broker is? A He is one that negotiates between somebody who has the gasoline, most likely the refineries, and some distributor who wants to buy it. He gets a fee for that.

Q So the broker is not telling you where the source is. All he is telling you is, "I know of a source."
A The general area.

Q So you wouldn't have any idea then as to who the supplier is? A No.

Q Actually you must consider the prospects then for getting some gasoline in the near future not to be too bad because you could probably pump that stuff at 55 or 60 cents a gallon. A I am in hopes that the Federal Energy Board will help us.

BY MR. IRVING:

Q Mr. Holman, do you have any impression that there is gasoline available that is sorely needed in New Jersey but cannot be brought in here because of the price differential? A I do think there might be some available. Of course, I don't know how much. From these indications, there might be large quantities of gasoline some place.

Q Could you estimate in the last month how many phone calls you have gotten from these brokers?
A Three or four.

Q Do they indicate how much they have available?
A It is always 4 or 5 million barrels. Some of it may be the same gasoline too - I wouldn't know that - maybe from different brokers trying to peddle the same gasoline.

Q I think the significant thing for us this morning is that there is much needed gasoline out there some place. The problem is to bring it in at a cost that we can afford to pay for it. A Yes.

Q May I ask you whether the gasoline that you have pumped under the name "You Save" is any different in quality from Cities Service gasoline? A It is the same quality. It comes out of the same tanks in Linden.

Q So for me, as a motorist, there is no incentive to pay a higher price? A No.

MR. IRVING: Thank you. That may be helpful.

BY MR. OATES:

Q I wonder also, in line with one of our earlier questions, in terms of your discussion with other independents in the industry what is your sense of their situation? A Well, I have talked to a few of the independents about our own situation and they thought that perhaps that they would be in better position with the new regulations than they were prior to the mandatory allocations. But now they find that they are not because they are only getting maybe 50 per cent or 75 per cent, whatever it may be, of their 1972 requirements. If they had gotten 100 per cent, then they would have been in pretty good shape. But with the cut in allotments, they are not.

Q Where do most independent dealers purchase their supplies? Do they purchase primarily from majors in most cases? A Primarily from majors - Cities Service; Tenneco, which had a big impact on the area; Atlantic Richfield - they reduced an awful lot of their stations. There are a couple of others that have pretty much gone out of the area. That has further reduced the supply of gasoline for New Jersey.

Q Is it your sense from talking to other independents as well as your own experience that independents are in general, having more difficulty getting access to fuel supplies than branded distributors at this time? A I think they get their same percentage if they were buyers in 1972. I think they are all getting the 80 per cent or 60 per cent or 50 per cent, whatever it is, the same as the branded suppliers.

Q What about the case of someone, however -- supposing you had had a contract in 1972 with Atlantic Richfield and last year sometime it shifted your contract to one of the other major suppliers. What sort of access would you have at this point -- what sort of access would an independent distributor have at this point? A The only thing he could do would be go to the Federal Energy Office. He could apply to the supplier of record of 1972 and he is supposed to supply him. If he refuses to supply him, he can go to the Federal Energy Office who will send a directive to the old supplier to supply him. However, there is a problem there with brand names. They might have to change brand names back to what it was in 1972.

BY MR. IRVING:

Q I have just one other question, Mr. Holman, if I may ask it. Since you are purchasing the same quality gasoline as the branded stations sell, can you advise us how you are able to sell it traditionally at so much cheaper a price per gallon? A Because we sell it on a higher volume. We have low overhead and high volume. That's the only way we can do it.

BY MR. OATES:

Q From what you hear about the situations of independent dealers outside of New Jersey, is it your sense that independents in New Jersey are having more difficulty getting access to gasoline supplies than elsewhere? A I don't know too many independents outside the State of New Jersey. So I wouldn't be qualified to answer that.

BY MR. IRVING:

Q May I pursue my earlier line of questioning with just one further question. What is the difference in the price you pay for the gas and what you sell to the customer? Are you willing to tell us that figure, sir? A We have been buying some higher-priced stuff on the outside, but from our major supplier, it is 7 cents.

Q Does that remain constant, sir? I mean to say, if the price you pay goes up then your price would go up so you would retain a 7-cents-per-gallon differential? A Yes.

BY MR. OATES:

Q Mr. Edwardi suggested essentially he was charging something like 6 to 8 cents above the cost to him of a gallon of gasoline. You are coming in with about the same number. This would suggest a rather significant difference in the price at which, I guess, independents and branded distributors purchase their gasoline. A Out of that 7 cents, between what we buy it and what we sell it for, 3 cents of that goes to the operator.

Q I see. A The operator gets 3 cents. That leaves us about 4 cents a gallon.

Q O.K. So it is 4 cents as compared to 6 or 8 then. A Yes.

Q We are extremely interested in the position of New Jersey, naturally, in these hearings, relative to other states. But you really have no sense at all of the situation outside the State. Is that right? A I don't know. As far as the independents are concerned, I don't know. The only thing I have heard too is that once you get out of the State of New Jersey there is plenty of gasoline. In Ohio - I have telephone conversations with people in Ohio - they have no problem with gasoline out there.

Q Are these independents in Ohio? A No, my relatives.

Q They can buy gasoline? A Yes.

BY MR. IRVING:

Q Mr. Holman, I asked Mr. Edwardi a question and I would like to pose the same to you. Would you make any recommendations to the State of New Jersey as to whether the local service station ought to sell gasoline on a first-come, first-served basis or whether the local person ought to have some discretion in predetermining prior customers for preferential treatment, or limiting the amount of gasoline he should sell to each customer? A I believe that he should sell to everyone who comes along. If his supply is limited and he is not going to be able to keep his station open very long if he just fills it up, I think that it should be limited, say, to $3 if the supplies warrant that.

Q Do you think it would be helpful for the State to try to develop a uniform policy in this matter? A I think it would be very helpful because everybody would know when they go into a station what they are going to be able to get.

MR. IRVING: Mr. Fraeble, do you have any questions?

BY MR. FRAEBLE:

Q Mr. Holman, I understand that Citco has abandoned its stations on the Parkway and the Turnpike. Is that correct? A That's correct.

Q Do you know where this extra gallonage goes today? Apparently it doesn't go to you. A There was about 90 million gallons that went some place from those two sources.

Q You are not aware it goes into the State of New Jersey to any independent dealers? A No.

Q I would like to pose a question to both gentlemen.

Do you have any storage facilities on your station property? A No.

BY MR. IRVING:

Q The 90 million gallons - is that per year, sir? A Yes.

BY MR. OATES:

Q In terms of storage facilities, how often do you need to have the tanks refilled at the station? In other words, how many days' supply can you hold in a station, Mr. Edwardi?

MR. EDWARDI: About ten days.

MR. OATES: About every ten days you get refilled?

MR. EDWARDI: Yes, depending what season you are in. In the summer, it is every other day.

MR. OATES: It is every other day. Is your experience similar, Mr. Holman?

MR. HOLMAN: It depends on the amount of storage facilities. But during the latter part of 1973, we were getting a load every day at every one of our stations.

MR. OATES: So a station itself, typically, really has very limited capacity in terms of its ability to store.

MR. HOLMAN: Yes, ours usually hold from 12 to 15 or 16 thousand gallons.

MR. IRVING: I don't know that there are any further questions. I want to thank you both for coming on behalf of the State and its citizens. It seems clear to me that the very fact that the State Senate is so well represented this morning indicates that the Senate - and I am sure also the Assembly - are determined to find what the problems are in this State and develop some mechanism for alleviating the problem in so far as we can control it within our own State.

MR. FRAEBLE: May I ask one further question?

MR. IRVING: Yes.

BY MR. FRAEBLE:

Q You mentioned the failure of Tenneco, that that left the State. What effect did that have on the gas distribution in New Jersey, the Tenneco leaving?

A That had quite a -- I don't know what the percentage is, but some of the independents that I know of, of course, are not able to get that gasoline now. They were getting it.

Q Most independents were dependent upon Tenneco?

A Yes, to a certain extent. Some of them had agreements with others as well, but Tenneco was one of the major suppliers to some of the independents that I know. It did have quite an impact on the independents.

MR. IRVING: Mrs. McCall, did you want to ask something?

MRS. MC CALL: No.

MR. IRVING: Again, gentlemen, thank you very much.

Now I will turn the microphone over to Mrs. McCall.

MRS. MC CALL: I just want to announce that Assemblyman John Froude has come in and is sitting at the end of the table.

MR. IRVING: Thank you.

We are now prepared to hear from the fuel dealers. I will call Mr. Clinton Dunham and Mr. John Fairclough. (Messrs. Dunham and Fairclough come to the front.)

Thank you. You saw the first go-around, gentlemen, so you know generally how we want to proceed. We are interested in gathering information at this point.

Mr. Dunham, may we talk to you first, sir.

C L I N T O N L. D U N H A M: Yes.

BY MR. IRVING:

Q What is your business address? A 51 Broad Avenue, Fairview, New Jersey. It's in Bergen County.

Q That is the address of L. B. Dunham and Sons, is it? A That's right.

Q What kind of business are you in, sir? A Retail fuel dealers. It's a small business. We deal in number 2 fuel, a small quantity of kerosene and number 4 fuel.

Q Is this fuel, Mr. Dunham, used largely for heating of homes and business offices? A Mostly homes and small industries.

Q Are you set up as a corporation, Mr. Dunham? A No, sir, as a company, a partnership.

Q As a partnership. How long, may I ask, has the partnership been in existence? A Well, actually the business was established in 1898. It has been a family business and the fuel oil end of it, I believe we went into in 1935.

Q You have a long history of experience in the retailing of fuel oil in New Jersey. Is that right, sir? A Actually I am one of the sons and we tried to follow through. It has been a family business.

Q What I am trying to do is establish you as an expert, you see, -- A I wouldn't say that.

Q (Continuing) -- at least expert in terms of your experience in this phase of the fuel oil industry. May I ask you this, Mr. Dunham: Where do you get the fuel that you sell? A We have four suppliers, mainly Hess and Atlantic are the larger suppliers, and we have Coastal and Paragon.

Q Can you tell us what the contractual arrangement is with those suppliers? By that I mean, is it an annual contract? A It is an annual contract. As I just said, we work from year to year with a new contract.

Q Does the contract spell out an escalating scale for the price that you will pay for the fuel that you purchase? A No. The price varies from time to time depending on the company's price to us.

Q So that although you have an existing contract -- A It is only on gallonage.

Q -- on gallonage. And the contract is broad enough so that the price varies with each transfer of fuel. A Well, it varies through the year;we never know. Right at the present time, it seems to vary every month.

Q Do you know where your suppliers receive the fuel that they sell to you? A Well, Hess, for instance, they have their own refineries, and Atlantic too. The other two companies, I really couldn't say.

Q I mean by that question to ask, do you know whether it is foreign or domestic? A I couldn't tell you.

Q Are you paying more for the fuel that you purchase this year than you did last year? A Definitely.

Q Can you tell us what the price differential is? A Well, I was trying to think myself. Our retail prices have varied from - I believe it was one time last year 19 point something up to today's price of 34 cents. We are working on a margin and the differential is in the margin. The thing of it is that this year we are paying different prices to each one of these wholesalers and we have to work our price according to the percentage we buy from each one and according to the price that they sell it to us for.

Q I am not sure that all of us understand the price that you pay. You said 19 cents. A That was our selling price, say, a year ago.

Q Nineteen cents -- A -- per gallon. That was number 2 fuel.

Q That was the retail price? A Right.

Q What would the wholesale price of that have been? A I believe at that time -- the margin has varied -- and if I remember, it was something like maybe a 6-cent margin at that time. Now we just had an increase this past month back. We work on, I believe an 8-cent margin now.

Q So it is fair to say then that the business is returning a better profit to you now than it did last year. A I wouldn't say that, no, sir. The expenses have gone up overwhelmingly. I think actually the profit is lower than it was a year ago.

Q So then the 8-cent per gallon differential --- A The 8 cents just went into effect.

Q I take it that is gross rather than net. A Right. Operating costs have gone up considerably.

Q Are you experencing difficulty in getting the amount of fuel from the wholesaler that you need for your customers? A Well, up to this point, being that we have had more or less a warm year, you might say, our allocation has been sufficient to take care of our customers.

MR. IRVING: Let me yield to Professor Oates for the moment.

BY MR. OATES:

Q Mr. Dunham, one thing I am a little curious about is why you have contracts with four suppliers. Does that provide some sort of advantages rather than getting your supplies, say, from a single supplier? A Actually, I think when we really went into the additional suppliers, it was because they had outlets in different parts of Hudson and Bergen Counties, such as pickups for our trucks, and by having this, it cut down our expense as far as having to run back to a certain spot.

Q So you are able really to reduce your transportation costs by buying from different dealers at different points. A Different areas, yes. But that has changed too now because most of these wholesalers now more or less tell us where we can pick up and how much we can pick up at each one of these places, whereas we used to be able to use almost any one of their facilities. We can't do that today.

Q I see. You made reference to your allocation. Could you tell us about what that is, what the size of it is, and what the nature of the arrangement is?

A As I said, they go back to the 1972 allocation. They have given us a certain percentage of that allocation.

Q What is that percentage? A Well, it varies actually with the different companies. We don't really know our allocation from month to month. It seems like around about the first of the month we get a telephone call or a telegram or something and they tell us what it is going to be for that month.

Q Could you tell us what yours is for this month, say; do you know? A I believe it was in the neighborhood of like 390 thousand gallons -- or 290 thousand gallons.

Q How would that compare to the base period of '72? Are you getting about the same amount you got them?

A It will be less than '72.

Q You actually are getting less? A It will be less. One company might be closer to 100 per cent and another one down. As I say, it varies with the different companies.

Q Do you have any sense of why the allocation varies among companies? A I couldn't say.

Q You are told what your allocation is and somebody else's allocation may be different. A Well, I made the most of companies in that area, more or less on the same basis.

Q But to your knowledge, there are some suppliers who are getting different allocations than you, isn't that right, or have been over the last couple of months? A I imagine it is all based on what they bought in '72.

Q I see. So the fraction of '72 is the same?
A It should be the same for each of the dealers.

Q As far as you know. A Right.

Q Could I ask again to help us understand a bit better the nature of the operation, what sort of supply capacity have you? Do you have any? A We do have a little over 200,000-gallon storage.

Q Two-hundred-thousand-gallon storage. And what are your monthly deliveries roughly? A It is hard to say. I really haven't checked it out myself, but, say 300 000.

Q So your storage capacity comes close to being something like three weeks, something on that order.
A Yes.

Q Although some of your trucks, you indicate, pick up directly. Is that right? Some of your trucks might be picking up directly from suppliers rather than going to your own storage facilities? A Wherever they are - at the nearest point.

Q Has your storage capacity been pretty fully utilized over the last couple of months? A Yes. Actually the month of January, we have had to use a good portion of the storage.

Q It sounds like your inventories are a bit above normal right now. Is that true? A I wouldn't say that because we have been using storage.

Q You have been using storage? A Right.

Q But is the stuff that you have actually got stored away in storage facilities at this point roughly the same amount you had last year, would you guess?
A I would say very close with the weather conditions. Actually what we do is we will use the storage and refill the storage and then we keep taking in and out besides picking up what we can.

Q Could you explain for us just briefly the mechanics of how you service a particular household?
A It is all based on the degree-day system, depending on

the weather from day to day. If an individual house comes up on, say 400-degree days, when that delivery comes, we automatically do it.

Q Do you have a card on each house indicating the size of its --- A The size of its tank, the "K" factor involved in the degree-day system.

Q So you have a pretty accurate indication, an intimate knowledge, of when each house's tank needs to be refilled. A That's right.

Q How does the number of gallons delivered over the last couple of months compare with that, say, last year? A I believe January was above and December was below.

Q December was below and this January has been above so far. A Last January was more or less a warm month a year ago.

Q That's right. You would attribute most of this then to climatic factors. A All based on climate right now.

Q We have all been urged to turn our thermostats down 5 or 6 degrees. Can you have any sense at all as to whether this may be helping? A I think in a lot of cases, people have gone overboard. A lot of people have really cut down. We can see it on deliveries. The "K" factors actually haven't changed.

Q I would suspect that you see a lot of differences in terms of individual households. A It can be a small industry where they would leave the heat on at night; they have cut the heat off at night, especially with the warm weather we have had. They have been able actually to cut it off completely. It has made quite a difference in a good many of the places that we deliver to.

Q Have some households, for example, been able to cut their consumption by as much as, say, a quarter? A I wouldn't say that much.

Q Not that much. A A good percentage, but that's about it.

Q You mentioned that you signed contracts with each of four suppliers and these are annual contracts based on gallonage. I am sort of curious about this. How long have you been dealing with these same suppliers? Does it have a long history? A Well, two of the suppliers we have been dealing with fairly long, that would be Hess and Atlantic, and Coastal and Paragon are fairly new suppliers in the last ten years or so.

Q Why did you expand the suppliers to include the latter two? A For facilities.

Q Because of facilities. A Price was no item.

Q Was the price the same? A More or less. It was fairly close. I mean, you are talking mills you know. It actually didn't amount to that much on delivery.

Q Do you ever get approached by a supplier who can offer you number 2 at a considerably reduced price? A We haven't had anybody approach us at all.

Q Even over the last 5 to 10 years? A Oh, over the last 5 to 10 years, you had salesmen looking for business.

Q When they are looking, are they talking lower price terms? A No.

Q On what grounds are they then able to offer their supplies to you? A Well, I guess, as I said before, more or less facilities. That would be the main reason.

Q But your experience has not been much in the way of competition in terms of price among these people, among the different suppliers. What is your sense at this juncture of our ability to ride out the winer? Can you offer us any thoughts you have on this? A Well, I suppose, the area involved is going to be the main factor. You take these growth areas: I guess they more or less have problems because if they are getting 1972 allotments and they have taken on a lot of business in '73, which I suppose they have, they have problems and I don't know just how it is going to work out for them. In the area we are in, there is very little change from year to year, and it has been that way for a good many years.

Q Do you know of any retail dealers today who have not been able to service, for example, residential customers?

A Not in our area, I haven't heard of any.

Q In other areas, have you heard of any?

A Well, I have heard down here in the Camden area - I heard of no particular dealers - but different friends of mine have mentioned it - they have cut them back quite considerably on deliveries.

Q They have cut back residential users? A Right.

Q In the camden area? A I would say Camden, Mount Holly, that section there. I imagine it would take in probably Bricktown and the Toms River area, down in that area. They have had a lot of building in that section down there.

Q Do you know any dealers outside the State at all, any people with whom you communicate at all?

(No response.)

Q One other issue with which we are all somewhat concerned is - in the event that a severe shortage did set in on the fuel oil scene, as we seem to be experiencing on the gasoline scene right now, what sorts of allocation procedures would you follow in distributing what supplies you did have? A I imagine you would have to cut a percentage on every delivery. I wouldn't see any other way out. In other words, according to the usage that they would have through each month, you would have to work it out so that your supply would last you through the season.

Q What you'd do is go back to your records, house by house essentially. A In other words, instead of filling a tank, you would probably have to cut them a percentage of each tankful.

Q Is your sense of it that your records are adequate at this juncture to do such a thing? A Well, with the degree-day system, you know when your deliveries are due - are coming up on the degree days. Naturally we always fill our tanks or we try in most cases to fill our tanks. By having this delivery setup that we have, we automatically would be able to cut a percentage.

Q So this strikes you as a feasible way to operate, at any rate, should it come to that? A Yes.

BY MR. IRVING:

Q Mr. Dunham, may I ask whether Atlantic and Hess have their own jobbers, their own retail outlets, for number 2 fuel? A They do.

Q Are you aware of any preferential treatment? A I haven't heard of any.

Q We are not too familiar with Coastal and Paragon. A Paragon is Texaco.

Q Is Coastal an independent? A That's right.

Q Do you know where Coastal receives its fuel from? A I really couldn't say, sir.

Q You don't know whether it is domestic or foreign? A They have big storage facilities in Port Newark. I really don't know where their supply comes from.

Q Is there a significant price differential on what you were required to pay in purchasing number 2 fuel from each of these four? A Well, there has been a big differential up until the first of the year. It was, I believe, as high as 8 cents difference in some of the dealers.

BY MR. OATES:

Q Going back to an earlier question, this is a recent phenomenon due to the shortage? A Right.

Q Because when we were talking earlier, it was all the same essentially, say, a year ago. A This just happened since this problem arose.

BY MR. IRVING:

Q By that, do I understand that to mean that you have over the years that you had the contract with the four companies paid approximately the same price per gallon from each of the four? A Right - more or less.

Q There is no differential on what you buy from Coastal compared with what you buy from Hess? A There hasn't been that much of a differential.

Q Is there anything else you would like to tell us, Mr. Dunham, this morning that might be of help to us as we deal with this energy crisis? A No, I can't think of anything offhand.

BY MR. OATES:

Q I would just like to explore one other phase of the operation if I might. Are there other retail fuel dealers servicing the same areas in which you are working? A There are quite a few dealers.

Q A dozen roughly? A At least - easily.

Q How often in your experience do purchasers, say, households, change from one supplier of number 2 to another? Is there much of this that goes on? A I'd say there is a percentage every year. Just what that percentage would be, I wouldn't have the figures offhand. It seems like every year you have a certain amount of changeover - turnover.

Q Would 10 per cent be a ball-park number, do you think? A It would be fairly high, I would say.

Q I guess that would be my sense of it too. I am thinking in terms of my own contract. I think pretty much one doesn't shop around too much. A As long as they are satisfied, they don't change.

Q You don't shop around where you have some posted prices of gasoline, for example, -- A There are dealers that cut on price and they do pick up a certain amount of business that way, especially bigger business.

Q I see. So there are people from time to time coming in offering number 2 to households at a lower price? A I would say not as much on household as on small industries.

MR. IRVING: Mr. Fraeble has a question or two.

BY MR. FRAEBLE:

Q Mr. Dunham, how much do the brand-named company jobbers pay for their number 2 fuel? A You mean, for instance, ourselves?

Q No. You said Hess has their own outlet, their own distributors. Would they pay more or less than you? A Well, they were more or less on the same basis as we were up until this energy crisis.

Q Since the crisis, you have been paying more? A You see, where we have four different suppliers, we have four different prices coming to us and we have to figure our prices according to the percentage we buy from each one. And that's going to vary our price now. For instance, if Atlantic's price is higher than Hess's price, and we buy a percentage from Atlantic, we have to figure our price accordingly. We more or less would be above Hess's price because Atlantic was higher. For instance, right now I believe our selling price is 34 cents a gallon and Hess right now, I believe, is selling for 33.5 or something of that sort.

Q About 4 cents difference. A That's not cents; that's mills.

Q Excuse me. The company jobbers, the brand-named jobbers, have their own distributors. Are they supplied with the same amount of oil they had in 1972 or have they been reduced also? A I couldn't say.

Q You don't know. Do you find that any of these company brand-named jobbers are going into your area and offering maybe to your potential customers oil at a lower price? A I haven't heard of that.

MR. FRAEBLE: Thank you.

BY MR. OATES:

Q One last question: There has been some indication in the papers that the supply of fuel oil seems reasonably adequate at this point and that there are likely to be, if anything, some downward movements in price of fuel oil in the coming weeks or months. Have you seen any indication of this? A We heard here at the end of January they were talking about price decreases. It seemed like the 1st of January, everybody went up in price.

Q Everybody went up the 1st of January.

A Right.

Q You haven't seen anything in the form of a price decrease to date on anything that you have purchased?

A We just got an increase from Hess on January 1st. We had a 3-cent increase from Atlantic on January 1st. It is definitely up, not down.

Q And there have been no further changes since the January 1st announcements? A No. Actually these companies, one thing they should do, they should be made to set up one price at the beginning of a month. It is really confusing the way it is now because a company can go up in the middle of the month and we can't change our price. We are only allowed to make one established price at the beginning of each month or sometime during the month, depending on when it might be. You take January 1st, we had two companies go up. Now, for instance, Paragon had no change. If Paragon should go up in the middle of the month, we have to carry this load and then refigure that into our price for the following month, which is sort of confusing.

Q Yes, that is hard. So you really don't know until you essentially get the invoice along with the delivery, what the price is to you. Is that right? A That's right. Actually, we sent the trucks out on January 1st and called them back in -- I should say, February 1st -- we called them back in because we had to change all the prices. We didn't know about the increases. We didn't get the word ourselves until after we started work the morning of the 1st.

Q I see. And you have gotten no new February prices yet? A We have the two prices. We had to change it.

Q I'm sorry. You indicated the prices went up 8 cents and 3 cents as of the first of January. A Februaary, I meant to say.

Q I'm sorry. Those were 1st of February price changes. So the most recent experience you have with all of these is upward change or in one case, Paragon, no change, in the price to you. A Right.

BY MR. IRVING:

Q Mr. Dunham, when the price changes in the middle of the month, is that change made effective also for the suppliers' own jobbers? Do they pay a difference?
A I really couldn't say because I have no way of knowing.

Q You have no way of knowing that.

MR. IRVING: If there is nothing further, what we would like to do is take a five-minute recess.

Mr. Fairclough, can you just be patient for five minutes while we recess and then we will reconvene.

(Five-Minute Recess)

MR. IRVING: Shall we reconvene, ladies and gentlemen.

We are ready to reconvene with the first day of public hearings called for by the Energy Crisis Commission. Those of you who have arrived recently perhaps do not know that I am Dean Irving of Seton Hall Law School. On my left is Professor Wallace Oates, Economist of Princeton University faculty. On my right is Mr. John Fraeble of Seton Hall Law School, and many of the distinguished members of the Energy Crisis Commission are at the table to our right.

I have a message from Senator Ray Bateman, who is a new member of the Energy Crisis Commission, expressing his regrets to you all this morning. He was on his way to the meeting, but ran out of gas, and the phone call says he is unable to be here. We are hopeful that maybe one of you independents can alleviate that situation.

Now we are about to talk with Mr. John Fairclough.

Will you indicate your business address, sir.

J O H N H. F A I R C L O U G H: 800 East 27th Street, Paterson.

BY MR. IRVING:

Q And you are identified as being with Albert Martin, Inc. Will you tell us what Albert Martin, Inc. is and what your relationship is? A Actually, it is Fairclough Fuel in Paterson and we acquired Robert Martin a year and a half ago.

Q What is Albert Martin? A That was an oil business. Originally it was coal and oil the same as we still are. We are still coal and oil. It is just one of our subsidiaries.

Q Are you the President of this company, sir? A Yes, sir.

Q Will you tell us the general nature of your business? A Well, we have been in business since 1882 for three generations, coal and oil and service heating. We haven't been in the oil that long, maybe only 25 years.

It is something that came later. We were too busy with the coal when the coal was king. However, now we have built up a nice little oil business.

Q Am I right in assuming, sir, that your company is independent and you purchase the oil that you sell?
A That's right. We buy it from the majors.

Q Will you tell us something about the contractual arrangement you have with the majors? Do you have, for example, more than one contract? A We have four contracts and there isn't much to them. It is just that you will agree to buy so many gallons and they hope you will buy it. If you don't buy it or if they run out or have problems you don't get it. So it isn't really worth that much unless they want to force it from their end.

Q Is each contract with a different company?
A Right.

Q Can you identify the companies for us?
A I have Hess, American, Exxon, and Coastal -- Continental.

Q Is there a reason for dealing with four companies? I am sure there is. A There are several reasons. The prices vary all the time. They always have varied a few mills. You keep in touch with the pulse of the whole thing and our trucks are able to pick up in the different areas they are closer to. Then different times, it is to your advantage pricewise to be with one so you can switch over and have more from one than another. I am talking about normal ---

Q Yes. Can you tell us something about the change in the price that you were paying last year before this crisis began and the present time? A It is just double.

Q The wholesale price is double? A It's double what it was, yes.

Q Does that mean then the retail price is doubled?
A Well, we have a margin that we are allowed to add on our cost. So roughly we haven't been doubled till now. Our

retail price, our particular price, has been 30.7. Fortunately we have been with companies that have been lower in price. However, we have had a differential of 9 cents from our lowest to our highest in our cost.

Q Mr. Dunham earlier talked about the fact that some of the wholesalers have changed their prices in the middle of the month. Have you experienced that?

