FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

JUN 30 1976

OFFICE OF THE ADMINISTRATOR

Honorable Edward M. Kennedy
United States Senate
Washington, D. C. 20510

Dear Senator Kennedy:

In my letter of June 25, 1976, a copy of which is attached, I described the standby price and allocation measures that the Federal Energy Administration (FEA) will have in place by the end of July if Congress allows middle distillates to be exempted from regulatory controls. Since that letter was written, these standby measures have been discussed in greater detail with a number of Senators and Congressmen and in congressional hearings. In order to keep you fully appraised of our intentions in this regard and to assist in your consideration of Energy Actions Numbers 3 and 4, I wish to inform you of these discussions.

Of primary concern in this connection is the fact that FEA's contingency system will be structured in a manner which assures that no particular region of the country is disadvantaged relative to others. For example, apart from normal regional and seasonal variations, price reductions in one section or area of the country would not be permitted to offset price increases in other sections of the country in calculating comparisons with the index (i.e., the projected price under controls plus 2 cents per gallon) outlined in my letter of June 25. Thus, prices will be monitored at regional as well as national levels and the actions outlined in the June 25 letter taken not only if the national prices exceed the index, but also if regional prices exceed the index. The base from which these comparisons will be made will be actual June 1976 selling prices in order to fully protect the interests of consumers.

I have also made it clear in these discussions that the allocation contingency plan designed to protect independent marketers as they return to the unregulated market will operate in a highly expedited fashion, and that the regulations necessary to implement this standby program will be in place by the end of July. FEA regional and national offices will take timely action to make supply assignments from the "set aside" and assure deliveries through vigorous and rapid enforcement actions where required.

Although most of these points were covered in my June 25 letter and testimony given before committees of both Houses of the Congress, I hope these further elaborations will adequately clarify questions that have arisen and reassure all concerned that consumers' interests and those of independent marketers will be protected upon implementation of Energy Actions Numbers 3 and 4. By its commitment to these measures, FEA has provided adequate assurance that restoration of effective competition to middle distillate markets will in no way expose consumers to the possibility of unjustified price increases.

Sincerely,

Frank G. Zarb
Administrator

Enclosure

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

JUN 30 1976

Honorable Silvio O. Conte
House of Representatives
Washington, D. C. 20515

Dear Mr. Conte:

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OFFICE OF THE ADMINISTRAT

JUN 25 1976

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House of Representatives
Washington, D.C. 20515

Dear Mr. Conte:

The Federal Energy Administration (FEA) has recently been asked for additional information regarding its contingency plan for middle distillate prices in the event Energy Actions 3 and 4 are not disapproved by the Congress. The key elements of the contingency plan are:

- a quick response monitoring system that will compare actual prices on a weekly basis with estimates of what they would have been if regulatory controls were still in effect;

- a series of automatic steps that will immediately unfold if prices in the decontrolled market exceed by 2 cents the estimate of what they would have been with continued controls; and

- an emergency allocation system to insure that no marketer loses his supplies without adequate time to arrange a new supplier.

Each of these aspects of the overall plan is explained in greater detail in the following.

The price monitoring system will include not only the comprehensive statistical reporting systems that FEA has in place, but also a telephone survey of scientifically selected samples of jobbers and dealers and of those refiners accounting for a majority of middle distillate production. With these mechanisms FEA will track price trends at the refinery, wholesale, and retail levels on a monthly basis during April through September and on a weekly basis during October through March. From this up-to-date data on price and sales volumes, FEA will monitor price trends, both regional and national, and will make a weekly computation during the heating season of the weighted average price of middle distillates.

This estimate will be compared to a projection of what price trends would have been under continued regulation. This projection will be generated by taking into account three principal factors:

(1) The current level and projected increase in the cost of crude oil under the provisions of the Energy Policy and Conservation Act and incorporating projections of the increased dependence on imports and imported crude prices.

(2) An index that best reflects the increased cost of doing business for refiners and marketers. The specific index to be used will be selected after an evaluation of comments as to the appropriateness of alternative indices to be considered at the public hearings.

(3) A seasonal pattern of price variations derived from an analysis of the years 1968 to 1972 inclusive. This will provide a long enough period of reasonable market conditions to establish an appropriate pattern of seasonal variations to be expected without controls.

We will have these two systems in place and operational by the end of July this year as a result of an expedited rule-making. We will, of course, begin immediately to collect data from available sources and do our preliminary computations during the public hearings and rulemaking process so that we would have at least preliminary bench-mark values even before the end of July.

Any time the estimate of actual prices exceeds the projections of regulated prices by more than 2 cents per gallon, we will hold public hearings within 10 days to determine the causes of such an increase and to solicit comments on various actions necessary to restore average prices to levels at or below those reflected in the index within no more than one month.

Among the options available to FEA for accomplishing this result are: reimposition of complete allocation and price controls over the entire industry, imposition of partial sets of allocation or price controls over the entire industry, imposition of full or partial controls over certain segments of the industry, and modification of FEA's entitlements program to reduce the cost of imported middle distillates. In any event, FEA will take within ten days of completion of the hearings such action as may be required to restore prices within a month to levels at or below those reflected in the index.

We cannot, of course, specify in advance exactly what action we will take since we have no way of knowing what type of contingency may develop that will require corrective action. As you know, we see no problems in the market with supply or prices at the current time, but if some unforeseen problem does develop we can and will fashion an appropriate remedy immediately. Since no single action can appropriately respond to all contingencies, it is far better to base the action on the facts and circumstances at the time so as to be sure that it will remedy the problem with the least interference with other objectives. It would be both unnecessary and unwise, for example, to reimpose controls over the entire industry if we found that the price increase problem was limited to the refining sector. Even then, depending on why refinery prices were rising, it might be more effective to grant entitlements to distillate imports than to reimpose price controls on refiners and run the risk of reducing production.

