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a non-profit energy company

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FACSIMILE COVER SHEET

TO: President Clinton

COMPANY: White House

FAX #:

FROM: Joe Kennedy (508-775-6059)

RE: Heating Oil

DATE: 9/22/00 TIME:

PAGES INCLUDING COVER SHEET 3

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TO TRANSMIT TO US PLEASE CALL (617) 542-4487

ADDITIONAL COMMENTS: Heating Oil Policy

9/27/00

Send to Cohen?

Yes ✓

No

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Heating Oil Policy Recommendations

Strategic Petroleum Reserve

- The optimal method for releasing SPRO crude to put downward pressure on home heating oil prices is to swap crude oil for heating oil and then sell wet barrels into the market for delivery to East Coast wholesalers in areas of high heating oil consumption.
- Any oil trading firm will understand the advantageous economics involved in the crude-for-heating oil swap and can execute the transaction and later return a larger amount of crude to the SPRO than was released.
- The problem with swapping crude for crude is the long delay for heating oil to cycle out of refineries and get to the regional centers where product is needed.
- Release of SPRO should be done in consultation with OPEC so they don't respond by simply cutting back on their own crude production, thus putting upward pressure on crude prices and other petroleum by-products.
- The SPRO contains about 600 million barrels, enough to cover the nation's 20 million barrel a day crude oil consumption for one month. SPRO release can therefore not be a long-term solution to the challenge of low oil stocks.

Minimum Inventory Standards

- As a longer-term solution to the problem of price shocks associated with high demand and low supply, the federal government could require wholesalers to keep minimum inventories on hand to buffer consumers from skyrocketing prices.
- The gas and electricity industries are required by regulators to keep sufficient energy supplies in reserve to meet demand. No such mandates exist for heating oil, so households can face acute shortages and devastating price hikes when cold weather hits at times of low supply.
- Wholesalers would be required to build up stocks during the summer and early autumn months and then draw down inventories during the heating season.
- In New England, for example, a minimum inventory level of 20 million barrels by October 15 would be sufficient preparation for the onset of cold weather.
- The inventories could be drawn down to 18 million by November 15 and 15 million by December 15. The 15-million barrel level should be maintained until March 1 when remaining inventories can be depleted without replenishment until the late summer, early fall.
- In New England, inventories stood at 17 million barrels in February 1999 and prices hovered around 85 cents a gallon. A year later, when wholesalers went short on the market, supplies were at a near-record low 4.5 million barrels and prices shot above $2 a gallon.
- Storing an additional 12 million barrels during the month-long run-up in prices would have cost wholesalers about $2.5 million, which they could have passed on to consumers. Meanwhile, households in Massachusetts alone paid a premium of over $150 million to cover the spike in fuel prices.

Federal Fuel Assistance

- Increase funding. Support Rep. Joe Moakley's call for $1.65 billion for FY2001.
- Early release of $400 million in emergency LIHEAP funds.
- Allow states to purchase LIHEAP fuel at fixed-price contracts in order to protect against the erosion of the benefit as winter fuel prices rise.

Conservation

- Establish a federal conservation revolving loan fund to allow homeowners and landlords to install energy saving devices and repay the loans from the savings realized through cutting energy costs.
- Most homes and buildings are about 40% energy inefficient and can easily generate the savings needed to repay the loans.

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FACSIMILE COVER SHEET

TO: President Clinton

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Federal Heating Oil Policy: Minimum Inventory Standards

- As a long-term solution to the problem of home heating oil price shocks associated with high demand and low supply, the federal government should require wholesalers to keep minimum inventories on hand to buffer consumers from skyrocketing prices.
- The gas and electricity industries are required by regulators to keep sufficient energy supplies in reserve to meet demand. And banks must keep minimum cash reserves on hand to serve depositors. However, no such mandates exist for heating oil, so households face acute shortages and devastating price hikes when cold weather hits at times of low supply.
- Minimum inventory standards should also be applied to the gasoline and diesel fuel markets, which are subject to similar supply-demand factors – as we saw last summer in Chicago.
- In the heating oil industry, wholesalers should be required to build up stocks during the summer and early autumn months and then draw down inventories during the heating season.
- By using a formula based on the calendar along with degree days, regulators should establish minimum inventory levels for each heating oil market, taking into account regional consumption and storage capacity for the respective areas.
- In New England, for example, a minimum inventory level of 20 million barrels in storage by October 15 would probably provide sufficient preparation for the onset of cold weather.
- The inventories could be drawn down to 18 million by November 15 and 15 million by December 15. The 15-million barrel level should be maintained until March 1 when remaining inventories can be depleted without replenishment until the late summer, early fall.
- In New England, inventories stood at 17 million barrels in February 1999 and prices hovered around 85 cents a gallon. A year later, when wholesalers went short on the market, supplies were at a near-record low 4.5 million barrels and prices shot above $2 a gallon.
- Storing an additional 12 million barrels during the month-long run-up in prices would have cost wholesalers about $2.5 million, which they could have passed on to consumers. Meanwhile, households in Massachusetts alone paid a premium of over $150 million to cover the spike in fuel prices.