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We Can Still Reach Energy Self-sufficiency

By **The Honorable Frank G. Zarb**
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Next year the citizens of the United States will celebrate the 200th anniversary of the Declaration of Independence. We will reaffirm the decision of the fifty-six signers of the Declaration that this country should remain free and independent of political reliance on any other powers in the world.

JEFFERSON wrote that it had become necessary in 1776 "for one people to dissolve the political bonds which have connected them with another." And the political independence announced in the Declaration of Independence and won through the hard-fought battles of the Revolutionary War has become stronger since.

Few of the framers of the Declaration could have foreseen the rapid industrialization of the country which occurred during the 19th century, or the ever-increasing importance of international trade to a nation accustomed to agrarian self-sufficiency.

Just as political independence was of primary importance to Jefferson and his colleagues who met at Philadelphia to write the document which irrevocably committed the 13 former British colonies to fight for their ideals, economic independence has grown to be equally important for this country.

Without the economic independence to manage both our international commerce and our domestic economy and subject to the threat that actions taken abroad may

influence and damage our own interests, we are both economically *and* politically subservient to other countries, whether we admit it or not.

Energy is truly the single factor which most pervades American life today and most affects the lives of each and every one of our citizens.

Directly and indirectly, the price, availability, supply, and utilization of energy influence the lives of each of us in literally thousands of ways — from the obvious concerns of gasoline for cars and fuel for home heating to the hidden necessities of petrochemicals to produce plastics for the modern conveniences we all use, synthetic fibers for clothing, fertilizer for agricultural production, and countless other products we take for granted.

The bricks and lumber of which our homes and offices are built, the furniture we use, the equipment we have come to depend on, the food we eat, the very glass in our windows — all depend on adequate supplies of energy at some point in the process of conversion from raw materials to human usefulness.

The unprecedented efficiency and effectiveness of the American industrial free enterprise system and this country's vast natural resources provided the United States with a virtually uninterrupted flow of cheap energy for many years, lulling consumers into the complacent feeling that energy supplies would always be there for the asking.

Most of the readers of PUBLIC UTILITIES FORTNIGHTLY

were aware long before the term "energy crisis" became a household phrase. as a result of the Arab oil embargo late in 1973, that the U. S. energy situation was becoming more and more precarious.

More than any other single cause, the rapid increase in this nation's dependence on foreign sources of oil during the late 1960's and early 1970's, coupled with a prolonged decline in exploration and development of our own domestic energy potential, created the situation wherein, for the first time in our nation's recent history, foreign actions could have a devastating effect on our domestic economy.

The results of the embargo were all too clear an example of just how devastating that effect could be: \$10 to \$20 billion lost from our gross national product, one-half a million workers unemployed as a direct result of energy shortages, and many other instances of individual hardship.

Whether it is called energy independence, energy invulnerability, energy self-sufficiency, energy autonomy, or anything else, regaining our national ability to supply our own energy needs is a prerequisite for a secure economic future for our nation and a comfortable standard of living for all our citizens.

When this article appears, more than nine months will have passed since President Ford proposed the first comprehensive national energy action program ever put forth by any administration.

The President included in his energy and economic program, proposed to the Congress in his State of the Union Message last January, a complex and interrelated set of actions the combined effects of which would bring the United States to a position of energy invulnerability by 1985.

Progress to Date

Ideally, in the nine months since that time, we could have made some initial progress toward achieving the twin goals of reducing energy consumption and increas-

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ing the search for and use of our own indigenous energy resources.

Unfortunately, we have made negligible progress this year and have actually lost ground in the fight to make the nation less dependent on energy from foreign sources.

Few administrative actions were available to the President to limit energy use and boost energy production, but those that were possible have been used effectively and boldly. Each action taken by the President has been carefully considered to see whether it met the criteria of reducing energy usage or increasing domestic energy production, while imposing minimal economic hardships on the American public.

The vast bulk of the actions, outlined last January as essential to guarantee the country's energy future, require congressional action to revise existing statutes or enact new legislation designed to reach the energy goals we all share.

Positive congressional action has been conspicuous by its absence during the months since the President made his proposals. Many forthright steps could easily have been taken by Congress to start the nation along the road toward energy invulnerability, but not even the first step has been taken.