To assure that no marketer is placed in a position of not having a reasonable time to arrange for supplies, FEA will promulgate a proposed rulemaking immediately after the exemption is effective to establish a "set-aside" reserve of supply that would be used throughout the coming heating season for assignment to those few marketers who are temporarily unable to find a supplier after demonstrated good faith efforts to do so. Such marketers would be assigned as much as their currently authorized base period volumes from the FEA set-aside for up to 90 days if required to permit them to make their own supply arrangements or for longer if required to preclude hardship to consumers. This provision, expected to be used only infrequently, provides a "safety net" to preclude the process of decontrol itself from imposing unduly sudden transitions on any individual marketer. By giving him a reasonable time to locate a willing supplier, it assures him a fair chance to make his own way in a free market.

FEA will continue to monitor and report to Congress on market share trends in the industry. In the event of sharp swings in market shares or widespread problems of supply cutoffs that appear to be contrary to the Emergency Petroleum Allocation Act (EPAA) objective of preserving the competitive viability of the independent sector of the industry, FEA will immediately convene public hearings to determine the necessity for reimposing controls or if required will take whatever emergency action is deemed appropriate before convening hearings.

In any case, you may be assured that FEA is fully cognizant of its responsibilities under the Emergency Petroleum Allocation Act and that it will take whatever action is required to see that the objectives set out in that Act are in fact realized to the maximum practicable extent.

I hope you find this information helpful. If I can be of further assistance, please let me know.

Sincerely,

Frank G. Zarb
Administrator

DISCUSSION POINTS CONCERNING PROPOSED EXEMPTION OF MIDDLE DISTILLATES

Background

- The Energy Policy and Conservation Act (EPCA) provides procedures for exempting refined products from pricing and allocation regulations, subject to disapproval by either House of Congress.

- The exemption of residual fuel oil was effective June 1, 1976 under these procedures.

- On June 15 two separate proposals to exempt the separate product categories of middle distillates were submitted to Congress. Jet fuel is not included in this proposed exemption. The exemption would become effective July 1, 1976.

FEA Findings

- The supply shortages giving rise to the imposition of controls no longer exist:

  - Crude oil is and is projected to remain in surplus supply.

  - Adequate domestic refining capacity exists to cover projected demand for middle distillates.

  - Imported middle distillates are, therefore, not expected to increase above the level of approximately 5% of total supply.

- No price increases are projected as a result of decontrol - an increase of up to approximately 4¢ per gallon by 1978 is projected due to increased crude oil costs - this increase would occur were controls to be retained.

- No adverse impact on the supply of any other refined product is expected and the exemption would further the objectives of the Emergency Petroleum Allocation Act ("EPAA").

- Competition and market forces are adequate to protect consumers following the exemption and, in fact, the competitive position of independent marketers vis-a-vis major integrated refiners will be substantially improved.

Standby Measures Following Decontrol

- The EPCA provides for FEA's ability to reinstitute controls on middle distillates if warranted by the objectives of the EPAA. Thus, any unexpected supply shortages and resulting significant price increases could be dealt with.

- Following the effectiveness of the exemption, FEA will propose procedures to establish a state reserve supply to assist marketers experiencing difficulties in obtaining supplies. Marketers may draw upon these supplies automatically for 90 days or longer if needed to eliminate hardships to consumers.

- FEA will continue to monitor middle distillate prices closely and will construct an index which would estimate to what extent prices would have risen were controls still in effect.

- If a price rise of more than 2¢ per gallon in excess of the index amount occurs in a given month, FEA will hold public hearings to determine whether the reimposition of controls is necessary. Controls could be reimposed on a full or selective basis, based on FEA's conclusions from the hearings, or entitlements benefits granted to middle distillate importers.

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RATIONALE FOR EXEMPTING MIDDLE DISTILLATES FROM FEDERAL ENERGY ADMINISTRATION PRICE AND ALLOCATION REGULATIONS

FEDERAL ENERGY ADMINISTRATION

JUNE 15, 1976

TABLE OF CONTENTS

RATIONALE FOR EXEMPTING MIDDLE DISTILLATES FROM FEDERAL ENERGY ADMINISTRATION PRICE AND ALLOCATION REGULATIONS

SUMMARY

INTRODUCTION

- FEA has concluded that continued price and allocation controls on middle distillates for refiners, wholesalers and retailers are no longer necessary to assure adequacy of supply, to maintain the competitive viability of independent refiners and marketers, and to avoid inequitable prices to consumers. Therefore, FEA has submitted proposals to the Congress to exempt middle distillates from controls. On March 27, a similar proposal regarding the exemption of residual fuel oil was sent to the Congress and became effective June 1, as neither House of Congress disapproved the proposal.
- As covered in these proposals, middle distillates include kerosene, No. 1 and No. 2 fuel oils, and No. 1-D and No. 2-D diesel fuels. They do not include kerosene based and naphtha based jet fuels or any other aviation fuel. (See Appendix A, Middle Distillates Definitions and Usage, page 8)

HISTORY

- Controls were first imposed in 1971 as part of general Cost of Living Council regulations to reduce inflation. While these burdensome controls were terminated for all other sectors by early 1974, they were continued for petroleum products during the embargo to spread available supplies equitably across the country and to protect the U.S. economy. This purpose was reflected in the Emergency Petroleum Allocation Act which was written in 1973 to deal with the embargo. As stated in the findings and purposes section of the Act:

> "The Congress hereby determines that <u>shortages</u> of crude oil and refined petroleum products ... now exist or are imminent; ..." and
>
> "The purpose of this Act is to direct him (the President) to exercise specific <u>temporary authority to deal with shortages</u> of ... refined petroleum products or dislocations in their national distribution system."

- The conditions which created the need for controls have long since disappeared and those sectors of the petroleum industry that required protection by regulations are now being disadvantaged by them.
- The Energy Policy and Conservation Act amending the EPAA recognized the anomalies of maintaining controls designed for shortages during periods of adequate supplies and provided for FEA to propose exemption of specific products.

<u>POSITIVE EFFECTS OF DECONTROL</u>

- <u>Industrial and commercial growth will be encouraged</u>. Inability to secure firm supply commitments under the current FEA regulations inhibits plant expansion and capital investment.