A Yes, they have changed their price in the middle of the month and we are only allowed one change. Since the 1st of this month, I have had one company go up 8 cents; another company went up 2 1/2 cents. And I just found out one company went down 1 cent, and the other stayed the same. So I don't know whether to change today or tomorrow. I mean, if some others go down, we don't want to be in violation. So what do we do? Right now I haven't moved my price yet. I have had one company go up 8 cents. So I am working for nothing for that company.

Q Do you know the reason for these varieties in change of price? A I am not told a thing. We just get a telephone call, and they say your price went up yesterday and we don't even know it. You don't change the price until the next day. We lose 8 cents a gallon for the day. We don't have any control over it.

Q I assume you would agree with Mr. Dunham then that there ought to be a policy that would indicate before the beginning of the month what the wholesale price will be for the entire month. A Very definitely. Because we are allowed one change a month. We don't know until the end of the month what our costs are. There is no way we can figure it really.

Q And your flexibility in the price you can charge to your customer is restricted, is it not? A Oh, definitely.

Q Can you give us any idea as to whether you are buying the same amount of fuel now as you did last year at this time? A One company has given me 100 per cent, and I think this is general with all their customers. When I say one company gives me 100 per cent, I think they give all their customers the same, the way it is set up. Another company has given us an 8 per cent cut. Another company has given us a 10 per cent cut. And another company has given us a 15 per cent cut.

Q Here again, do you see any reason for all of this? A The only reason I get is from the salesmen. I don't know how much they know. They tell me the oil is being held by the bigger companies in a pool to help out the large independents that have bought all this cheap oil over the years and that we have lost business to. Now they are taking our quota of oil and giving it to these big independents, and it's not right.

Q You get this from the salesmen? A If we have 15 per cent more, let us sell it to the people.

Q Can you further identify for us the big independents? Who are the big independents? A Metropolitan, Eastern, Howard. They tried to sell us oil the last few years cheap. I wouldn't go with them because I know the situation. Now they are going to take our oil and give it to them. That's not right.

Q But I cannot understand why a company like yours which has been in business dealing with these wholesalers for so many years would be discriminated against at this point in time in favor of these big independents. I take it you have no idea either. (No response.)

Q Do you have any idea as to whether the customers you are selling fuel to have a greater inventory, greater supplies on hand, than they did last year at this time? A People I'm selling to?

Q Yes. A No, we are able to give them their quota because our weather has been off 10 per cent. So if I have an average cut in supply of 10 per cent, I'm all right - my people are all right. I am able to take care of my customers.

Q Then you do not have the impression that some of your customers, perhaps those who have large apartment buildings or businesses, are hoarding oil in preparation for hard times ahead? A Not really. We can't give them that extra. However, we are in a bind as far as our quota system. I am allowed this month, say, 150,000, I think as my quota. I have to pull that oil whether I need it or not. Unfortunately I don't have that storage. I only have 70,000 gallons of storage with 850,000 gallons of home heating oil. I have no flexibility here. If it is a mild month, I have to dump the oil, push it ahead, which doesn't make sense. But if I get a real cold month, I am going to be in trouble.

Q At the moment, are you able to supply your regular customers with the amount of fuel that they need? A Up till now, because of the weather, we have been able to.

Q Do you have any insights you can share with us, Mr. Fairclough, in terms of the energy crisis? In other words, is there a real shortage coming? Is it a shortage brought about by artificial and unnecessary regulations on the Federal level? A Well, I will give you one example of one of my larger accounts, not my largest. I sold them 200,000 gallons of oil. This summer, they cut me down to practically buying nothing. In the meantime, I was cut 15 per cent by one company on my oil supply, a major. This major oil company went in and took that account cheaper than I was selling to them.

Q You are saying that the major cut out the middleman? A That's right.

Q You, being the middleman? A They cut me 15 per cent on my oil and they took the account away from me.

Q And do you know whether that giant is giving to that customer 100 per cent of what it needs? A Until the quota system came in, they would have. But they were forced by law to give them what they got in '72, which meant they had to drop the account now.

Q Why would the giant do that? Is there a difference in profit for the giant to cut you out? A I only make money on the retail level. They make money at the well, the transport and the wholesale.

MR. IRVING: Let me yield to Professor Oates.

BY MR. OATES:

Q Mr. Fairclough, I take it, like Mr. Dunham, you sell essentially to households and small businesses and so forth. Is that correct? A Right.

Q I gather that unlike Mr. Dunham's operation, however, your storage capacity is a good bit less than his. You talked about a 70,000-gallon storage. What is that roughly as a fraction of your monthly sales? A I could pull that in 2 days.

Q In 2 days. So you really only have a couple of days' storage capacity, whereas Mr. Dunham has something more on the order of 3 weeks. This means that if you don't use up your quota and your storage facilities are full, what happens to that? Do you lose it? A What they tell us is if we don't pull it this year, we won't get it next year.

Q I see. In other words, if you don't use what your quota is now, this in effect cuts down the potential scale of your operation in the future then. I sense a good deal of dissatisfaction on your part with the quota system. Is this your primary objection? Perhaps you could clarify this for us a bit. My sense was that you were very unhappy about the quota system as it operates. A We had quotas during World War II with the coal and we just cut 15 per cent right down the line. That's fine. If everybody is going to be cut 15 per cent, let everybody be cut 15 per cent. Let it be that way.

Q But your sense is that everybody is not being cut 15 per cent. Is that right? A Well, I am being cut with one company 15 and I am not being cut at all with another one. Now if there is going to be an average cut, I think maybe it should be all the way with everybody. In other words, if a dealer has this one supplier 100 per cent, he has 100 per cent of his supply. But then if this other large company is forced to decrease their customers as well as us for our customers, then I don't think this is right.

Q Essentially this would imply from the standpoint of a dealer how much fuel you are getting depends on what particular supplier you are hooked up with. A That's right.

Q So some dealers are probably in much better shape than others, I would guess. A Yes. If you happen to be with a dealer like one I know which has been 8 or 9 cents higher than any of the others - I am talking about legitimate dealers now, not these large independents - even in that category, they have been as high as 8 and 9 per cent higher, with an 8 per cent cut - this kind of throws you out of the ballpark.

Q Could we come back to the problem with the large independents here. I am not sure I am quite clear what your concern is here. In other words, somehow you felt there are some fuel oil supplies being directed there at your expense and at the expense of certain other dealers. A I have been talking about one of my suppliers, that I am being cut because the oil is being held for big outfits in New York State - Cirillo, Metropolitan - you name them - this type of account. They have been allocated our gallonage, so to speak. We are being cut and they are getting it from a company they never bought it from. They are getting our oil.

Q Any explanation of this that you know of? A I say, if these people want to buy oil, let them buy it directly from us, the customers. We have had it. We have dealt with these people. If we have to cut our customers 10 per cent, why shouldn't we service these other accounts?

Q Do you have any insight into how it is that these independents are getting access to the supplies?

A There must be some law that is making the larger companies keep the oil or turn it over to them and take it from us.

BY MR. IRVING:

Q May I ask this question along the same lines. Are you willing to identify to this Commission later on the name of the supplier in case we want to talk to him -- the name of the supplier who indicates that some of the oil which heretofore had come to New Jersey is now being sent to the independents in New York? A Yes.

Q Can you give us that name later? A Yes, sure.

MR. IRVING: Thank you.

BY MR. OATES:

Q Following up the line suggested by Dean Irving here, in your associations with other people in the business, do they suggest that the situation in New Jersey is much different from that elsewhere in terms of availability of supplies? Are the cuts taking place in other parts of the country in their buying areas? Is there any difference? A In fuel oil, I am not acquainted with any other area but my own.

Q I see. So there don't seem to be the kinds of differences which at least seem to be appearing as far as gasoline is concerned at any rate? A Right.

BY MR. IRVING:

Q May I ask you this, Mr. Fairclough: Do you have any idea where companies like Hess and Exxon get the oil that they sell to you? A No, sir.

Q You don't know whether it is foreign or domestic?

A No.

Q Do you know the reason for the apparently enormous increase in the price you are forced to pay for this fuel?

A Only what I am told from the companies that I buy from, that there is oil that stays out in the harbor until they bid it up like these large independents used to bid it down and get it as cheap as they could. Now the oil stays there until the highest bidder comes along and it goes 70 or 80 cents and they have to buy this oil at this price and then average out their costs the same as we do.

Q In other words, Mr. Fairclough, you are telling the State of New Jersey some of the fuel shortage is a contrived shortage, that in a calculated way suppliers are keeping oil out of New Jersey which is needed here. Is that what you are saying? A I don't know specifically New Jersey, but this is what the salesmen tell me.

Q These are salesmen for the giants in the industry?

A Right.

Q Let me just repeat that. I think it is significant and I think we will want to verify it. The giants do have fuel in tankers, which fuel is not being released because it can be sold at a higher price later. Is that the information you are receiving? A That's what I understand.

Q Of course, I would caution the audience that this is hearsay, that we are not in a court of law, and we would want in fairness to the companies to verify this kind of information before we procced. So we will refrain from making any conclusions, but we will appreciate whatever information you can give us.

MR. IRVING: I think I have no further questions.

BY MR. OATES:

Q I would like to address this question to both Mr. Dunham and Mr. Fairclough. Have you, like one of the gasoline dealers we talked to earlier in the morning, been approached at any point recently by any brokers who offered to you fuel supplies perhaps at a somewhat higher price than you are paying for the oil you are currently getting? A No.

Q This seems then in terms of the experience of people we have talked with here to primarily be something at the level of gasoline, at least in terms of brokers contacting dealers with supplies that do seem to be available somewhere, if a sufficient price is forthcoming. Also, Mr. Fairclough, you mentioned in terms of some of your own historical experience some opportunities at various points to buy substantial quantities of number 2 at a reduced price from other than your normal supply channels, and you said you hadn't done that. I was curious why you did not. A This was a few years ago.

Q Why didn't you? A Having been brought up in this business - we were in the coal business for years - we stayed with the better companies in coal all during the shortages as long as I can remember and we were always taken care of. But, of course, don't forget these coal companies were not in the retail business and they had to put their coal through a retailer. So, therefore, they never had the whole market all the way. They needed us. Today the price is controlled by the dealers that only control the majors' 20 per cent of the retail business, but they still control the price.

Q At any rate, before we got into this period of shortages and ceilings, you would have been reluctant to deviate from, say, your usual suppliers to pick up oil from an independent supplier at a lower price. Is that right? A That's right because when things got tight we wouldn't get it, and that is exactly what has happened.

MR. OAKES: O.K. Thank you.

MR. IRVING: Mr. Fairclough, I understand that Senator Ammond has a question that she would like to pose. I would yield to Senator Ammond for this question.

BY SENATOR AMMOND:

Q Mr. Fairclough, the oil companies are vertically integrated. As you have mentioned before, they control every phase of production from the well to the pump. Do you feel that this gives them an unfair competitive advantage over the independents in controlling not only the flow of production but also the rates and the price? A Very definitely.

Q In your own words, could you give us some advice as to what you think can be done by the government, by the Federal or State government, to stop it? A That's a very difficult question to answer. All I can say is the way the coal companies ran it years ago, they needed the fuel dealer to distribute their products. They were not in the retail business. We went out and we served the people and we cut each other's throat. If we could make a dollar, we made a dollar. But when we had to cut it, we cut it. And everybody profited; the people all profited. However, this will never be the case as long as you have 8 or 10 major companies controlling the whole industry.

Q You feel then that there should be a major trust-busting in the United States in the oil companies, separating production at every level? A Well, they can make it on the apples and lose it in bananas, as they say, and we only can make it on the apples. It is as simple as that.

SENATOR AMMOND: Thank you.

BY MR. IRVING:

Q Mr. Fairclough, one of the members of the Commission asked me to review with you some comments you made earlier so that it is clear to us what you have told us. We understood you to say that you are required under your four contracts to take a certain quantity of fuel every year. Am I right on that? A Every month - monthly.

Q Every month. Then you resell that? A Yes.

Q You can refuse to take some of it, can you not? A Oh, we can refuse to take it, yes.

Q But do I understand that, if you do refuse, the allocation awarded you next year may be reduced? A That's right.

Q Will you answer one other question for me which I should know. Is fuel oil fair-traded? A I wouldn't say so.

MR. IRVING: Mr. Dunham, that is your impression as well, that it is not fair-traded?

MR. DUNHAM: I will tell you the way I feel about it. Today if there was some way of coming up with a stabilized price for all the dealers, with the exception of increased expenses in different areas, it would be a big help. Take, for instance, Bergen and Hudson Counties; there is such a big differential in prices in that area right now that somebody is always getting hurt. The people are screaming. One dealer sometime back here was something like 36 or 37 cents a gallon and there were other dealers at 20-some cents a gallon. There is quite a differential. This is hurting business and it is going to hurt a lot of people in the future.

MR. IRVING: Thank you.

Mr. Fraeble, do you have a question?

BY MR. FRAEBLE:

Q Mr. Fairclough, could you give us the percentage of how much more you pay than the companies' own jobbers pay for number 2 fuel oil? One per cent, two per cent more? How much more do you pay? A The companies' own jobbers?

Q The brand-named jobbers. A I think they are all practically out the window now.

Q There is no competition. You mentioned before you were selling fuel oil to an apartment house and the company went in there, itself, and sold that fuel at a reduced price. A That wasn't an independent jobber working as a branded dealer. That was the company itself.

Q That was the company itself? A Right.

Q Can you give us any other examples of this? A That happened to be a big one that would come right to the surface, you know. This is like the cream and then the milk is left for everybody else. This happened to be one that you couldn't miss. We don't know. A little customer called up. I pursued this to find out where they went because of the fact that I was cut and I stayed right there and I had one of my men find out who pulled the oil in there and where it came from. They denied it right down the line, but I happened to know the purchasing agent and I know where it came from.

Q Do you know whether this is widespread on the part of the oil companies, to go in and undercut you, the middleman? You don't have any other examples that you can give us? A No.

MR. IRVING: Mr.Fairclough, I do want to thank you and Mr. Dunham, on behalf of the members of the Commission.

I see Assemblyman Tom Kean has come in. We are happy to have you here, Mr. Assemblyman.

We appreciate your interest in helping this Commission find out what the facts are in terms of the fuel shortage in New Jersey so that we can intelligently respond as citizens, and some of us as elected officials, with a legislative response that will help solve the problem in so far as New Jersey can solve something that clearly extends beyond our own borders. Again we are very grateful to you both. Thank you.

I yield to Mrs. McCall.

MRS. MC CALL: For the record, Assemblyman Tom Kean, a member of the Commission, has arrived.

MR. IRVING: Thank you. I understand we will now have a presentation by Dr. Richard Howe of Exxon. Dr. Howe, please come forward. I understand you have some advisors with you. They are most welcome and I would think that New Jersey could provide a chair to all of your aides.

Is not your attorney present at the moment, Mr. Stone?

MR. HOWE: Yes, he is present. I think who I would like to have come up here is Mr. Sam Charlton, who is our Region Manager, who could help answer some of the New Jersey questions.

MR. GARVEY: Mr. Chairman, may I ask a question on a point of order or point of personal privilege. Must we have this read? Is that the intention?

MR. IRVING: I was going to suggest to our guest that he give us an abbreviated statement. We will all be able to read this in detail and carefully later on. Since our time is limited this morning, if you are willing to do that, it would be helpful.

MR. HOWE: I will just make several summary comments from the prepared text so we can get into the questions. I know you are interested in the questions.

MR. IRVING: Let us first identify your advisor.

MR. HOWE: Mr. Charlton.

MR. IRVING: First, let me say preliminarily, as you know, we are engaged in the process of finding out what the facts are and that is all we are trying to do this morning. Dr. Howe, would you identify yourself?

RICHARD J. HOWE: Yes. I am Dr. Richard J. Howe. I am Manager of Energy Communications for Exxon, USA, in Houston. Our address is Box 2180, Houston, 77001.

MR. IRVING: May I ask how long you have been with Exxon, Dr. Howe.

DR. HOWE: I have been with Exxon 15 years and I have been in the petroleum business over 20 years. My primary specialty has been in the producing side of the business, both here and abroad. However, in recent years, I have been in our logistics area and corporate planning.

MR. IRVING: So I take it from that impressive background that you are quite familiar with the Exxon position, policy and experience in terms of the fuel shortage and can speak to us with some authority about this crisis from the company perspective. Am I right?

DR. HOWE: Yes, sir. My remarks and answers would be primarily in the international and national scope. Mr. Charlton will concentrate on the local issues, in which I know you are very interested.

MR. IRVING: Yes. I wonder if you would give us some identify for Mr. Charlton so we will have that for the record.

MR. CHARLTON: My name is Samuel E. Charlton and I am the Regional Manager for Exxon Company, USA, which encompasses New Jersey, New York, and the six New England states. I have been with the company for 41 years.

MR. IRVING: Dr. Howe, then we are prepared to hear some comments from you, and, again, we would appreciate it if you could abbreviate your statement.

DR. HOWE: I will give you a much abbreviated statement as requested.

I think it is very important before we talk about local issues to put this whole situation in the proper international and national framework.

I will talk briefly about the fundamental causes, the near-term supply situation, including the oil embargo by the Arabs, and what needs to be done in the future.

Now the causes of the nation's energy situation is the result of a complex series of events. These events are well known and they are listed in my prepared statement.

I think the point to remember is that we got here today where we are through this sequence of events that datesback more than 20 years now. Particularly in recent years, there has been a sharply-increased demand for petroleum while as a result of the environmental movement, the development of domestic energy resources has been delayed, so it has been a double-edged effect - much higher demand, much lower supply.

I would like to touch briefly on these charges that somehow the whole energy situation was contrived. These charges are simply not true. The fact of the matter is that we and other companies did everything we could within reason to keep it from happening.

I heard several days ago this likened to a classic Greek tragedy. During the past three or four years we have seen this thing coming. We have been telling the government we needed to do something about it. We have had the Trans-Alaskan pipeline bottled up, offshore exploration and development delayed. We were concerned about the rising imports and what that meant for us later on. Now suddenly, we have had this embargo. And the tragedy, if you will, has now been played out, and we find ourselves in a very difficult situation.

I would like to comment on the extent of the Arab oil embargo. This is approximately - at least our figures now are about 2.6 million barrels a day that have been deprived, both crude and products, to this country. This is about 13 per cent of what we were estimating and the government was estimating as the demand level during the first quarter of 1974. So this is an extremely significant matter. You can multiply 2.6 times 42 to find out how many gallons a day this is costing this country. So it is an extremely serious matter. It is extremely significant. I think the important thing now is - there has been a lot of talk about leakage around the embargo, whether the embargo was really being felt - but I think our company and the Federal Energy Office of the government feel that we are now seeing the predicted impact. It is now being felt in the range of, say, two and one-half million barrels a day. Of course, this is what is causing all of these problems.

There has been a lot of talk about inventory levels. Lately inventory, say, of heating oil has been higher than normal because we have had a warmer than normal winter. Gasoline inventories are down, etc. The inventory situation, except for distillates, heating oil and those sorts of products, is extremely serious. Crude oil inventories have been falling, etc. Even though there are very big numbers of barrels in inventory, we are down toward the minimal levels on several key products, such as gasoline.

I think it is important that not only have we seen the imports turn down, but we are getting downtrends in inventories, which cause us some pause.

We have seen a very tremendous response by the public in this area of conservation, not only in turning down thermostats, but also cutting down on gasoline consumption. If we had not seen this, we would be in very dire circumstances today. The amount of conservation has been approaching the shortfalls, and this is very fortunate, but it is hurting at a lot of places, particularly at the gasoline pump.

I would like to also point out that if the embargo ends tomorrow, we will still find ourselves in a difficult, tight situation here for a fairly long period of time. And I hope that we don't forget about this lesson that we are being taught today by the Arabs. I personally feel that they have done us a big favor by imposing this embargo at this time rather than, say, five years from now when instead of having a 2½-million-barrel-a-day cutoff, we perhaps would have a 6 or 7-million-barrel. I hope we have learned our lesson and we will move forward as a nation to improve our self-sufficiency in domestic energy resources.

Just looking down here in my statement, I have said what needs to be done in the future in the nation and I will let the statement speak for itself if I might. The important thing is that we do need action today. We are seeing some of this action being taken. Offshore lease-sales are being accelerated. The Trans-Alaskan pipeline hopefully will start being built sometime this summer as quickly as possible. We are seeing steps being taken to cut down the licensing time and the delay times on the nuclear power plants. Hopefully we will see a resurgence of coal and also other improvements where we can have an environmentally-acceptable solution.

I do comment in here about the consumption of energy in New Jersey. The figure I have is that the per capita consumption in the State is about 30 per cent below the national average. This is sort of an interesting figure. New Jersey is somewhat unusual in that oil supplies about three-quarters of your needs versus, say, 45 per cent for the nation as a whole. But, on the other hand, you use a somewhat lower percentage of natural gas than the rest of the country.

In the future, we see the percentage supplied by nuclear power increasing very rapidly on up into the 1980's and beyond, of course.

In closing, I would like to re-emphasize that our energy problems are immediate and severe and we need to continue to conserve energy. What we really urgently need to do is develop our domestic energy resources.

I would like to just say as an aside here to set the stage for the questions, in today's environment we have to remember that prices have been controlled for several years now. Any price increases have to be cost justified and the Internal Revenue Service is checking these increases very carefully.

The other major factor is that we now have a mandatory allocation program which is being put into effect this month and the oil companies have very little leeway to do anything within this. In other words, our hands are tied with this allocation program, this Federal law, and we are also price controlled. So these things set sort of the environment in which we are operating today. Thank you.

(Written statement submitted by Dr. Howe can be found, beginning on page 99 A.)

MR. IRVING: Thank you for that frank statement. Let me say to you, Dr. Howe and Mr. Charlton, that I recognize that the questions may be somewhat pointed. I feel you are in a position this morning analagous to that of a Law School Dean at a faculty meeting. It may be the kind of event that you would like to avoid entirely and we recognize the human sensitivity here.

Let me begin the questions, if I may, with the question which really should come last, but which is really the most important, I think, in terms of New Jersey, which it appears from everything we read and see is the State perhaps most critically affected and jeopardized by the energy crisis. Is there anything you could say to us this morning that would indicate that Exxon because of its magnificent technology and managerial skills -- that Exxon could make available to New Jersey over the next several days an amount of gasoline that would get us through this chaotic situation which we now find ourselves in? Is there something you could do immediately through your company for New Jersey today?

DR. HOWE: Well, Dean Irving, as I said, our hands are tied by Federal law. I regret to have to give you that answer, but that's the way it is. There are other states that are having difficulties. If we gave preferential treatment to one over the other, then we would be in trouble across the state borders. This is a very difficult situation. We regret it, but that's the way it is.

MR. OATES: I think all of us have been struck by the fact that New Jersey, a state with a considerable concentration of refining capacities, is indeed a state which, as has been suggested through the morning, is hurting very badly. Perhaps Mr. Charlton can help us on this one too. I think we shouldn't leave the question quite so quickly.

Does much, for example, of the gasoline that is produced at the large Exxon refinery here in New Jersey go out of the state? What sort of distribution problem do we face locally here?

MR. CHARLTON: I think that either Dr. Howe or myself could answer, the supply distribution complex which ties in the Atlantic Coast area with the Gulf Coast refining and producing area, and the refining area and the New Jersey area, the Delaware Valley area, is all tied in to supply this entire area. In addition to the supplies that come from the refineries in those areas, we have had imports to supplement. So to say that a refinery in New Jersey supplies New Jersey is not entirely correct. It supplies tributary to New Jersey, which is within an economic range. For example, you might be able to bring up from Texas a tanker at a lower transportation cost, if the tanker is big enough, and supply Boston cheaper than you could taking a small tanker out of Bayway. So the system is based on the most economic distribution system so that the price is kept at the lowest price.

DR. HOWE: I might add I don't have up-to-date figures on this. I just didn't have time to put them together.

But in 1971, the State consumption was about 650 thousand barrels a day of products and in the State at that time the refineries were putting out 500,000 barrels a day.

MR. OATES: This was the Exxon Refinery?

DR. HOWE: No.

MR. OATES: This is the refineries in the State?

DR. HOWE: This is the total state figures as of that time. In other words, there was a net inflow, if my figures are correct, of products into the State over what was being refined here.

I might add that the crude that was flowing in to be refined, the 500,000 barrels a day, at that time was about 50-50 domestic - this would be crude moving up from Texas and Louisiana - and 50 per cent foreign imports. I would doubt that this has changed much. I doubt the ratio has changed much. Of course, the foreign crude has changed drastically. But the fact that the State is using more than it is refining - I just don't have the very latest figures.

MR. OATES: I really find that rather striking. From Delaware Bay up to North Jersey, there are essentially 11 refineries, as I understand it. You are suggesting that these produce less in the way of output than is consumed within the State?

DR. HOWE: Yes, the refineries that are located within the State. Of course, there are refineries in Pennsylvania.

MR. OATES: -- on the Delaware.

DR. HOWE: Yes.

MR. IRVING: Thank you, Profesor Oates.

I would like to go back now to the flow of fuel in and out of New Jersey, if we may, so we can get some sense of that. I understand, Dr. Howe, what you are saying is - and please correct me if I am wrong - that the amount of fuel that Exxon has made available to the State of New Jersey over recent years has, in effect, institutionalized what New Jersey has available to itself because the Federal regulations preclude you from changing that. Is that what you are saying to us?

DR. HOWE: Yes. Within the realm of the current regulations, there are certain base periods for different products. There is a very rigid set of rules under which we have to distribute our fuel.

MR. IRVING: Who in Exxon, at what level, for example, is the determination made as to the amount of fuel that is shipped into New Jersey as opposed to an adjoining state and on what basis? For example, if Pennsylvania and New Jersey both have needs, who would determine in Exxon how much fuel New Jersey would get? Is the question a rational one?

DR. HOWE: Yes.

MR. IRVING: We are trying to determine who sets policy and on what basis the policy is set for this now disadvantaged state.

MR. CHARLTON: I assume you are talking now basically of gasoline.

MR. IRVING: Yes, gasoline.

MR. CHARLTON: I think it would be worthwhile for us to understand the system under which gasoline is allocated to various locations.

The current Federal Energy Office regulations say that you first take the individual service station and you compare the annual volume in 1972 with the annual volume in 1973. If he has, for example, a growth of 10 per cent, the regulations require that he get no growth consideration. If his growth is 20 per cent, then the regulations provide that the individual oil company can allot to this individual service station a growth factor based on the second 10 per cent. No one gets the first 10 per cent.

Now we have done that automatically in our computation of allocations. Every one of our dealers who is allocated anywhere in the United States gets the second 10 per cent.

not the first, because the law says we can't. If he gets over a 20 per cent growth, then he can apply, as an individual service station, to the Federal Energy Office for this additional growth which he experienced because of maybe peculiar circumstances. Maybe he stayed open longer. Maybe he had a better price. Maybe he served his customers better. But he had a larger growth. So provision is made that he can get a Form FEO 17 from the Federal Energy Office. Our sales representatives have been instructed by me to work with each of these people who have this particular situation, show them how the form is to be filled out. The form is then submitted to our company and, as long as the figures are correct, we certify it and send it to the Federal Energy Office. They make the decision. We don't make it on anything over the second 10 per cent.

This is how the gasoline flows into any particular market under this system. We have no further control over it.

MR. IRVING: What I understand you to say, Mr. Charlton, is that the experience that New Jersey built up over the last few years in terms of what was sold at the local level to the individual customer really set a pattern that controls us today.

MR. CHARLTON: It is the same in the United States.

MR. IRVING: Exxon's hands are tied in terms of the fact that New Jersey finds itself now in a deplorable situation with regard to the gas shortage?

MR. CHARLTON: New Jersey's growth in the gasoline business has not been great. Let's say it has probably been in the 3 to 4 per cent range annually. The national growth last year was 7 per cent, I understand.

MR. IRVING: Then let me try it from a different perspective. This question may be based on misinformation. My understanding is that the pipelines are bringing into New Jersey 100 per cent of what they have brought in over the last two or three or four years. And, if that is so, then it is difficult for me, as a lowly lawyer, to understand why there is now such a shortage even allowing, Mr. Charlton, for lack of growth. Lack of growth presumably existed over the last ten years and yet it is just now that we have the great crisis. If the pipelines into New Jersey are flowing fully, does it mean that tankers are not coming that heretofore came or does it mean something else?

