#6/MR/9

FROM THE OFFICE OF GOVERNOR DUKAKIS STATE HOUSE BOSTON 02133

FOR IMMEDIATE RELEASE
THURSDAY, MARCH 4, 1976

CONTACT MARY FIFIELD
(617) 727-2766, 2780

New England energy users would save an estimated $216 million annually if the federal government moves to equalize energy prices among regions as suggested by Governor Michael Dukakis.

In testimony submitted to the Federal Energy Administration (FEA), Dukakis termed "outrageous" a proposal backed by the FEA which he estimated would drive up the region's annual bill for residual fuel oil--that burned by industries and utilities--by some $40 million.

The other alternative being considered by FEA to amend the so-called "entitlements" program would, the Governor testified, "relieve the heavy burden borne by East Coast consumers and thereby equalize regional energy price disparities that have proved debilitating to industry in the region."

"An additional $216 million circulated in our chronically depressed regional economy would act as a tremendous stimulus, whereas siphoning off another $40 million can only further depress commerce and industry in the Northeast," Dukakis wrote.

The Governor said the savings generated by following his alternative would go mostly to business and industry here and therefore help to slow the migration of firms to other areas of the country with lower energy costs. New Englanders pay the highest energy prices in the nation.

"Many firms are contemplating relocation or expansion in otherareas of the country where energy costs are lower," Dukakis said. "We ask that the FEA send these businesses a clear signal that the Ford Administration has at long last begun to take seriously its mandate to equalize regional energy costs."

The Governor's testimony dealt with one effect of the FEA's effort to end mandatory petroleum allocation in America. The Emergency Allocation Act of 1973 requires the federal g vernment to promote "equitable distribution of crude oil, residual oil and refined petroleum products among all regions and areas of the United States and sectors of the petroleum industry...and among all users."

The FEA, acting under this mandate, devised a complicated "entitlements" system to give oil refiners roughly equal access to so-called "old" domestic crude oil, whose price was controlled at a substantially lower level than oil from newly drilled wells.

An unforeseeable result of the entitlements program has been that one refiner in the Virgin Islands, Amerada Hess Oil Co., has enjoyed a substantial competitive advantage over other American refiners in the Caribbean, notably Exxon, Texaco and N.E. Petroleum.

The FEA is proposing to take the competitive advantage away from the Hess refinery. The second alternative, backed by Dukakis, would give all residual oil importers the same advantage that Hess now enjoys.

(over)

"We agree with FEA that a change in the entitlements program is needed," said the Governor. "However, we differ on the form such change should take.

"We find Alternative 1 an unacceptable course of action. This alternative would correct market disparities by further increasing energy costs on the East Coast. By removing entitlement rights from refiners or importers of residual oil consumed (here), you would succeed in equalizing the competitive position of all refiners but you would be doing so by asking the East Coast to pick up the tab.

"Put in very blunt terms, Alternative 1 asks the overburdened New England consumer to 'foot the bill' so the FEA can correct existing market disparity in the oil industry. We believe such a request is outrageous, given the current economic conditions in our region.

"On the other hand," Dukakis continued, "Alternative 2 would provide needed relief to Caribbean refiners as well as to Massachusetts and East Coast consumers and industry.

"It would promote equitable pricing among sectors of the petroleum industry," the Governor said. "Furthermore, the cost-spreading effect would relieve the heavy burden borne by East Coast consumers and thereby equalize energy price disparities that have proved debilitating to industry in our region."

Dukakis, contending that "the economic impact on New England--should FEA elect to adopt Alternative 2--could be substantial," estimated that the region would save $253 million a year in residual fuel oil costs. With an anticipated increase of less than a cent a gallon for gasoline and home heating oil resulting from Alternative 2, or $37 million, Dukakis said the net savings to the region would be $216 million.

"Our region's electric customers are particularly hard-pressed by rising fuel costs," Dukakis concluded. We estimate that in the Commonwealth of Massachusetts alone, some $133 million in reduced fuel adjustment charges could be realized by electric customers under Alternative 2. Nearly $125 million of this would go to commercial and industrial users, many of whom are in difficult straits because of high fuel costs."

The Governor urged the FEA to include under Alternative 2 a measure to assure that "importers will not pocket benefits ultimately intended for the New England consumers."

###