- Involuntary supplier/purchaser relationships could be terminated. Purchasers would be able to shop freely in the market for the best terms and prices available, thus exerting downward pressure on prices.
- Competitive bidding and direct negotiation for longer-term supply contracts would be encouraged. This would also exert downward pressure on prices. This change is especially beneficial to state and local governments, many of which are required by their statutes to purchase through competitive bidding.
- Suppliers would regain the flexibility to respond to changing levels and patterns of demand in the marketplace, thus allowing suppliers to shift supply commitments to areas of increasing population and industrial expansion.
- Independent marketers and their customers will benefit from the restoration of competitive wholesale pricing by suppliers in regional markets. Consequently, competitive position of independent marketers vis-a-vis major integrated refiners will be substantially improved.
- Desirable and necessary seasonal inventory buildup would be encouraged and facilitated by the removal of controls.
- Exemption of middle distillates from the regulations would also eliminate costly and burdensome recordkeeping and reporting requirements imposed by FEA on the petroleum industry. (See Appendix B, Costs Associated with Regulation, page 10.) The following groups would benefit:

- thousands of consumers of middle distillates;
- 26,000 wholesalers (16,000 independent jobbers and 10,000 commission-type distributors);
- 27 terminal operators;
- 119 small refiners, each with less than 175,000 barrels per day capacity;
- 22 large refiners.

FINDINGS

o This proposed exemption is supported by FEA's analysis of middle distillates demand, supply, prices and market forces, and also by the majority of comments received by FEA during the public hearings on its analysis, particularly from those whom these controls were originally designed to protect. (See Appendix C, Public Hearings, page 12.)

o The exemption will not result in shortages of middle distillates or other products. Conservative projections of domestic demand and domestic and foreign supply of middle distillates demonstrate that the supply of middle distillates over the 1976-1978 period will be adequate.

  - Demand is now about 3 million barrels per day and is projected to increase to about 3.4 million barrels per day in 1978. (See Appendix D, Middle Distillates Demand, page 13.)

- Supply is and will continue to be more than adequate because domestic refining capacity is now adequate to meet demand and is projected to increase by about 2 million barrels per day by 1978. (See Appendix E, Middle Distillates Supply, page 17).
- Projected utilization of this capacity will continue to remain near the 1975 level but below the longer-term norm of approximately 90 percent, leaving excess capacity available to meet any demand increases.
- Excess available foreign refining capacity is projected to be more than adequate to meet any possible shortages of refined products in the U.S.
- Adequate supplies of crude oil will be available as long as we retain access to imports.

o Exemption from controls will not result in inequitable prices to any class of users because competition and market forces are adequate to protect consumers following exemption. (See Appendix F, Middle Distillates Prices, page 19).

- Current and projected excess refinery capacity will guarantee increased competition in the refining segment of the industry as the bargaining position of independent marketers who buy from refiners is strengthened by removal of controls.

- Sufficient competition exists at wholesale and retail levels to protect consumers because of the large number of independent and small refiners and independent marketers now competing in middle distillates markets. (See Appendix G, Market Structure, page 21).
- Since supply and demand are in balance and are expected to remain so, competition should continue to exert downward pressure on prices.
- For these reasons, exemption is expected to cause no price increase over and above those expected under continued price and allocation controls.

o Exemption will have no significant effect on the rate of unemployment, the Consumer Price Index, or the Gross National Product. (See Appendix H, Impact on the Economy, page 28).

STANDBY AUTHORITIES

o FEA will complete the implementation of an expedited middle distillates monitoring system to provide timely supply and price data on a state and regional basis. (See Appendix I, Middle Distillates Price Monitoring, page 29). Indices which FEA will look at in deciding whether to impose standby authorities include production and inventory levels, price levels, the impact of natural gas curtailments on demand, and other such factors.

- FEA has been assured by the refiners accounting for the vast majority of middle distillates production that they will continue supplying present customers for a minimum of at least a year. FEA will closly monitor their performance in this regard.
- FEA will propose a rulemaking to establish:
  - A reserve of middle distillate supplies available to FEA regional offices on a "set aside" basis from each supplier. This reserve would protect both consumers and individual marketers from unforeseen spot shortages.
  - Authority for FEA regional offices to assign suppliers to independent marketers who are unable to obtain sufficient product. These assignments would be for a period sufficient to enable such marketers to make alternate supply arrangements.
- FEA could also, if required, modify its entitlements program to offset the effects of any unexpected increases in the price of imported product, which is of particular importance in the Northeast.
- If a national supply shortage or price distortions threaten current injury to the public health, safety, or welfare, FEA will exercise its authority to immediately reinstate price and allocation controls on an emergency basis.

MIDDLE DISTILLATES DEFINITIONS AND USAGE

Products Included in This Proposal:

