

Weakness of nation's energy sector exposed

Panel of experts debates issues of security, vulnerability

By JIM LANDERS
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Staff Writers

When commercial airliners became suicide bombs, a yawning vulnerability was exposed in the nation's energy sector.

Oil prices instantly shot up on worries of disruptions in Middle Eastern supplies, even though responsibility for the attacks still has not been claimed or assessed.

Security was tightened at power plants, refineries and pipelines, while major producers rushed to assure consumers that gasoline and other fuels remain plentiful.

Tuesday's terror strikes left all industries scrambling to examine their security and weaknesses, and it quickly took over a previously scheduled discussion of *The Dallas Morning News* Board of Energy Experts.

The board had just begun its breakfast meeting when cell phones started ringing with news of the New York terror strikes.

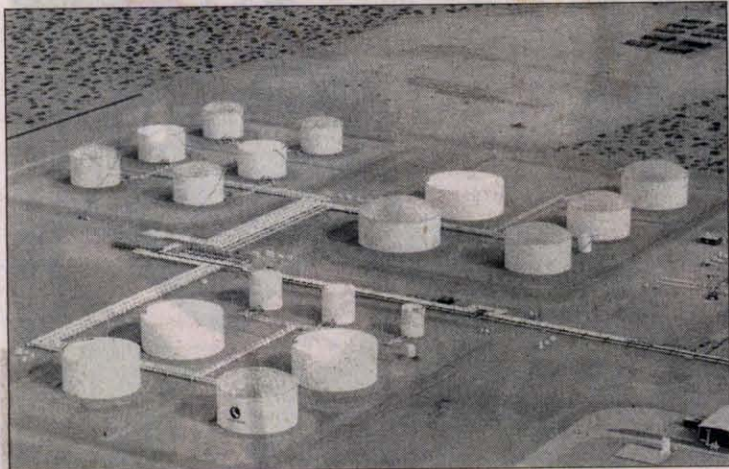
By the middle of the meeting, board member Erle Nye, chairman and chief executive of TXU Corp., left to see about security with his company's power plants and transmission lines stretched across Texas and other parts of the world.

Several other experts were grounded by the cancellation of all domestic flights. Once the scale of the attacks began to dawn on the panel, the talk turned to issues of vulnerability and security.

"Every company in the industry will take a quick review, by their own security departments, to say, what if," said Bob Heinemann of Halliburton Co. "The major companies run disaster preparedness drills ... around spills or catastrophic events that they get pulled into, but this would certainly be a new scenario that companies will have to think about."

Mr. Nye said Wednesday, "This industry, more than most, operates on the assumption of providing uninterrupted service, even in the face of natural disasters and sabotage. It's part of our tradition and part of our mode of operation. But there are limits on how much you can put into infrastructure and redundancy."

The only energy facilities in the country built to survive the impact of a falling jetliner are nuclear power plant reactor containment vessels. Everything else is exposed, and almost indefensible in the face



Business Wire

Experts are concerned that utility firms, such as the Longhorn Pipeline in El Paso, may be exposed to a terrorist attack.

of such a determined terrorist onslaught, several members of the panel agreed.

The nation could recover relatively quickly from an attack on a production plant or field, whether it's an electric power plant or a natural gas field. The bigger weakness, they said, is a lack of adequate delivery systems, from pipelines to transmission lines.

Lack of independence

The panel was divided on how much emphasis the nation should place on energy independence. More than half the nation's oil and 15 percent of our natural gas comes from abroad. Oil executives argued that, however desirable independence might be, it's hard to see how the country could shed its dependence on oil imports in a way that made economic sense.

Clifford Miercourt, president of North American Coal Corp., said the country should go all out for domestic energy sources.

"If we are looking for long-term energy security both for supply and price, we need to do everything we can to develop domestic sources of energy — all of it, from distributed electricity generation to the wind-mills and solar, coal and nuclear and domestic natural gas to the extent we can, or at least rely on our friendly neighbors Canada and hopefully Mexico," said Clifford Miercourt, president of North American Coal Corp. of Mayfield Heights, Ohio.

Luis Giusti of the Center for Strategic and International Studies in Washington argued that there's also an energy security role for diplomacy. Saudi Arabia is reconciling with Iran for defense against Iraq, he said, in the face of a vacuum in U.S. policy toward the Palestinian-Israeli dispute.

"When you realize you are going to have big imports from the re-

gion... the Middle East has to be a subject for deep reflection in designing a clever policy," he said.