Instead, the only major pieces of energy legislation to pass Congress this year have been counterproductive and restrictive, even as many Senators and Represent-



atives have endorsed the concept of regaining America's energy independence.

Congress passed a surface mining bill which would have resulted in actual losses in coal production, at the very time when increases in that production are vitally needed to supplant use of imported petroleum and declining domestic natural gas supplies. Although the need still exists for effective reclamation programs which both protect the environment *and* encourage increased coal production, the administration could not and cannot support any proposed legislation which does not accomplish both these aims.

Congress passed a bill which continued existing price controls on domestic "old" oil production and rolled back the price of "new" oil by instituting a ceiling on allowable prices for that production. By doing so, the members of Congress ignored the economic reality that, in a free economy, producers of any commodity cannot be forced to bring a product to market unless the value received makes it worthwhile to do so. No legislative body in the world can abrogate the universal laws of basic economics.

As we approach the bicentennial year of our independence as a nation, we are confronted with the depressing fact that in the field of energy, which is so vital to our lives and livelihoods, we are becoming ever more dependent on foreign nations for the lifeblood of our economy.

It is a fact — not speculation — that we are now more dependent than we were before the oil embargo nearly two years ago. And it is a hard fact that the situation is getting worse, not better.

Each minute spent reading this article sees another \$50,000 flow out of this country to pay for foreign oil. Each hour another \$3 million is taken away from the American economy. Each day the total is more than \$70 million. And each year that adds up to a staggering \$26 billion for foreign oil.

That outflow of dollars hurts everyone in this country. The effect is obvious and severe when it takes the form of lost jobs and lost production in industries which must devote an increasing percentage of their available resources to purchasing fuel and feedstocks, rather than to expansion of capacity to meet present and future demand.

The effect is less apparent but every bit as damaging when it takes the form of restricted capital investment and declining new job opportunities, simply because capital which might otherwise be available for projects within this country is now in the hands of foreign nations, for use at their discretion, not ours.

Oil and Gas Supply

We now import about 38 per cent of the oil we consume, and by the end of this year, that proportion may well be 40 per cent. If we continue to beg the question and ignore critical realities, doing nothing and merely hoping for assistance from some miraculous source, we could be looking to foreign sources for fully half our petroleum energy needs within two or three years.

The saddest thing about this situation is that it does

not have to continue, and that corrective actions to guide us toward energy independence are only as far away as the halls of Congress, yet we have still to take the first meaningful steps forward.

That is where we stand now, and it is not a very encouraging position. Where we stand at the end of 1975, at the end of 1976, or at the end of the next decade depends in large measure on what Congress does this year — as soon as possible.

This nation depends on natural gas and petroleum for three-quarters of the energy needed to power our industries and provide comfort and convenience to individuals. Quite obviously, the foremost requirements for assuring a viable energy future for the United States are curbing demand for both oil and gas — so that we can cut back on the rising level of oil imports and expand rapidly the search for new domestic supplies of both natural gas and oil.

Neither of these actions is sufficient alone to do the job. We need both conservation and development to achieve our energy goals. We need conservation now because it is the only realistic way we can begin to reduce oil imports immediately. But we also need to begin now to prepare for the massive development effort which will be required if we are to meet our own energy needs for a growing economy from our own domestic resource base in the years to come.

To encourage conservation of oil and natural gas and to provide the economic climate to encourage the maximum possible development effort for both fuels, we need two major actions from Congress — actions which cannot be taken administratively, and which must have the solid support of the elected representatives of the people.

Virtually every editorial which appeared in influential newspapers throughout the country on the subject of President Ford's compromise proposal to decontrol oil prices gradually, submitted to Congress just before the August recess, supported the administration plan as the most equitable way to allow oil prices to reach a level sufficiently high to dampen demand and stimulate new exploration for new supplies.

Almost every nationally known economist in the country supported the gradual decontrol proposal as having a minimal impact on the economy now, when recovery from recession is taking hold, and a manageable economic impact later. Many of these independent economic views were cited by media commentators in support of the President's proposal.

Yet Congress chose to reject the President's compromise plan, as it had rejected three earlier compromises.