- Kerosene
- No. 1 and No. 2 Fuel Oils
- No. 1-D and No. 2-D Diesel Fuels

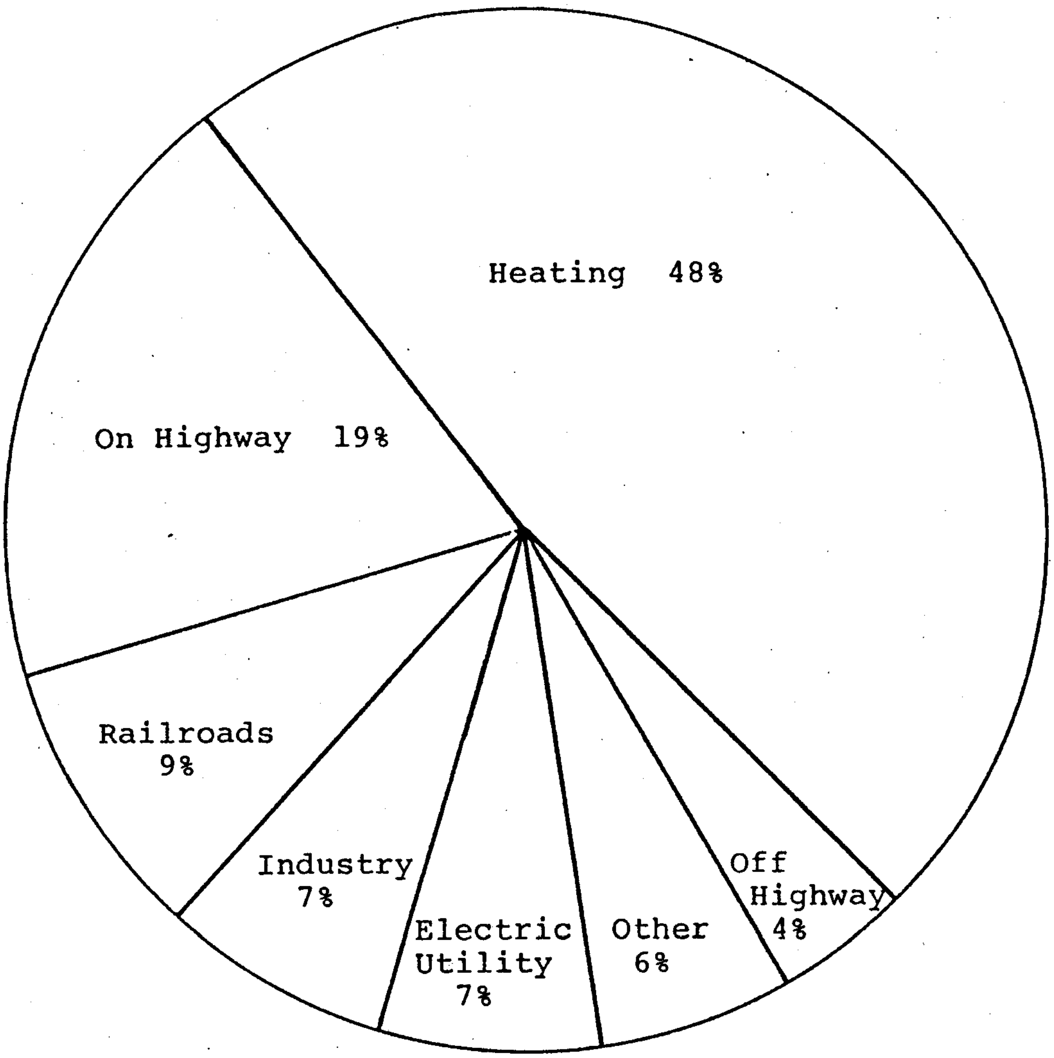
Products Not Included in This Proposal:*

- Aviation Jet Fuels
- No. 4 Heating Oil
- No. 4-D Diesel Fuel

Energy Action #3 proposes the exemption of No. 2 Fuel Oils and Diesel Fuels and Energy Action #4 proposes the exemption of No. 1 Fuel Oil, No. 1-D Diesel Fuel and Kerosene. Separate proposals are required as the EPAA states that any decontrol amendment must apply only to one oil or refined product category and defines No. 2 oils as a separate category.

* No. 4 heating oil and No. 4-D diesel fuel were exempted from controls on June 1, 1976. Aviation fuels (including kerosene-base and naphtha-base jet fuel) are not currently being proposed for exemption.

MIDDLE DISTILLATE USAGE BY CATEGORY FOR 1974



Source: Bureau of Mines

COSTS ASSOCIATED WITH REGULATION

Currently there are over 285,000 firms involved with producing, refining, marketing, and distributing petroleum products:

- o 10,000 Producers
- o 141 Refiners
  - 22 large refiners
  - 119 small refiners, each with less than 175,000 B/D of capacity
- o 450 Petroleum-Related Transportation Companies
- o 26,000 Wholesalers
- o 250,000 Retailers

The costs of regulation to the government, industry, and consumers are enormous. While it is difficult to estimate the administrative burden associated with regulating only middle distillates, the following information gives some idea of the magnitude of the regulatory effort.

- o The industry is required to complete <u>over 60 separate forms</u> calling for approximately <u>2,000 separate data entries</u> in order to provide FEA with information; many of these forms have to be filled out <u>several times a year</u>.

- -- It is estimated that preparation of the forms industry-wide requires some 10 million manhours at a cost of approximately $100 million annually.
- -- Government time to process and analyze these forms is estimated to require over 40,000 manhours at a cost of over $2 million dollars annually.

o All of these costs are reflected in higher prices to consumers and higher taxes.

PUBLIC HEARINGS - MAY 12-13, 1976
EXEMPTION OF MIDDLE DISTILLATES FROM CONTROLS

SUMMARY OF RESPONSES

	Supports	Opposes	No Position*
Large Integrated Refiners (15)	14	0	1
Large Independent Refiners (4)	4	0	0
Small Refiners (16)	14	1	1
Petroleum Marketers** (27)	18	9	0
Energy Offices (4)	1	3	0
Consumer Associations (20)	13	7	0
Miscellaneous (3)	0	3	0
TOTAL (89)	64	23	2

* No position taken on overall decontrol but rather confined responses to ancillary issues.

** Groups such as:
American Petroleum Refiners Association
Independent Fuel Terminal Operators Association
Independent Refiners Association of America
National Oil Jobbers Council
National Association of Truck Stop Operators

MIDDLE DISTILLATES DEMAND

I. 1968-1975

- Demand for middle distillates increased at an average annual rate of 4.7 percent from 1968 to 1973 before peaking in 1973 at an average of 3,088,000 barrels per day.