MR. CHARLTON: The East Coast is basically a water-supplied area. You are dependent upon tanker movements and barge movements, either for crude or finished product. As a matter of fact, we were talking about the Bayway Refinery and the refineries in New Jersey, but product for Paulsboro for our terminal comes up from Baytown, Texas. We can deliver it in there more economically than we can from Bayway.

Now the fact that product is delivered into an area, I think is a different situation from what the Federal regulations say that each station can get. Any quarrel with that is with the Federal Energy Office and not with any supplier.

MR. IRVING: O K. Then, Mr. Carlton, do I understand you to say - I don't mean to put words in your mouth - that there has really been no change in the amount of fuel that Exxon has been bringing into New Jersey by way of tanker, which is where the gasoline comes from into New Jersey, but that the reason for the crisis is the Federal regulation that somehow has interfered with the flow of fuel to the local customer?

MR. CHARLTON: About two years ago, as I think Dr. Howe mentioned, there was about a 500 000-barrel spare capacity in refining. Then that was used up. And we in our company were producing in our refineries at full capacity in 1973. New Jersey fared well from Exxon in 1973. When you see the tax-paid figures, you will see a tremendous increase in volume we delivered into New Jersey as a company.

I think the problem we are dealing with here is whether a market is getting as much as it needs but there is no provision to deal with a market under the regulations. If you understand what I am saying, we can only deal with individual service stations individual re-sellers or distributors, but not with a market requirement.

MR. IRVING: I believe I understand what you are saying. What I don't understand is that I believe Dr. Howe said that New Jersey is supplied largely with domestic crude out of Texas and that although the Arabs have reduced the daily output, it would seem to me that that should not have any direct impact on the New Jersey allocations.

DR. HOWE: Quite to the contrary, our refining runs at Bayway are down very substantially as a result. Whereas before the embargo they were pushing 300,000 barrels a day now they are down well below 200,000 barrels a day.

MR. OATES: So the refineries are not now operating at capacity?

DR. HOWE: That is correct. I might add just one other thing on these allocation plans. They are extremely complex and rigid, as I said. The way the total plan works is that each company decides on what supplies they are going to have for the coming month basically. And off the top of this comes all agricultural requirements. In other words, agriculture is given everything they need. Then there is another class of customers, such as energy producers and emergency services, they get 100-per-cent factor. After all of this, then we calculate the factors for the service-station type sales, as Sam was saying here. Finally then, you add up all of these things and decide what percentage of the total requirement that an individual company can supply. For example, our factor this month is 78 per cent of all of those other factors. That is applied against -- except for agriculture that comes off the top. I might also add that it depends on the fuel, but with gasoline, there is a stake set aside for emergencies and hardship of 3 per cent, and that comes off of the top.

MR. IRVING: May I ask where it comes from.

(Off the record discussion was held with individuals who desired to be heard out of turn. They were advised to register with the Secretary and told they would be heard before the close of the hearing.)

MRS. MC CALL: We will now continue with the hearing.

MR. IRVING: We will proceed with the witnesses that are now testifying.

Dr. Howe, we were beginning to talk about the supply of fuel into New Jersey. I would like to ask you whether New Jersey's gasoline comes from foreign crude.

DR. HOWE: Yes, a certain percentage of it does. I don't have that figure. It is far less today than it was before the embargo.

MR. IRVING: But you don't know what percentage of the gasoline used in New Jersey comes from foreign crude as opposed to domestic crude?

DR. HOWE: No, I don't. But I do have the figures for the percentage of the crude refined at Bayway. As I said, that has changed rather markedly. Let me give you that.

MR. IRVING: While you are looking for that -- Go ahead if you have the answer. I was going to speculate on something else.

DR. HOWE: Fine.

MR. IRVING: I was going to speculate on the fact, as I understand it, again as a layman, that this is a significant matter b e cause there is a differential in the price of foreign crude as opposed to domestic crude. Is that an accurate statement?

DR. HOWE: Yes, the domestic crude is price-controlled, at roughly five dollars and a quarter a barrel for the old crude from existing fields. The price of new discoveries or the price for marginal wells has been price decontrolled and that is now in the ten-dollar range. The price of foreign oil is significantly higher than the price of domestic oil. So, of course, this is what is driving up the prices, both the increasing prices of domestic crude and, by and large the tremendous price increases of foreign oil. For example the country of Venezeula in the year 1973, 1-1-73 to 1-1-74, increased their taxes on oil by about seven and one-half dollars a barrel, so that would be in the range of -- well, it would be less than 20 cents a gallon. But that, of course, was reflected in the price of heavy fuel oil which moves to this country. Ninety per cent of the East Coast is on foreign heavy fuel oil. That is one of the reasons for the very rapid increase in the price of that type of product, whereas gasoline has gone up by a substantially less percentage because there is more of that supplied domestically.

The figure for the foreign oil at Bayway - and this is the only figure I have - is that that is now approaching the 25 per cent figure. So about 25 per cent of our Bayway output is foreign oil. And if I had to guess, just make a round-house number, I'd say maybe 20 per cent of the gasoline in New Jersey is made today from foreign oil. Of course, that has changed drastically since the embargo. For example, Bayway was operating about 90 per cent on foreign oil in October. That has just flip-flopped.

MR. IRVING: Some of the observers of this flow of foreign crude have suggested that the price paid, as reported officially by the giants of the industry, is an artificial price because it includes profits made by the giant as it transfers the crude from one subsidiary to the other and that the price is really, therefore, a manufactured price - I don't mean contrived, but somewhat artificial price. Would you care to comment on that?

DR. HOWE: Yes. Just looking at the past year, for example, the price for heavy fuel coming out of Venezeula went up, roughly depending on the grade, something like seven dollars and a half a barrel. That was the price increase and that went to the Venezeulan government.

I know there is a question about foreign tax credits and I might just deal with that very briefly here. The government take in the form of taxes is not deductible by Exxon or most of the other international oil companies. The way that works is that we pay either the foreign rate of taxes or the U.S. rate, whichever is higher. Venezeula, for example, was already higher - 60 or 70 per cent - and when they went up on their posted price or whatever, their tax take went up seven and one-half dollars a barrel; we were even further beyond the U.S. statutory rate. So this just didn't do us any good. There was no indirect benefit that we might have obtained by the fact that their tax take went up. There is a lot of misunderstanding on that point.

Basically price increases have been cost justified and the very rapid increase has been due to either additional foreign government tax takes or some increase in domestic prices is a result of the fact that the new crude or new discoveries have been decontrolled. The stripper wells - these are wells that produce less than 10 barrels a day - they are trying to get more of those on and keep the wells on longer. That has also been price decontrolled. It is even more complicated in that each new barrel of oil you get, you can free up an old barrel. This is the government regulation.

MR. IRVING: For purposes of this Commission, let me see by going back a step if I understand really what we have said here so far in terms of where this fuel comes from. I understand you to say, first of all, that the refinery in New Jersey is down - that it is down from where it had been a year ago.

DR. HOWE: Yes.

MR. IRVING: Did I understand you to say 25 per cent of that fuel comes from foreign sources?

DR. HOWE: Yes. The refinery input we have today in this general time period is about 25 per cent at this lower level. I said that it had gone down from 300,000 barrels a day to quite a bit less than 200,000 barrels a day, and the percentage of foreign crude has flip-flopped from, say, 90 per cent in October to 25 per cent today.

MR. IRVING: Did I understand you further to say that New Jersey benefits in terms of the price that the customer pays for a gallon of regular gasoline -- a New Jersey resident benefits if Exxon is using domestic oil rather than foreign crude?

DR. HOWE: No, because our price is set on essentially a national basis. This is rolled in underneath the Federal Energy Office rules and the price is uniform up and down the coast.

MR. IRVING: Let me yield at this time to Professor Oates of Princeton.

MR. OATES: Dr. Howe, before turning to a more systematic line of questioning, I would just like to inquire about one matter. If retail dealers are receiving a certain allocation based on 1972 levels of sales, what is happening to the allocations that would be going to all these guys that are out of business right now? We had an independent this morning, for example, and all their stations were closed. What would be happening to the 70 or 80 per cent of the allotment or the allocation that presumably would have been available to those people?

MR. CHARLTON: I, of course, can only answer for Exxon.

MR. OATES: Right.

MR. CHARLTON: But if we had some dealers who went out of business, then that volume would have been picked up by someone. It just doesn't disappear. In other words, some other dealer picks it up. If one station goes out of business, another one picks it up. So his volume would show the increase. If there has been any of this entirely closing up and the volume has disappeared from the State, I don't think it applies in our case. We sold more.

MR. OATES: This may not apply solely to Exxon. I realize it reaches beyond Exxon. But it seems to me that some of what is going on is related to the fact that we have a lot of retail stations, largely branded distributors, which are still in business but at a reduced level of gallonage as compared to the base period a couple of years ago. At the same time, we do know that there are an awful lot of stations that aren't in business at all anymore. On net, this has got to mean a very substantial contraction in the availability of gasoline supplies.

MR. CHARLTON: I think you would have to examine the 1972 performance or '71 or wherever you want to go. Of course, the only thing we have is the same thing that you people have, and that is the tax-paid gallons that the State records. You can look at those and see if there has been some volume lost to the State. I don't have those figures. As a matter of fact, they are not available for the year 1973 yet.

MR. OATES: For example, we had a gentleman whom we talked to earlier, an independent retail dealer, who had all of his ten stations closed. You don't have any sense of what would be happening to that allocation of fuel that presumably should be going somewhere else? It seems to me that somehow this is disappearing from the distribution chain , not necessarily through Exxon. Do you have any sense of how this particular issue is being dealt with?

MR. CHARLTON: I am sure that this probably exists. It stands to reason there is a certain amount of this that exists. I don't know what the total volume would amount to. But anyone who has that particular situation can apply to the FEO for the volume that he was entitled to and his former supplier is required to supply him.

MR. OATES: O.K. Thank you.

MR. CHARLTON: That is happening to us and we accept that.

DR. HOWE: I think a simple way to answer that would be that the volume that goes back into the system then is reallocated equitably to all customers. That's the answer.

MR. OATES: And this dealer did indicate he was making application to FEO. As was mentioned earlier, really much of the intent of these hearings is simply to help, I think, provide us and provide the public with a better understanding of how the petroleum supply system in the country operates. A lot of the questions, I think, that we have this morning are directed in part to the shortage, but also to the more basic issues concerning the structure of the industry itself. One can appreciate, especially when there are companies like Exxon, which are reaching all the way back to the point of drawing the crude out of the ground, involved in operations, transporting the stuff, owning the refineries, producing the product and also, in many instances, owning the retail outlets at which it is sold, how complicated a process this is. I think, indeed, one of the things that has proved most disturbing to people across the country is the fact that with all of this going on within one or a set of very large vertically integrated companies, we find there is not very much information available to the Federal government, and much less to states, about availability of supplies, where they are, and the various channels of distribution.

I am hoping we might be able to, at least, begin to explore some of this. We might start by going back to the first stage of the operation. You have indicated that Exxon imports, or historically has imported, a significant part of its crude. When you say "import," can you tell us a little bit more about the sources of the imports and any interest that Exxon may have in controlling the sources of these imports?

DR. HOWE: Yes. Our imports, and I don't have the exact figures with me today -- Well, I might talk about the national situation for all companies. Just before the embargo, total imports were running something in the range of 37 per cent. In other words, 37 per cent of liquid petroleum consumption in the United States was being furnished by imports. A fairly high percentage, and this would be typical of Exxon, was coming from Venezeula and there were also imports moving from Nigeria, Lybia, and the Persian Gulf.

What has happened since Venezeula reached capacity about a year or two ago, the tremendous increase in demand which has been going up like a million barrels a day every year, the lion's share of that was being met by production from the Persian Gulf. So the Persian Gulf, which is both Arab and non-Arab countries, has been furnishing this very rapid increase. Therefore, that percentage is changing upward.

MR. OATES: Could you describe for us just a bit the kinds of operations and interests that Exxon would have in a country, say, like Venezeula? Presumably much of these imports are not being, in some sense, bought from what one, I would guess, would describe as exactly a wholly-independently-operated company.

DR. HOWE: In Venezeula we have an affiliate there, Creole Petroleum Corporation, which is roughly 92 or 93 per cent owned by Exxon. This is a producing company - a producing, refining and marketing company in that country. Basically we purchase crude oil and products from that company in Venezeula and this crude and products move into our supply system.

MR. OATES: So in some sense then, there are operations by Exxon actually in many of these countries. So when we talk about importing fuel from abroad, we are talking about an operation abroad that certainly does directly involve financial investment, economic interests and operations on the part of Exxon and many others of the majors as well.

DR. HOWE: Yes. U.S. companies have both discovered and developed production in many of these other countries of the world.

MR. OATES: As far as the crude that goes to Exxon refineries in the United States, how much of the crude comes from actual crude sources - do you have any rough percentages - that are owned by Exxon as contrasted to purchases of crude from other crude producers?

DR. HOWE: This is a somewhat difficult question to answer because, of course, there are purchases and sales. But I would say that -- well, I just don't have a good figure on the net. I know that in this country we produce about 75 per cent of what we refine.

MR. OATES: At any rate, a large per cent of the crude oil that is flowing into Exxon refineries is coming out of Exxon crude operations, right?

DR. HOWE: Yes, but there are purchases and sales depending on the location of the crude.

MR. OATES: And these purchases and sales, are they typically with other majors, for example?

DR. HOWE: Both majors and independents.

MR. OATES: There are also things called exchange agreements. Could you describe for us briefly what these things are and Exxon's role in them?

DR. HOWE: Yes. I think the best way to characterize an exchange agreement is to use a few examples. Take a company that had a refinery in New Jersey, that had, say, extra products to sell, but they wanted to market products in Louisiana where a refinery down there had extra products to sell. There would be an exchange agreement made whereby the cost of transportation -- There would be no sense in taking a tanker from New Jersey to Louisiana with that product and bringing another tanker up from Louisiana and having these two tankers cross at sea. So there are exchange agreements made to save primarily transportation costs. Of course, this benefits the consumer.

MR. OATES: So the oil companies indeed do cooperate, as you suggest, for economic reasons to exchange surplus supplies in one area for excess supplies in another. This struck me as a rather interesting feature of the operation of the industry.

So Exxon then is drawing essentially on three sources of crude oil: imports, to a substantial extent developed in areas where Exxon has foreign operations; imports from their own crude oil sources; and, thirdly, from some purchases of crude from other crude producers.

DR. HOWE: Correct.

MR. OATES: Now if we could move from this stage to the refining stage, there apparently in the refining operation is some scope for altering the proportion of output between fuel oil and gasoline.

DR. HOWE: Yes, there is some flexibility between, say, distillates, heating oil, and gasoline. And, of course, we do and have since time one varied this from summer to winter. In the summer we make more gasoline and in the winter we make more distillates. But the flexibility is in the range of 5 per cent. It is not that you can turn one on and one off and maintain any kind of throughput.

MR. OATES: So at any point in time there would be the possibility of shifting output roughly, say, 5 per cent more in the production of fuel oil away from gasoline.

Has there been this sort of shift recently in refinery operations away from gasoline and toward fuel oil?

DR. HOWE: Yes. The Federal Energy Office requested the refiners to shift their output from gasoline towards fuel oil or distillates. Of course, this is one of the reasons we are in such good shape today on the distillate inventories.

MR. OATES: So there has been a shift then toward an increased emphasis on the production of fuel oil, explaining perhaps why the shortage is being felt more in terms of gasoline than it is in terms of heating oil.

DR. HOWE: Yes. In fact, that is one of the government's objectives, to try to preserve the heating oil at the expense of gasoline. In other words, that has been their objective.

(Interruption by disturbance in audience.)

MR. IRVING: The meeting is now recessed for lunch. We will reconvene at 2:00 P.M.

(Recess for Lunch)

(AFTERNOON SESSION)

MR. IRVING: I believe we are ready to reconvene.

Dr. Howe, may I ask you what your time schedule is? I know you are catching a plane. How much further time can you spend with us this afternoon?

DR. HOWE: Until about 3:30.

MR. IRVING: Thank you very much. There are some members of the State Senate who have questions for you, and also one or two members of the Commission, and the panel members would like to yield to them. With your permission, Dr. Howe and Mr. Charlton, I would like to recognize first Senator Ammond who has a line of questions for you.

SENATOR AMMOND: Thank you. Dr. Howe, thank you for coming all the way from Texas. On page 4 of your testimony, I would like to read a statement. It says, these "contrivance" charges are simply not true. The fact of the matter is that Exxon and other companies did everything they could within reason to keep it from happening and our repeated warnings went unheeded. Yet, Mr. Piercy, the Senior Vice-President of Exxon, before a congressional committee, stated that as early as 1958 they were aware of what is known as a falling spare capacity. In fact, the disparity between demand and spare capacity was so obvious that the Shah of Iran asked you to increase your capacity but you did not. Can you answer why?

DR. HOWE: Yes, during the early 1960's there was approximately some 30% spare capacity in the world. There was essentially the same percentage spare capacity in the United States. As we went through the 1960's that spare capacity fell and in 1971 or 1972 we found ourselves with essentially no spare producing capacity. Now the reason there was no spare producing capacity - there were a number of reasons on the domestic scene which involved delay of resales, delay of the transatlantic pipeline and other factors. The reason there was no spare capacity on the world scene, aside from the fact that demand had been going up at a record rate, was the fact that we, at a point in the late 1960's, lost control of how fast we could expand capacity; in other words the producing countries, the OPEC countries, had decided for one reason or another that they were not going to expand their capacity. For example, in Kuwait, they decided in 1971 that they were not going to let their capacity or their production increase at the previous high rate, so they limited their production increases and the reason they did this was that they were generating revenues that they could not use. In other words, I think there is something like one-half million people in that country and they decided that they would rather, as they put it, have the oil in the ground than the money in the bank.

There were a number of these things. Libya also decided that they were going to cut back and they started cutting back on production in the early 1970's. There was no spare capacity there but the government of Libya said, "you can't produce it".

Saudi Arabia, which has tremendous reserves of oil - the production there was being expanded as fast as the government would permit.

In Iran - which you brought up - there were negotiations going on with the Iranian Government over nationalization of the campanies there and during this period of negotiations there was no great expansion. This is not my area of specialty but during this period there was an expansion of production; they were moving up. These negotiations were going on which finally led to the nationalization of the companies operating in that country.

SENATOR AMMOND: Then you are agreeing with your Senior Vice-President, you did not react to the basic idea of the Shah of Iran until the 1970's in this area?

DR. HOWE: Well--

SENATOR AMMOND: Incidentally, he is quoted as saying before Congress that it was poor estimation on the part of Exxon - the late reaction.

DR. HOWE: Well, I think you need to put that statement in context. I don't think anyone could have estimated in 1969 - certainly we could not - the impact of what was going to happen in the early 1970's.

We had our forecast that was very carefully prepared, of course, but the impact of the environmental movement-- Just to put this in perspective, by next year the impact of the environmental movement will result in a need for additional imports of four million barrels a day; in other words, that is the trans-Alaskan pipeline delay, that is all of these other things that have happened which have not only cut off supply - the Santa Barbara moratorium, etc. - but it has also increased demand with automobiles, with emission control equipment, etc. These are all values that you need to make. This is what happened.

SENATOR AMMOND: In 1972, in September, the supplies of heating oil in the U.S. were dangerously low. President Nixon authorized the petroleum industry to import more foreign crude which had been under tight restrictions since 1959. As a matter of fact, the Interior Department, urging the oil companies to do the same, also sent telegrams to the major refineries asking them to soup up their refineries and revv them up and yet the answer to this telegram was that the refineries only used one-third of the additional imported crude and they ran most of their refineries below capacity for the rest of that year. How can you justify that?

DR. HOWE: That is in September of 1972? At that time - I can only speak for my company, obviously - we were targeted to reach maximum distillate inventories by November 1st. In other words, in our operating plan we were operating our refineries at a level that would give us the proper, or the maximum, distillate or heating oil inventories as of November 1st, and that is what we do every year. So that is the reason that we may have been operating slightly below capacity.

I might also add, at that time, though, this was a time when it was getting difficult to get crude on the world market because of the restrictions imposed by Libya and other countries.

SENATOR AMMOND: I'd like to now ask you some very basic, technical questions about storage tanks and I am not sure that you can speak for New Jersey - perhaps you can talk about the philosophy of the industry. Who uses the storage tanks? Let's zero in on our New Jersey refineries on the turnpike, in the Linden-Bayway area. I'd like to know who uses storage tanks.

DR. HOWE: O.K. You mean these are not the tanks at the stations below ground, there are storage tanks at the refineries?

SENATOR AMMOND: Any kind, right.

DR. HOWE: Well, perhaps Mr. Charlton might like to answer that. I guess that basically we use our own storage tanks at the refineries. We also lease some storage in various parts of the United States to store fuels or refined products.

SENATOR AMMOND: What are the usual leasing conditions, or trade-off agreements when you lease to another refinery - another oil company?

DR. HOWE: You mean storage capacity or refining?

SENATOR AMMOND: If you are leasing your storage tanks to another company, what are the usual, basic trade-off leasing agreements?

DR. HOWE: I don't know that we do lease storage tanks to others. I do know we lease tanks, say, at Bayonne from independent operators that own storage tanks or terminals. We pay them so many cents, or dollars, or cents-per-barrel, per month; we would lease this maybe one year at a time.

SENATOR AMMOND: Do you ever refine each other's crude?

DR. HOWE: Yes. We have through-put agreements. For example, at Bayway, we are refining some crude for Texaco - I don't have the exact number of barrels per day. But at Bayway Texaco delivers the crude to us, we process it for them into certain products of certain specifications and they do with it what they want to do with it.

SENATOR AMMOND: When you refine each other's crude into gasoline, what happens then?

DR. HOWE: The gasoline is delivered to the company for which it is manufactured, to their specifications, and they ship it where they wish.

For example, Texaco, I understand, shipped a tanker load of gasoline to California that came out of Bayway. In fact I was out in Arizona the other day and the Texaco people there were being quizzed by the Arizona Legislature about supplies there and the Texaco man was quite pleased to tell them that his tanker load of gasoline was coming in to Southern California and some of this would be moving into Arizona.

SENATOR AMMOND: How do you justify selling your different brands when you interchange your refineries and you refine each other's crude into gasoline?

DR. HOWE: You will recall that I said the gasoline is manufactured to their specifications. They put their own additives into the gasoline and we put our own additives into our gasoline. These gasolines are different.

SENATOR AMMOND: I have private testimony from a fuel dealer who testified - he did not state this publicly - he stated that right now he knows of companies that are not even putting the additives in the gasoline. What is your reaction to that?

DR. HOWE: I have no information on that. We are certainly putting the additives in the gasoline which we are selling. We are very strict about that.

SENATOR AMMOND: Many gasoline dealers also say that's a farce and a hoax, that it really doesn't make any difference, all gas is the same anyway.

DR. HOWE: All the gas is not the same and we have been able to document this with research results which have been filed with the Federal Trade Commission.

SENATOR AMMOND: What does it cost - in relation to a gallon of gas, what is the percentage of cost added to the price of a gallon of gasoline with the additives added?

DR. HOWE: Do you mean what is the cost of the additives?

SENATOR AMMOND: Per gallon.

DR. HOWE: What is the cost of refining?

SENATOR AMMOND: What is the cost? After refining, what does it cost to add the additives, per gallon, as opposed to what the gallon would be without the additives?

DR. HOWE: I can't answer that. Sam, would you care to take a whack at that?

MR. CHARLTON: I'm sorry, I don't have a current figure on that.

MR. GLASSMAN: Why don't you tell the Senator what the cost of tetraethyl lead is; that is one additive which would give her a feel for the total cost.

MR. CHARLTON: I am not in refining so I prefer not to answer something that I do not really know the answer to.

SENATOR AMMOND: Are you capable of answering anything about New Jersey refineries?

MR. CHARLTON: I guess if it relates to our marketing I probably could but I could not answer questions about refining.

SENATOR AMMOND: If it relates to marketing? All right, how much oil was shipped into your New Jersey refinery by pipeline and by tanker in 1973?

MR. CHARLTON: Well, we don't get any in there by pipeline.

SENATOR AMMOND: You get nothing in by pipeline at all?

MR. CHARLTON: We get it by ship.

SENATOR AMMOND: You get it all by tanker. How much?

MR. CHARLTON: I think the figures were given. I will give you those figures. For 1973 the average was 263 thousand barrels a day.

SENATOR AMMOND: Could you tell us how many gas stations in New Jersey are company owned?

MR. CHARLTON: Yes. I will give you those figures exactly. We have, at the end of 1973, 820 owned and leased stations. If we have leased the stations, we consider them as ours.

SENATOR AMMOND: They all sell Exxon gas. What are the profits in the last six months on company-owned gasoline stations in the state of New Jersey, station by station, as opposed to independent profits?

MR. CHARLTON: Do you mean the stations that we own or the stations that we operate?

SENATOR AMMOND: Both.

MR. CHARLTON: Well, there is a difference between ownership and operation.

SENATOR AMMOND: All right, give us the ownership first.

MR. CHARLTON: I don't have any of those figures.

SENATOR AMMOND: All right, I don't want to be unfair to you. Perhaps some of these questions should have been submitted to you first. I will understand that.

If you were under subpoena would you be willing to give the answers to some of these, or most of these questions?

MR. CHARLTON: When you are under subpoena you have to.

SENATOR AMMOND: O.K. Are you subsidizing any company gas stations? When I say subsidizing, I mean, for instance, providing more gas to a company-owned gas station at less money.

MR. CHARLTON: At less money? At a cheaper price? Is that what you are saying?

SENATOR AMMOND: Yes.

MR. CHARLTON: No.

SENATOR AMMOND: Absolutely not?

MR. CHARLTON: You might be interested to know that there is only one tank-wagon price in New Jersey - one price; there is only one price to the dealer - to the station.

SENATOR AMMOND: All right. How many barrels of oil or other petroleum products are refined and shipped into New Jersey and then shipped out of the country?

DR. HOWE: Do you mean exported from the United States?

SENATOR AMMOND: Yes.

DR. HOWE: I certainly don't have the exact figure. I know the total U. S. exports are on the order of two hundred thousand barrels per day compared to a total demand in the range of 18 million barrels per day and total imports in the range of 8 million barrels a day. So for 8 million barrels a day that come in there are 200,000 barrels a day going out - this was before the embargo. Now the exports have increased because the military forces overseas cannot buy their fuel - if that is also embargoed - so they are purchasing their fuel in this country and moving it overseas.

SENATOR AMMOND: Why are you shipping it out?

DR. HOWE: Why are we shipping it out?

SENATOR AMMOND: Yes.

DR. HOWE: The type of products that we ship out of the country are basically products which cannot be used in this country; basically it is high sulfur coke which is the by-product of the refining process. It is this material which is being exported. The other types of materials that we are involved in are high technology products which are, like, lubricants.

To the best of my knowledge, we don't export any heating oil and I don't believe we export any gasoline, unless it would be a very localized situation like an export to Canada or Mexico. This does not go overseas.

SENATOR AMMOND: It goes to Canada of Mexico?

DR. HOWE: Well, very small volumes and I don't think that Exxon exports any of those products. The products that are being exported - about 40% of it - are this high sulfur coke and another 25% or 30% is lubricants. In any event it is a very, very small amount.

SENATOR AMMOND: In the first nine months of 1973 the oil companies of the United States shipped out 1½ million barrels of distillate fuel to foreign countries; that is enough oil to heat 42,000 American homes. How can you justify that?

DR. HOWE: I can't justify that because we didn't do it.

SENATOR AMMOND: You were not part of that?

DR. HOWE: We were not.

SENATOR AMMOND: There is some talk about the property tax values of the refineries, currently, throughout the United States because you are assessed in part according to the income approach. With the enormous profits which you have realized this year, would you agree with many tax assessors that the refineries should be reevaluated since the value of the refineries has increased, thereby sharing some of your windfall with the people?

DR. HOWE: Not at all. The fact of the matter is that the refining throughput, the throughput through the refineries, is down now as a result of the Arab embargo.

