Oil prices

A. LIHEAP

Funding History

In 1981, the first year that LIHEAP was authorized, the program was funded at 1.813 billion. Program funding reached a high of $2.078 billion in 1985 and a low of $900 million in 1996 (excluding emergency contingency funds).

In FY 2000, the funding level for the base LIHEAP program is $1.1 billion, with an additional $300 million available in emergency contingency.

Allowable Uses of LIHEAP Funds

States are permitted to use federal LIHEAP funds to (1) help eligible low-income households pay their home heating and cooling bills, (2) pay for low-cost weatherization or other energy-related home repairs, and (3) provide assistance during energy-related emergencies. States may also use their LIHEAP funds for administrative and planning costs.

LIHEAP has two funding programs. A formula grant program and an emergency contingency fund which is triggered by high rates of energy prices and unusually cold or hot temperatures.

Summary of Past Emergency Releases

- In FY 2000 to date, HHS has released $5 million of the $300 million contingency fund. In October 1999, HHS released $5 million to New Jersey for energy-related damage caused by floods in the aftermath of Hurricane Floyd.

- In FY 1999, there were three releases of LIHEAP contingency funds, totaling $175 million. The first two of these releases were in July and August to address needs arising from extreme hot weather conditions. The third release of $20 million was to North Carolina in September 1999 due to damage resulting from Hurricane Floyd.

- In FY 1998, a total of $160 million was released in three phases.

- In FY 1997, $215 million was released of the $420 million available.

- In FY 1996, $180 million of the total $300 million available was released.

- In FY 1995, $100 million was released, of a total of $600 million available.

- In FY 1994, $300 million was released of $300 million available.

- In FY 1993 and 1992 there was no contingency funds available.

Possible VP Responses

1. "I believe we should increase the formula grant funding for the LIHEAP program by 50% ($550 million each year, $5.5 billion over ten)."
2. "I believe we should increase the emergency contingency fund by 50% ($150 million annually, $1.5 billion over ten)." This will be popular with some, but the Governors prefer the formula money because it does not require them to petition the Administration.

B. Weatherization:

The Weatherization Assistance Program is a very high priority for the Administration. The program provides access for low-income citizens to the benefits of energy efficiency technologies, otherwise accessible only to those with greater means. This program reduces the energy used for heating low-income homes by 23 percent, and average savings of almost $200 per year for those households. The program also saves almost $2 in energy costs for every federal dollar invested. This program will NOT be cut in the Administration's proposed FY2001 budget as some groups have suggested.

Possible VP Response

1. " Support increasing the Weatherization Assistance Program"

C. Petroleum Strategic Reserve

The Vice President should not call for a release in the strategic petroleum reserve. In fact, we have proposed increasing the reserve in past. The reserve was not designed as a way to control oil prices, but rather to insure our energy security in times of war or crisis.

In addition, the price effects from any release of oil from the reserves could be easily offset by a decrease in production by commercial producers.

Oil

Oil Output May Be Hostage to Iran, Iraq Agendas

By Steve Liesman
And Neil King Jr.
Staff Reporters of The Wall Street Journal

Iran and Iraq, the two major oil producers over which the U.S. has the least sway, are playing a crucial role in determining where oil prices are headed and are positioned to affect the world economy.

Together, the two countries account for 8% of the world's 75 million barrels of daily oil production. But tight world oil inventories, high prices and declining production capacity in the Organization of Petroleum Exporting Countries have given Baghdad and Tehran new power to push their separate agendas, analysts say.

High-Stakes Gamble

Venezuela's president won a game of chicken with striking oil unions last week, but the face-off rattled the world's oil markets. Article on page A22.

OPEC members will gather in three weeks to decide whether to reverse the past year's production cutbacks, which reduced world output by about five million barrels a day. Leading producers support an increase as soon as April to cool prices that recently topped $31 a barrel for the benchmark West Texas Intermediate crude.

After initial reluctance, Kuwait during the weekend signaled its support for an agreement by Saudi Arabia, Venezuela and Mexico to boost production. Meanwhile, a strike by oil workers in Venezuela withered quickly.

Iran still leads the group of price hawks within OPEC and "is one of the key stumbling blocks to coming out with a new decision," said Raad Alkadiri, an analyst with the Petroleum Finance Co., a Washington energy consultant.

Officially, Tehran says the second quarter is the wrong time to increase output because demand typically declines and higher production could lead to a quick collapse in prices. But domestic economics are at least as much of a factor. Unlike other major producers, which have extra capacity, Iran's 3.5 million barrels of daily production is about its maximum, analysts believe. Declining investments in its oil fields, as well as continued U.S. sanctions on spare parts, suggest production capacity may actually be declining. "They don't have more capacity to make up for the price drop," Mr. Alkadiri said. Higher output world-wide—which could result in lower prices—would do little for the Iranian treasury at a time when payments on $11 billion of foreign debt begin to peak.

