

Crisis Planning for Energy Interruptions

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The federal government is almost certainly doing contingency planning in case there is a disruption in the supply of energy due to terrorism. The likelihood of terrorist interruption of supply is much greater today than it was a few months ago.

Unfortunately, the government may rely solely on some form of price controls, either mandatory or by jawboning.

The Administration should publicly inform all the parties that the *government will not intervene* in case of high (or low) energy prices. This would eliminate government uncertainty. Companies, by assuming that the government will intervene on their behalf, are liable to postpone protective actions. That's human nature.

BUT—individual companies can do better contingency planning.

A new energy industry pricing system has evolved over the last five years. It factors in all actions, and potential actions. It would be even more efficient if it could eliminate potential government actions.

High energy prices are the correct way of allocating supplies due to a shortfall. Short-term actions by the federal government to alleviate an energy shortage will always be wrong.

If a company, or an individual consumer, wants to insure themselves against high energy costs, they can utilize the energy futures market—**but at a price**. That is a management economic decision that needs to be made. Management will make better decisions if they understand that the government **is not** going to bail them out, or penalize them.

The Strategic Petroleum Reserve is always a false signal. It can never be used constructively. If the U.S. is facing a shortage, the SPR should be saved because we are likely to face an even bigger shortage tomorrow. The majority of the time, actions on energy by the government are wrong.

The public needs to know, and accept, the fact that high energy prices, due to acts of terrorism, are one of the costs of the "War on Terrorism." An over-dependence on cheap foreign oil makes the United States very vulnerable.

Long-term energy actions, like implementing a National Energy *Stability* Policy, would prove beneficial in avoiding future terrorist interventions. Refer to the guest editorial in *Strategic Planning for Energy and the Environment*, Winter 2001-002 (Vol. 21, No. 3.)

ABOUT THE AUTHOR

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