The refiners margin - this is the amount of mark-up, if you will, in the refinery or the operating cost and return on the refinery - has gone up dramatically, so there is no bonanza in refining today.

SENATOR AMMOND: Thank you very much.

MR. IRVING: I recognize that our time is very limited so, with the indulgence of all the members of the commission, I wonder if we can not limit the time each of us takes, perhaps, to five minutes. I know the other oil companies are here and their time schedule is also tight.

Professor Garvey, I believe, is next. Professor?

MR. GARVEY: I have one really technical question. You implied that mandatory allocations to certain priority needs is one of the causes of the shortages in lower priority needs; I wonder if you'd tell me what percentage comes off the top for such categories, such as agricultural usage and emergency usage?

DR. HOWE: I can't give you exact figures. The agricultural needs do come off to meet the full requirements, the state set-aside comes off the top and then everybody else gets some.

MR. GARVEY: The state set-aside doesn't quite come off the top because if it is not used it immediately goes on the bottom of next month's allocation.

DR. HOWE: That's right. It is set aside and available for use. You are quite right.

MR. GARVEY: We know that is 3%.

DR. HOWE: That's right.

MR. GARVEY: Now I want to ask if you can't give us an estimate of the amount that comes off the top for these priority needs. This was, as I take it, fairly substantial, according to your explanation of the reason for the shortage.

DR. HOWE: There is only one that comes off the top - really off the top - and that is agriculture. The other--

MR. GARVEY: What percentage is that, roughly - very roughly.

DR. HOWE: I'd have to say a guess for gasoline, in the 5% to 10% range.

MR. GARVEY: What is the mechanism whereby we know, number one, that those demands from the agricultural sector really are necessary demands, or can a farmer simply say, "we want such and such" and automatically, under the rules, he gets it. Number two, what is the mechanism whereby we know that that 5% or 10%, or whatever, eventually gets to the agricultural sector?

DR. HOWE: By the way, this can't be obtained at the pumps; these are wholesale or bulk purchases. The farmer, or individual operator, to qualify, has to use so many thousand gallons per year, I think it is in the 20 thousand gallon per year range, to qualify. What he says his requirements are, that is what is delivered.

MR. GARVEY: To whom does he tell his requirements and who evaluates the validity of those expressed requirements?

DR. HOWE: He tells his requirements to the oil companies that are supplying him.

MR. GARVEY: Does he write to Houston or the local gas company?

DR. HOWE: He has regular suppliers that were supplying him during the base period. He says, "I need 'x' gallons of gasoline delivered to my farm during the month of February" and we deliver it.

MR. GARVEY: Is this to a local gas station or service station operator?

DR. HOWE: No, sir, this is delivered into tankage on the individual farms, as I understand it.

MR. GARVEY: Directly by Exxon or is there a middle man in here? You see the problem here don't you?

DR. HOWE: Yes, I do.

MR. GARVEY: There is a growth requirement at the input level and I am trying to establish the mechanism whereby it is insured that that is set aside for the people required to get it. Setting aside completely the question of validity-- I mean, I can drive up to a gas station operator and say I absolutely need so many gallons of gasoline and I don't know exactly what mechanism is used to appraise the agricultural expression of need against mine. Setting that aside, what is the mechanism for giving that man his gas?

DR. HOWE: None of this is done at the pump. It is delivered, basically, by retailers or wholesalers - people that have tank trucks and actually take "x" gallons to Mr. so and so's farm.

MR. GARVEY: Do you know if they keep records on that? Is there a set of books someplace that auditors can go in and actually trace through that 5% or 6% of gasoline and make sure it is actually getting to the sector the law requires it get to?

DR. HOWE: Yes, sir, I assume there is. Of course, the other question is, how is it being used after delivery? Is someone filling up their car? You know it is a very difficult problem.

MR. CHARLTON: May I offer something on that particular subject? First of all, as Dr. Howe said, a farmer cannot drive up to a service station and get any preferential treatment. The product must be delivered to bulk storage, which means he is a wholesale purchaser. Since farmers are generally smaller accounts, you will find most of it is delivered by distributors, not directly by an oil company, for the most part.

Now the farmer has been in business, normally, and his normal supply will supply his requirements - all that he requires - in this manner, in this fashion.

MR. GARVEY: All that he requires or all that he has been getting in the past?

MR. CHARLTON: All that he requires.

MR. GARVEY: How is that established?

MR. CHARLTON: The Federal Energy Administration says, very specifically, that he gets all that he requires. Now he is not responsible to us, he is responsible to the Federal Energy office for the verification of his use of it and they would probably audit him.

MR. GARVEY: Are you indicating that anything of this sort is done?

MR. CHARLTON: Of what?

MR. GARVEY: Any auditing of his usage? To my knowledge, there is none.

MR. CHARLTON: I am not connected with the Federal Energy office so it is difficult for me to say.

MR. GARVEY: There was an implication in what you did say that there is a control on this.

MR. CHARLTON: I read the papers and they say they are using the Internal Revenue Service to do their auditing.

MR. GARVEY: Of individual farmers?

MR. CHARLTON: Of every customer that is involved. I don't know whether they are auditing farmers or not. I can't answer for the Federal Energy office; it is their responsibility not ours.

MR. GARVEY: O.K. Thank you.

MR. IRVING: Senator Parker has a question.

SENATOR PARKER: I have two short questions. Number one, Dr. Howe, maybe you can answer this; I have read in the papers that Exxon's profits for the last quarter of 1973 were 90% over 1972 and that your overall profits for the year were 69% over the previous year. Now I understood that the basis for that-- or at least the report to the press was that it was for tax credits from overseas use - I don't know exactly how the tax credit works - and from sales to foreign and European countries. Now from what you said to Senator Ammond, it appears that

that is not so, at least it is not so from the shipment overseas. Is it or is it not?

DR. HOWE: It's not true from the standpoint that we are exporting crude oil products from the United States and moving it into foreign markets; I think that was the thrust of her question.

SENATOR PARKER: But it was from petroleum products, is that correct?

DR. HOWE: It was from petroleum product sales worldwide. I might say that our earnings were up 59% in the fourth quarter and it happened they were up 59% for the total year of 1973. About 40% - or 14%, excuse me, of this increase was in the United States. Our earnings in the United States were up 14% over 1972 and that is about the amount by which our volumes were up over 1972. So a bulk of the earnings increase came from our overseas operations.

SENATOR PARKER: By overseas operations you mean by refining overseas and selling the products overseas - petroleum products - is that correct?

DR. HOWE: Yes, it was from a whole group of factors and the increase was not due to any tax break or tax laws because we had the same tax laws in 1972 as we had in 1973. Now you can break down this increase into areas, which we have done. For example, 150 million dollars of it turned out to be due to the devaluation of the dollar during the year, so the dollar was worth less, or more; it reflected more dollars coming into this country.

SENATOR PARKER: Let me ask you this, what was your total production of petroleum products, all petroleum - in other words, crude that you took out and refined into various products - in your overseas market in 1972?

DR. HOWE: Our total worldwide product sales in, say, 1973 were in the range of 6 million barrels a day. I'll have to look up that figure for you here. In 1972, our total product sales, worldwide, were 5.7 million barrels a day. Now 1.7 of that was in the United States, so 4 million barrels a day were sold abroad.

SENATOR PARKER: What was it in 1973?

DR. HOWE: In 1973-- I don't have the breakdown by areas, it hasn't been released yet. It is 6.1 million barrels a day total.

SENATOR PARKER: In other words, additional sales overseas in 1973 as opposed to 1972?

DR. HOWE: I know domestic sales went up some 12% to 14%. Just looking at the numbers here, I would guess foreign sales went up less than that, maybe just 10% or something like this.

SENATOR PARKER: But you don't have the figures to show?

DR. HOWE: Well, we could back calculate it here. The total sales went up from 5.7 to 6.1, so that would be less than 10%. Since our U.S. sales went up more than 10%, then the foreign sales went up less than 6% or 7%; I just haven't seen the figures.

SENATOR PARKER: Assuming there was no great change, are you going to pass this on and have a reduction in your price of gasoline because of the increase in profits?

DR. HOWE: Just to put these profits in perspective, these are very large numbers. I realize that to any of us these are very large numbers - they are very, very large to me and I deal with these numbers every day. But if you take these numbers, regarding their profits, and you divide them by the total number of gallons that we sell each year, the profit - the total profit - per gallon is in the range of 1.9 cents and that is up from about 1.3 cents per gallon. So our total profit increase was something like six tenths of a cent per gallon between 1972 and 1973.

Prices are up much, much more than that and the reason the prices are up is that the foreign governments are collecting much higher prices. In Saudia Arabia the tax take on a barrel of oil in 1972 was $1.50; at the end of last year it was $7.50.

(loud disturbance in audience)

MR. IRVING: Senator Parker?

SENATOR PARKER: It is very difficult when you are interrupted all the time.

It is hard for me to understand that but, as I understood it, it was percentage of increase in your profits, Doctor. I want to get to one other point. You indicated earlier, unless I misunderstood you, that we are now processing 25% crude from foreign countries in the Bayway plant.

DR. HOWE: At Bayway round numbers, right.

SENATOR PARKER: And the year before we were processing 90% foreign?

DR. HOWE: That's correct.

SENATOR PARKER: Where is that other foreign going? Is it going to the European countries for higher profits?

DR. HOWE: No. Two and one-half million barrels a day have been shut off and that's why we are here today. Two and one-half million barrels a day have been taken out of the U.S. supply system. There is a serious shortage of crude and products as a result of the Arab embargo.

SENATOR PARKER: Why is it that we are down to 25%?

DR. HOWE: It just isn't available. Bayway was using a great deal of crude from the Persian Gulf. We have been embargoed on that crude, it is not coming into Bayway. What we have done is we have had to readjust our supply system and move additional crudes up here from the Gulf.

SENATOR PARKER: I still don't quite understand it because I understood that the Persian, or the Arab states were accounting for only 11% to 13% of our total overall incoming foreign shipments.

DR. HOWE: Yes, that's right.

SENATOR PARKER: Well then how can you justify that tremendous difference, if it only amounted to 11% or 13%?

DR. HOWE: O.K., that's the correct number. Sometimes you hear a number of 6% but that's 6% of total energy: it is not 6% of liquid petroleum. The number 11% to 13% is correct and the reason that there has been such a change is that the east coast was essentially running - the refineries were running - 90% on foreign oil and when you get that type of a shutoff you get readjustments.

SENATOR PARKER: Right, but only 11% to 13% of that 90% - whatever the figures are--

DR. HOWE: No.

SENATOR PARKER: --the rest of it would be coming from Venezuela or other countries where there was no problem and I don't understand how you get such a tremendous difference. I don't have the mathematics but it looks like it is better than 50%, when only 11% of the total overall 90% coming in was from the Arab countries.

DR. HOWE: Well, that 11% to 13%, a great deal of that was flowing into the east coast: in fact most of it was flowing into the east coast.

SENATOR PARKER: I don't understand the figures. Suppose that all of the Arab oil, 11% of it, was coming in, you still have better than 50% of your foreign oil shut off up there and it didn't even come from the Arab states - why?

DR. HOWE: Well, I think we are confusing the total U. S. figures here which are 13%; that is for all over the United States.

SENATOR PARKER: Your figures are different?

DR. HOWE: No, I am saying that 13% of the total demand for liquid petroleum in the country has been cut off, but a much higher percentage of that has been cut off to the east coast and that is the reason we have this exchange at Bayway - the crude is just not available. The crude that is being run at Bayway today is--

SENATOR PARKER: Going into Houston and Texas?

DR. HOWE: No, I can assure you that domestic crude came out of Texas and out of Houston and all of our refineries are operating at the same percent of capacity, basically. We are not running it 100% down there and 70% up here; we are running at 80% to 85% in both places.

The fact of the matter is the domestic crude has been pulled out of Houston and out of Louisiana to bring up here to fill in for this crude that was shut off. The 25% that is running at Bayway is from Venezuela, or maybe some is from Iran or some of the other countries.

SENATOR PARKER: Where is the other 30%?

DR. HOWE: What 30%?

SENATOR PARKER: Well, if you deduct-- You had, formerly, 90%, now it is 25% foreign and it is all coming from Venezuela, you still have a difference that has to be going somewhere from the former 90% and I count that as about 30%.

DR. HOWE: Well, I think we are mixing up percentages here and we are having some problem. Let me give you the volume numbers and maybe we can work with them. The volume of foreign crude coming into Bayway in October was about 280 thousand barrels a day.

SENATOR PARKER: October of '73?

DR. HOWE: October of '73.

SENATOR PARKER: Was how much?

DR. HOWE: 280 thousand barrels a day. Now through this coming period - February through April '74, I don't have today the exact figure - the total volume coming into Bayway is in the range of 50 thousand barrels a day. So there has been a drop in foreign crude available to Bayway of 220,000 barrels a day, out of a total crude shortfall in the country of 1.6 or 7 million barrels a day of crude Of course products were cut off too.

SENATOR PARKER: Maybe I can get at this point? I wanted to get to it anyway. I am sorry I am taking so long. How many barrels per day did you get in 1973, average per day, into Bayway from, say-- The 90% as I understood it, was 1972, is that correct?

DR. HOWE: No, excuse me, that was 1973, in fact that was in October.

SENATOR PARKER: 90%, which comes out to 280 thousand barrels per day - how much of that came from Venezuela; how much came from-- Just give us the Arab states how much of that came from the Arab states?

DR. HOWE: I don't have that broken down by source.

SENATOR PARKER: Can you make that available to us through our chairman?

DR. HOWE: I'd be glad to. We will make you an estimate of that 280 thousand barrels a day - how much was coming from Venezuela, the Arab states, Iran and others.

SENATOR PARKER: Because if only 11% to 13% of it came from the Arab states, as you indicated, it would appear to me that the oil that was - or the crude that was coming to us has been shut off for some arbitrary reason other than from having a lack of shipping or foreign sources other than the Arab states.

DR. HOWE: My comment on this is it is quite the contrary; the amount of domestic crude going into Bayway went up from, say, 15,000 barrels a day to 170,000. In other words, if it weren't for the diversion of domestic crude from the Gulf, Bayway would be down to nothing -

or down to very little today.

SENATOR PARKER: All right, let me ask you this, how much is coming in from domestic sources into Bayway?

DR. HOWE: Today?

SENATOR PARKER: Right.

DR. HOWE: About somewhere in the range of 170 to 200 thousand - this would be in the first quarter, or from February to April, 1974.

MR. IRVING: Senator, I know Senator Dodd wants to ask some questions.

SENATOR PARKER: I just want to ask one further question. I will direct it to the other gentleman. In reference to your dealers, you have indicated that all of your dealers have been cut - your station owners - only on the basis of the requirements of the federal government. I have been personally advised by at least two - one happens to be a client of mine who advised he has been cut by 50%.

MR. CHARLTON: 50% from what, Senator?

SENATOR PARKER: From the allocation he had for the year before at the same time.

MR. CHARLTON: Well, we were not on allocation from July the 16th to November 1st, so I'd have to know what he is talking about. He could get all he wanted then so he could be cut 50% from when he was getting all that he wanted, but that doesn't speak to equal treatment. If you give me the facts, I'd be glad to tell you exactly how we arrived at it. I assure you that he was treated the same as any other owner.

MR. IRVING: Thank you, Senator Parker. Senator Dodd is next.

SENATOR DODD: Just two very quick questions. With regard to the acquisition of the retail outlets on the Garden State Parkway and the New Jersey Turnpike, what did that do to the other Exxon outlets throughout the state?

MR. CHARLTON: When we bid on the New Jersey Turnpike, one thing, we lost the business on the New York Throughway through bid; people out-bid us for that. So we bid on the New Jersey Turnpike and we had that in our forecast - the volumes to be supplied. When we made our allocations, we made them countrywide; we didn't make them for any one state. In other words, they are made on a national basis and the volume that went to the dealers is based on the percent, on the base volume of 1972.

SENATOR DODD: You are saying that because of your acquisition of the Garden State Parkway and Turnpike that that doesn't affect the other dealers within New Jersey per se; that affects on the national level?

MR. CHARLTON: Yes. But you would also have to take into consideration any business we lost by the business we took on throughout the country because it is a fluid business, you are either gaining or losing all the time, you don't stay the same.

SENATOR DODD: The second part - and I will be very brief, Dean - earlier you stated, prior to lunch, that the allocation of gasoline through your now existing outlets is based on projected increase in growth, is that your formula?

MR. CHARLTON: This is the government formula that we go by and they provide for growth in the formula. In other words, if you take an outlet and you figure 1973 volume versus 1972 volume and if he has a 20% growth, our computation on his allotment allows him 10% over his 1972 base, as is normal.

SENATOR DODD: How would that apply to the Alert Stations that went in business in 1972 and 1973?

MR. CHARLTON: The Alert Stations - there is a formula for taking any station that was not in business also; if it is new business, then you take a percent of the estimate for the stations when you built them.

SENATOR DODD: Does that allotment come away from New Jersey outlets - existing outlets - or national; how does that work?

MR. CHARLTON: That would be in the total national pool.

SENATOR DODD: The allotment?

MR. CHARLTON: Yes. I might explain that this way, when we decided we had to go on allocation back in April, 1973 - which we were on until July 16th - we decided that the only way to do this was on a historical basis. We took all of the volumes that service stations had purchased, we took all the volumes the consumer had purchased and all the volumes that the retailers had purchased, traditionally, and we said these percentages we will apply to the total pool of gasoline that we have available. So that the service stations, if they got 70% of the pool, traditionally, 70% of the total volume was allocated to the service station business. You had so many million gallons of gasoline and then we went to the individual stations and we used his traditional basis to apply his allotment.

So, we thought we did it fairly and we think that any tampering with that would be prejudicial to the fair and equitable treatment doctrine.

MR. IRVING: I believe that Assemblyman Thomas Kean would like to ask you some questions.

ASSEMBLYMAN KEAN: I have a couple of questions - very briefly. First of all, there have been a number of allegations, as you know, in the state, that New Jersey is being discriminated against. You are our largest supplier. Do you have any evidence, or is it true that New Jersey is being discriminated against in any way?

MR. CHARLTON: Assemblyman, I don't have any kind of information that would tell me this pro or con. As a matter of fact, I can tell you that in New Jersey, in 1973, our sales were considerably over 1972. As far as our company is concerned we put considerably more gasoline in the State of New Jersey than in 1972.

ASSEMBLYMAN KEAN: Well, you can say anyway, as our largest supplier, that you are not discriminating against the state?

MR. CHARLTON: I can say that definitely.

ASSEMBLYMAN KEAN: How then do you explain the number of indications that we have that the-- The State's largest newspaper, the Star Ledger, did a survey, it was on the front page, in which they called newspaper offices in about 30 other states and they found that nowhere was the situation what it is here in New Jersey.

I, myself, did a survey through the National Society of State Legislators and found the same thing: in many states they don't even know there is a crisis. Again, as our largest supplier, what would be the explanation for this phenomenon? I could name some of the states where they claim there is no crisis and no lines and in which you are the largest supplier.

MR. CHARLTON: Actually, we have to talk from an individual basis because I do not know what is happening with any other companies' business; I have no way of knowing that. But in our own case, I know that if we apply the allocations, as the federal government outlined that it be done, then we are only dealing with existing stations that are in business, or were in business in 1972. We also, under that plan, can deal with a new station that, let's say, came on in 1973 and that had only a very few months of operation. And we can also, under the formula, deal with a station that comes on in 1974.

The formula provides for that and we work this formula strictly on an individual service station basis. This does not speak to the market place - the total market. In other words, if you had increased demand come into your market, I have no way to know that that happened. I have no way to take care of it.

ASSEMBLYMAN KEAN: In other words, you, as our largest supplier, do not know why New Jersey is being treated unfairly?

MR. CHARLTON: I don't say that New Jersey is being treated unfairly, Assemblyman; I didn't say that. I think if you look back at New Jersey's growth pattern in fuel, you will find it only runs 3% to 4% a year.

ASSEMBLYMAN KEAN: In spite of the fact we are among the ten largest growing states in the country and have been for the last ten years?

MR. CHARLTON: Apparently you are not, in motor fuel, because the record indicates that you haven't been a high growth motor fuel consumer.

ASSEMBLYMAN KEAN: We just grow in population but not in motor fuel?

MR. CHARLTON: I don't want to dispute anyone. These are the figures we look at and these are taxpayed figures that the state produces.

ASSEMBLYMAN KEAN: Let me ask just one more brief question, you mentioned in your formal statement, and I think again in your informal statement, the delay in the Alaskanpipeline. When the Alaskanpipeline is completed, how much oil from the Alaskan pipeline will we get here in New Jersey?

DR. HOWE: When the Alaskanpipeline is completed, which, hopefully, will be about three years from now, its design, or its initial capacity, will be about 1.2 million barrels a day; its going up rather rapidly to 2 million barrels a day. It is very unlikely that any molecules of that oil will actually get to the east coast, at least initially. It will fill up the west coast first and that will push imports that are, say, leaving from Saudi Arabia, or somewhere about one-half way around the world; it will bring those imports into the east coast. So it will do nothing. In other words, physically, that oil will not be-- The only way to move it will be either to take it all the way around-- It will be moved to the Port of Valdez, which is in southern Alaska.

There are only two ways that that oil could get - well, three ways - here. One would be all the way around the world to the east coast and that doesn't make sense; the other way would be through the northwest passage and when we looked at that, with ice-breaking tankers and those facilities, that was a higher cost alternative. Those facilities are not being built - either the ice-breaking tankers or the loading facilities, etc. The only other way it could move, basically, would be through the Panama Canal in very small, inefficient tankers. I guess it could also move around the tip of South America in somewhat larger tankers.

ASSEMBLYMAN KEAN: In other words, there are tankers now coming from the Arab world to the west coast?

DR. HOWE: Yes, both to the west coast and to the east coast.

ASSEMBLYMAN KEAN: I know they are coming to the east coast.

What percentage of the west coast supply now, approximately, comes from Arab tankers? That comes around that long way, I guess, to California.

DR. HOWE: Well, it's not really. It's a long way: it is half way round the world almost. It is about an equal distance from, say, the Persian Gulf to the west coast and the east coast.

ASSEMBLYMAN KEAN: What percentage?

DR. HOWE: Of the total supplies on the west coast? I can't give you that figure. It is a fairly substantial percentage that they have to import. They have been at capacity, at their crude producing capacity, in California for a number of years, and declining. So all of their growth and demand is being made up by imports. I just don't have the figure of how that would compare with the east coast; it would be less than the east coast.

ASSEMBLYMAN KEAN: Are those refineries still running at capacity out there?

DR. HOWE: I don't know. I don't think that they are.

MR. IRVING: Thank you, Mr. Kean.

Mr. Haym, a member of the commission, has asked for the floor.

MR. HAYM: We have been asking questions of you for the last hour and one-half and I still have not heard any opinion or any information. When I was out in Cincinnati last week we pulled up to the pump and got filled up right away and in Morris County yesterday I waited three hours to get gasoline. If you can't give us any facts or definite answers to that problem, we could at least ask you for your opinion of why this dislocation seems to be occurring in New Jersey and in northern New Jersey, most of all.

DR. HOWE: I think we can speculate on that a bit. I might add that I was in Pheonix two weeks ago and I had an extremely tight situation there - one and two dollar fillups; there are lines and there are also stations that are servicing regular customers only, that type of thing, unfortunately.

We can speculate on what is going on in the market place. One thing might be there is less discretionary demand in this area. In other words, a fairly high percentage of the population uses mass transit as opposed to other parts of the country where they use their automobiles more. Therefore when things start getting tight you feel it more because there is just less discretionary driving to get rid of - car pools, etc.

Also, and I have no statistics, this is pure speculation, people in this part of the country might take fewer long trips due to the proximity of the places you might want to go to here.

The speed limit - savings due to the new national speed limit of 55 miles per hour are probably less in this area than they are, say, in Texas or Oklahoma or the west where people drive 70 to 80 miles per hour all the time. If they cut back to 55 miles per hour, the savings would be greater. I think after you get beyond a certain point you get into a psychological snowballing problem: people start stopping or standing in line to buy a dollar's worth of gasoline. This is a problem. I know down in Washington, D.C., where I was last week, it is extremely tight down there. The Dealer's Association is now talking about trying to put a minimum, not a maximum but a minimum, amount of gasoline, say 3 to 5 dollars, depending on the size of the car, put a minimum on the fillup to get away from this panic buying where people are stopping and standing in line for an hour and one-half to buy a dollar's worth.

Also there is a data lag with the federal government. I think the Federal Energy Office is trying to get some data on this and try to decide what has really happened. We certainly can't give you any hard facts and figures. We feel that we have done our part here in the state, last year was up 20% over 1972 so we have been moving the gallonage in here. Why there are these long lines here and not in any other specific area is a difficult thing to explain. It takes more information or data than we have to explain this.

MR. HAYM: I would like to pursue, as time permits, a material balance around the state of New Jersey of all the crude and all the other different distillates, residual fuel, coming into New Jersey and then the consumption but I don't have time to persue that questioning. I wonder if it is possible that you give this information to our committee, especially on what your

1974 estimates are and what your 1973 and 1972 data is, whether New Jersey has been receiving the same allocations. We are all taking your word for it. I am not saying that you are not telling us the truth but we are still taking your word for it. The only figures we see come from the API, which is an industry organization. To do any type of constructive work in New Jersey - which we have been working on since last June - has been near impossible. We have to take what you tell us as information and you know I deal with corporate planning and I know we present our figures to our parent company and they cannot ask the right questions if they want to. I assume they will and they have, but there is no way any group can, through public hearing, really go through and get the right information to find out what is happening in New Jersey.

You mentioned before figures such as 280 thousand barrels a day in October 1973. Let's also take February through April - 50 thousand barrels a day of foreign crude, or 25%, which is 200 thousand barrels per day. Now you told Senator Ammond earlier that 263 thousand barrels a day of crude was coming into New Jersey by tanker. I am thoroughly confused and I don't think we have the time to pursue this, but I feel it imperative that if this information is not volunteered, then we should get it by subpoena. I feel very frustrated after having worked on this thing for eight months.

I don't know if any of the other gentlemen here - and ladies - have the allocation formula on how Exxon, among the other oil companies we speak to, has filled out the allocation for New Jersey. I would like to see that data also so we know we are getting our fair share. Three hours is a very frustrating experience to wait in a gas line. Last week one day it was one hour and the next day it was two hours and now it is up to three hours. In my town of Parsippany there are 40 independent dealers, some of whom have more than one station - three were open yesterday.

All of the information we have heard does not make sense at all. I am asking you for this information. To go over that line of questioning now would take an entire day to get that data.

MR. IRVING: I understand, Mr. Haym, our guests are willing to supply that information to us.

If you can remain for another couple of minutes, gentlemen, Professor Oates has a few more questions before we conclude.

MR. OATES: Yes, I'd really like to follow up this line of questioning concerning the distribution and sale of gasoline in the State of New Jersey. I don't think we really have quite clarified this as yet. In particular, how do your sales out of the Exxon refinery break down in terms of sales to your own distributors and sales to others, including independent dealers in the State of New Jersey?

MR. CHARLTON: How do you define an independent dealer?

MR. OATES: Well, why don't you define it.

MR. CHARLTON: Well, it is used very loosely, so we never know.

MR. OATES: All right, these would be people other than those whose stations you own and/or lease, all right?

MR. CHARLTON: All right. Quite often this is applied to a private brand operation as being independent; they are truly independent. Quite often it is applied to a dealer who may fly our brand but owns his own station and who makes all his own decisions. It may apply to a dealer who leases a station which we own - he leases it from us. The lease gives him control of the station. So, they are all independent.

MR. OATES: All right. Roughly what proportion of your distributed gasoline goes to the stations that are now leased from you and not owned by you, O.K. - true independents.

MR. CHARLTON: As to stations that fly our brand, about 50% of these stations are privately owned. But the volume in these stations, quite often-- They are not, in all cases in a prime location so their volume, in total, would not be--

MR. OATES: Do you know how many stations, who buy gasoline from Exxon, have gone out of business over the last month or two? Do you have any rough feeling for that in numbers?