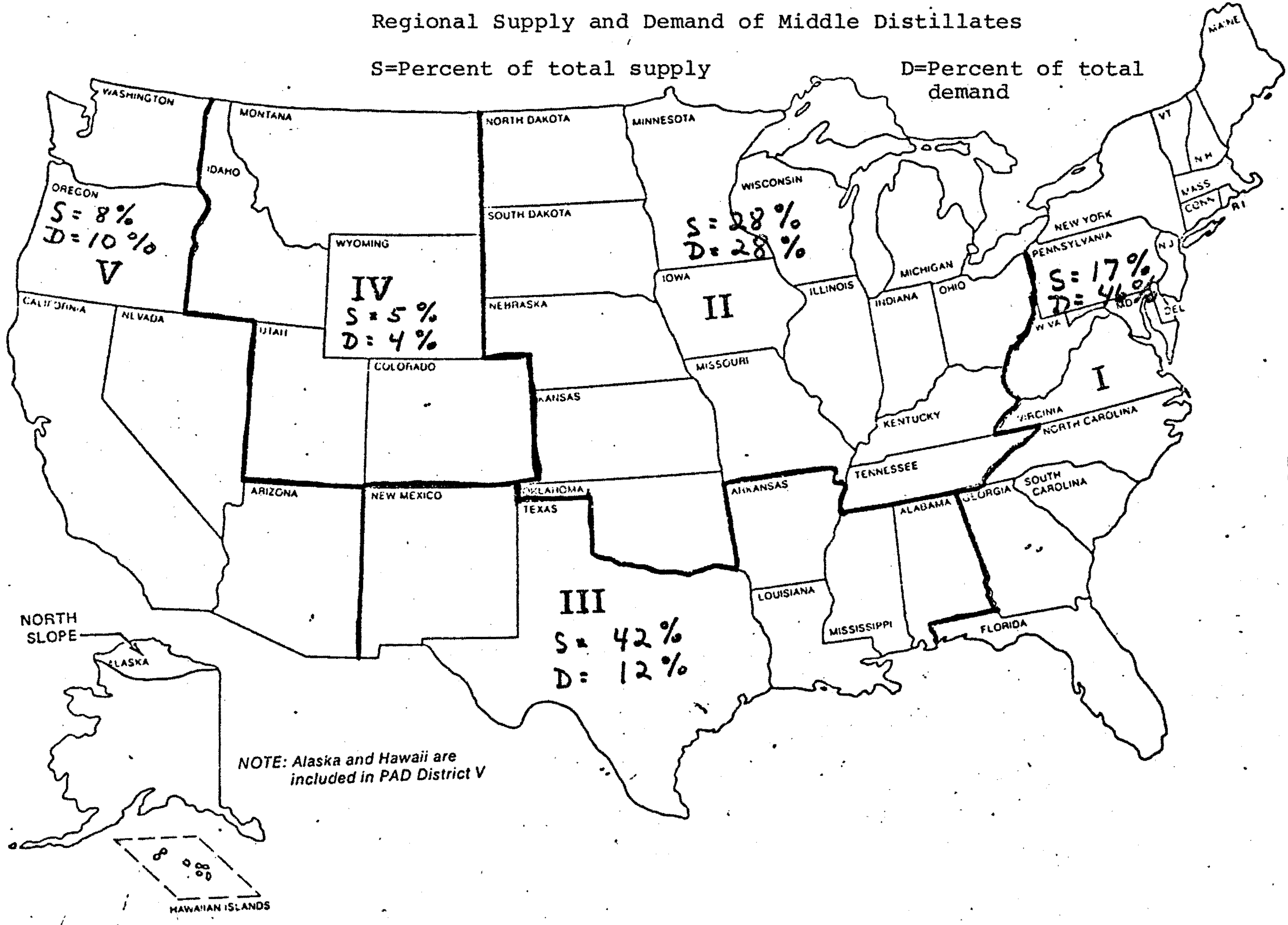
- Demand declined in 1974 and 1975 (a 2.5 percent decline from 1973 level) due to a combination of middle distillates price increases, mild winters and slow-down in the economy.

- Regional demand:

  -- In 1975: 17 states in PAD I (see next chart) constituted 46 percent of the total middle distillates consumption and supplied 17 percent of the total domestic production, while 6 southern states (PAD III) supplied 42 percent and consumed only 12 percent.

Regional Supply and Demand of Middle Distillates

S=Percent of total supply D=Percent of total demand



Petroleum Administration for Defense (PAD) Districts.

II. PROJECTED DEMAND (1976-1978)

- Demand for middle distillates is projected to increase at a rate faster than for all petroleum products (7% compared to 5.1% in 1977) due to a rise in the general level of economic activity, increased residential usage resulting from general economic growth and rising income, normal winters, and possible natural gas curtailments.

- By 1977, middle distillates demand is expected to exceed 3.3 million barrels per day. A small decline in the rate of growth is projected in 1978.

- Regional demand for middle distillates is projected to follow historical trends.

- Demand for middle distillates was forecast using FEA's short-term petroleum demand model. The forecast was designed to be conservative and to indicate the high end of the range of demand (see next chart).

PROJECTED DEMAND FOR MIDDLE DISTILLATES AND PETROLEUM PRODUCTS
(Thousands of Barrels Per Day)

	1975	1976	1977	1978
Middle Distillates	2,918	3,123	3,342	3,386
Total Demand for Petroleum Products	16,626	17,312	18,176	18,622

PERCENTAGE INCREASE IN PROJECTED PRODUCT DEMAND OVER PRIOR YEAR DEMAND

	1976	1977	1978
Middle Distillates	7.0%	7.0%	1.3%
Domestic Demand for Petroleum Products	4.2%	5.1%	2.5%

Source: FEA Demand Model (3-12-76)

MIDDLE DISTILLATES SUPPLY

I. 1968-1975

Domestic Supply:

- During the period 1968 to 1975, the total national supply of middle distillates (including imports) increased 16 percent.
- Analysis of current supply conditions offers strong evidence that supplies are presently adequate to meet demand. This supply adequacy is verified by the surplus product declared in supplier reports filed with FEA for the past year.

Imports:

- Imports remained relatively constant from 1968 through 1972, increased to a peak of 12.3 percent of total supply in 1973, and declined to 5 percent in 1975 and are projected to stay at or below the 5 percent level over the period 1976-1978.

II. PROJECTED SUPPLY (1976-1978)

A. Availability of Refining Capacity/Utilization:

- o Domestic refining capacity is projected to closely parallel the projected 2 million barrels per day increase in total domestic petroleum product demand.
- o Projected utilization of this capacity will continue to remain near the 1975 level but below the longer-term norm of approximately 90 percent.
- o Excess available foreign refining capacity is projected to be more than adequate to meet any possible shortages of refined products in the U.S.

