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# Hurricane Sandy: Supply, Demand and Appropriate Responses to the Gas Shortage

## Background

On October 22, 2012, the storm that would become Hurricane Sandy formed in the Caribbean Sea. As it grew it was updated to a tropical storm, and strengthened still more to be classified as a category 3 hurricane before slamming into Cuba on October 25. It caused massive destruction in Jamaica, Haiti and the Dominican Republic before reaching the East Coast of the United States on October 29.

Hurricane Sandy affected the entire Eastern Seaboard, but caused the most damage in New Jersey and New York. The superstorm killed more than 100 people in the United States, left tens of thousands homeless, caused billions of dollars in damage in areas of New York and New Jersey, and caused power outages for as many as eight million households. This makes Sandy the second-costliest hurricane in U.S. history, second only to Hurricane Katrina in 2005.

Gasoline shortages were another unexpected – but not unpredictable – result. Brought on by a combination of power failures at gas stations, disruptions to supply chains and gasoline hoarding by panicked commuters, the effects were severe. Lines stretched for hours, bringing back memories of the 1970s oil crisis that had been the result of the OPEC oil embargo.

"Can you believe this? This is crazy," the *New York Times* quoted Tony Kurasz of Bayonne as saying as he waited. "I remember the last time we went through this, in the '70s. It's strange to be back here again."[1]

[1] Elizabeth Harris, «A Slow Return to Normal Steips the Gas Station», *The New York Times*, 3 November 2012, http://www.nytimes.com/2012/11/04/nyregion/gas-rationing-is-new-burden-after-hurricane-sandy.html, last accessed January 2016.

This case was prepared by Professor Morten Olsen and Emily McBride, case writer, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. March 2016.

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There were a number of different responses to the gas shortage and accompanying lines. Some resigned citizens said that their troubles were miniscule compared with those of people left homeless by the hurricane. Others reacted with anger and aggression. One New York man was arrested for pulling a gun on another driver in line, and state troopers were dispatched in New Jersey to control rising tensions.

Some New Yorkers chose to get creative: Jeyaul Hoque, 31, a taxi driver from Queens, said he paid two people $30 each to wait in line for him at a station. "If I don't get any gas, I'm going to lose more than $60,"[2] he said.

Trying to outsmart the system didn't work for everyone though. Delmy Zelaya, 61, of Queens, drove to Brooklyn on the rumor of more gas, but ran dry before she arrived. She had to abandon her car and take two buses home. Eventually she was able to fill a container and go in search of her car the next day.

Renée Blakely abandoned her car in line at an empty gas station, went home for dinner, and returned at 4 a.m. to wait again. "I got my iPod and my cellphone fully charged. [...] I'm just going to sit it out," she said.[3]

It wasn't until November 5 – a week after the hurricane hit – that the *New York Times* reported improvements to the situation: "The gas shortage that has strained the New York region seemed to ease on Monday as lines at many pumps shrank, more gas stations reopened and mandatory rationing was enforced in some areas."[4]

The rationing system brought in by state officials was one that has been used around the world – for example, to prevent traffic congestion in Mexico City and reduce air pollution in Paris. Gas was to be sold to cars with license plates ending in odd numbers on odd-numbered days and to cars with plates ending in even numbers on even-numbered days.

"That cut the line in half," said Essex County executive Joseph N. DiVincenzo Jr. "Instead of six miles, you have three miles, but there's been improvement."[5] Shorter lines and waiting times were reported across New Jersey, New York and Long Island, and elated drivers posted the good news on Twitter, blogs and websites.

Meanwhile, more gas stations reopened, although many remained closed. While power outages at gas stations – oil was in the ground but could not be pumped – had initially been identified as the main reason behind the shortages, supply line disruptions came to take more of the blame as the days stretched on. One factor affecting gasoline and diesel supplies was state regulations that make it difficult for stations to buy from out-of-state suppliers. New Jersey Governor Chris Christie waived requirements until November 7 in an attempt to mitigate this problem.

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[2] Winnie Hu, «Gas Line Ease, but Shortapes and Closed Stations Persist Across New York Region», *The New York Times*, 5 November 2012, http://www.nytimes.com/2012/11/04/nyregion/gas-rationing-is-new-burden-after-hurricane-sandy.html, last accessed January 2016.

[3] Ibid.

[4] Ibid.

[5] Ibid.