Karl R. Rabago of the Rocky Mountain Institute, an energy efficiency consulting firm in Snowmass, Colo., pointed to *Brittle Power*, a book written by his colleagues Amory and Hunter Lovins, as a prescient text for this week's events.

"Excessive reliance on centralized systems serving many, many customers creates a kind of vulnerability, and that's a security issue," he said, paraphrasing the book's conclusions.

Mr. Rabago cited the country's emerging telecommunications infrastructure as a better model.

"We know from the Internet and long-distance telecommunications that distributed intelligence and distributed functionality adds robustness to the system. We also know, however, that the trunks connecting them are critical, and you need multiple duplicative paths."

Inadequate lines

Several panelists cited inadequate electric power transmission lines as a major weakness.

The national energy plan developed by the Bush administration urges Congress to give the Federal Energy Regulatory Commission the power to condemn land across state boundaries so companies can build more transmission lines.

But President Bush has run into strong opposition among fellow Republicans to that idea.

"We're much better as a country at saying no than saying yes," said Ed Kelly of Cambridge Energy Research Associates in Cambridge, Mass.

The weak links in the oil supply chain are many, beginning with the Straits of Hormuz leading from the Persian Gulf and ending with the pipelines and refineries that oper-



PAUL IVERSON/Staff Photographer

"We need to do everything we can to develop domestic sources of energy," said Clifford Miercourt of North American Coal. Above is the Corpus Christi Valero refinery.

ate with little capacity to spare in an industry running on lean-inventory management.

One choke point is Alaska. One-sixth of the nation's domestic oil production travels the Trans-Alaska pipeline and through the terminal at Valdez.

A blow to the pipeline or Valdez terminal would raise world oil prices, but would represent a temporary disruption, said Mark Schwartz, chief economist with Exxon Mobil Corp.

"At least for a short time you could fill the gap with additional imports," he said. "It would affect world oil markets and drive prices up, but it wouldn't necessarily be a major disruption to our way of life."

Despite more than 25 years of U.S. national security planning, worldwide exploration and new pipelines, the world remains highly vulnerable to a disruption in oil exports through the Persian Gulf, Mr.

Schwartz said.

Although less than 20 percent of U.S. oil supplies now come from the Gulf nations, the region continues to supply over half the oil consumed in Europe and Japan and conflict there would immediately raise oil prices around the world, Mr. Schwartz said.

"It's very difficult to imagine a future where we're not importing oil, and as long as we're importing oil, the more diversity we have in sources the better off we are," he said.

Policy issue

Several panelists said a major energy policy issue lies just across the border in Mexico, where oil and natural gas production are faltering because of inadequate investment and a deep-seated nationalism that remains hostile to foreign energy investors.

"The idea that Mexico is a gas

importer just doesn't make sense. ... They could easily be an exporter," Mr. Schwartz said.

There are large reserves of coal and natural gas within U.S. boundaries, but coal lacks clean-burning technologies and gas lacks adequate pipelines, the panelists said.

"Wyoming is about to surpass Texas as a producer of natural gas, but it can't get that gas out to market because there aren't enough pipelines," said Christine Hansen, executive director of the Interstate Oil and Gas Compact Commission in Oklahoma City, Okla.

Amy Jaffe of the James A. Baker III Institute for Public Policy at Rice University said prices have risen enough to justify pipelines to deliver the huge gas reserves of Alaska's North Slope and Canada's McKenzie Delta — provided the state and federal governments don't thwart the lines with siting obstacles.

Gas supply steady, but prices rising in Dallas, nationwide

Texas governor warns against price gouging, fields complaints

By DIANNE SOLIS
Staff Writer

Gasoline prices continued to lurch upward in Dallas and around the nation on Wednesday — despite governmental attempts to quash shortage fears and price gouging.

Gov. Rick Perry warned that "I will use the full force of our state government" to thwart price gouging in the aftermath of the worst terrorism ever in the nation.

The attorney general's office reported more than 400 complaints, including unconfirmed reports that gasoline had been as high as \$8 a gallon in the Texas Panhandle. Most complaints were of gasoline in the \$3 to \$5 a gallon range, a spokesman said.

Earlier, Mr. Perry temporarily extended the state's deceptive trade practices act to cover price gouging in gasoline sales, car rentals and hotel fares.

Wednesday, as the scope of the terrorist hits in New York and Washington became apparent, consumers were clearly worried. An attack on the Middle East — if that is where the terrorists are based — could cause higher oil prices just as the Persian Gulf crisis did in 1990-91.