MR. CHARLTON: Yes, I have not only a rough feel, I have a real feel for it. We added-- this thing just says 23 of the kind who own their own properties and we added 20 of those that we own and lease. Now that includes - that's 43 - the 20 includes 12 on the New Jersey Turnpike and 4 on the Garden State Parkway, so there would be 4, excluding those that we own and lease.

MR. OATES: These are additions?

MR. CHARLTON: Yes.

MR. OATES: How many have gone out of business?

MR. CHARLTON: Those that went out of business - the people who owned them - there were 29 that went out of business, and those that we own and lease, there were 94 that went out of business. So we had 43 added, we had 123 that went out, total, which netted 80 going out of business in total in 1973.

MR. OATES: One of the reasons I am raising this is I now have some sense, I think--

MR. CHARLTON: This is not an abnormal situation.

MR. OATES: --in view of the testimony earlier this morning by Mr. Holman, of the difference in the situation, perhaps, that an independent faces, relative to a brand distributor. You indicated, for example, if you had a branded distributor who came into business, say, last year, after 1972, on which the allotments are based, you would, presumably, still be supplying that station based on an allocation formula, right? If you opened a station last year, you are still supplying him. Now in the case of Mr. Holman, who opened a station and is operating a string of independent stations, he is getting no gasoline at all; all his 10 stations are closed. I think this does point up clearly the difference in the position of an independent as opposed to a branded distributor when things get tight like this.

MR. CHARLTON: In our case if we were supplying someone and they changed from us and went with someone else, if the Federal Energy Office directs us to resupply them again, we have to do that.

Now there is a question of changing brand names and all that, as he indicated this morning, also. He also indicated that he knew he had a way to get relief and that was to go and apply to the Federal Energy Office.

MR. OATES: Just one final comment. Dr. Howe, in the discussion of profits, pointing to the fact that profits are running only a couple of cents a gallon, I think, as you well know, that is a very misleading way to talk about profits; if we used profits per dollar of sales, a high turnover operation like A & P would appear to be a poverty-stricken business. What really counts is a return on equity and I think that is really a misleading number that you are using.

DR. HOWE: Well, the reason I put it in terms of cents per gallon, there are a number of people who believe that these price increases are as a result of increased profits and when you get it down to so many cents per gallon I think then it shows that there isn't much there to, say, give back.

MR. OATES: There's a lot there. Looking at it on the basis of cents per gallon is not the right way to look at it.

DR. HOWE: Well, I agree from an economic standpoint that it doesn't make very good sense but from the standpoint of putting the thing in perspective-- Now if you ask the man on the street how much our profits were up last year, he would say 5¢ to 10¢ per gallon; that is in terms he can understand and that is just not right; they were up about six tenths on a gallon.

MR. IRVING: I believe we have concluded.

DR. HOWE: Could I make one very brief statement?

MR. IRVING: Go ahead, sir, yes.

DR. HOWE: We will furnish for the record - we will attempt to furnish - the best information we have on this question of balance, the New Jersey balance, if you will, of what moved in and what moved out. Of course we can give you better figures for our company than we can for the industry, which would have to be based on published sources and I don't know if anything was published past 1971.

I would caution the panel and the committee not to get overly enamored with the question of the boundaries of the state of New Jersey. I know this is your primary interest, obviously, but it is just part of the U.S. supply situation. In fact if you build a fence around the state of New Jersey, there is no crude or gas production and very little coal production so there would be nothing here; you are part of the overall U.S. supply system. There is material moving here from other states and moving in from overseas and the fact that the Bayway is up or down isn't as significant as the fact of what is happening in the total, say, Gulf East Coast area. I think we need to keep that in perspective.

SENATOR PARKER: Can I ask one further question? What happens to the difference in allocation from-- You had more go out of business than you had come in to business, what happens to that difference in allocation? Where does that extra allocation go for this year?

MR. CHARLTON: Well, we took on some 49 million gallons. There's been a lot of words and figures used about the New Jersey Turnpike. We took on 49 million gallons there. They have used all kinds of figures. That's where some of it went, into these 13 stations and the 4 on the Garden State; that's where the additional went. Now that came, as far as we are concerned-- That was put into New Jersey by my company and, as a matter of fact, there is a whole lot more than 49 million gallons that we put into New Jersey in 1973.

When you find that since we were not on allocation in the period of July 16th to November 1st, our dealers were wallowing in gasoline, they had all they could buy and pay for. Now if a dealer says, "I was cut off 50%", he might have picked August or September or October and I could agree in a case like that, but not during the period of '72 he hasn't been cut 50%, and neither has he been cut any different than any other dealer under the allocation system.

SENATOR PARKER: But I understood you earlier to say that you considered this type of station in your allocation, that that would be included, so under your federal allocation--

(interrupted by loud disturbance in audience)

MR. IRVING: There is a problem here, everyone wants to speak.

Since the stenographers need to take a moment to relax their fingers, we will take this opportunity to confer with the Chairman, Mrs. McCall.

(five minute recess)

(after recess)

MR. IRVING: If everyone will be seated, we can reconvene the hearing.

Mrs. McCall desires the floor.

MRS. McCALL: By "popular request" we are changing our schedule. The oil companies have agreed to wait until the other people who are here to testify are finished and then they will go on.

Now, we will go in this order, we will skip--

(disturbance in audience)

I would expect in exchange for that, you would sort of button your lip and give other people a chance to be heard.

Now, we will go in this order: I believe Mr. Mars is next, then I believe Mrs. Schultz is next, and then the representative of the "vocal group", Miss Williams, will speak. I believe we will then return to our previous agenda. Thank you.

MR. IRVING: Thank you, Mrs. McCall.

I understand that the Public Interest Research Group will also talk this afternoon and they are also agreeable to waiting because of this change in procedure.

Mr. Mars, will you come forward? Will you please be seated and identify yourself; give us your name and mailing address, sir.

J O H N   M A R S: My name is John Mars. I own and operate an XTRA service station in Voorhees, New Jersey

If there are any questions that you would like to ask me - or would you like me to give my summary first?

MR. IRVING: Well, I think it would possibly be helpful for us to know the branded product that you are selling.

MR. MARS: All right, the branded product I am selling is that of three companies, we are supplied by BP, by Citco and by Phillips.

MR. IRVING: By BP I understand you to mean British Petroleum?

MR. MARS: British Petroleum, right. I work under Puritan Oil, located on the Black Horse Pike in Belmar, New Jersey. They are my supplier and their suppliers are the three I have just given you.

MR. IRVING: Do the three branded names appear at your service station?

MR. MARS: No, they do not.

MR. IRVING: So you are selling the gasoline under another name?

MR. MARS: Under XTRA - X-T-R-A.

MR. IRVING: Do you want to tell us a little about the kind of contract you entered into with BP and Phillips, for example?

MR. MARS: Well, in my particular case, when you take an unbranded service station, you don't enter into any specific contract; it is on a 30-day basis and either party can bow out at any given time. The petroleum is supplied by Puritan Oil, who is my so-called supplier from here on out, and they are supplied, in turn, by BP, Phillips and Citco.

Now the mandatory allocation system, based on 1972, which has just been approved, has applied well to a lot of dealers but there are certain circumstances and certain dealers that it cannot apply to, such as myself. I was not in business a full year back in 1972, the year upon which the mandatory allocation is based. So, therefore, my gallonage was way, way down below par. Since then I have built my business over 144% higher and they have only allocated my supply based on the first 7 months of my business. I was pumping 60 thousand gallons of gasoline and I now only receive 15 thousand gallons.

MR. IRVING: Where did the allocation come from?

MR. MARS: I spoke about the Puritan Oil dealer - the Puritan Oil salesman - and the allocation supposedly comes from the oil company, who receives their orders from the Federal Energy Office.

Now Puritan Oil is willing to supply me and dealers like myself if the Federal Energy Office will grant BP, Phillips and Citco authorization to give us more gallonage, otherwise I get no more gallonage. I cannot live; my standard of living is way up now because of the fact that I built a nice business and as it stands right now my papers were filled out last night - the Exxon people mentioned these papers, which have to be filed with the Federal Energy Office, earlier - but who is the Federal Energy Office? Who is going to see these papers and when am I going to get gasoline? Why did they take new business on when they can't supply the old business? My company, itself, took three new stations on, why? Why is gasoline available for them, when they are just starting out, and it is not available for a guy like myself that's been in the business? These are some of the questions that I'd like answered. Why aren't the books open and available, stating how much gallonage is available? Why aren't the oil companies subpoenaed to give this information? Why doesn't the State hand these subpoenas down and make the oil companies account for what they are doing?

MR. IRVING: You understand, sir, that this is the first day of our hearings. We welcome your advice telling us how to proceed and how best to gather information. Do we understand you to say that you are not certain if there is a real shortage, that it has to do with distribution?

MR. MARS: I believe it is a contrived shortage to, one, make the prices higher which the consumer will then absorb because he has no choice, he has to drive. Two, I think this is to put the small independent out of business; they have been the low men on the market since this gas situation started way back when. One of the officials from Gulf stated it very clearly when he said they would like to see more high-volume, cleaner stations in business rather than these few fellows that are in-- few fellows. I am talking about hundreds and thousands of service stations that are in there scratching to make a living. These are his terms, so called "scratching to make a living". I don't consider myself scratching to make a living.

MR. IRVING: Do you have any evidence except for this comment from Gulf to indicate that this is a contrived shortage?

MR. MARS: No substantial evidence on my part as far as it being in writing from anyone but I am sure if you opened the books, or if you subpoenaed the records, that you will find there is enough oil in this country to take care of our needs without having people hassled at the islands demanding gasoline; you have to be afraid to open your service station. Things are so bad out there, I have never seen anything like it. People are to the point of being irrational, they just don't know what to do. They pound on the pumps. They scream for gasoline. It is just not the American way, this country is just too rich to have this happen.

MR. IRVING: You said that you built up your business. do I take it that the amount of gasoline that you are able to purchase now is down from what you were able to purchase a year ago?

MR. MARS: Correct.

MR. IRVING: Is it down by 15%?

MR. MARS: Down from a year ago?

MR. IRVING: Yes.

MR. MARS: Well, from 60 thousand to 15 thousand I would say would be close to 75%.

MR. IRVING: 75%? When the amount you have asked for was reduced, was any reason given for that?

MR. MARS: Because the state has the Federal Energy Office-- not the state, the government has the Federal Energy Office give them the controlled allocation system and they have to abide by it.

Now, who is the Federal Energy Commission? Is it a stack of papers filled out on somebody's desk? We have nowhere in the state that we can go to; we have to go to the federal government. Who is the Federal Energy Commission? Where do these papers sit? How long is it going to be before we get gas?

MR. IRVING: Let me see if I understand you. Do I understand you to say that when you ask those people who are selling British Petroleum Phillips and Citco to you through Puritan, why you are not able to get as much as you are requesting, their answer is that it has to do with the federal regulations requiring allocation?

MR. MARS: Correct.

MR. IRVING: Do they also indicate that there is, in fact, a shortage of supply?

MR. MARS: They have the supply. They can give it to me if they get it but they cannot receive it because of the federal government allocation system.

MR. IRVING: And they told you that?

MR. MARS: Yes, they told me that and they assured me that, for my being here, they would be 100% willing to supply me with gasoline if it had been freed for them to give it to me.

MR. IRVING: Thank you. I will now yield to Professor Oates.

MR. OATES: So it turns out then that Puritan's allocation, the allocation that Puritan receives from the three companies, is based on your allocation and the allocation to other people to whom they make deliveries.

MR. MARS: Yes, correct.

MR. OATES: I think you are right. To my knowledge there is no State machinery to deal with this; the allocation plan is formulated by the Federal Energy Office.

MR. MARS: Why can't the records be put on the table and shown to people of qualified knowledge - I am talking about oil people, not people that are appointed to a position which says that they are Federal Energy Czars. I am talking about people who know oil business. They cannot walk around these people and say we have a shortage when there really is no shortage. And when the profits are up phenomenally, we get no profit increase at the station level; the profit increase at the station level must be passed on to the customer and we have to work just as hard to make a living as the next guy and we are cut and there is no reason for it, no reason at all.

MR. GLASSMAN: I think the gentleman made his point very well. I have very few questions to ask but to the best of your knowledge - following the general line of questioning, which is a little different than has been asked - are Puritan's tanks full? I mean are their storage tanks full?

MR. MARS: Puritan Oil sends their trucks to Paulsboro and they are only allowed to take what the valve-- They push a button and the valve gives them a certain amount of gasoline. Now the people that control that valve are the ones that have the storage.

MR. GLASSMAN: Now, that comes out of a pipeline which basically is fed by BP, Citco and Phillips - I think those were the three you mentioned.

MR. MARS: Right.

MR. GLASSMAN: It is a common pipeline.

Puritan now tells you, just to reiterate for the record, that they cannot supply you with gasoline because the people who operate this valve - this consortium, or whatever it is, of companies, or whoever it is that controls the gas - tells them that they cannot have more for you because of the Federal Energy Office.

MR. MARS: Exactly, and I would like to know who the Federal Energy Office is. I filled out papers out last night for over two and one-half hours and I want to know where this Federal Energy Office is, who do you see?

MR. GLASSMAN: It is an agency of the federal government.

MR. MARS: Controlled by whom - which one man?

MR. GLASSMAN: From the executive branch - Mr. Simon.

MR. MARS: Does Simon get these papers?

MR. GLASSMAN: His staff-- I don't know, who does?

MR. GARVEY: If you will consult Puritan and tell them to pull out their federal register, they will give you the address, or they should have this information, of the Retail Federal Energy Office in New York City that covers New York and New Jersey. You should be able to call them long distance tonight or first thing tomorrow morning and get some kind of satisfaction. Puritan should have that information.

MR. MARS: Well, Puritan has that information. They have acknowledged that the gas is available but the only explanation that they get from the companies is that the Federal Energy Office says this is the way it has to be allocated.

MR. GARVEY: That's right, but you have the right of appeal to the Federal Energy Office to gain a waiver in your interest.

MR. MARS: That's right but you, a member of the general public, need gas today; how long does it take to appeal it? Why don't we have an office in the state that enables us to appeal to a local level so that we don't have to wait. I only have enough gas for another five days, at the most. Where are you going to buy gas if I close up and everyone else closes up?

MR. GARVEY: I am in sympathy with both our problems.

MR. MARS: Why do the major oil companies take on new business? Why did ALERT open up if they knew we were going to have a contrived gas shortage? These are the questions. You can waltz around them all day long and you are not going to come up with anything but the same basic information. Why aren't the records produced that state, "we have so many gallons and this is what we are doing with them". Thank you very much, that is all I have to say.

MR. IRVING: I understand from our staff man, Mr. Steve Frakt, that there is a state office that may be of some help to you. When you finish here, you might ask him for that information.

There is one other question that has been given to me so that I can pose it to you: How does an independent dealer determine his pump price of gasoline?

MR. MARS: He determines it on the federal allocation system. When he gets allocated so many gallons and the price goes up to the distributor - which is Puritan Oil - he then passes it on to the public through the pump price. That is the way it is passed on, it is as simple as that. If it is a 5¢ increase, it gets increased at the pump 5¢. It just went up last month and this past month it went up 5¢ more.

MR. IRVING: Your profit range remains constant does it?

MR. MARS: The profit range remains the same.

MR. IRVING: I don't think we have anything further, thank you.

MR. MARS: Thank you for hearing me, gentlemen.

MR. IRVING: Mrs. Schultz? Would you give us your full name and address, please.

M A R L E N E   S C H U L T Z: Ny name is Marlene Schultz, 757 Washington Avenue, Woodbury, New Jersey.

I am here on behalf of the citizens who have signed petitions, and in fact, gentlemen, this is what the petition says. I had no part in making up the petition, although the people did take these around and gathered the signatures to be presented. This is to go to Brendan Byrne, but I was told to give it to Alene Ammond of the Commission. This is what the people think.

"Whereas the undersigned are greatly concerned with the high cost of home heating fuel oil and with gasoline, and in view of the fact there is so much doubt and controversy over the actual existence of a fuel shortage, we petition you, as Governor of our State, to name a Committee to investigate the alleged shortages and, therefore, give an unbiased opinion and relief to the public." The people feel, and they state here, that they have had enough inflation and they are on the verge of revolting. They want you to know it took a couple of days, and hundreds of people have signed-- Many people are waiting for me to come back tonight and they want more papers; they are getting more petitions out, and they stated that if this State and our government does not help the people, then they themselves are going to start taking matters into their own hands by helping themselves. It is a bad thing to happen. I come from South Jersey and live close to a Socony Mobil and also a Texaco. We have people from our district who work in these plants and refineries who are coming out and telling us that there is no fuel shortage, that they are cutting down production because they have no place to store it. We are also told by people who are bringing the fuel in that a person should refrain from buying hi-test gasoline because the ingredients are not in the hi-test gasoline. We went to people that I know are in business who do only buy hi-test and I asked them what the result of the gasoline crisis has done to them and how their cars are running. Each and every person who only buys hi-test has, without a doubt, and they will state so, gotten pings in their engine. They thought there was something wrong with their car. So I told them what the people from the oil companies have stated. These are people who are in the know, people who unfortunately do not want to get involved. They have families, homes, and they feel that if they are brought out in public they will lose their jobs. But I want you to know what is happening to the people, and it is not only in my area, but a lot of this is affecting the people on fixed incomes and limited incomes.

On November 6, - and I can show you what is happening to home heating oil - November 6, per gallon, we were paying 22,6 cents. January 2, it went to 24.5 cents per gallon. On January 30, only 28 days later, it went to 34.5 cents, 10 cents per gallon more. Our bills went from, in one month, $40.00 to $80.00. Now, the people cannot afford it. The whole gist of this is - and I can bring the people up here - those who are on social security or on pensions have resorted, and I hate to say this, they are eating cat and dog food.

MR. IRVING: Mrs. Schultz, may I say to you that the purpose of this hearing is to find out what the facts are. It is difficult for the government to respond intelligently until we find out just what the facts are.

MRS. SCHULTZ: Yes, I know--

MR. IRVING: Let me just finish. I would hope that your constituents - and I'm sure they do appreciate this, as we all do here today - your coming and talking to us -- I hope that your constituents recognize that in our kind of society, anarchy or civil disorder taken into your own hands would be self-defeating. The Attorney General of the United States in today's paper has indicated that we may be close to anarchy in this country if we are not very, very careful. So I hope that, since you are a natural leader of your constituents, that you would urge them to exercise some patience while the government tries to find out what the facts are so it can respond intelligently to you.

MRS. SCHULTZ: Well, I have been talking to some of the people up here, and they said they did not hear what had happened in Camden County which was only a few months ago. In Camden County situations are worse than they are in Gloucester County. There were between 600 to 800 citizens who gathered together and broke into the A & P, the food stores, and the meat markets and they wiped out everything and, gentlemen, the cops could not do anything about it. The cops sat in the police station, afraid to come out. That is the only indication we have because the police were called. But the people drove their cars up and, cart by cart, they just loaded them, drove home, and then came back. There were only a couple of people who were arrested on this. But this is what the people want to know. This is what they are asking this Commission and this government for. They want the books on the oil companies open. They want them to be investigated, not only profitwise, but how much fuel they have on hand. They want to know how much we are exporting to Viet Nam and other foreign countries. They want to know how this government, during a whole Viet Nam War, had enough fuel and gasoline. How, now in peacetime, can you say there is gas rationing, especially in view of the high profits that oil companies are getting. But the people are asking questions and they want answers. Gentlemen, I'll be very honest with you. When a man or woman is head of their household, and when their children are cold and hungry, it is our job as parents to take care of ours first. What happens over there is one thing. But the fact that the oil companies are blaming - I'll end it after this - the Arab nations for what is happening. I would like to read this. This letter went to the United Arab Republic on Decatur Street in Washington and it says: "Gentlemen, as a citizen, I appeal your government to help the American people.

Our oil companies have, throughout the years, built refineries and operated their businesses in foreign countries. I now appeal to your government to supply the American people with your products. Since we have thousands of gas stations closed and many people without heating fuel, it would be in your best interest to open these stations up and supply our homes with your product. I can assure you, at a fair-market price, your government can make billions of dollars in this country. If your government can see its way clear to undertake such an adventure, which will not only benefit your government but also help the American people, it will give competition to our oil companies who, at this time, have none. I hope such an undertaking between your nation and my country can become a reality, for with competition and only through competition, can we stop our oil companies from creating fuel shortages to gain huge profits.

"I sincerely hope your country will consider this proposal and realize the opportunities and profits that can be gained by such an adventure. If your nation does consider and, in fact, take this opportunity on this proposal, I would appreciate hearing from you in the near future".

Now, this will go to every nation that produces oil. The Arab nations, unfortunately, were blamed for this. As I said, the people are really in desperate need of help.

MR. IRVING: Mrs. Schultz, we would appreciate having a copy of those bills that you have indicated show a severe rise in the cost of heating oil, and a copy of that letter, as well, for a personal reference. It is clear to me, and I think on behalf of all the people here listening to you, that we appreciate the fact that you have very dramatically indicated to us the plight of this energy crisis in New Jersey as it affects many people of limited incomes in your section of the State. I think you have provided a real service.

MRS. SCHULTZ: Well, I think that you would have to appreciate the fact that I live on a street with people that are older citizens. They range in age from 68 to 93. When you see them with no food, then it gets to the point that you start wondering if this government is doing to them what it is today, what is in store for me and my child tomorrow? This is the whole purpose of it. I would like to know where I, as a citizen, stand and what the government will do for the people. The people cannot take much more.

I would sincerely urge that this Commission and this State really look into this problem. The people cannot afford to buy food, much less fuel and utilities, at the cost that they are.

MR. IRVING: Thank you very much, Mrs. Schultz.

I understand now there is one other spokesman who has asked to be heard on behalf of the folks who came.

Would you give us your full name and address, please.

K A T H Y W I L L I A M S: My name is Kathy Williams and I am speaking to you as a representative of the Trenton Rank and File. And I am going to read this one statement from the Trenton Rank and File and the Attica Brigade Student Group. The address is P.O. Box 1056, Trenton, New Jersey.

Each day news about the economy seems to grow worse. We are now presented by the media with the energy crisis - stories about layoffs and slowdowns in industry; long lines at gas stations, with alarming predictions about the future. The American people are being told that they have been energy gluttons, that their insatiable appetite for energy has brought on the present crisis. The point is to suggest that our present energy problems exist because demand has simply outstripped supply. This explains the shortages as well as the incredible price increases in oil, up 90 per cent over January 1973. The solution, we are told, is to tighten our belts, even as our real income plummets each week.

The national energy hysteria is encouraged also by suggesting that our foreign enemies have brought on the crisis. It is the patriotic duty of each of us to conserve energy in the face of the Arab blackmail. Let us dispense with this last lie at the outset. The fact is that the crisis began well before the Arab-Israeli War when the Arabs cut off oil supplies to the west. By the end of 1972, we were told to expect a cold winter due to shortages of heating oil, which the mild winter prevented. And by the early spring of 1973, we were prepared for summer gasoline shortages.

Secondly, the Arabs, at most, have supplied us with only 6 per cent of our crude oil and another 6 per cent of refined oil products coming from Arab-supplied countries in Europe. The real villains are the oil companies, themselves, supported by the government. The nine largest oil companies received one-tenth of all corporate, after-tax profits. The seven largest oil companies control 70 per cent of the world's oil and natural gas production. The oil companies control 30 per cent of U.S. coal production. The oil companies own five out of the ten largest coal companies. The oil companies control 45 per cent of the uranium reserves necessary for nuclear power.

In dealing with the oil companies, we are up against giants who are capable of acting in unison to create a situation favorable to their interests. While 1973 has been a boom year for profits for all corporations, which went up a record 27 per cent, oil profits soared 47 per cent above the 1972 level by September, 1973. By the end of the year, the picture looked every more rosy. Exxon's profits were up 59 per cent, Mobile's up 47 per cent, Texaco rose 45 per cent, and Shell went up 28 per cent, all above the average for all corporations. Thus, the Organization of Petroleum Exporting Countries' basic concern is to regain control over the revenues from the sale of their oil.

The oil companies for years have been getting their crude oil abroad at bargain-basement prices. It cost them, until recently, 10 cents to produce a barrel of Mideast oil compared to $1.31 to produce a U.S. barrel. A barrel contains 42 gallons. So the cost per gallon of Mideast crude oil was about 1/5th of 1 cent. Faced with this justified challenge from abroad, the oil magnates faced the new situation of finding other profitable sources of supply. This required investment of large sums of money as well as higher oil prices to justify the investment. The energy crisis kills both birds with one stone. It gives them the necessary profits for investment and guarantees higher prices in the future.

How does the oil crisis fit into the picture of tension between one group of capitalist nations, Europe and Japan, on one hand, and the Soviet Union and the U.S. on the other? The U.S. big business higher oil prices may, in fact, turn out to be quite helpful in the economic war with Europe and Japan. These latter countries depend almost entirely upon foreign imports of oil. Their economies can be brought to a grinding halt without foreign oil. They are also paying a much higher price for their imported oil, which means not only a slowing-down of their economic growth, but also an increase in the prices of their goods. American goods, on the other hand, will be much less affected by the international oil prices. The U.S. imports from all sources are relatively small, 30 per cent of its oil, and with the possibilities of new domestic production opened up by the crisis, it can very well become self-sufficient.

For the Soviet Union, their detente with the U.S. means a weakened Europe on the one hand and increasing commitment from the U.S. to cooperate in matters of technology, which the Russians desperately need, as well as their increasing encouragement of political domination of some oil countries.

Whose crisis? We have pointed out what seems to be the reasons for the so-called crisis. First, we have argued that the crisis seems to have been planned. The oil companies certainly had the power to manipulate the situation to their advantage. The crisis is an attempt on their part to deal with a relatively poor profit performance, on the one hand, and the growing independence of the oil-producing countries on the other. It has also served to severely weaken the ecology movement and to weaken foreign competition.

What emerges is a massive attack on the working people of this country. We may point out here that while the oil industry is the immediate beneficiary, it is not necessarily the only one. As the recent past has shown, the economy has gone through some very severe problems. Inflation has become a permanent feature of this economic life. Unemployment, too, we are told, is here to stay. The solution under Nixon has been to impose wage-price controls, which is nothing less than a control on wages and a boost for profit. Working people have increasingly been demanding that these controls be scrapped. In fact, since the inability to control the chaos of capitalism becomes evident, even big business now demands the removal of the controls.

Apparently, the soaring level of profits in 1973, which have shot up in one year from 55 billion dollars at the end of 1972 to over 70 billion dollars in 1973, has not satisfied the appetite of monopoly capitalists. Along comes the energy crisis. We can now expect to hear two types of demands from big business: first, a demand for lifting of price controls to insure higher prices for all business under the guise of cost increases due to higher energy costs; and, second, a demand for stricter wage controls to control the inflationary spiral. Given these contradictions, we cannot be sure that the oil companies' act will play itself out to the end desired by them. As other capitalists in other industries fight to hold their ground, the chances are that massive inflation and depression will develop, uncontrolled. We are already seeing the signs - a million workers laid off in many industries - auto, airlines, construction, textiles, plastics, to name only a few.

In the monopoly-capitalist mouthpiece, Business Week, as printed on January 19th, the job crunch is just beginning and inflation has hit a record 8 per cent already. What we can be sure of is that, as this chaos grows, the arrogance of big business in its need to ruthlessly protect itself will also grow. The people will be asked to bear the brunt of each new crisis.

We refuse to go along with the energy hysteria. And as we refuse to do this, it will become more difficult for the oil magnates to succeed in their aims. We can also refuse to comply with the so-called belt-tightening. We can form energy brigades on the job and in the communities to put pressure on state and local and union levels. We can refuse to go along with rationing, which based on licensed drivers per family rather than income and need, will affect the poor more than the rich. But, most important, it is necessary to refuse to go along with the huge price increases and layoffs that are being planned. We can demand oil-price rollbacks and fight on the job for better wages.

Many union contracts contain clauses to allow the reopening of bargaining. In this, the teamsters have shown the way already. Over a million workers are covered by such clauses. The coming year, 1974, is an important bargaining year. Steel workers, telephone workers, aerospace workers, longshoremen, coal and railroad workers are all faced with important struggles ahead. We can demand job security for all. Here it is necessary to change seniority rules. When 60,000 auto workers get laid off, we know that many of these are women and minority workers, hired last and fired first. By demanding job security for all, instead of just some, we can all be assured of work.