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In addition to the controversy surrounding the gas shortages, many New Yorkers were outraged by the price increases not only for gasoline but also for other much-needed goods and services. The *New York Times* reported one station increasing prices by more than $2 a gallon, and gas stations were not the only businesses to raise prices. Hotels also raised their rates, and the New York attorney general's office received many complaints, including complaints regarding grocery stores accused of selling $10 boxes of matches or tripling the price of common foodstuffs.

The attorney general, Eric T. Schneiderman, responded with feelings echoed by many: "As New Yorkers were sitting in lines waiting for two hours to buy critical supplies of gasoline, some shady business owners were making a fast buck at their expense."[6]

Meanwhile, the price increases at gas stations were only the tip of the iceberg. Gas prices on Craigslist reached $20 a gallon and offers such as a $700 generator on sale for $1,200 were also seen. "Price gouging," the practice of increasing prices past a level considered fair, was the phrase on everyone's lips. The State of New Jersey alone received more than 2,000 complaints.

Not everybody saw the price increases in such a negative light: "Everybody is so appreciative that they can even get gas," said one New Yorker who was selling on Craigslist for $18 a gallon. "I'm just charging for delivery," he said. "I think if you can wait in a gas line, you should do it, but some people don't want to wait. Some people don't have time to wait."[7] He was relying on a friend from upstate New York bringing in gas and earning about $250 a day.

State officials took a different view. More than 30 states, including New York and New Jersey, have laws prohibiting price gouging following emergencies. John J. Hoffman, acting attorney general for the State of New Jersey, said:

> "The immediate aftermath of Superstorm Sandy left many New Jerseyans in a state of chaos and turmoil, which was only made worse when companies illegally gouged them for essential items such as shelter and fuel. We simply will not allow business to victimize vulnerable residents, who are already suffering hardships during a declared state of emergency."[8]

Six months later, it was reported that 25 gas stations would pay a fine for price gouging during the storm. Several hotels were also fined for increasing their rates during the emergency. Schneiderman made his position clear in a statement: "Today, we are sending a powerful message that ripping off New Yorkers during a time of crisis is against the law and we will do everything in our power to hold [shady business owners] accountable."[9]

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[6] Michael Gormley, "New York Cracks Down on Price Gouging After Hurricane Sandy.", *abc7ny.com*, May 2, 2013, http://abc7ny.com/archive/9087737/ Last accessed March 9, 2016

[7] James O'Toole, "Gas sells on Graigslists post-Sandy, at a price, *CNN*, 5 November 2012, http://money.cnn.com/2012/11/05/news/economy/craigslist-gas-sandy/, last accessed January 2016."

[8] Jon Offredo, "Hurricane Sandy price gouging settlement totaling $283K reached with 8 N.J. businesses", *NJ.com*, 23 July 2013, http://www.nj.com/mercer/index.ssf/2013/07/mercer_county_hotels_settle_with_state_over_alleged_price_gouging_during_sandy.html, last accessed January 2016.

[9] Michael Gormley, "New York Cracks Down On Gas Price Gouging After Hurricane Sandy", *abc7ny*, 2 May 2 2013, http://abc7ny.com/archive/9087737/, last accessed January 2016.



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By early November, the attorney general had subpoenaed Craigslist for information on people who had been offering overpriced emergency supplies, and in Brooklyn, District Attorney Charles J. Hynes announced that a grand jury would be investigating the price gouging that had taken place during the storm. Gouging prices can result in a first-time-offense fine of $10,000.

Those charged ranged from businesses to individuals. Eight New Jersey businesses, including gas stations, hotels and a hardware store, reached a settlement of $283,000 on alleged price gouging. Meanwhile, in December 2014, East Orange firefighter Marc Jackson went on trial for selling gas out of the back of a pick-up truck on November 3, 2012. His actions, insisted his lawyer, were intended "to help his neighbors who he has known for years, all of whom were without gasoline for their cars, emergency generators and the like. He charged them for the price of gasoline and his travel expenses and not a penny more. [...] His actions should be commended."[10]

The customers waiting in line as stations ran down to empty in November 2012 knew little of the controversy to come. They had more immediate problems: getting their gas needs met. Governing officials had responded with the price cap; many policy makers were also asking themselves an urgent question: Was this the best way to manage the crisis?

[10] Bill Wichert, "East Orange firefighter to go on trial for selling gas after Hurricane Sandy fuel shortage", http://www.nj.com, December 16, 2014, last accessed January 2016.


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