B. Availability of Crude Oil Supply:

- o Supply projections indicate that increasing amounts of imported crude oil will be refined domestically, and that imports of refined products will not increase.
- o Sufficient shut-in production is available in foreign countries to meet the increased demand for crude imports.
  - -- Crude oil shut-in production in the major exporting countries amounted to 34.5 percent of total production capacity during October 1975.

MIDDLE DISTILLATES PRICES

- Apart from seasonal variations, the changing cost of crude oil is the primary cause of price changes in middle distillates. This will create direct pressure for price increases among middle distillates which will amount to as much as 4.0 cents/gallon by 1978, even should price controls on middle distillates be continued, because current regulations permit refiners to recover increased crude oil costs, as required by the EPAA.

- Foreign product prices place a ceiling of some three cents/gallon on any possible rise in middle distillates prices regardless of domestic supply/demand conditions. However, FEA does not expect this ceiling to be operable because availability of domestic production and projected market conditions are expected to result in no price increases over those expected under continued regulation.

- The banks of unrecovered costs that could be passed through under current regulations offer evidence that competitive forces are precluding their passthrough and will continue to do so subsequent to exemption from controls.

- The analysis of trends in gross margins indicates that exemption could lead to increases of about one cent per gallon if market conditions were sufficiently tight to sustain such increases.

  Any increase in margins, however, should be offset by lower costs to consumers because of increased competition and access to lower-priced distillate supplies.

- FEA believes that the most important determinant of price behavior after exemption will be the supply/demand balances generated by competition among refiners and distributors under conditions of plentiful refining capacity and adequate supplies of crude oil. Competitive forces will be sufficient to preclude any rise in middle distillate prices beyond those attributable to increased crude oil costs and seasonal variations. These increases would occur under continued regulations.

MARKET STRUCTURE

GENERAL

- 16,000 independent businessmen market over 75% of the fuel oil supplied to the approximately 17.4 million homes heated by oil in the U.S.

- Each of these independent marketers supplies an average of over 800 homes.

- These same independent businessmen, as well as the customers they serve, would be the ones most beneficially affected by the decontrol of middle distillates.

- Decontrol would unlock the presently frozen supplier/purchaser relationships and allow more competitive market operations.

- Such increased competition should put greater downward pressure on fuel oil prices.

- Historically, the large integrated refiners have provided price support for their independent marketers operating in highly competitive markets, while maintaining their profitability in other markets. Removal of price controls will provide the necessary flexibility to resume this practice.

MARKET STRUCTURE
(CONT'D)

REGIONAL GROWTH IN MARKET SHARES OF REFINERS AND INDEPENDENT MARKETERS OF MIDDLE DISTILLATES

- Market shares of independent marketers have increased in every region of the country over the period 1972-1975
- Largest increase in independent marketer sales is in the South and the North Central Regions
- Independent marketers support decontrol of middle distillates

The following table depicts the changes in market shares.

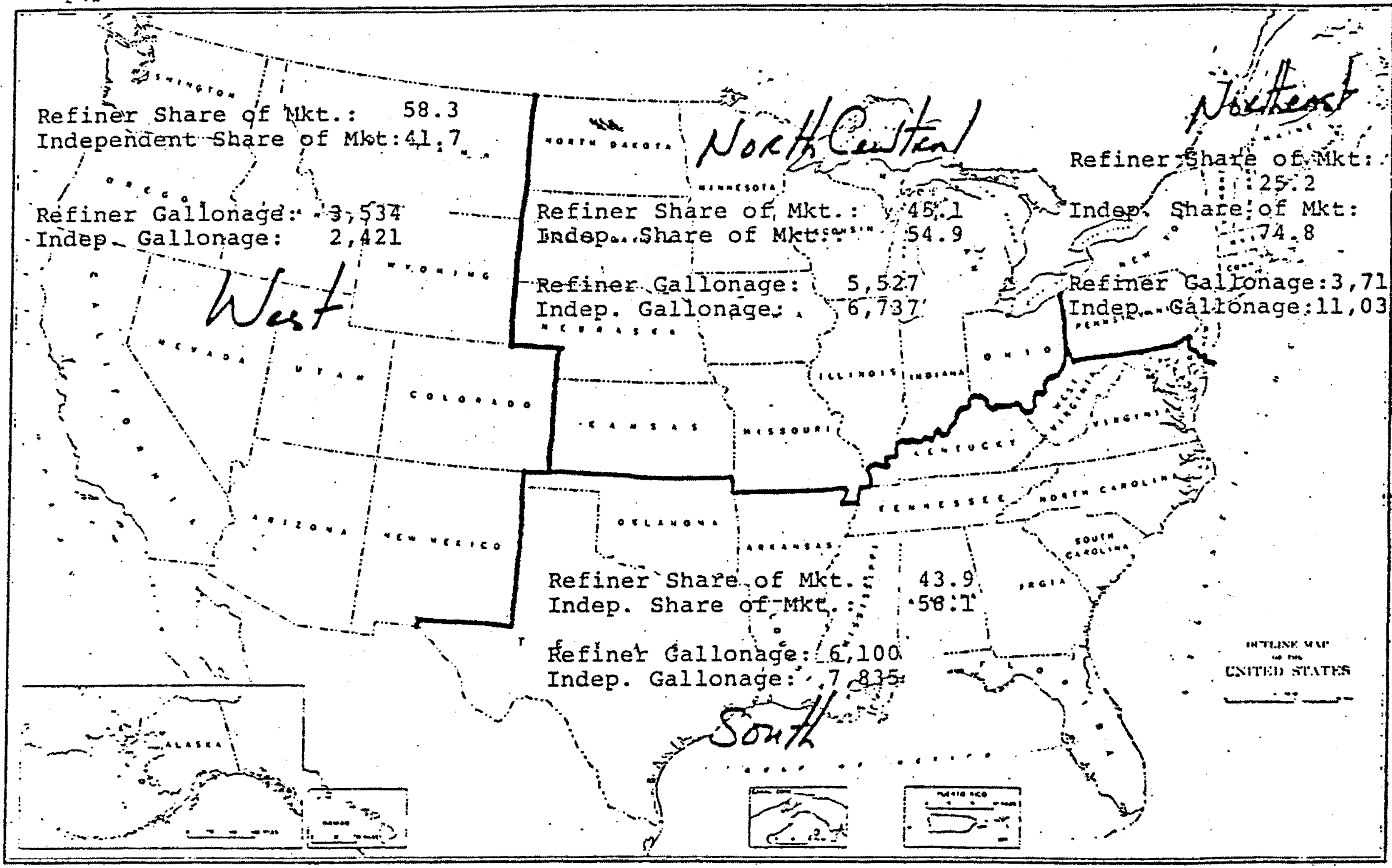
REGIONAL MARKET SHARES OF REFINERS AND INDEPENDENT MARKETERS OF MIDDLE DISTILLATES

