April 28, 1980

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

We are writing to urge your attention to a matter which we believe deserves prompt action by the Department of Energy. As you know, we have strongly supported your efforts to increase domestic oil production. One of the specific actions you took in 1977 involved adjustments to the treatment of Alaska North Slope (ANS) production under the crude oil entitlements program operated by the Department of Energy. These adjustments were intended to maximize the wellhead realizations of North Slope producers within the constraints of domestic crude oil price ceilings. We believe that this policy is no longer necessary to the achievement of the effect for which it was originally intended, and, in fact, may be resulting in a large and unwarranted windfall, at the expense of consumers generally, to persons with access to this particular oil downstream from the wellhead.

On June 1, 1977 the Federal Energy Administration adopted a rule providing for the entitlements treatment of ANS crude oil by refiners as if this oil were exempt from crude oil price controls. In fact, almost all of this production must by law be certified as upper tier oil for the purposes of wellhead price controls. The ceiling price for upper tier oil is presently about $14 per barrel.

At the time the special entitlements treatment for ANS production was established, imported crude oil sold for about $14.50 per barrel. Given the large costs involved in transporting ANS crude oil to U. S. refineries on the West Coast and elsewhere—about $6 per barrel for the Trans Alaska Pipeline alone—in 1977 North Slope producers were unable to realize anywhere near their allowed upper tier wellhead ceiling price. The result of the special entitlements treatment, however, was that wellhead prices for ANS production in 1977 increased by about $2 per barrel above what might otherwise have been the case. Thus, because of this unusual entitlements rule, wellhead prices of ANS production were around $6 to $7 per barrel. These prices would have been only about $4 to $5 per barrel had the entitlements treatment for this oil been the same as for other upper tier production.
For almost a year the price of imported crude oil to domestic refiners has been in excess of $20 per barrel. The average of current import prices is about $30 per barrel. There is no reason to expect any price decreases. This means that, even with the very high costs to transport ANS crude oil to market, the wellhead price of this production is now at the statutory ceiling for upper tier oil and has been for some time. North Slope producers will receive the full price they are allowed by law, even if this oil is treated as upper tier oil for entitlements purposes.

Meanwhile, the value of the special entitlement treatment to a refiner of ANS crude oil has grown with the import price. Presently this value is between $5 and $6 per barrel. The windfall generated by this treatment may, therefore, be very substantial given that over half a billion barrels per year of ANS production is processed by U. S. refiners. At a time when the United States is reluctant to spend $2 to $3 billion to provide oil to the strategic reserve it does not appear to us to make any sense to require U. S. consumers generally to subsidize particular refiners with access to ANS crude oil at a comparable level. The Subcommittee has received numerous indications that substantial disruptions in existing refined products markets may be occurring because of this subsidy.

Therefore, we urge you to direct the appropriate administration officials to review this situation and take whatever action is indicated. We would appreciate very much hearing of your views on this matter.

Sincerely yours,

J. Bennett Johnston  
Chairman, Subcommittee on Energy Regulation  

Pete V. Domenici  
Ranking Minority Member, Subcommittee on Energy Regulation  

cc:  
Honorable Charles W. Duncan, Jr.