Each of these suggestions provides an opportunity for a counter attack. In unity there is strength.

MR. IRVING: Thank you. Miss Williams, I don't think you identified the nature of the Trenton Rank and File group. Do you care to tell us something about that?

MS. WILLIAMS: Yes. It is an anti-imperialist workers' newspaper, started in Trenton about two years ago.

MR. IRVING: There are no questions. If you will file your statement with us, if you have an extra copy, we will read it with interest. If not, the stenographer has it and we will read it carefully.

Thank you very much, Miss Williams.

MR. IRVING: We will now hear from Mr. Mahany of Amerada Hess. Thank you Mr. Mahany, and I say to the representatives of Chevron Oil and to the "pro group" that we appreciate your courtesy in letting the others speak first.

H O W A R D M A H A N Y: That is perfectly all right.

MR. IRVING: Mr. Mahany, will you give us your full name and position with Amerada Hess.

MR. MAHANY: Howard Mahany, M-a-h-a-n-y, Associate General Counsel for Amerada Hess Corporation.

MR. IRVING: How long have you been with Amerada Hess?

MR. MAHANY: I have been with Amerada Hess for 18 years.

MR. IRVING: So that you are familiar with its policies and problems and procedures?

MR. MAHANY: Yes, sir.

MR. IRVING: Would you give us, briefly, a profile on the nature and extent of the business of Amerada Hess in New Jersey so that we will be able to talk to you intelligently?

MR. MAHANY: Amerada Hess is a fully integrated oil company which had its beginning in the State of New Jersey. It presently markets throughout the eastern seaboard, including the State of New Jersey, with both residual fuel oil to utilities, through home distribution and distillate fuel oil; through a chain of Hess brand gas stations.

MR. IRVING: I understand. What your saying, sir, is that Hess has its own exploratory devices for the location of oil, does it not?

MR. MAHANY: Yes, sir.

MR. IRVING: And also by supplying crude I assume?

MR. MAHANY: Yes, sir. It operates three refineries, one in Fergus, Mississippi, and one in Port Reading, New Jersey, and one in Saint Croix, U. S., Virgin Islands.

MR. IRVING: Well, then, based on your experience with this fully-integrated company, are you prepared to tell us whether the energy crisis that we face is a real one, a political one?

You heard perhaps, there was comment this morning that there is oil waiting off shore to be sold at a higher price at some future date. Is this a real crisis that we have?

MR. MAHANY: I assure, Dean, it is a real crisis.

I had the privilege to appear before this Committee in October, I believe it was. Pardon? September? At that time, I had indicated - and that was prior to the Arab-Israeli conflict - I had indicated that Amerada Hess had every hope and expectation of being able to continue to supply its customers through this winter with their, then, current need. Obviously, because of the loss of a certain amount of crude oil through the Arab-Israili conflict, we have been unable to live up to that expectation. We are surrently allocating residual fuel oil at 90 percent of the corresponding month of 1973. We are currently allocating gasoline at 85 percent of the corresponding 1972 month. On disstillate home heating No. 2 oil we are at present still supplying 100 percent.

MR. IRVING: This morning I asked Exxon the question that I think should have been asked last. May I pose it to you as well?

MR. MAHANY: Certainly.

MR. IRVING: Is it possible, with the extensive resources of Amerada Hess, that there is some flexibility that your company has to make available, immediately or within the next week, some additional supply of gasoline to New Jersey to get it over this near chaotic condition which we find ourselves?

MR. MAHANY: Sir, I am a resident of the State of New Jersey in Monmouth County, and I fully appreciate the problems that my wife is having, my neighbors are having, and my friends are having. If there were a way, I assure you that New Jersey is still closest to our hearts and we would do what we could. But, quite frankly, I have made similar appearances before groups in many of the States - most of the States which market, whether it be residual fuel oil for the utility companies or gasoline for automobiles; the problem is there and I am afraid we do not have any pat answers.

MR. IRVING: Would you care to comment at all on what I take it is really divergent testimony today, explained this afternoon, that some people are saying that the problem has been aggravated, if not caused, by federal regulations. I think it's your testimony that the problem has been aggravated by the Arab embargo. Is the real answer both of those or one rather than the other?

MR. MAHANY: I'm not sure where the real answer lies. There are many number of problems, which combined, produce the unfortunate situation we find ourselves in. As far as Amerada Hess principally is concerned , we rely on our refinery in the Virgin Islands on 100 percent imported crude oil. We have suffered very substantially as a result of certain embargoes and restrictions. Though, admittedly, we have been able to scout the world, so to speak, and we certainly are not suffering to the extent that we might have originally. We are presently, and have been operating our refineries, somewhere between 90 and 93 percent of capacity - the three of them. I can't say that the Federal Government has helped or hindered. I think, unfortunately, that as far as Amerada Hess is concerned and perhaps as far as the State of New Jersey is concerned, it may have somewhat hindered, because you may - and unfortunately I wasn't here this morning so I don't know what was testified to - be aware, the Federal Government has established the percentage of refinery capacity runs for the next three months at 76 percent. We are currently able to maintain 90 to 93 percent. That means, unless something gives, that we will have to give up 16 percent of our anticipated crude supply, which means we are selling to others less fortunate approximately 8 million barrels of crude. Obviously, if this comes to pass, there has to be some further problem.

MR. IRVING: Are you saying that the problem in New

Jersey would be aggravated?

MR. MAHANY: I think as far as Amerada Hess is concerned, as it markets on the east coast, that the east coast problem would be aggravated, yes, sir.

MR. IRVING: Do I take it further, Mr. Mahany, that you are operating your refineries at less than full capacity as a result of government regulation which in turn is influenced, if not preordained, by the Arab embargo? Is there that chain of events in other words, or is it too simplistic?

MR. MAHANY: It's not too simplistic, but we have been operating at less than capacity because of the unavailability of crude due to the world situation. I am saying that it now appears that there is a good possibility that, as a result of the Federal Government's promulgation of certain rules, that it could be aggravated.

MR. IRVING: Let me ask just one other question and I'll yield.

I think what you are saying to us, Mr. Mahany, is that there really is nothing that New Jersey can do at this time to alleviate the situation, unless either the Arabs change their policy or the government regulations are relaxed so that Amerada Hess can operate at full capacity and distribute its supply along with, what may appear to be more rational lines than the regulations would require.

MR. MAHANY: Well, I was fortunate to be one of those who met with the Governor yesterday. I think that, perhaps, New Jersey can take some emergency measures, which I know he is directing his attention to in order not to produce that much more availability of the product but, perhaps, to avoid some of the crises situations with which I have been faced. As I said with the government's allocation of 76 percent refinery capacity runs, obviously, what we have to give up will be run by someone else. We will not necessarily know who that someone will be. He may make the product more available in some other part of the country than it is here. All we know is that we market here.

The Federal Government -- again the Governor has indicated that he anticipates going to Washington to talk to Mr. Simon. It is conceivable that Federal Government can reallocate certain either finished products or crude oil. Our company, like the others whom have already testified, has allocated a strict accord with the regulations or with prior, February 1, with the voluntary program. We have treated every customer, whether he be an independent dealer, a company operated station, an unbranded station, a two oil distributor -- everyone has received absolutely the same allocation factor. We do not feel that it is incumbent upon us or do we feel that we can legally deviate from this situation.

MR. IRVING: Thank you. Professor Oates?

MR. OATES: You indicated, as also the people did from Exxon earlier, that the refineries are now operating not at full capacity. Roughly, when did this occur because I knew at least as of the first of the year everyone seemed to be running refineries very close to full capacity. Isn't that the case?

MR. MAHANY: It occurred, I would say, in the latter part of October, the first of November.

MR. OATES: So refineries had not been running at capacity for at least - you're speaking for Amerada Hess now - through November, December, through that whole period?

MR. MAHANY: That's correct.

MR. OATES: And this was due to an unavailability of crude?

MR. GLASSMAN: Excuse me a minute, Wally. Would your refineries so operate to produce more home heating oil, distillate No. 2 --

MR. MAHANY: Within the range--

MR. GLASSMAN: Is that a further -- within the range of 5, 10, 15, percent. I don't believe --

MR. MAHANY: Somewhere between 2 and 5 percent and, yes, they have been maximizing on No. 2 fuel oil and still are awaiting Mr. Simon's indication that he will reconsider within the next couple of weeks.

MR. GLASSMAN: You mean to say you cannot change, of your own free will, how you operate your refinery in this regard? I didn't know that the federal regulations concerned that.

MR. MAHANY: Well, we have been requested to maximize, and we have been maximizing.

MR. GLASSMAN: But, generally, the feeling has been - and I'll turn it back to my colleague in a moment - that there is sufficient fuel oil at the present time. It seems to me this is a very simple change to be made for immediate alleviation of the gasoline crisis. Now, I certainly would agree with anyone who says - let's heat our home first and frive our automobiles second - I don't think any of us would go the other way. But the stories one hears - one does not have concrete data - are that there is more than sufficient home heating oil in Northern Jersey, in fact, throughout New Jersey. Why, then, can't we, in this period right now - rather than cause the crisis that the taxpayer representative seems to think is going to occur, and may indeed occur from what I have heard has occurred at certain gas stations already - make the switch.

MR. MAHANY: First of all that's not going -- it may help a little but it sure isn't going to cure it.

MR. GLASSMAN: I agree it's not going to cure it. But if you do it and if Exxon and everyone supplying New Jersey does this rather than sending us distillate oil that we will have to store because of the milder winter -- I'm not blaming anybody for this directly.

MR. MAHANY: Sir, there is no question that so far the winter has been milder, but I don't think that anyone wants to play God, including Mr. Simon, and make an absolute determination that we have enough to last us through the rest of this heating season. I agree the stocks are higher. They are higher than they were this time last year but that does not mean that if we have a very severe last half of February or March that there will be enough to go around.

MR. GLASSMAN: You know, I guess I --

MR. MAHANY: It's a judgment decision.

MR. GLASSMAN: I realize if it's a judgment decision which would cause another crisis, I certainly wouldn't be for it. But it seems to me, knowing the general availability of storage facilities and the way the refineries would operate, that if the cold winter came, the switch could be made back. I certainly feel that that could be done. It is not a major, major change in the refinery operation.

MR. MAHANY: It's not, but it is in the distribution system and there is always, perhaps, a two to three week lag, perhaps longer.

MR. GLASSMAN: But isn't there storage of a couple weeks? We always have a storage of a couple weeks in these products and, consequently, we have that lag. I mean, I think I could set up a differential equation to show that this can be set up and handled with the general storage capacities, change-over times and the like. I'm sure you can do it better than I, at least your company can.

MR. MAHANY: I believe that is one of the things that the Governor will be discussing with Mr. Simon.

MR. GLASSMAN: Thank you.

MR. OATES: So you find yourself now operating refineries at less than capacity for several months now - this I was not aware of - and now you will be a seller of crude on top of that. Is that right?

MR. MAHANY: That's correct.

MR. OATES: You referred to the three refineries, Amerada Hess refineries, one in New Jersey, one in Mississippi; I gather the one in the Virgin Islands is far and away the largest in terms of capacity. Just out of curiosity, do you have any idea why the major refining capacity was established in the Virgin Islands? Is there something relatively attractive about that?

MR. MAHANY: Yes. There were certain tax concessions involved in that investment.

The Fergus Refinery was a small refinery which we purchased from someone else and have not owned it that long. What its plans are would depend on a lot of things.

The Port Reading Refinery was built by Hess in 1959, or thereabouts. We attempted to expand it two years ago; it has been involved in litigation since that time. That is one of the reasons why it has not been expanded.

The Virgin Islands opportunity was something that opened up the same as, perhaps, those open in Puerto Rico and other areas in the Caribbean.

MR. OATES: The Virgin Island Refinery, as I think you mentioned earlier, has historically run on 100 percent imported crude. Is that right?

MR. MAHANY: Yes, sir.

MR. OATES: I suspect this would also provide one way around import quotas on crude, wouldn't it?

MR. MAHANY: There is no longer any imported--

MR. OATES: No, but there was until quite recently.

MR. MAHANY: Yes, there was, sir. However, there was still a quota on finished products.

MR. OATES: Could you describe a little bit more for us, Mr. Mahany, the customers to whom Amerada Hess sells in this area. I gather from your other statement that this includes independents and quite a range of dealers.

MR. MAHANY: With residual fuel oil, we supply the three utilities companies operating within the State of New Jersey as well as Con-Edison in New York. We supply many of the major manufacturing companies with residual fuel oil within the State of New Jersey. We supply and distribute No. 2 home heating oil, basically, through distributors with the exception of an area around Little Ferry, New Jersey, where we do have a retail business. We supply gasoline, basically, through branded stations within the State of New Jersey. We supply one distributor who markets in New Jersey under multiple stations but under a different brand.

MR. OATES: That would be an "independent"?

MR. MAHANY: Yes.

MR. OATES: Do you have any indications, as the Exxon people did, as to how many stations have actually gone out of business over the last few months?

MR. MAHANY: To the best of my knowledge, none.

MR. OATES: None?

MR. MAHANY: Every Amerada Hess brand station is still being operated.

MR. OATES: That's quite a record compared to the Exxon people who said something like -- what was it -- I think between 90 and 100 stations out of business over the last couple of months.

MR. MAHANY: Well, the Hess stations, a s you may know, have a different marketing philosophy. They do no repairs -- they were strictly a gasoline supplier only and, as a result, our dealers, historically in 1972, had a very high volume compared to many others.

MR. OATES: I should think that should make you exceptionally vulnerable to the shortage.

MR. MAHANY: Well, it does but 85 percent on a much higher volume still produces a very good living.

MR. OATES: But presumably the service revenues, I would think for the branded dealers, would still maintain themselves very well.

MR. MAHANY: I could not answer that very well.

MR. OATES: I think I'll pass at this point. Do you want to pick it up?

MR. GLASSMAN: I'll just pick up one other item.

Do you have exchange agreements on refined products with any of the other top twenty majors? You know what I mean by exchange agreements, I'm sure. It was brought up in an earlier discussion. The term was used and has been written up in many congressional documents.

MR. MAHANY: Yes, but we do not run crude for anyone else--

MR. GLASSMAN: No, I'm talking about to refine.

MR. MAHANY: I believe we have several very minimal exchange agreements in the southeastern part of the United States, which are remote from our refinery sources.

MR. GLASSMAN: Would there be any which would affect marketing in New Jersey?

MR. MAHANY: No, sir.

MR. GLASSMAN: Very clear and precise answer. Thank you, Mr. Mahany.

MR. IRVING: I believe Senator Dodd would like to ask you some questions.

SENATOR DODD: On your allocations, sir, to your company-owned stations and the other stations that you indicated, what percentage or what company policy is there in regards to supplying the independent, non-brand names?

MR. MAHANY: We have not traditionally supplied very many of those as I indicated. We do sell and supply one of the large distributors who has other branded stations. We do not sell, generally, to other type - independents as you would call them - other than those that are branded with Hess. Now they are independent dealers. I assume you are not addressing yourself to them?

SENATOR DODD: No.

MR. MAHANY: Hess, basically, markets through its own branded station and through, one other that I know of in the State of New Jersey distributor, plus its other marketing areas along the east coast. We market 100 percent of what we make so that we have not traditionally been a supplier of a large segment of the independent gas station segment.

SENATOR DODD: Thank you.

MR IRVING: Senator Parker, do you want the floor?

SENATOR PARKER: I wonder if you could answer a couple of questions?

Your plant in the Virgin Islands is 100 percent foreign. Is that correct?

MR. MAHANY: Yes, sir.

SENATOR PARKER: How much of that is Arab States' oil? What percentage?

MR. MAHANY: Lately, ir varies from day to day, sir.

SENATOR PARKER: Well, roughly. Within the national figures of 11 to 13 percent?

MR. MAHANY: No, it was much greater than that.

SENATOR PARKER: Can you give us your best estimate if you don't know the actual figures?

MR. MAHANY: As a direct result of the Arab - the direct and indirect results - of the embargo and the restrictions imposed by certain nations, we lost approximately 50 percent of our crude supply.

SENATOR PARKER: Now, do you market at all in the European countries or foreign countries?

MR. MAHANY: No, sir.

SENATOR PARKER: What were your profits last year over the year before?

MR. MAHANY: I honestly do not know. I can tell you what our earnings per share were, something like that, but percentage over the year or prior year --

SENATOR PARKER: I didn't see your figures in those listed in the other oil companies --

MR. MAHANY: They have not been released yet, sir.

SENATOR PARKER: Thank you.

MR. IRVING: Assemblyman Kean would like to speak.

ASSEMBLYMAN KEAN: One brief question. If you were in our place, in the position of the legislature and the Governor, what can we do, or what should we do immediately? Is there anything we can do which will increase the supply of gasoline in the State of New Jersey?

MR. MAHANY: I really know of nothing short of, on the Federal level, directing or reallocating supplies from some other part of the United States to this area and, of course, I don't pretend to know or does my company know what the situation is in every other state or region of the United States.

We all read and hear many things, some of which are true and some of which are not true. I think the Federal Government is now in the best position because they are getting reports from all companies throughout the United States, indicating available supplies, etc., anticipated as well as current.

ASSEMBLYMAN KEAN: Forgetting for a minute the states about which you only know by hearsay, and dealing only with the states where you have a major interest and , therefore, know a lot more than hearsay, based on that knowledge, is the situation in New Jersey worse than it is in any of those states? Are we being discriminated against?

MR. MAHANY: I have to say no to that question. But as you have already heard -- I really don't know how to answer that question but as far as we are concerned, every gasoline station bearing the Hess brand - whether it be in the State of Georgia, Florida, New Jersey, Connecticut, or otherwise - is getting the same percentage of his historical sales.

ASSEMBLYMAN KEAN: In other words, you don't know why we are worse off?

MR. MAHANY: I think there are a lot of reasons and you've heard them. As I said, I wish I had the answer, and I wish I could solve the problem. But if I might say this- the vast majority of Hess stations, that I am aware of, did not restrict any sale on a dollar or gallon amount. They would fill you up even though you would have to wait on line. I would also like to indicate, for whatever it's worth, that the average sale of these stations has been considerably below two dollars, which again indicates very minimal amounts. People are waiting on line for very minimal amounts of gasoline.

ASSEMBLYMAN KEAN: I commend your stations for selling full amounts. How can you continue to do this in light of the cut you mentioned before in your crude supply?

MR. MAHANY: Well, the stations are closing. Again, we have only a very few company-operated stations, two, basically right in Woodbridge, opposite the office building, which receive the same percentage allocation as everyone else. The dealers, obviously, run their own business but, by and large, the majority of them have set their own allocations. In other words, in order to stay open five days a week or six days a week, whichever they choose, they are within their own station setting their daily allocation. They do that whether it takes them two hours to sell it or it takes four hours to sell it. Now, there are differences in locations. I don't know any of these stations that hasn't run out. But within the State of New Jersey, the only other thing that we can do, as a company, is that we will not deliver a total monthly allocation as fast as the dealer requires it. In other words, we try to space that out also so that the station does not close after the first week. We have the customer in mind I assure you.

MR. IRVING: I know we need to go on. We have another company to hear from. Senator Ammond would like to be heard.

SENATOR AMMOND: I have a few brief questions.

Are you hooked into the Colonial Pipeline?

MR. MAHANY: No, ma'am, not to my knowledge.

SENATOR AMMOND: I have testimony here that says you are. Well, how does your oil come in?

MR. MAHANY: Most of our oil comes in by tanker.

SENATOR AMMOND: You don't use any pipelines at all?

MR. MAHANY: Well, now, wait a minute. I would have to retract that. We have -- I'll take that back -- we have terminals that are connected to the Colonial Pipeline, yes. We do not have any interest in the Colonial Pipeline.

SENATOR AMMOND: But you have one, a terminal, in Woodbridge, New Jersey, hooked on.

MR. MAHANY: We have a refinery in Woodbridge, New Jersey, and I honestly do not know whether or not it is hooked in.

SENATOR AMMOND: Well, there is testimony to the effect it is hooked in. So you do have oil coming in on a pipeline, if you have a terminal?

MR. MAHANY: It's very possible.

SENATOR AMMOND: How many barrels?

MR. MAHANY: I have no idea.

SENATOR AMMOND: How many barrels of oil have been shipped into New Jersey for the last quarter of 1973?

MR. MAHANY: I have no idea.

SENATOR AMMOND: You knew you were coming to testify?

MR. MAHANY: Yes, ma'am.

SENATOR AMMOND: These are very --

MR. MAHANY: Not to testify. I did not know I was coming to testify. I had an invitation to attend a group discussion. I was not asked for anything specific other than what was mentioned in the invitation.

SENATOR AMMOND: Would you be happy to provide all this information to the Commission then at our request?

MR. MAHANY: I would be happy to provide --

SENATOR AMMOND: I'd like to ask you a really hard question now.

What is your reaction to a movement - a general feeling - to put the oil companies under Public Utility control?

MR. MAHANY: I don't think that I can answer that question on behalf of the company.

SENATOR AMMOND: Could you tell us, when the Alaskan Pipeline is finished, if any of that oil is going to Japan, and if so, how much?

MR. MAHANY: I would assume that none of Amerada-Hess's would be going to Japan. Again, I cannot make a flat-out statement because the pipeline, when it is finished, may be there, hopefully, for the next 100 years.

SENATOR AMMOND: You're not aware of an agreement between the U.S. and Japan that they will lay and build the pipeline inch by inch, and then they get one-third of the oil coming out of it?

MR. MAHANY: I am certainly not aware of such an agreement.

MR. IRVING: I understand another member of the Commission would like to be heard.

ASSEMBLYMAN FROUDE: What percentage of the gasoline, produced by the Hess New Jersey Refinery, is marketed in New Jersey?

MR. MAHANY: I wouldn't know that, sir. All I can tell you is that whatever gasoline is available is marketed through the Hess branded or contract customers strictly in accordance with the federal allocation basis, which is 85 percent as of today.

ASSEMBLYMAN FROUDE: But you can't tell me how much-- what percentage of the Hess refinery product in New Jersey is marketed in New Jersey?

MR. MAHANY: I'm not prepared to tell you that. I do not have those figures, no, sir.

ASSEMBLYMAN FROUDE: Can you tell me whether any of the products of the other two refineries - the one in the south and the one in the Virgin Islands - are marketed in New Jersey?

MR. MAHANY: Again, I cannot tell you percentage, but I know the Virgin Islands does supply some of the gasoline here, yes.

ASSEMBLYMAN FROUDE: Has there been, within the past couple of months, any significant drop off or change in the availability of that product for marketing in New Jersey?

MR. MAHANY: No, sir.

ASSEMBLYMAN FROUDE: Finally, if this 16 percent cutback that you referred to earlier becomes a reality, am I correct in assuming that there will be 16 percent less gasoline to be marketed by Hess in New Jersey?

MR. MAHANY: Not necessarily, because we don't get barrel-for-barrel of gasoline out of crude oil.

ASSEMBLYMAN FROUDE: So, you're dealing in percentages?

MR. MAHANY: I realize that but it does not necessarily follow because the Port Reading Refinery does run on a certain percentage of domestic crude oil which would -- it would be affected -- yes, I think it would be in the nature of 16 per- cent.

MR. IRVING: Thank you, Mr. Froude, of the Commission.

If there are no further questions, I do want to thank you for appearing, Mr. Mahany, and we hope to learn about your industry.

I understand that Mr. David Bowen is here, President of Chevron Oil, with an advisor. Please have anyone that is with you come forward, Mr. Bowen.

D. J. B O W E N: My name is Bowen, David, J. My mailing address is 1200 State Street, Perth Amboy, New Jersey. I am responsible for the refining and manufacturing of Chevron Oil Company's Eastern Division, which is located in Perth Amboy, New Jersey. Chevron Oil Company, Eastern Division, is a wholly-owned subsidary of Standard Oil Company of California. Unfortunately, my responsibilities - or possibly fortunately - do not contain the responsibilities of exploration, production, or transportation of crude oil in ships.

MR. IRVING: Do I understand that you are the President of the Eastern Division?

MR. BOWEN: Yes, that is my title.

MR. IRVING: Would you introduce your guest?

MR. BOWEN: My guest is Mr. R. E. Small. He is Legal Counsel for Chevron Oil Company, Eastern Division.

MR. IRVING: Lawyers are always welcome.

Mr. Bowen, I think it would help us, as we begin, if you would briefly give us some profile on the nature and ex- tent of the business that Chevron does in New Jersey.

MR. BOWEN: In New Jersey - as I mentioned, our refinery is located in Perth Amboy and so is our main administration office - we employ some 350 to 375 employees at Perth Amboy in the refinery and possibly 250 to 300 in the administration building. The refinery has a rated capability of 80,000 barrels a day of crude oil. It has, obviously, in 1973, run considerably more crude oil than the 80,000 barrels a day capability because we have debottlenecked in order to make more of the product available.

We have currently gone through the difficulties - if I might add - of obtaining permits necessary from the State and from the City of Perth Amboy to modernize our refinery to make it comply with the state laws in so far as air and water emissions and at the same time, plan to, roughly, double its capacity to 150 to 160 thousand barrels a day of crude run. In the State of New Jersey we have -- I think our share of the market according to tax figures is a very small two to three percent of the total gasoline sold in the state. This is tax records furnished to us by the State itself. We sell No. 2 oil, basically, to what we call resellers and distributors who, in turn, of course, resell basically to the homeowners or to industries. We also have a small direct-operated retail heating fuel business in Lakewood, New Jersey, which we purchased some 10 to 15 years ago. It has a volume in the range of 8 million gallons of 2 oil a year. We do not, basically, sell any No. 6 oil. We do, however, make available certain amounts through a distributor called Raritan Oil Company, who is located in Nixon, New Jersey, down the street from our refinery. We supply some 6 oil - this is low sulphur, obviously - to an industrial plant which is next door to us called American Smelting Refining Company. This low sulphur 6 oil was all imported from outside the United States. We don't manufacture any low sulphur 6 oil.

MR. IRVING: Did you say anything about the amount of gasoline you sell in New Jersey?

MR. BOWEN: No, you didn't ask that question -- it's about 2 or 3 percent of the total. Would you like to know the exact gallonage?

MR. IRVING: No. I wasn't sure if the 2 or 3 percent total included the oil sales.

MR. BOWEN: That's total sales of gasoline in the State of New Jersey. That is roughly 2 or 3 percent of the total sold in New Jersey.

MR. GLASSMAN: Is that simply through the Chevron stations -- does that include the independents through exchange agreements?

MR. BOWEN: That includes sales. It includes sales to service stations; to distributors; to commercial accounts; to governmental accounts; to C & I business; commercial business; agriculture business. It includes sales to two - what you would consider independent - Sears & Roebuck Stations.

MR. GLASSMAN: However, does it include a certain amount that would go in an exchange agreement, meaning that you would sell it to a station -- I'm sure you know better than I what an exchange agreement is. I'm embarrassed to repeat it.

MR. BOWEN: Unfortunately, our sales figures do not include any exchange. These are direct sales by us.

MR. GLASSMAN: How much goes in exchange?

MR. BOWEN: I can't answer that, I'm sorry.

MR. GLASSMAN: You mean you can't because you don't have the information--

MR. BOWEN: I don't have the information with me.

MR. GLASSMAN: You don't have the information.

MR. BOWEN: It can be furnished.

MR. GLASSMAN: Can you give me an idea of the order, say, is it equivalent to 2-3 percent. Is it 5 times that? Is it a half of the 2-3 percent?

MR. BOWEN: Well, I can only give you - off the top of my head - a number which was developed for me during the permit hearings in Perth Amboy. Somewhere around 37 percent of our total production is used in the State of New Jersey. That includes 6 oil, propane, No. 2 heating oil, and gasoline, and fuel oil. Now, I don't have the number - even in my mind - broken down as to what the total gasoline we produce is used in the State of New Jersey.

MR. GLASSMAN: Thank you, sir.

MR. IRVING: You mentioned earlier that there is more product available now, and I wondered if you could expand on that a bit. Are you saying that since the beginning of the energy crisis that you are loosening up the bottleneck, as you say, meaning that there is more gasoline and oil available from your company than heretofore?