Census Region	Year	Refiner Sales	Independent Marketer Sales	Total
Northeast	1972	27.7 %	72.3 %	100.0 %
	1973	27.6	72.4	100.0
	1974	28.3	71.7	100.0
	1975	25.2(P)	74.8(P)	100.0
North Central	1972	53.7	46.3	100.0
	1973	51.7	48.3	100.0
	1974	52.5	47.5	100.0
	1975	45.1(P)	54.9(P)	100.0
South	1972	51.8	48.2	100.0
	1973	49.0	51.0	100.0
	1974	50.9	49.1	100.0
	1975	43.9(P)	56.1(P)	100.0
West	1972	61.9	38.1	100.0
	1973	59.4	40.6	100.0
	1974	61.6	38.4	100.0
	1975	58.3(P)	41.7(P)	100.0

NOTE: 1975 figures are preliminary. The direction of the change is believed to be correct. The magnitude of the change, however, appears unusually high and further verification is necessary.

CURRENT SHARE OF MIDDLE DISTILLATES AND GALLONAGE SALES FOR 1975

Refiner Sales Vs. Independent Marketer Sales



Bureau of Census Regions

MARKET STRUCTURE
(CONT'D)

HEATING OIL SALES AND NUMBER OF OIL HEATED HOMES IN THE U.S.

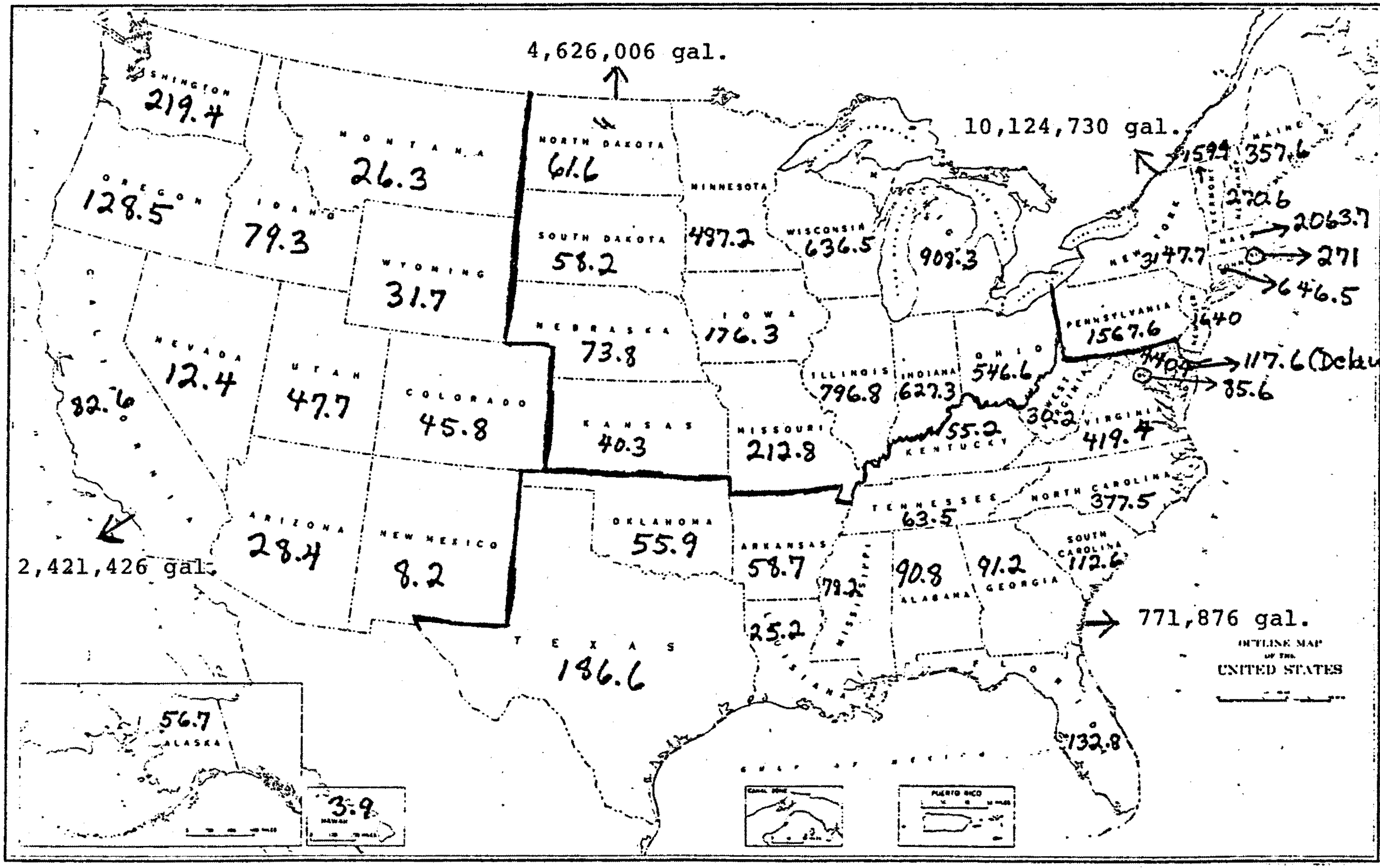
- State of New York leads in heating oil sales, 3,157 million gallons or 17.5% of total sales in the U.S. in 1975

- Heating oil sales in the Northeast (Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, and Pennsylvania) constituted 56% of the total sales in 1975

- Number of oil heated homes in the Northeast (9 states) constituted 38% while in the South (15 states) they constituted 15% of the total oil heated homes in the U.S.