Iran, which has the backing of Algeria and Libya, also has little reason in the short term to care about the world economy. Its oil minister recently said that oil-consuming nations should lower energy taxes if they are concerned about inflation from higher oil prices.

Saudi Arabia, the world's largest exporter and OPEC's clear leader, has a special interest in keeping Iran happy. Relations between the two countries are at their best since the Iranian revolution of 1979. Their rapprochement last year was the linchpin of OPEC's ability to cut back production. "The Saudis might have been more responsive more quickly [to world oil markets] had it not been for this relationship with Iran," said Amy Jaffe, senior energy analyst at the James A. Baker III Institute for Public Policy in Houston.

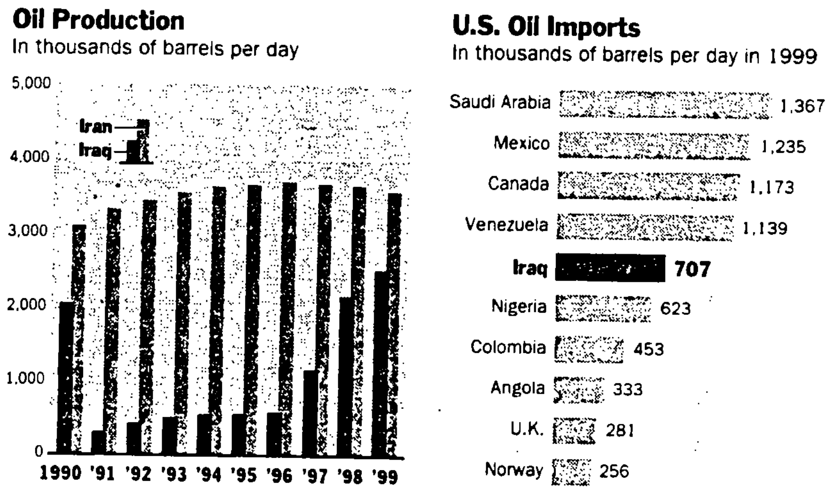
OPEC producers want to continue the cartel's newfound unity, fearing a production free-for-all if OPEC cooperation dissolves. Of course, oil-producing countries ultimately could go ahead without Iran, as they have in the past. Venezuela's oil minister is to visit Tehran in coming weeks to lobby the government to accept higher production levels.

But the one million to two million barrels that OPEC is considering putting back on the market could be quickly removed if Iraq withheld its two million barrels a day of exports. In November, Iraqi President Saddam Hussein pushed oil prices up almost $1 a barrel in a single day when he turned off his spigots to protest United Nations sanctions. This time, "with oil inventories very low, any interruption in crude supply could cause prices to skyrocket," said Gary Ross, president of PIRA Energy Group, a New York energy-consulting company.

Whether Mr. Hussein would use the opportunity is a matter of debate, but few dispute he has ample reason. Baghdad is feuding with the U.S. about Iraq's need to import spare parts for its oil industry. It could decide to use the tight oil market, analysts say, to get Washington to ease up—or to undermine U.N. sanctions altogether. "We have seen him do this before and we would not be surprised if he resorted to the same tactics again," one U.S. official said.

Other OPEC producers' ability to make up for any Iraqi cutbacks would be strained in the short term. Mr. Ross said OPEC production capacity has fallen by about 500,000 barrels a day during the past year. Venezuela in particular has let its capacity dwindle as it diverted oil revenue to pay for the extensive social agenda of President Hugo Chavez. In time, however, OPEC countries should be able to make up any shortfall with their four million to five million barrels a day of excess capacity.

Rising Production, Rising Importance?



Sources: U.S. Energy Information Administration, Petroleum Argus

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Emery Faces Safety Probes By Regulators

By ANNA WILDE MATHEWS
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Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON–Federal regulators are conducting an extensive safety review of Emery Worldwide Airlines following last month's crash of an Emery DC-8 cargo jet that killed three crew members.

The Federal Aviation Administration, the National Transportation Safety Board and the Transportation Department's inspector general are conducting separate inquiries that cover everything from the cargo carrier's flight procedures to cargo-loading practices and maintenance standards. The moves come amid continuing allegations by Emery's own pilots of risky operations.