However, U.S. Energy Secretary Spencer Abraham said there were no supply disruptions to justify gasoline at \$5 a gallon. Irving-based Exxon Mobil Corp. said that it hadn't raised prices at its company-owned stations and was en-

OIL SETTLES DOWN

The Brent crude oil future for October dropped 3.6 percent Wednesday at the International Petroleum Exchange in London. Here are daily closes since Aug. 30.



couraging its independent dealers to "act responsibly." It owns fewer than 1,000 stations directly and has about 15,000 independent dealers.

In Bartlesville, Okla., Phillips Petroleum Co. said it would place a hold on gasoline prices at its own stations and urge the same at Phillips stations operated by independent dealers. The price freeze will affect about 50 stations in Texas.

Worried consumers

That did nothing to assuage the worries of Adriana Garcia. "With the airlines shut down, the [oil] companies know we need to travel by car," said Ms. Garcia, as she topped her tank with \$1.29 unleaded fuel in Cedar Hill.

In DeSoto, Robert Richard rushed to fill up at a Diamond Shamrock station. He said the attendant told him that the station was about to boost prices from

\$1.31 for unleaded gasoline. "I wanted to fill up before they jacked the prices up," said the retiree.

Tiffany Welcome, who said she feared shortages, paid \$1.72 for premium gas at a Texaco station in Plano. "I only needed a half a tank," she said. Her boyfriend had paid \$2.50 a gallon in Fayetteville, Ark., she said.

Slight increase

AAA Texas said that gas prices had crept up only slightly in the state according to its reporting. In the Dallas area, regular unleaded gasoline was priced on average at \$1.40 a gallon.

"The nation has just endured incredible trauma, and it is understandable that some motorists or gasoline station owners may have briefly overreacted to the situation," said Rose Rougeau, AAA Texas spokeswoman. "As calm slowly returns to much of the nation, AAA Texas expects that station owners as well as motorists will behave responsibly in both pricing and consumption of gasoline."

Nevertheless, truckers — ever vigilant for any price gyrations — were wary. And some carriers were advising drivers to top off their tanks quickly for fear of restrictions in purchases.

At the Flying J Plaza on Interstate 20 at Interstate 45, diesel fuel rose a dime by Wednesday to \$1.43 a gallon. But the popular location was still a jumble of semi-trailer trucks, pickup trucks and sedans by noon.

A letter from the Flying J Inc. management was posted at the entrance, urging customers to avoid "panic buying and the hoarding"



RON BASELICE/Staff Photographer

Complaints of \$5 a gallon gas prices have been received. Prices at this Fina station in Inwood and Stemmons aren't that high.

of petroleum products. "Doing so will only intensify this most difficult situation," the letter read.

Paul Murphy planned to fuel up the night before when he arrived in Dallas for a layover, but the lines were too long. The decision to wait cost him \$28 as his truck holds 280 gallons of diesel fuel. His anger was turned toward

the U.S. government.

"The U.S. has such a big police force," Mr. Murphy said. "They take care of everyone but their own."

Mr. Murphy predicted that if prices kept rising, freight costs would go up.

"How will Wal-Mart feel going to the railroad to pick up makeup,

COMPLAINT HOTLINES

Consumers can call these toll-free telephone numbers if they have complaints about gasoline price gouging as the nation recovers from Tuesday's terrorist attacks:

- The Texas attorney general's office hotlines are 1-800-337-3928 and 1-800-252-8011. The Web site for a consumer complaint form is www.oag.state.tx.us/consumer/complain.htm.
- The Department of Energy hotline is 1-800-244-3301.

toilet paper and other products? That is what is going to happen if truckers can't get fuel," Mr. Murphy said.

Trucker Ted McCabe said he was glad to make it within Texas borders, where prices, by his accounting, are a full 50 cents lower than in surrounding states. "It's over \$2 a gallon in Oklahoma," Mr. McCabe said.

Trucker Lee Klass woke up to find an e-mail from Crete Carrier Corp. that fuel prices would probably increase — despite the assurances from such trade groups as the American Petroleum Institute that there were adequate diesel fuel and gasoline inventories.

"In some cases, you may be restricted to 50 gallons," read the e-mail, which reached Mr. Klass Wednesday morning in Alma, Ga.

That would fill a fifth of the needs of Mr. Klass' truck. "When fuel gets above \$1.50 a gallon, we might as well paint the name of the oil company on the side of the truck because that is who we are driving for," Mr. Klass said.

Staff writers Charlene Oldham, Steve Quinn, Jenni Smith, Herb Booth, Leif Strickland, Rodger Cramer, Kevin Shay and Wayne Slater contributed to this report.