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Energy Crisis Laid to Laxity

By Thomas O'Toole
Washington Post Staff Writer

While government officials freely admit that permanent solutions to the energy crisis will take several years, a congressional study out last week claims that the causes of the crisis go back at least three years, with the White House and the oil industry sharing the blame for the present fuel squeeze.

In a 173-page report prepared for its chairman, Sen. Henry M. Jackson (D-Wash.), the Senate's Permanent Subcommittee on Investiga-

tions blames today's fuel shortage on the White House for eliminating oil import quotas too late and on the oil industry for refusing to recognize for the last three years that a fuel shortage existed.

The oil shortage can be traced back to 1969, the Senate subcommittee said, when the Texas and Louisiana oil fields that produce two-thirds of the oil in the United States suffered a reserve loss of more than 45 million gallons of oil, the largest decline of crude oil reserves in history.

By February, 1970, the report states, the independent oil refiners were saying privately that the major oil companies had rated the reserves in Louisiana at too high a level and were not being honest about how much oil the Texas fields could produce.

Industry "seriously overestimated the practical potential of the few large oil fields currently producing below maximum efficient rate," the subcommittee said.

The result was that the productivity of Texas oil

See ENERGY, A8, Col. 1

ENERGY, From A1

fields began to decline in 1970, a situation that caught the country's oil policy makers by surprise.

Even later, when the White House was faced with a question of whether to drop the oil import quota system, the oil industry was being less than candid in its public reports about the adequacy of domestic crude oil supplies.

Crude oil stocks of the 10 largest oil companies in the United States were down in 1972, the subcommittee report states, but the companies informed the public that their stocks were adequate to meet demand, which had risen almost 10 per cent and was destined to rise almost 20 per cent.

"The 10 largest companies," the subcommittee report flatly stated, "were informing the Texas Railroad Commission [which regulates the pumping of Texas oil fields] that they had all of the crude oil feed stocks they needed in order to meet demand for crude oil products.

"At the same time," the report goes on, "inventory levels of heating oil and gasoline were being drawn down because of increased demand and because refineries operated at reduced levels of capacity."

Meanwhile, the Senate subcommittee says, the White House was practicing some of the same foot-dragging over changing the nation's oil import policies from a quota to a tariff system. The subcommittee said that President Nixon was advised to eliminate import quotas as early as January of 1970, when his own Cabinet Task Force on Oil Import Controls suggested that the quota system be dropped.

Seven months later, Mr. Nixon rejected the task force plan to substitute a tariff system for quotas, at least partly because the oil industry expressed strong opposition to the plan, the subcommittee report states.

"Oilmen said retention of the quotas would encourage exploration and development of new sources," the subcommittee says, "and that federal policy would be less uncertain."

The result of all this, the subcommittee said, was the "beginning of the first peacetime petroleum product shortage in the United States."

While the subcommittee put part of the blame for this shortage on crude oil policies it also placed a share of it on the refinery policies of the country.

The subcommittee pointed out that the major oil companies failed to construct new refineries to produce gasoline and heating oils during any year in the last four years. It said the oil industry scheduled no new refinery capacity for 1973 and

only a small capacity increase (590,000 gallons a day) for 1974.

"Uncertainty over oil import policy was cited as a factor in the industry's reluctance to build new refineries" the subcommittee said. "Refiners were reportedly waiting for government action on long-range policies concerning distillate and heavy fuel oils before making commitments to build new refineries in the U.S."

Ironically, the subcommittee added, the price freeze decreed by President Nixon in August, 1971, played havoc with gasoline and heating oil supplies.

The August action froze gasoline prices at seasonal highs and heating oil prices at off-season lows, a move that helped trigger a heating oil shortage last winter and a gasoline shortage last spring.

"It was not surprising to find the industry more anxious to convert its crude oil into gasoline than into fuel oil," the report said. "The profits were in gasoline and the price controls, regardless of their many possible merits, were in fact a factor in the creation of the alarmingly low fuel oil stocks the industry held late in the summer of 1972."

Stocks dwindled at least partly because refiners could not import enough crude oil to maintain inventories. The subcommittee report pointed out that oil imports had fallen late in 1972 because refiners had "already used up the bulk of their import quotas assigned for the full year," forcing refiners to draw oil from storage "at a rate to plunge stocks to their lowest point in postwar years."

Another reason for the heating oil shortage last winter was that refinery runs were lower than they could have been, the subcommittee said.

In the first four months of 1972, refineries ran at 84.2 per cent of capacity, which is lower than for any comparable month in 1970, 1971 and 1973. The low refinery rate meant that heating oil stocks could not be built up in time to face the heating oil season last winter.

The same thing forced the gasoline shortage last spring, partly because the refineries had to spend more time producing heating oil late last winter to replenish stocks that had fallen dangerously low.

"Although refinery utilization jumped to 94.9 per cent in June of 1973 and has continued for several months at approximately 94 per cent," the subcommittee said, "the increase in capacity utilization was too late to avert the gasoline shortage which occurred during the peak summer driving season."

While the Senate report went into explicit detail about what it felt caused the current fuel oil plight it did not dwell at all on how long the plight would last.

Most energy experts inside the government now feel we will be chronically short of fuel for at least the next five years regardless of whether the oil producers in the Persian Gulf drop their embargo or not.

This estimate of the oil shortage is what prompted President Nixon in his Wednesday night energy address to the nation to announce what he called "Project Independence" a plan to make the United States self-sufficient in energy by 1980. By self-sufficiency administration aides have said the President means the kind of self-sufficiency the country enjoyed in 1970 when oil imports were less than half what they were earlier this year.

Project Independence will involve spending \$10 billion over the next five years starting with fiscal 1975.

Energy experts working on Project Independence have not decided yet how the \$10 billion should be spent, but at least one source close to the project said last week that \$2 billion would be spent improving ways of mining and burning coal.

The main reason so much will be spent on coal is that the United States has the largest coal reserves of any country in the world. The

U.S. Bureau of Mines estimates domestic coal reserves down to more than a mile below ground at more than three trillion tons, enough to last 500 years at even increased rates of consumption.

Two obstacles block use of that coal. One is that most of it must be strip-mined, which destroys too much of the land. The other is that it can't be safely burned under present techniques because it discharges too much sulfur into the air.

Much of the \$8 billion left out of the \$10 billion for Project Independence will be spent improving drilling techniques to recover oil deep in the ground and on recovering oil locked in the shale rock of the Colorado and Wyoming Rocky Mountains.

Oilmen say today's techniques of drilling have recovered only one-third of the oil that lies deep in the ground below Texas and Louisiana, where at least another third might be recovered by better methods.

The oil locked in shale is possibly the most massive oil resource in the world. The Interior Department estimates "easily" recoverable shale oil at 80 billion barrels, the equivalent of more than 3 trillion gallons of gasoline or heating oil.

Recovering the shale oil will be expensive, costing at least \$8 a barrel. The rising price of oil means that oil shale is now economic, but the big problem with oil shale is the way its recovery ruins the earth.

Huge quantities of water are needed to extract the oil from shale. Even larger quantities of slag are left behind by the recovery, a problem which has not yet been solved.