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New Jersey Fuel Group Objects to Emergency Supply Sale; Verleger Counters

The New Jersey Gasoline C-Store Automotive Association (NJGCA) said that the association, representing nearly 1,000 independent small businesses in the gasoline retail, convenience store and automotive repair industries, opposes President Trump's proposal to eliminate the Northeast Gasoline Supply Reserve (NGSR) and cut in half the nation's Strategic Petroleum Reserve (SPR).

"It's amazing to me how quickly people can forget. It has been less than five years since our state was ravaged by Superstorm Sandy, and already there are folks down in D.C. trying to undo the protections we have put in place," NJGCA Executive Director Sal Risalvato said.

However, not everyone is against the elimination of SPR and products reserves. Philip Verleger, petroleum economist, said that the proposed removal of the SPR is "a good thing," and the Northeast states need to better manage their power supply grid in emergencies in order to prevent product supply shortages during emergencies.

Risalvato said that New Jersey was adversely affected by fuel supply crisis after Superstorm Sandy several years ago as well as in the 1970s, and the fuel supply crisis after Sandy was attributed to a lack of gasoline supply, not power supply outages.

"This short-sighted proposal from the Trump administration puts millions of New Jerseyans at risk. I am not aware of any projections for the future that call for lower sea levels and weaker hurricanes," he said. "The only protection we have from a Sandy repeat (or worse) is this Northeast Reserve, and now the president wants to take this security away," he said.

Established only three years ago, the NGSR now stores several hundred thousand barrels of gasoline in New Jersey, ready to go should the worst happen again, he added.

NJGCA also objected to the plan to cut in half the size of the nation's Strategic Petroleum Reserve. "The SPR is exactly what it says it is -- a strategic asset that is to be used only in limited, emergency situations. It was created to safeguard us during wartime, natural disasters, or conspiracies by overseas oil producers; it was not meant as a onetime sugar rush to fill a structural budget deficit," Risalvato said.

Meanwhile, OPIS notes that the Northeast holds an emergency reserve of 1 million bbl of heating oil and 1 million bbl of gasoline. Heating oil reserve is stored at three terminals, in Connecticut, New Jersey and Massachusetts. Heating oil reserves were slashed by half several years ago due to a more dynamic New York Harbor physical market. Gasoline reserve is mostly stored in the New York Harbor area, with some in Boston and Portland, Maine areas.

Verleger, who worked on the creation of SPR program under Presidents Ford and Carter, said that the SPR has been "a disappointment."

"It was never used as intended. The 2011 sale was the last chance the program had for success. Then, as Libya collapsed a single coordinated sale was attempted. The energy policy people concluded that the sale did not succeed and gave up. In secret they liked the high prices, no doubt never anticipating the future price collapse," he said.

"It is an economic experiment that failed. Many predicted just this result. I was not one. At this time of budget stringency, deep liquid markets and the prospect of peaking demand, it is time to take the money and run," Verleger said.

On Northeast products emergency reserves, he said that Northeast states need to work on improving the stability of their power supply grids, as many facilities and retail pumps were affected by power outages during Hurricane Sandy.

OPIS notes that the New York Harbor market has grown to be a more dynamic market in the past 10 years, benefiting from fluid arbitrage flows. The Northeast receives products from Europe, the Baltic area, east coast of Canada and the U.S. Gulf Coast, and incoming volumes depend on seasonal regional demand. This is in addition to Northeast and Mid-Atlantic regional refinery production.

During Hurricane Sandy in 2012, the storm caused power outages and flooding at terminals. Logistics of delivering fuel from refineries to terminals and terminals to retail pumps was a nightmare. The terminals and ships had inventories, but resupplies could not reach the consumers due to road blocks and marine dock shutdowns.

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