MR. BOWEN: I believe this is so, and I can give you these numbers which are given, by the way, to the Bureau of Mines in Washington. Our refinery throughput in 1972 on a per-calendar day basis was in the range of 75,000 barrels a day. Our refinery throughput on a calender day basis in 1973 was 87,000 barrels -- roughly 87,000 barrels a day.

Unfortunately, as you just heard from the Amerada Hess representative, crude oil, by edict, is becoming more scarce. We expect, in 1974, to have a crude run in the first quarter, in the range of 68,000 barrels a day.

MR. OATES: How much is that of capacity, roughly?

MR. BOWEN: Well, our rate of capacity is about 80,000.

MR. OATES: Eighty-thousand, okay.

MR. IRVING: It troubles me when you say crude oil is becoming short by edict.

MR. BOWEN: It is also becoming short by availability. I'm sure you recognize that.

MR. GLASSMAN: Sir, I'm a little confused here, and I guess we are all learning this business, but you're expanding your refineries, and yet you're telling me that you don't have enough oil at the present time. Where do you expect this other crude to come from?

MR. BOWEN: The refinery that is operated in Perth Amboy was initially built, I believe, in 1950. It was built to handle high sulphur form crude oil.

MR. GLASSMAN: Right.

MR. BOWEN: Standard of California has a very large interest, as you are probably aware of, in Aramco, which is basically Saudi Arabia. We also have, of course, other oils all over the world. We have, from time to time, run some domestic oil, some sweet crude, at the refinery to meet specifications of products. But in the last two years all of the oil that we received in the refinery has been from foreign sources. The 100 million dollars that the company is investing in the State of New Jersey to expand the refinery and modernize it - I agree with you - it is probably a gamble at this surrent time the way the situations look today.

The plan, when it was submitted to the corporation, was the the crude oil that we were to receive at Perth Amboy to operate at a 160,000-barrel-a-day level, would be Arabian oil, completely.

MR. GLASSMAN: So you're gambling then?

MR. BOWEN: Yes, If it's not available by the time the refinery construction is completed - and that is timed for probably the third quarter of 1975 - we will probably have unused capability at the refinery.

MR. IRVING: Would you like to say anything about the cause of the shortage, The other companies have testified that the Arab embargo has been a troublesome factor, although the companies have been warning us for years that a shortage was coming. Can you flush that out for us at all? Do you agree with that, first of all, that the embargo is the bugaboo in this picture?

MR. BOWEN: I think that I have to agree, Dean, that if the embargo were lifted, my company, particularly - Chevron East, I should say - would feel much more comfortable about being able to turn out all the products it is capable of turning out today. I'm not quite positive that even though the embargo was lifted, whether or not there are sufficient refineries in the United States - I am particularly speaking of refineries on the east coast - which could chew up "X" number of barrels more of crude oil to make "X" number of barrels more finished product available.

I read some place that American Petroleum Institute has been in print several times, that the United States requires six, 150,000 barrel-a-day refineries each year for the next, I thing, seven or eight years. This, of course, would be to meet the demand prior to the voluntary slowdown of energy usage in the United States. Possibly that number is not so high today, but it still indicates, I think, to me, that additional refinery capability is going to be required either in the United States or the Caribbean.

MR. IRVING: Professor Oates.

MR. OATES: You indicated, sir, that up until, recently, that the Chevron refinery capacity at Perth Amboy has been pretty well used. Is that right?

MR. BOWEN: Yes, sir.

MR. OATES: One thing I'm just a little bit puzzled about - I'm trying to put some pieces together here, and this also ties back to the discussion with Amerada Hess - and that is that your operation, as theirs, - particularly in the Virgin Islands - is wholly dependent on imported crude and yet there doesn't seem to have developed - unless this is something very recent - to be much of shortage there. As I have seen the numbers - at least through November and December - imported crude really didn't go down very much relative to the preceding year.

MR. BOWEN: There are a number of reasons, I think. I don't really know what the numbers are, by the way. I have no feel for it. But let me tell you our situation.

MR. OATES: Sure.

MR. BOWEN: We have, also, an interest in refinery in New Brunswick, Canada, which runs on foreign crude. We also have an interest in a refinery in the Bahamas called Corco Refinery Company and, of course we have interest in refineries in Newark. A decision was made - I believe by the Chairman of the Board of our companies, Standard of California - to do everything possible to keep the east coast in product. The other refineries that I'm speaking of were probably deprived of foreign oil to allow us to receive as much foreign oil as possible so we could manufacture. But we have not received any Arabian oil since the embargo. We have received Iranian oil, some Nigerian oil, and some Boscain.

MR. OATES: And some from Venezuela?

MR. BOWEN: Yes, Boscain oil.

MR. OATES: Oh, Boscain is Venezuela, because Standard Oil of California does have interests in Venezuela.

I gather this whole concept of capacity is, itself, a bit of a fuzzy one when you started talking about expanding production above capacity?

MR. BOWEN: Yes, all refineries have a rated capacity, and all refinery managers do their best to make more products than that rated capacity.

MR. OATES: I'd like to turn now to the distribution system, particularly in New Jersey. You were talking about 2 to 3 percent of the market. As regards to the sale of gasoline, could you describe - in a bit more detail for us - the people to whom you sell gasoline?

MR. BOWEN: Up to about 10 years ago all of the gasoline we sold, in Chevron East marketing area, was two independent distributors -- jobbers.

MR. OATES: This was until, when?

MR. BOWEN: Up until about 10 years ago. In 1958 I think it was the first time that we acquired a distributor. Since that time, we have developed what we call a direct operation. We built our own service stations. We have leased service stations; we have contacted two-party dealers under a branded name.

In the State of New Jersey to Chevron dealers, in 1973, we sold, roughly, 5 million gallons more to them than we sold in 1972, and yet, we were on a voluntary allocation program during most of 1973. We sell to distributors - in the State of New Jersey - roughly, 50 percent of what we sell to Chevron dealers - they, in turn, sell it to their own service station dealers and to commercial accounts.

MR. OATES: Would you qualify the second group as falling under our general heading of independents that we are talking about?

MR. BOWEN: These are buy-and-sell independent jobbers who operate under our brand name.

MR. OATES: I see. So they will, in turn then, be selling - in some cases - to independent retailers?

MR. BOWEN: We have no concept of who they sell to. But they do sell to certain Chevron service stations which they own or lease.

MR. OATES: I see.

MR. BOWEN: But they could be selling to independent dealers, yes, sir.

MR. OATES: I think one of the most striking and disturbing things that has become clear in the course of the discussion is the relatively difficult position of the independent through all of this. I wonder - not only in terms of your own operation but in terms of your knowledge of the operation of the gasoline market in New Jersey in general - if you could shed any further light on this matter for us?

MR. BOWEN: I really can't answer it too specifically. From what I read in the papers, is my understanding correct, that Phillips Petroleum Company has virtually withdrawn from this area, possibly not just in New Jersey? The British Petroleum has withdrawn from certain areas where they were marketing the products --

MR. OATES: And these would major suppliers of independent retailers --

MR. BOWEN: These were major suppliers that could have been , in fact, selling to independents, yes.

I am under the impression that a company called Tenneco has recently announced that they might withdraw from the market, and I have an idea that Ashland Oil Company has probably withdrawn from the market. Now these - Tenneco and Ashland, specifically - basically, were suppliers to independents.

MR. OATES: And they would be termed, generally, as independent suppliers, right?

MR. BOWEN: I would suspect that would be the proper terminology. Although, again, I would have to say that this is hearsay. I really don't know their business.

MR. OATES: Right. My understanding of it is that the great bulk, less than 10 percent of the refining capacity and also of the retail market in the east coast area, area one is it called, or region one --

MR. BOWEN: Region one.

MR. OATES: -- is independent. It is relatively a small fraction. So, I suppose what you're saying is that there is some drying up, apparently, of wholesale independent jobbers who, presumably, were supplying a lot of the independent retailers.

MR. BOWEN: I think it's also perfectly true that several years ago that the refineries had a surplus of gasoline, and I think this gasoline was made available, very readily, to a lot of people. Tenneco and Ashland, by the way, both have their refineries. I would say today that there is not a surplus of gasoline. If a company was selling to an independent in 1972 - any month of 1972 - the major oil company is obligated to supply that station today under its normal fraction which it is making available to all of its other businesses.

MR. OATES: Right. And you are doing that?

MR. BOWEN: We are doing that.

MR. GLASSMAN: It seems that the questions all seem to go in the same direction. All my questions have already been asked. Perhaps I should change the direction and get us both to philosophize on the future because, I guess, our public servants sitting to the right of me must help predict the future for their constituents.

Does Chevron feel that they must depend on the availability of Arab oil to sustain their basic growth of product market here in the east?

MR. BOWEN: If you rephrase that to foreign oil, if you don't mind.

MR. GLASSMAN: Okay. We'll talk about foreign oil and then we'll get down to Arab oil.

MR. BOWEN: We, as a company, have some exploration and production in the Gulf of Mexico. That particular crude is declining. We also, of course, own a company in the southeast, center of Kentucky, called Standard Oil Company of Kentucky. Their refinery is in Pascagoula, Mississippi, and currently, they are only capable of running domestic crude oil. However, an investment of some magnitude is being made to give them capability to run the high sulphur or crude oils, also. If we, today, were unable to run foreign crudes, we would not have any crude available to run. Although, we would probably mix it between our company in the South and the company up here. This is why, basically, we are spending so much money in the refinery, to allow us to run high sulphur crudes and to meet the air and water emission control setup in the State of New Jersey.

MR. GLASSMAN: Then you're basically saying that we are totally dependent, in the future, upon foreign imports?

MR. BOWEN: I don't say the industry is, I'm saying that Chevron Oil Company is, today. The corporation has crude oil, of course, in California and crude oil in the Midwest in the Denver area, in that part of the world. They have some crude in Alaska; they have the crude oil in the Gulf. But there is not enough to go around.

MR. GLASSMAN: One point, another point, a speculative point and you can answer this or not, I assume that you sit in the hierarchy of Chevron. Would Chevron be interested in coal liquefaction plans?

MR. BOWEN: Chevron Eastern--

MR. GLASSMAN: I know your Chevron Eastern, but I said Chevron or -- what was it, Exxon or Esso of Southern California, whatever the parent organization is.

MR. BOWEN: Our parent organization is Standard Oil Company of California.

MR. GLASSMAN: Standard Oil Company of --

MR. BOWEN: California.

MR. GLASSMAN: -- California. My apologies, sir. I should really know these factors. If permitted, would you build coal gasification or liquefaction plants in the State of New Jersey in order to help alleviate the gasoline, to make a profit, to make further petroleum available?

MR. BOWEN: I am a marketing man, not a refining man. What do you mean by coal gasification?

MR. GLASSMAN: I meant coal liquefaction. Let me go back. There are two processes you can take with coal. You can alter coal through various processes to give products, which are then marketable in different ways. You can have the products come out as a liquid, which is basically equivalent to what you and I would term gasoline, or you can also run this process so that the major product is simply equivalent to natural gas, which then would be sold for stationary power sources. There are various processes which people are talking about at the present time. It is thought that the cost of producing a barrel of gasoline, coming from such a process, or, say, a barrel of total petroleum product could now be equivalent to what is currently demanded when you add up all the cost of foreign oil. Is there any indication that the major American oil companies want to go in this direction, if permitted?

MR. BOWEN: I think there is every indication that the major oil companies, from what I read, are almost committed to go in this direction. I think you're talking about Shell Oil and I think you are talking about coal. They are working on many experimentations, and there are problems involved, incidentally.

To actually do this - not only problems in technology, but also problems in the environment - it is difficult to take the material out of the ground and leave the ground as it was before. I think this can be overcome, and I think everyone is working on it.

When you talk about liquified-natural gas or LNG - I don't mean to be fuzzy.

MR. GLASSMAN: No, I understand these things.

MR. BOWEN: You know where Perth Amboy is and you know where Woodbridge is and you know the problems we had there in order to attempt to build an LNG product in that area. You also know the problem of the tank in Staten Island where it blew up - an LNG center. I think the people are possibly rightfully frightened of this material. Hopefully, it will be built. Texas Transmission Gas Company wants to build one. They are stymied at the present time.

MR. IRVING: I understand Professor Garvey would like to say something.

MR. GARVEY: No, thank you.

MR. IRVING: Then I believe Senator Dodd wants to be heard.

SENATOR DODD: Mr. Bowen, in regards to your supply of independent non-brand names -- I had left the room for a moment - perhaps you addressed yourself to that - sir, in your allocation-- in fact, do you supply any gasoline dealer or outlets, other than your trade name?

MR. BOWEN: Senator Dodd, we sell directly to two Sears and Roebuck retail gasoline outlet stores in the State of New Jersey. We sell to eight independent distributors - buy-and-sell type of jobbers - who, in all probability, supply independent dealers, Chevron dealers that they own or control, at least, and to commercial accounts. The amount they sell, we have no idea and shouldn't have any idea. On the other hand, as I mentioned to the Dean earlier, if a company was, in fact, selling to an independent dealer during any month of 1972, I believe that independent dealer has every right under the

Federal regulations, to require his company to continue to supply him.

SENATOR DODD: Do you know whether they are supplying them?

MR. BOWEN: No, I do not, sir.

SENATOR DODD: One final question, sir. What is your gut reaction - I'm not looking for any figures or facts or gallonage - of the future, the immediate future, on the energy situation as it applies to the United States? Will it get better or will it get worse before it gets better?

MR. BOWEN: My gut reaction is that it must get worse before it gets better.

SENATOR DODD: What length of time?

MR. BOWEN: It takes a minimum of three years, for example, to build a new refinery for grass-roots requirement. It took us from the time we started better than two and one-half years, almost three years - a year and a half for construction and a year and a half in preparation, obtaining permits to increase our capability. I understand there are also two other refineries in the State of New Jersey who also want to expand their refinery capabilities. They have not yet gotten their permits.

SENATOR DODD: Thank you, sir.

MR. OATES: Yes, but the refineries aren't even operating at capacity now -- the bottleneck, right at the moment, is crude, right?

MR. BOWEN: That's correct.

MR. OATES: Suppose that bottleneck were corrected, would your answer be the same to the Senator's question?

MR. BOWEN: The same.

MR. IRVING: Senator Ammond would like to be heard.

SENATOR AMMOND: Is it possible for you to switch voluntarily in the refinery from a batch of crude for home fuel heating to gasoline? How quickly can you do that?

MR. BOWEN: I believe, in a matter of days from a technical standpoint, and a matter of, shall I say, permission from Mr. Simon from the other standpoint.

SENATOR AMMOND: Would you be willing to set up a meeting with Governor Byrne with regard to that specific subject, to switching off as soon as we reach a peak where we no longer need the home heating fuel so that you can get the gasoline on the market in New Jersey as quickly as possible, to get ready for the spring and summer months, which are going to be crucial?

MR. BOWEN: I attended Governor Byrne's meeting yesterday. I was late in attending, but I did hear this discussed. I understand that Governor Byrne wrote it down and is going to Washington to discuss this with Mr. Simon.

SENATOR AMMOND: Can you tell me how much your tax depletion allowance amounts to in dollar value?

MR. BOWEN: No, ma'am, I haven't the slightest idea.

SENATOR AMMOND: Can you tell me how much of your oil depletion allowance, percentagewise, has been used on research and exploration in the United States, not counting offshore - inland?

MR. BOWEN: I don't know any of the corporation numbers at this time.

SENATOR AMMOND: Can you tell me -- this sounds like "20 questions." It has been estimated by people from Nader's corporation accountability group before Congress that there are hundreds of capped wells in Oklahoma, and that there is enough oil in the ground to help us for some years to come. What is your reaction to that?

MR. BOWEN: From the numbers I see in publications, API publications, I find it very difficult to believe from the reserve standpoint.

SENATO AMMOND: It was said that the oil was too heavy. The testimony was that the oil was too heavy and unprofitable to get out of the ground.

MR. BOWEN: Well, you're asking a different question now. It is, I think basically true that - again it is not my expertise area by any stretch of the imagination - certain oil in the ground, when oil was $4.00 a barrel in the United States, was too expensive to get out of the ground and that is why there is two-tier pricing arrangement now on crude oil - one, for what they call old crude oil, which is still in the $4.00 range for the barrel, and, one, is the new oil that they are getting out of the ground by spending more money, in order to get up that last barrel of oil that might be in the ground. How much of that is available I don't know.

SENATOR AMMOND: As opposed to prices of foreign imports at the present moment, would you not consider that a feasible alternative?

MR. BOWEN: I think everyone, today, is doing their best to get this out of the ground, yes. I think the new oil is probably around $10.00 a barrel. Although I understand Senator Jackson wants to take it down to about $7.00 a barrel.

MR. IRVING: Nobody else is asking for the floor -- Mr. Haym?

MR. HAYM: To clear something in my own mind, the change between fuel oil and gasoline, as I understand, in the still nest, you can only change so much -- Is that correct?

MR. BOWEN: That's correct.

MR. HAYM: How much leeway do you have in terms of percentage between -- how much more gasoline can you produce at any one time out of your distillation column?

MR. BOWEN: Well, I think I've heard some numbers here that might be slightly misleading to you. Our numbers are the same. I think most refineries are roughly the same three - to-five-percent swing. If you are producing, just for conversation, 30,000 barrels a day of gasoline, that number applies to 30,000 barrels a day, and if you are refining 100,000 barrels a day, not to the 100,000 barrels. So it's a larger percentage on a smaller volume of business.

MR. IRVING: Mr. Bowen and Mr. Small, I want to thank you both for coming and spending so much time with us and waiting until the end of the day. We do have one other group that has asked to make a statement, so, we won't delay you any longer. Again, thanks from us all.

MR. BOWEN: Thank you very much.

MR. IRVING: The Public Interest Research Group has asked to be heard, and you are now welcomed.

Would you identify yourself, please?

C H R I S T O P H E R B U R K E: Certainly. First, I want to thank you for being patient and allowing us to testify at this late hour. Unfortunately, we are one of the few public interest groups here tonight. We do insist on reading what I have prepared as testimony.

I am Christopher Burke, Executive Director of the New Jersey Public Interest Research Group (NJPIRG). This is one of my assistants, Mr. Jim Heally, who is a Tax Researcher.

MR. IRVING: Before you read your statement, would you give us your address for purposes of further identification.

MR. BURKE: Certainly.

NJPIRG is a non-partisan, non-profit, student-funded and student-directed research corporation involved with students on eight different campuses in the State. Twenty five thousand students pay $1.50 each per semester to pay our salaries and support our activities. NJPIRG's major areas of concern are land use and transportation, health care, environmental protection, consumer action, race and sex discrimination, corporate responsibility and government operations.

NJPIRG's Postion - The fact that energy shortages have burst so suddenly upon the public consciousness does not mean that this problem developed overnight. In fact, the opposite is true; the origins of fuel shortages we are now experiencing go back many years and are deeply rooted in the behavior and policies of corporations, governments and the public at large.

Contrary to the claims of the oil industry and the Nixon Administration, the current gasoline shortage was not caused by an energy-guzzling American public, though America may be just that, or by the unreasonable demands of environmentalists. The shortages we are now experiencing are the result of many forces, but the most prevalent is the power of vertically integrated oil companies acting individually and jointly to control our energy resources from the well, through the pipelines, to refineries, through pipelines, to distributors and subsequently to the customers. The total grasp and control of every facility in this chain in distribution by major oil companies, especially when shared with other similar "competing" companies, can and has acted to suppress competition at every level. In effect, we have permitted a "private government" to control our oil economy, for its own advantage regardless of the public good. Should we have expected different results from such an entity? I am not too sure. It may be too much to ask these powers, driven by motives of profit and pride, to forebear for long from using their power to pursue their own interests, which unfortunately are oftentimes contrary to the public interest.

Free Enterprise or Corporate Oligarchy? - Let us look at some of the examples of the control which integrated companies have exerted in the oil markets, and which has directly resulted in New Jersey's fuel shortages.

A Subcommittee Staff Study of the Relationship Between the Colonial Pipeline and Shortages of and Increased Prices for #2 Home Heating Oil in the Northeast provides a glaring example of corporate manipulation from the overwhelming power of vertical integration. Beginning in the heating season of 1966-1967 the price of home heating oil has undergone a steady rise and, as a corollary, the supply of this oil to the independent terminal operator has been continually tight and sometimes nonexistent. It is the independent terminal operator upon whom the Northeast depends for price competition.

The congressional subcommittee study cites the history of ownership and use of the Colonial Pipeline, the largest in the U.S., and shows that the owners used their control of supply, joined with their refiners grouped around the Plantation

Pipeline, to organize the No. 2 fuel oil market in the Northeast. The goal was a stable high price, moved steadily higher.

In the free market, the terminal operator had been more convenient as an outlet for surplus No. 2 than inconvenient as a price cutter. But it was no longer a free market, and the ten major oil companies owning Colonial no longer needed the terminal operator.

The independent terminal operator was being pushed out of business by an illegal conspiracy of refiners who had previously supplied him. They might have succeeded had the Administration not intervened, but the proper remedy, still unused, is the divorcement of the Colonial Pipeline from its integrated owners and its conversion to an independently-owned, true common carrier line, providing access of entry and exit equally to the products of all.

The Colonial Pipeline is still used by the oil companies as a tool to produce shortages and increase profits for its owners. Last winter you will recall the heating oil shortages which occurred in the Plains States. Looking at how this shortage occurred will help us understand our present plight. It is ironic that in order to understand the shortages which occurred in the Upper Midwest States, we must look at a pipeline which carries refined petroleum products from the refining center of Houston/Lake Charles to New Jersey and New York City, via Atlanta, Greensboro, Richmond, Washington, Baltimore, and Philadelphia, among other points.

Three winters ago (October 1, 1970 through April 30, 1971), the Gulf Coast refineries sent 79.7 million bbls. of home heating oil through Colonial. Two winters ago they sent up 83 million bbls. This represents a growth rate of just over 4%, an amount we might reasonably expect. We might also expect an approximate 4% increase in shipments by Colonial again for last winter. This would be an increase from 83 million to about 86.5 million bbls. But even if we add a million bbls. to the increase, making it 4.5 additional bbls. for the Northeast, we are far from the actual increase which was experienced during the 1972-73 winter. During this period, shipments of home heating fuel through Colonial increased almost 13.5 million bbls., about 9 million bbls. more than would be expect4d. Additionally, almost two million bbls., which were entered into the Colonial system during this period were not delivered by Ariil 30 1973, but remained under Colonial's control. This two million bbls. overage is in sharp contrast with the mere 50 thousand bbls. which had remained undelivered, and within Colonial's possession three winters ago.

Where did all of this increased product go? Where did it come from? And why did it go there? The massive increase in shipments through Colonial apparently ended up in the storage tanks along the line -- either those owned by Colonial or those owned by the shippers themselves, and was withheld from the marketplace. I say withheld because there is no other place it went or could have gone. It did not go to independent marketers in the Southeastern states for these marketers were somewhat short on supply during last winter. It cannot be accounted for by increased direct deliveries to homes for heating, because last winter in the Southeast was generally warm. It cannot be accounted for by a rising demand for No. 2 oil by electrical utilities. In the Southeast, Georgia for instance, almost all the increased demand for No. 2 oil by utilities in that state in the calendar year 1972 over their usage in 1971 came from one plant -- McManus -- in southeast Georgia, which is not served by any pipeline. And while there were small increases in demand for No. 2 oil by electric generating plants near Atlanta and Rome, Georgia, the increase in the quantity of home heating fuel delivered to the Colonial terminal serving those plants in the last three months of 1972 was almost exactly five times the total increase in the use of No. 2 by those plants for all of 1972 over 1971.

One might suggest that excessive amounts of No. 2 were needed because of the shortage of natural gas. But in checking it was found that the quantity of gas curtailed under firm contracts by Transco, the main gas pipeline in the same southeastern region served by Colonial, was less during the winter 72-73 than the winter 71-72 by about 25 per cent.

But if the extra home heating oil sent up Colonial was not consumed last winter, what was done with it? Well, there was plenty of room to store this product in the tanks connected to the Colonial pipeline. In its investigation of Colonial in June 1972, the House Small Business Committee noted that approximately one-half of all the storage capacity for home heating fuels located in the Atlantic Coast States, including West Virginia, Pennsylvania, and Vermont, was connected to Colonial.

The capacity of this tankage was far in excess of the quantity of product ordinarily stored, ranging from a capacity two times as great as the quantity of product in it, to five times as great, depending upon location. It is in this considerable spare capacity, that fuel ordinarily available, was stored last winter, withheld from markets that needed it, and probably slowly tapped as demand in the Northeast required.

Who did need this fuel? The heaviest need for the fuel being shipped to the Southeast through Colonial was, of course, the Upper Plains States -- North and South Dakota, Nebraska, Minnesota, Iowa dnd Wisconsin, which were suffering severely from the shortage of No. 2. Yet even when it became clear that the Upper Plains States were short -- in December 1972 -- shipments of home heating fuel up Colonial continued. In December, these shipments increased 50% over the prior December and in January they stayed at the same high level, which was an increase in 15% over the prior January.

Even after the Administration, on January 17, 1973, dropped all import restrictions thereby freeing the East Coast to import all it wanted, the Gulf Coast refiners still sent large quantities of home heating oil into Maryland and Pennsylvania, in

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January and February, and into New Jersey in February and March. Yet, by dropping import restrictions, there should have been a decline in shipments to these states to which imported oil could be brought directly.

Was there a plan conjured up by the major oil company suppliers which resulted in the shortages in the Upper Plains States? One is unfortunately led toward that conclusion. If there were competition, how could supply jointly terminate? One could not withold supply from a market, by storing it in one's own refinery or tanks along the pipeline, without someone else coming in to meet the shortage, unless he was relatively certain that there was an advantage to behaving in that manner. In a competitive system there is no explanation of the sudden rush, lemming-like, to push a product into the Colonial Pipeline far beyond the needs of the Southeast. There must have been -- at the very least, a mutual, tacit understanding -- in which the Upper Plains States were shorted in winter of the fuel they desperately needed.

While the data is not complete, it is even possible that last winter there was no actual physical shortage at all, only misallocation and mis-direction of refined product. There are several reasons. Being vertically integrated, a major oil company tries to extract as much oil as possible from the ground. What with depletion allowances and other benefits, a high volume of production helps to lower taxes and increase profits. But once crude oil has been produced, it must be stored or refined. There is no question that the refining of a large quantity of winter fuels gives individual oil companies an excellent public defense against charges of artificial shortage, as one can readily see from the chronicle of extraordinary production cited by each of the companies which testified before the Cost of Living Council last February. Additionally, if there is a joint plan or a tacit understanding, no company is likely to evade its end of the bargain if it knows that its "competitor" has already made the needed product and placed it in storage.

The permanent solution to this exploitive and destructive manipulation by oil companies is legislation to dissolve the integrated oil companies. And this cannot be done too soon. However, even if legislation were to be passed immediately (which is not likely) a long period would ensue during which the structure of the new oil industry would be fashioned. We need an interim short-term effort to aid us in understanding the nature and scope of our problems in this industry. Included in this short-term project is the need for an independent auditing of the performance of oil companies, for we have found that it is impossible to rely upon their own explanations. For instance, on February 7, 8 and 9, 1973, at Cost of Living Council hearings, refiners, at the height of the shortage of home heating oil last winter, offered testimony which is completely negated by the evidence congressional researchers produced from interrogatories. The refiners themselves negated the argument that a price ceiling had restricted supply, for every refiner who testified stated that despite low prices and high costs, he was, even at financial sacrifice making or importing as much home heating oil and diesel fuel as he could. When the figures finally came in, oil company profits each quarter this year were substantially higher than last year.

At these Cost of Living Council hearings last February there was mention of a worldwide crude shortage at the beginning of 1973. Nobody quoted General Lincoln of the Office of Emergency Preparedness who stated publicly five months earlier that there would be enough home heating fuel for winter 72-73 relying on figures from the petroleum industry.

There was also repeated mention of opposition by environmentalists to new refinery construction that has been the cause of our fuel shortage. Except for the Shell refinery currently under review, and one that was delayed a year, not a single refinery proposed by a major oil company has ever been stopped on legal grounds by an environmentalist. The Shell refinery would not have been completed by last winter anyway.