What is needed desperately from Congress is a collective realization that outmoded and counterproductive price controls are the most shortsighted of practices. What is needed by the country is a recognition on the part of Congress that buying a few months of slightly lower energy prices now is tantamount to taking out a mortgage on the future at usurious interest rates, and that future generations will pay dearly for the marginal savings we could accomplish now.

Oil Decontrol Favored

Most importantly, Congress does not have to take the President's word on the need for domestic oil price decontrol. It does not even have to take the word of economists both within and outside the government on the desirability of free market pricing for energy supplies. Congress need only listen to the opinion of the public, which is now overwhelmingly in favor of removal of federal price controls on oil and natural gas.

The very weekend after Congress left Washington for its August vacation, the results of the latest Louis Harris public opinion poll were published. A solid 54 per cent majority favored deregulation of the price of oil produced in the United States — two and one-half times the 22 per cent who opposed removing price controls.

This is not a biased indication of the mood of the public. The Harris survey has spent years refining its polling techniques, and is widely regarded as one of the best available indicators of public opinion in this country. Even more significant is the fact that the latest survey was conducted just one year after a similar poll had found 42 per cent of those surveyed against decontrol of oil prices, and only 28 per cent in favor.

Nearly 20 per cent of those surveyed openly admitted changing their minds on the subject of decontrol, citing three main reasons for their switch of opinion: That removal of price controls would eventually result in more domestic production and bring down prices in the long run; that decontrol would encourage, rather than discourage, exploration; and that by encouraging exploration in this country, we can minimize dependence on foreign oil sources.

The same survey showed that the American public would curtail its love affair with the automobile as the price of gasoline rises.

Louis Harris concluded in his report on the survey: "Americans now appear to be prepared to allow the price of oil and natural gas to rise by deregulation of domestic production, and they are counting on the price mechanism to curtail consumption sufficiently to cope with the oil shortage."

The survey was not conducted among government policy makers, but rather among the constituents of the Representatives and Senators. Congress has traditionally reacted strongly to the voice of the voters who speak their minds directly to their elected officials. What the nation needs is for all citizens to tell their representatives in Washington exactly how they feel on the subject of federal price controls on energy. If the Harris survey is as accurate a reflection of the public mood as its track record indicates, the mail on Capitol Hill should strongly support deregulation of domestic oil and natural gas prices.

Gas Decontrol Also in Favor

The same 54 to 22 per cent majority which supported the lifting of controls on oil production also supported removal of wellhead price controls on natural gas, according to the Harris report.

Natural gas supplies more than 30 per cent of the na-

tion's total energy, and fully half the energy consumed by industry. We cannot begin to achieve energy self-sufficiency unless we provide the economic incentives needed to reverse the downward trend in natural gas exploration and discovery.

Just as with oil, no democratic government can force natural gas producers to invest in new discovery ventures unless the price they expect to receive for their product is sufficient to give them a reasonable assurance of a fair profit. And that means allowing free market pricing for new gas supplies.

The solution to the increasing shortage of available natural gas supplies is not a continuing allocation and parceling out of a growing shortage of gas. Nor is the solution stopgap measures such as limited-term emergency purchases of natural gas by utilities and direct industrial customers. And the solution is not expansion of controls into the intrastate gas market.

The long-term solution, indeed the only solution which will allow natural gas to make its needed contribution to our ultimate goal of regaining energy invulnerability, is the combination of congressional action to remove Federal Power Commission controls on interstate sales of natural gas, and strong federal support for research and development of new economically viable synthetic gas processes.

We will also need coal production — double today's volume — if we are to achieve energy independence. The United States has the world's largest known reserves of coal, but as with oil and gas, having reserves in the ground is like having a fortune locked up with no key to the vault, unless coal producers have incentives to produce.

As we all know, the goal of reducing our oil imports depends to a very significant degree upon our ability and willingness to mine and burn coal. With this in mind, the administration has submitted a number of amendments to the Clean Air Act.

Remember that the primary goal of the Clean Air Act, as it now stands, is the protection of public health — a goal to which the administration is thoroughly committed.

But the administration, in addition, is committed to greater use of coal, to an improved economic climate for that use, and to the ultimate benefits that can accrue to the American consumer because of that use.

Looking Ahead

Now to accomplish these objectives — to permit the continued use of coal by existing electric generating plants — the administration has proposed to amend the Clean Air Act to allow the use of intermittent control systems by rural power plants until 1985.