The close attention to the Dayton, Ohio, carrier also may signal that the government might move toward more-aggressive oversight of all cargo airlines. One high-ranking FAA official noted Friday that the Feb. 16 Emery crash marked the second fatal accident involving a big cargo jet in less than three years, the first being the 1997 crash of a Fine Airlines Inc. DC-8. He said the two accidents may indicate "more needs to be done" to improve oversight of this fast-growing segment of commercial aviation.

Cargo fleets "need to maintain the same high standards as passenger carriers," Nick Lacey, the agency's director of flight standards, said in an interview. "If necessary, I will ask for additional resources to do that."

Cargo carriers, which frequently fly older planes with less safety equipment, have traditionally been regulated differently than passenger airlines. For instance, rules on the role and qualifications of flight dispatchers and pilot work hours are different, though the FAA said it is moving to make the pilot work schedules identical. In addition, Mr. Lacey said, cargo carriers tend to have fewer inspectors than passenger airlines, which have "more complex" operations that include freight.

The Emery accident came in the midst of bitter negotiations between the carrier and the local chapter of the Air Line Pilots Association, which has alleged a series of safety violations and intimidation of pilots by the company to fly substandard aircraft. Emery has threatened legal action against what it contends are "reckless and unsubstantiated allegations" intended to injure its business reputation.

All three crew members of the Emery DC-8 were killed shortly after takeoff from Mather Field, a former Air Force base near Sacramento, Calif. The crew had radioed air-traffic controllers that they had a center-of-gravity problem and struggled to push the plane's nose down from the moment of liftoff. The four-engine, 1960s-vintage McDonnell Douglas cargo jet never climbed above about 1,000 feet, and slammed into an auto salvage yard.

Although it is too early to clearly establish the cause of the crash, the safety board's investigation is focusing on the possibility that the cargo wasn't loaded correctly, or shifted, destroying the plane's balance and making it impossible for the pilots to control. Crash investigators also want to determine whether cargo-loading paperwork for the plane was completely accurate, and whether the plane's cargo clamps, or "bear claws," gave way or were improperly fastened.

A spokesman for Emery, a unit of CNF Inc., Palo Alto, Calif., said: "We run a safe airline and strive to be in compliance with FAA regulations." Company spokesmen blamed most of the controversy and current government attention on bargaining tactics used by the pilots union.

Emery has more than 40 aircraft and 450 pilots, in addition to managing about 30 jet freighters owned by other companies.

Thomas Rachford, a pilot and the head of the local union chapter, has been urging government officials for nearly two years to investigate alleged safety lapses. Over the weekend, he said he was "very disappointed" with the company's response. "Safety isn't negotiable. This has nothing to do with contract talks."

Mr. Lacey said that prior to the crash, the FAA already had begun a more-limited review of Emery's operations because the FAA had recently moved its oversight of Emery from California to Ohio. The review resulted in "fairly significant findings" at the end of January, he said, declining to elaborate. But he added that, more generally, Emery "had a history of regulatory compliance problems." Now, that review has been expanded into a broader, nationwide probe. A spokesman for the inspector general's office said he could neither confirm nor deny that it was investigating Emery.

Representatives of Emery's pilots have handed over more than 1,500 pages of documents to the safety board, including past incidents such as allegedly overloaded planes, persistent overheating or surging of engines, faulty brakes, broken navigation gear and a cargo door popping open shortly after takeoff. An earlier report that local pilots union leaders submitted to FAA alleged that some Emery planes were "dangerously misloaded," resulting in control problems.

An airline spokesman said the allegations are old and "have been addressed by the FAA, while the vast part of them have been resolved."

Virginia Senate Passes Bill Shielding Assets Of Tobacco Concerns

RICHMOND, Va. (Reuters)–Virginia legislators Friday passed a bill shielding tobacco-company assets in the state from a potentially devastating jury award that is expected in a lawsuit filed by sick smokers in Florida.

The state Senate by a 33-6 vote approved legislation backed by Gov. Jim Gilmore capping at $25 million the value of bonds a company would have to post against assets in the state while appealing a court ruling.

A Miami jury last summer found that cigarette makers, including **Philip Morris** Cos., the world's largest tobacco company, were liable for illnesses ranging from cancer to heart and lung disease among ailing Florida smokers.

The six-member jury in the class-action lawsuit's second phase will be asked to determine the amount of damages that should be levied against the tobacco companies. Analysts have estimated the damages could reach $500 billion.

The tobacco companies would have to post a bond to cover the damage amount plus 10%, while appealing the ruling, prompting Mr. Gilmore to back legislation attempting to shield tobacco assets in Virginia.

Philip Morris employs about 7,000 people in Virginia, and its largest cigarette plant is located south of Richmond.

The tobacco bill was quietly introduced in the legislature and breezed unopposed through the state House of Delegates.

After signing by the governor, the law would take effect July 1.