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The Current Situation - The past abuses of power and the public trust by corporations and government agencies, alike, are only to be emphasized because they still persist today. In fact, few will argue that the power shown by the oil companies by the mere existence of the present situation is an indication of their ability to control our economy and exploit consumers.

I would like to add one particular example that evidences conspiracy and cover-up by the petroleum industry in the current crisis.

An independent gasoline retailer, the Redhead Oil Company of Phillipsburg, N.J., was forced to close in the middle of January by its supplier, Ashland Oil Company. Located in the heart of town, and operated for 18 years by the same owner, this station was one of the largest and cheapest pumpers of gasoline in the Central Delaware Valley. The station pumped on the average of 37,000 gallons a week, at the phenomenally low January 1974 price of 37.9¢ a gallon of regular. Prompted by citizen complaints, the New Jersey Public Interest Research Group investigated this closing and found a disconcerting and critically destructive effort to create gasoline shortages and raise prices.

In an interview, one top Ashland executive, Mr. Clarence Brannoch, indicated to us that "the Federal government is forcing the closing of stations" - at this point Mr. Brannoch stumbled in the conversation and said, "or it's happening through a recycling period. The post office has to have so much gasoline . . ." Apparently, Mr. Brannoch was referring to the fact that the government needs gasoline to keep post office trucks running and thus local service stations are closing.

In fact, the Redhead Station has no government or private contracts. Drivers delivering gas to the station in the last week told the owner that there was plenty of gasoline at the Phillips 66 supply area that actually supplies the station. The station was allowed to have all the gas it could sell until the last week, when supplies were abruptly terminated. The station owner, with six children, says he is ineligible for unemployment benefits.

Redhead Oil was forced to close for no apparent reason. Mr. John Fricano, Assistant Attorney General of the Anti-trust Division, U.S. Department of Justice, told us that there was no pressure brought to bear by the government on gas dealers or wholesalers to shut down stations.

Did Ashland Oil use the government as a cover-up to close down this independent operator?

This is only one small example of the contradiction and cover-up that has for too long obfuscated the real causes of our present dilemma.

Questions to be Asked

The citizens of New Jersey, and Americans everywhere, will stand for no more cover-ups. The oil companies' stories on the current energy shortages are, at best, incomplete and undocumented. If these stories go unchallenged by thorough research and investigation, history will catch up with the oil companies, just as surely as history is now catching up with the other great cover-up of our time.

The New Jersey Public Interest Research Group urges this Commission to initiate a wide-ranging and thorough-going investigation to determine the reality of our energy plight. We have included here some general and specific questions to guide the Commission's investigation:

(Information requested to last ten quarters of all petroleum companies in N.J.)

1. What refining capacities serve New Jersey?

2. Where is crude oil for these refineries shipped from? Foreign or domestic? How much?

3. How does it get here? In what quantities?

4. What is the output of refineries supplying New Jersey?

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5. Where does it go?

6. How much gas, No. 2 fuel oil, and other light petroleum products are produced by these refineries?

7. The following questions pertain to all shippers of fuel oil and all light petroleum products:

   a. Total quantity of different petroleum products stored and shipped?

   b. Origin point? Destination by shipper?

   c. Final product and distribution data?

8. Questions pertaining to tankage and tank supply:

   a. Owners and capacity of all tankage along all lines owned by company and others, by location and individual owners?.

   b. Owners and capacity of tankage from which your line received and to which your line delivers, by location and individual owners?

   c. Also information pertaining to shipments of all light petroleum products which company's line was first trunkline carrier and another line was second trunkline carrier, and received by you from another trunkline carrier and not delivered by you to any other trunkline carrier.

9. What are refinery capacities vs. production, and capacities for storage of crude and refined?

10. Detail distribution of petroleum products: (1) independent wholesalers, (2) company-owned distribution divisions, (3) independent retailers, (4) company-owned retailers, (5) others. How much each quarter?

11. How much supply of crude oil is needed to meet demand? Rate efficiency of refineries to produce various end products.

<u>General Questions</u>

12. How much money has each company spent on pollution control each quarter, in New Jersey?

13. How much has each company spent on advertising and lobbying activities, each quarter?

14. Why do many independent service station operators refuse to testify, or divulge specific information concerning their supply, saying that "it would slit my throat"?

15. What quantities of petroleum products are currently being stored in N.J.? Where will they be shipped? To whom? When? How much will be distributed intrastate vs. out of state?

Finally, all petroleum companies in our state should present copies of all refinery reports of the last five years given to the Bureau of Mines, Form #6-1300-M and all related forms thereto.

Without the above data this Commission is not equipped to make a final determination of the real causes of the fuel shortages. We urge the Commission to immediately take all necessary steps to obtain answers to the above questions and any other pertinent questions.

The Problem of Inequitable Taxation - Exxon and Property Taxes in Linden -- At this point in my testimony, I would like to present evidence documenting another economic problem related to the energy crisis.

Due to the Exxon Corporation's favorable property tax appraisal, Linden, New Jersey, has lost more than $320,000 in revenue in 1973. Although nearly half the taxable land in Linden is owned by Exxon (47%), the city receives under twenty-eight per cent (27.2%) of their property tax revenue from the giant oil corporation. Exxon land is appraised at only eighty per cent (80%) of what the average Linden taxpayer is appraised, despite the ideal location Linden provides for their operations. An examination of the land value appraisals, which should be fairly stable in an area the size of Linden (11.41 square miles), reveals that while Exxon land is valued at approximately eight million dollars per square mile, the rest of the ground in Linden is valued at more than ten million dollars per square mile. If Exxon land was appraised at values similar to the appraisals on the remaining ground in Linden, Exxon would pay more than 322 thousand dollars more a year than it does now in property taxes.

In comparing some similar lots in Linden, some gross inequities were found. For example, 111 East 17th Street, a private residence, paid 10.4 cents a square foot for her lot, while for their lot at 132 East 17th Street, which is right nearby, Exxon paid 3.6 cents a square foot. This small property owner and the City of Linden are no match for the speciallytreated tax experts of Exxon.

Proposed Solutions - Up to now government remedies for corporate manipulation and exploitation have been ineffectual and virtually nonexistent. Stop-gap measures proposed by the Nixon Administration to eliminate the energy gap and make the U.S. self-sufficient within ten years are inadequate, unsound and unachievable.

The President's proposal for speeding nuclear power plant construction is a command to do the impossible, which, even if it were possible, would have an almost negligible effect on our total energy supply situation over the next few years.

The AEC has been struggling unsuccessfully for over 18 months to reduce the ten-year lead time for nuclear plant construction, but has been unable to because of the immensely complicated technical problems involved. The petroleum companies, who, incidentally, own most of the mineral rights on uranium-bearing land in the U.S., are acting irresponsibly and in their own economic self-interest by advocating a crash nuclear program. We currently derive only about one per cent of our nation's energy from such plants; if the number of plants were increased four-fold in the next five years -- which is simply not possible -- the total amount of energy generated would be insignificant compared to our long-range needs.

Furthermore, everyone will admit that there is a risk, however infinitesimal, to constructing and operating fission plants. The main argument centers on whether this risk is acceptable or not. With 500 nuclear power plants in operation, however, this risk increases and invites an almost certain catastrophe within a time period of twenty years. This risk should also be weighed against the temporary stop-gap nature of fission fuel power generation; economically feasible uranium reserves will be exhausted before the end of this century, thus only temporary relief will be achieved with nuclear fission plants.

fuel power generation; economically feasible uranium reserves will be exhausted before the end of this century, thus only temporary relief will be achieved with nuclear fission plants.

One Feasible Solution: Solar Power

The feasibility of nuclear power generation is further obviated by the very feasible, increasingly economical, and non-polluting alternate sources of power such as solar generation.

Recently I attended a Solar Energy Conference in New York City, at which it was demonstrated that technology exists today to implement solar space heating on a scale that will supply up to 50% of America's total electrical needs in ten years. And if this Commission does not think this solution is applicable to New Jersey due to our climate, successful solar installations are operating in Washington, D.C., New Hampshire, and Minnesota. These installations can be installed for the first time at an acceptable cost and can supply virtually all the electricity and space heating needed by a year-round household. Solar installations are becoming increasingly economical for industrial and commercial establishments as well. Mr. P. Richard Rittlemann (Burt, Hill & Associates) is currently involved in the retrofitting with solar heating systems of 800,000 square feet of industrial buildings in our own state.

Electricity Use: Why Is It Increasing?

According to the 1970 National Power Survey, released in April 1972 by the Federal Power Commission, the use of electricity for space conditioning in the residential sector will increase substantially in the coming decades. According to the Survey, one-third of U.S. dwellings constructed in 1970 used electricity for heating and cooling; 40 per cent of the dwellings constructed in the 1971-1980 decade will be all-electric; and 50 per cent of the dwellings constructed in the 1981-1990 decade will be all-electric, including half as many conversions to electricity as new installations. The overall increase in substitution of electricity for direct fuel use is expected to amount to 40 per cent of the country's energy consumption in 1990, based on present trends.

The use of central station electricity to supply this lower grade thermal energy involves substantial energy conversion losses. In the case of electricity conversion. it is clear that the end use energy -- for space conditioning and water heating -- is not "matched" to the energy source.

The extent to which this "mismatching" of energy sources to end use has contributed to the nation's energy dilemma was noted by the Bureau of Mines in 1968 and by the National Economic Research Associates (NERA) in 1971.

The NERA study points out a long decline in the ratio of aggregate energy consumption to the U.S. Gross National Product (GNP) in the years 1947-1966, followed by a sharp reversal in the trend in the ensuing years. The study notes that if the trend prior to 1966 had persisted, "energy consumption in 1970 would have been lower by an amount greater than the total electric utility consumption of coal in that year."

Three major reasons are given by NERA to explain the energy/GNP ratio reversal: 1) The increasing relative importance of non-energy uses of fuels; 2) a gradual tapering off of yearly improvement in central power stations' thermal efficiency; and 3) the increasing relative importance of air conditioning and electric heating.

The Bureau of Mines report, as well as the NERA document, point out the increasing substitution of electricity for direct fuel use as a significant factor in the changing energy/GNP ratio. The NERA study underscores the point: "It is clear, in any event, that electric heating *in toto* is a significant factor in the reversal in the trend of the energy/GNP ratio, especially in view of the rapid growth of electrically heated buildings in the past few years."

Obviously, the substitution of electricity for direct fuel use has aggravated America's "energy crisis" and the present continuation of the trend will further exacerbate the deteriorating situation. Thus if we are to control energy demand this "mismatching" of energy sources must be eliminated. Solar energy, as mentioned above, is a feasible and economical method of minimizing energy waste and reducing electricity demands. Nuclear energy, on the contrary, produces more than twice as much energy as is then converted into electricity.

Real Solutions

Real solutions to our energy dilemma will not be found in stop-gap measures such as gasoline rationing, minimum gasoline purchases, and Sunday gasoline station closings. Though we support all of these measures as necessary evils resulting from abuse and mismanagement by oil companies, they do not provide the ultimate solution to the complex problems of supply and demand.

In order to eliminate wasteful uses of energy, promote energy conservation, encourage development of non-polluting, economically-sound energy resources, and to minimize the economic dislocation and personal inconvenience and discomfort resulting from fuel shortages, the New Jersey Public Interest Research Group urges the New Jersey Legislature to enact the following recommendations:

The Commission will note that the first five recommendations are contained in Governor Cahill's Fourth Annual Message:

--legislation that would invert utility rate schedules to discourage excessive demands for energy by imposing higher rates on large users and lower rates on small users.

--Setting of higher rates for peak hour use and lower rates for non-peak hours.

--Abolishment of all rebates for large users of electrical power.

--Require public utilities to install home insulation upon request of the consumer. The cost would be recovered by billing over a period of months.

--Require the labeling of less efficient electrical appliances and imposition of an excise tax on their sale to encourage the purchase of more efficient appliances.

--Grant a 10% discount in property tax rate to those homes, businesses or factories that utilize solar energy for more than 50% of their demands.

--Moratorium on the further construction of nuclear fission plants until a safe disposal method is found and alternate sources of power are proven unfeasible.

--Assessing a graduated automobile registration fee based upon horsepower of the vehicle.

--Immediate termination of monthly toll booklets at tunnels and bridges leading into or out of New Jersey, and a graduated toll based upon the number of car passengers (higher toll for fewer passengers).

--Establishment of stringent state building code standards on insulation and glazing to prevent heat loss.

--An extensive statewide consumer education program on energy conservation.

--Revamping and reduction of state lighting standards to eliminate excessive electricity use. Abolition of state required minimum lighting standards prescribed by the lighting lobby.

--Commitment of state funds to finance construction projects implementing new technologies, e.g. inclusion of solar units in new state-financed buildings.

--Moratorium on state and federally-funded highway construction. Reallocations of the funds for public transportation under the Interstate Transfer clause of the Federal Highway Act, could expand New Jersey mass transit funds by over $200 million.

We are fully aware that some of these proposals are controversial and will not be enacted overnight. However, the urgency of the situation requires immediate substantive action. The burden of fuel shortages has been borne by consumers for too long. The time for action is now. Thank you.

MR. IRVING: Thank you very much for your statement. We certainly will read it with great interest.

Let the record show that it is now 5:45 P.M. I think that as hearing officer, at the conclusion of this first day, I should, on behalf of the citizens who were here and those who should have been, express appreciation to the elected officials who spent the

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entire day with us and those non-elected officials who are members of the Energy Crisis Commission; the volunteers from Princeton who made the day so productive, in my opinion; Mr. Fraeble of Seton Hall Law School; Steve Frakt and the rest of you who are here - my personal thanks and the thanks of our citizens.

We are now in recess until a date to be determined by the Energy Crisis Commission.

(Hearing Concluded)

STATEMENT OF
DR. RICHARD J. HOWE
EXXON COMPANY, U.S.A.
TO THE
NEW JERSEY ENERGY CRISIS
STUDY COMMISSION
TRENTON, NEW JERSEY

February 5, 1974

Mr. Chairman, I certainly appreciate this opportunity to present Exxon's views on the energy situation here today. I'm sure that you and the members of your committee have many questions you would like to have answered about the current situation and how it is impacting on the state of New Jersey. I feel it would be worthwhile to set the stage for your questions by discussing three things:

1. The fundamental causes of the nation's energy problems;

2. The near-term supply situation which has resulted from the Arab oil embargo, and

3. What needs to be done in the future to overcome our basic energy problems.

Causes of Current Energy Problems

The nation's current energy situation is the result of a complex series of events. By now most of these events are well-known; however, I would like to touch briefly on the more important ones:

1. Since 1954 the Federal Power Commission has consistently maintained the price of natural gas at unrealistically low levels. As predicted by Exxon and many others, the result is that gas is now in short supply as a result of artificially stimulated demand, wasteful usage, and decreased incentives for exploring for new supplies.

2. The Mandatory Import Program was instituted in 1959 because, as President Eisenhower stated, "...requirements of our national security...make it necessary we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States." Exceptions granted during four administrations for political expediency, finally crippled the program. The growing number of exceptions made it extremely difficult for the companies to make plans for new refinery investments. The program was not only unsuccessful in expanding domestic raw material production adequately, but it actually encouraged building of foreign refineries to meet rapidly increasing demand for heavy fuel oil which could be imported into the East Coast without restriction. Since the program was restructured last April, plans for almost four million barrels a day of additional refining capacity have been announced. Thus, it is clear that the oil imports program was discouraging domestic refinery construction.

3. Other government policies during recent years have also had a negative impact on the energy situation. Although these policies were undoubtedly adopted for other reasons, such items as the Tax Reform Act of 1969 and the unsuccessful attempts at price controls that continue today have both had the additional effect of preventing prices from playing their normal role of bringing demand in line with available supplies.

4. The environmental movement and the laws that sustain it have undoubtedly resulted in a long-overdue improvement in the environment. But with these improvements have come lower coal usage, nuclear slowdowns, delay of the Alaskan pipeline, delays in offshore exploration and development, delays in refinery construction, and less efficient automobiles. It is not my intent to argue the merits of these events, but merely to cite their existence and point out their effect which was to increase demand for and decrease supplies of oil. Total impact of these environmental factors will be to increase requirements for petroleum imports by some 4 million barrels a day by 1975.

5. The most recent event, of course, is the oil embargo which has turned a serious problem into a crisis. It is particularly ironic that the initial impact of the embargo--some two million barrels of oil a day--just happened to be equal to the design capacity of the Trans-Alaska Pipeline which would have been on stream about now.

The main point I wanted to make with these summary comments on how the nation got where it is today is that the current situation has resulted from a sequence of events which have occurred during the past 20 years as a direct result of public policies. These events sharply increased the demand for petroleum while continuously delaying the development of domestic energy resources. There have been charges by some that the petroleum companies somehow deliberately fabricated or contrived the whole energy situation. These "contrivance" charges are simply not true. The fact of the matter is that Exxon and other companies did everything they could within reason to keep it from happening. Our repeated warnings went unheeded, and now we find ourselves facing a very serious situation. It took a long time for the U. S. to get into the position it is in today and unfortunately it will probably take a long time for the nation to work its way out of it.

Near-Term Supply Situation

Even before the Fourth Middle East War, our assessment was that oil supplies in the U. S. would be extremely tight this winter. The war and its after-effects have, of course, seriously worsened that outlook. As you are aware, Arab oil shipments to the U. S. have been embargoed for approximately two to three months now, depending on the country. The extent to which the Arab embargo will impact supplies to the U. S. is difficult to establish precisely. The latest published estimates seem to be falling in the 2.2 - 2.8 million barrels a day range for the first quarter of this year. Exxon's estimate is 2.6 million barrels a day which represents about 13 percent of a pre-embargo estimate of U. S. demand. At this rate the United States is losing about 80 million barrels a month and there is simply no way that this loss can be made up.

The impact of the embargo started to be felt as early as November when crude imports began to decline. As of January 25, total U. S. crude imports had fallen to about 2.4 million barrels a day. This is almost 1.5 million barrels a day below Exxon's pre-embargo forecast. This shortfall of crude is clearly being reflected in domestic refinery runs which are now about 1.3 million barrels a day below October. Product imports are also about 1.5 million barrels a day below our pre-embargo forecast. Of particular concern, however, is the fact that heavy fuel imports are some 30 percent below the level required for the first quarter of 1974. Since heavy fuel oil is used to generate about 35 percent of the electricity on the East Coast, this is a potentially serious matter.

Total U. S. imports of crude and products are now almost 3 million barrels a day below our pre-embargo forecast of import requirements for the first quarter of this year. Based on the import averages for the month of January, it is apparent that the predicted impact of the embargo is being felt.

There has also been considerable attention focused on inventory levels during recent weeks. As a result, a number of companies, including Exxon, announced that they would individually release their inventory data and refinery runs weekly. These same data have been and will continue to be furnished to the Bureau of Mines and the API. Since inventories are such a current topic, I would like to emphasize the difficulty of interpreting weekly production or inventory data. It is extremely important to know exactly what external and internal factors are affecting the current data and the base period data with which it is being compared. An important external factor is, of course, the weather. All data should be weather normalized before analysis. An example of an internal factor, with respect to an individual company's data, would be information on actual refinery operations. A sudden drop in a company's refinery runs could be the result of a scheduled turnaround or an equipment malfunction.

Another important thing to remember when comparing inven--tories with past periods is that in the past there were a number of flexibilities, or shock absorbers if you will, in the supply system. The major shock absorbers were spare domestic crude producing capacity, spare world producing capacity, spare refining capacity, and inven--tories. Even before the embargo the first three shock absorbers had all but disappeared. Thus, inventories must now be called on to smooth out all fluctuations in both petroleum supply and demand. Also, it must be remembered that potential demand has increased substantially since last year so higher inventories are also needed to cover this demand.

At the risk of falling into the trap of drawing too many conclusions from unadjusted inventory data, I would like to comment very briefly on the current U. S. inventory situation. Crude oil inventories are only slightly lower than last year (-8 million barrels), but they are much lower than the 1971-1973 average (-20 million barrels). On the other hand, total industry distillate inventories are substantially above last year (+50 million barrels) and also above the average of the last three years (+30 million barrels). This is due to a number of factors which include warmer-than-normal weather, higher-than-anticipated distillate imports, and higher yields of distillates in domestic re--fineries as requested by the Government. We are indeed fortunate that these inventories are higher-than-normal. This gives the country additional protection against possible colder-than-normal weather in the coming months. It also gives us options for making more gasoline if colder weather does not materialize. Perhaps most important of all, it gives us the option to burn distillate in lieu of heavy fuel oil.

Gasoline inventories are somewhat lower than last year (-8 million barrels) due to lower refinery runs and production of increased distillates. If the public had not responded to government and industry efforts to reduce gasoline consumption, inventories would have been even lower.

I would like to emphasize that conservation measures are still urgently needed to curtail demand. We have been quite fortunate to have a warmer-than-normal winter thus far, but this could literally change overnight. As the Arab embargo continues, we will need every barrel of oil we have today and then some. Even if the embargo ends tomorrow, it will take several months for any significant supplies of oil from Arab sources to reach the U. S. More importantly, there will still be a relatively tight worldwide supply situation which could last for many years.

Long-Term Solutions

Even assuming favorable near-term actions, there remains a serious longer-term energy problem that is at the same time a paradox and a challenge.

The paradox is that we are entering what in all likelihood will be a sustained period of energy scarcity, even though there is an abundance of undeveloped energy resources in the earth's crust. The challenge is to prevent this scarcity from being severe or even crippling. It is within our collective power to meet this challenge. If we fail to do so, it should not be for lack of understanding of what we are up against. The dimensions of the problem have been well known for some time.

The crux of the problem is that for the rest of this decade and probably well into the next, oil will have to be relied upon as the primary means for meeting the world's ever-growing energy needs. This is inevitable because of the long lead times and large investments required to exploit alternative energy sources. The basic difficulty with this prescription is that the reserves needed to provide this oil are concentrated in the Middle East. Indeed, if present trends continue, the Middle East would be called upon to provide about half of the world's oil production by 1985--some 50 million barrels a day. This would be nearly three times last year's production level in that area.

To be sure, there are sufficient discovered reserves in the Middle East to permit the indicated expansion in output into the middle of the next decade. But there are two major reasons why it is unrealistic to plan on such an increase. First, even the Middle East's immense reserves are not unlimited. These reserves could not sustain such high rates of production indefinitely. Thus, production might well plateau and even begin to decline from the mid-to-late 1980's. It is not reasonable to plan facilities, or for that matter demand growth, on the basis of a sharp rise, then a sharp fall in production.

But the second reason is likely to be the more significant one. It is simply unrealistic, both for economic and political reasons, to expect the Middle Eastern governments to expand their output as rapidly as the needs of the Free World would dictate. First, some oil producing governments will be inclined to stretch out the life of their resources, seeking to maximize the flow of income over time taking into account rate of depletion as well as unit revenues. This will be particularly true for countries, such as Saudi Arabia, which have vast oil reserves but limited internal needs, and are understandably concerned about being able to consume of invest their monetary inflows wisely. In addition to economic motivation, a new factor has been established--the willingness of the Arab nations to use oil as a political weapon.

Thus, for the foreseeable future, the U. S. is not likely to get all the energy it wants. It is probable that the nation must adjust to a lower standard of energy consumption.

There are a number of broad measures the nation can take during the coming years to adjust to a situation of limited energy supply. For example, the convenience and efficiency of surface public transportation should be improved to make it more attractive. Residential and commercial building standards should be rewritten to save on heating, air conditioning, and lighting. Increased research and development is needed on new ways to generate power more efficiently with less air pollution.

Energy conservation will not totally solve our energy problem, but its role is essential. The real challenge is to make the transition with minimum negative impact on the economy.

Equally essential to this country's efforts to improve its energy situation is the development of additional domestic sources of supply. The U. S. is fortunate to have a substantial energy resource base. Oil and gas yet to be found are believed to equal or exceed total cumulative discoveries to date. Coal resourcws have hardly been scratched, and there are also large reserves of oil shale and uranium.

However, for development to occur, industry must have access to the resources. Much of the nation's energy potential, including offshore oil and gas reserves, uranium, coal, and oil shale deposits, is located in the federal domain. There is need for the federal government to permit development of domestic energy reserves at the pace needed by the nation; this has not been the case in the past. We need to further accelerate offshore lease sales in the Gulf of Mexico, the Atlantic Coast, the California Coast, and offshore Alaska. We also need to permit the development of discovered oil and gas reserves in areas such as the Santa Barbara Channel off the coast of California, where large known reserves have lain dormant since 1969 due to environmental concerns. We need to step up the mining and use of coal. And, in addition, we need to get underway on a national program for development of synthetic fuels from coal and oil shale. And we need to speed up the entry of nuclear power into the energy market.

We need action on these matters by government today, even though many of these actions would have little or no effect on the short-term situation because of the time lags involved in resource exploration and development. But if action is not taken now, the tight short-term supply situation will only be prolonged, and the United States will remain in a precarious condition with regard to energy.

Before closing, I would like to give you some energy data on the state of New Jersey. The per capita energy consumption in your state is about 30 percent below the national average. Oil supplies about three quarters of your needs. Thus, New Jersey is substantially more dependent on oil than the rest of the nation. On the other hand, you use a lower percentage (19 percent) of natural gas. Coal supplies about 5 percent of your energy compared to a national average of almost 20 percent. Nuclear power supplies some 2 percent of your energy compared to a national average of 1 percent. In the future, it appears to us that the percentages furnished by oil, gas, and coal will decline as the use of nuclear power in New Jersey increases very rapidly.

In closing, let me re-emphasize that our energy problems are immediate and severe. Continued action by governments, businesses, and individuals is needed to conserve energy through the short term. Longer-term, we urgently need to develop our domestic energy resources.

Thank you.

A committee of the New Jersey State Legislature is holding hearings at the Holiday Inn on West State Street today on the "energy crisis". We don't think that this investigation will really bring out the truth about this fake "crisis", especially after hearing the oil companies' representatives whine about their "problems" and "sacrifices".

What's Going On Here?

This "energy crisis" is hurting us all: room temperatures in the low 60's; gas for our cars costing at least 50¢ a gallon (after you finally get to the pumps!!); speed limits of 50 mph on the highways; less oil for home heating, schools closing, massive layoffs in industry; and of course, the price of just about everything keeps rising.

What's really causing all these hardships? Is it really just a shortage of oil, or is it the giant oil companies which have deliberately created this fake "crisis" to raise their profits?

What are the Facts?

***Private consumption amounts to only 30% of the nation's total consumption, so it isn't the American people who have created this "crisis" by their "wastefulness".

***U. S. News and World Report states that the U. S. has deposits of 400 billion barrels lying untapped underground. There exists enough oil in the ground for the next 200 years at 1970 rates of consumption. So there's no shortage in the ground.

***Out of 80 Billion dollars a year in sales, the oil industry spends only 2% in worldwide drilling and exploration, and only .07% on research and development. So it's the oil companies which haven't bothered to invest in getting that untapped oil above ground. and refined.

***Only 6% of domestic oil consumption comes from the Middle East. So this "crisis" was not caused by the Arab oil embargo, as the government claims.

***In the late 1960's the oil companies' profits were declining. Since the "energy Crisis" began, their profits have been skyrocketing. For the third quarter of 1973, Exxon reported profits up 80% and Gulf up 91%!! So the oil companies a re making more money today than ever before in history---they have a higher profit ratio than any other U.S. industry.

What Does All This Mean?

It means that we are suffering through this winter in cold homes, workplaces, and schools, that we have no gas for our car, that inflation goes on---and all because of one thing: the greed of the giant oil monopolies for greater profits.

There is plenty of oil but the oil companies haven't touched it. By creating a shortage they have raised gasoline and heating oil prices and pushed independent distributors out of the business. And after all the hardships we have to face we're told that we'll have to give the oil companies billions of dollars---our tax money---to drill and produce oil.

What Can We Do?

We have to fight back against this attempt to lower our living standards. We have to get together to stop landlords from turning the heat down; to keep the schools warm enough for our children; to stop the bosses from saving money by "cooling us off" at work. And most important of all, we have to unite, all of us who work for a living, to fight back against the whole crooked gang of politicians and big businessmen who have created this phoney "crisis". FIGHT BACK!! TURN THE HEAT ON!!!

DATE DUE
