Wasting Money on Teakettle Oil
New York Times (1923-Current file); Dec 31, 1978; ProQuest Historical Newspapers: The New York Times
pg. E14

Wasting Money on Teakettle Oil

Texaco's refinery in Convent, La., processes about 140,000 barrels of crude oil a day into gasoline, diesel fuel and assorted petroleum products. It uses large-scale, up-to-date equipment to keep refining costs to a minimum.

Ten miles down the Mississippi stands the tiny, 11,000-barrel-a-day Mt. Airy Refining Company. Although brand-new, Mt. Airy's plant is hardly more than an oil-industry version of the moonshiner's still, employing primitive technology to separate heavy fuel oil from crude at relatively high cost per gallon.

Yet Texaco's refinery barely yields a profit, while Mt. Airy is making money by the bucket. The reason: perverse Federal incentives that encourage small, inefficient refineries and cost consumers over a billion dollars a year in higher fuel bills.

•

Under price controls, the cost of domestic crude oil is held at about one-third that of imported oil. To balance their advantage, companies with access to price-controlled oil are required to make cash payments to refiners dependent on expensive imported crude. At first glance, this "entitlements" system looks fair. But first glances deceive.

The small refiners persuaded Congress to guarantee "equitable distribution at equitable prices . . . to all sectors of the petroleum industry." That translates into automatic bonuses to refinery companies with less than 175,000-barrel total capacity of about $700 million a year. The result: new "teakettle"-size refineries, specifically tailored to the law, are clearing a 60 to 200 per cent annual return on investment. And for aging teakettles so rusty that they can't keep their owners rich even with the aid of the entitlements, the Energy Department grants special "exceptions" entitlements that cost another $400 million a year.

Welfare payments to small refinery companies — many of which, incidentally, are owned by huge conglomerates — are as American as subsidies to rich farmers not to grow food. But the total cost to the economy goes far beyond the amount pocketed by the refiners. Since 1976, refinery construction has been limited almost entirely to the teakettle variety, with serious implications for the nation's energy program.

Most of these teakettles were designed with nothing more than entitlements payments in mind. They lack the sophisticated equipment needed to make gasoline or remove sulphur impurities from plentiful, low-grade domestic crude oil. As a result, they contribute nothing to relieving shortages of unleaded gasoline, but they do increase American dependence on the light, easily refined, low-sulphur crude oil found in Libya, Algeria, and Nigeria.

The Department of Energy has authority to make modest reforms in the arrangement and, under prodding from the Justice Department's Antitrust Division and the big oil companies, it is planning to do so. But the responsibility for this mess rests with Congress, which seems extremely reluctant to let anyone clean it up. That makes a hundred-odd refinery owners and Libya, Algeria and Nigeria very happy.