The following two charts depict the above statistics.

NUMBER OF GALLONS OF HEATING OIL SOLD IN EACH STATE IN 1975

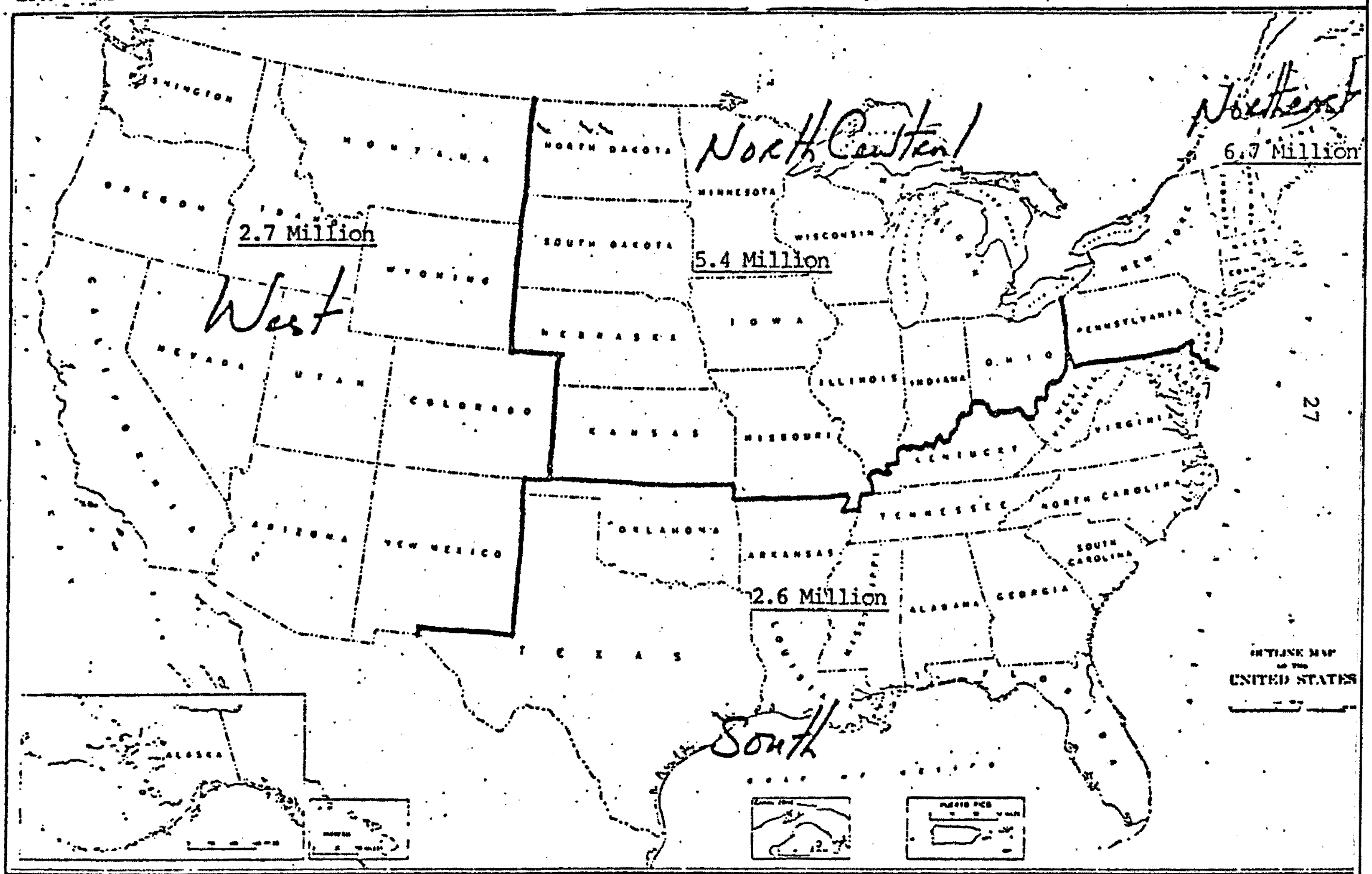


Source: National Oil Fuel Institute

Total heating oil sales in 1975 - 17,944,038,000 gal.

Note: All figures are in millions of gallons.

NUMBER OF HOMES HEATED WITH OIL IN EACH REGION IN 1975



Source: National Oil Fuel Institute

IMPACT ON THE ECONOMY

- Because it is FEA's judgment that there will be no price increases beyond those expected under continuation of controls, there would be no adverse effects with respect to the GNP as a result of the proposed exemption.
- A hypothetical 1.0 cent increase in middle distillate prices analyzed by FEA would have negligible effects on the economy.
- Unemployment - FEA evaluated two price scenarios, the FEA base case (no price increase) and the hypothetical 1.0 cent price increase to determine employment trends for 1976, 1977 and 1978. It was found that the GNP components would be virtually the same for both scenarios. Consequently, long-term industrial employment changes can be expected to be close to zero.
- Consumer Price Index (CPI) - Exemption will have no effect on the Consumer Price Index.
- Wholesale Price Index (WPI) - No changes in the WPI will occur as a result of exempting middle distillates from regulation.

MIDDLE DISTILLATE PRICE MONITORING

Purpose

- To continuously monitor middle distillates prices on a state-by-state basis for use in determining whether controls should be reimposed.

Heating Oil Price Survey

- FEA will continue monitoring heating oil prices and sales on a monthly basis. This reporting system collects prices of heating oil sold by heating oil distributors in each state.
- Biweekly surveys of heating oil prices in individual states will be made during the heating season using statistically valid sampling techniques.

Diesel Fuel Price Survey

- FEA currently monitors diesel fuel prices sold in 83 truck stops located near 18 cities distributed throughout the U.S.
- FEA collects prices of diesel fuel sold in retail gasoline stations. This survey includes about 20,000 retail gasoline stations located in 33 cities.