Briefly stated, intermittent control systems involve the use of higher sulfur coal, but only when atmospheric conditions would keep sulfur dioxide within the levels set by air quality standards. If those weather conditions were unfavorable, the power plant would shift to coal with a lower sulfur content. If that were not practical, then the facility would lower the amount of electricity

generated and the remaining demand would be satisfied by another plant in the power system.

As the act stands now, continuous control of sulfur dioxide would be required as soon as feasible — controls that could cost nearly \$7.5 billion nationwide by 1980.

On the other hand, if the act is amended to allow intermittent controls, \$3.6 billion in capital spending — nearly 50 per cent of the necessary capital — could be delayed until after 1980. And we would still obtain the same environmental and human health results. The intermittent control system would also reduce annual costs by up to \$1.1 billion — savings that would be reflected directly in consumers' electric bills.

The short-term demand for flue gas desulfurization systems would be reduced. In addition, more advanced sulfur removal systems will be available in that 1980-85 period. But the primary benefit would be more domestic coal used to generate electricity instead of imported oil.

To finance the massive utility investments which will be needed for new nuclear generating installations, for conversions to coal utilization, and for new coal-fired power plants, we will need congressional action to put utilities on a permanent par with other industry as far as investment tax credits are concerned, as well as preferential investment tax credit treatment for energy facilities other than those burning oil or gas.

Where we are now leaves much to be desired. The record of the past year is discouraging, but not entirely without forward movement. There have been some positive actions, both administrative and legislative, but the combined effect has not been sufficient to get us really moving toward energy independence.

We have seen some action from the Congress to open up the naval petroleum reserves for commercial production and to raise, temporarily at least, the investment tax credit for all industry. And Congress acted to encourage energy conservation by establishing a national 55-mile per hour speed limit.

The President took administrative steps to increase the price of petroleum energy through import fees, to encourage accelerated federal leasing of the outer continental shelf, and to press for conversion of power plants to coal wherein conversion capability exists. By working with the major automobile manufacturers, a voluntary agreement was reached to increase gasoline mileage in new cars by 40 per cent before the 1980 model year.

Still, the inescapable conclusion is that much remains to be done, and that nearly all of the actions left to be taken remain in the hands of Congress.

More utility financial help is needed, as is mandatory reform of state and federal regulatory practices to reduce lengthy procedures now required before energy projects can get under way. We still need energy facility siting legislation to permit building of new installations with a minimum of regulatory lag. We also need expedited nuclear siting and licensing procedures. And we need long-term federal development programs to bring synthetic fuel production to commercial realization.

The greatest frustration inherent in trying to manage the nation's energy present and plan for its future is the undeniable fact that the United States does possess the physical resources to recover the energy invulnerability we once enjoyed. We have the resourcefulness to develop those assets and make the most of new energy sources in ways which meet both energy and environmental needs. And we must have the resolve to come to terms with the issues and reach agreement on a sound national energy program which will head us in the direction of energy independence.

We can do it. And I am convinced that we will reach substantial energy self-sufficiency once again. The question is when, and the answer to that question remains with Congress. If the public voices its support for the achievement of energy reliability as soon as possible, Congress will hear that voice, as it has on other national issues.

Higher Income and Dividends Reported for Investor-owned Electric Utilities

The Federal Power Commission has reported that net income for the investor-owned electric utilities increased 12 per cent, from \$5.03 billion for the twelve months ending with May, 1974, to \$5.63 billion for the twelve months ending with May, 1975.

Dividends declared on preferred stock by the investor-owned utilities rose 21.3 per cent, from \$830 million for the earlier 12-month period to \$1.01 billion for the later period. Dividends declared on common stock increased 9.3 per cent, from \$2.94 billion to \$3.22 billion. The ratio of total dividends paid out to net income was 75.1 per cent for both periods.

Electric utility plant of the investor-

owned utilities increased 10.8 per cent, from \$135.81 billion as of May 31, 1974, to \$150.44 billion as of May 31, 1975.

Total sales of electric energy for the investor-owned utilities—1.580 trillion kilowatt-hours—were up 0.5 per cent for the twelve months ending with May, 1975, compared to the same period one year earlier. Residential and commercial sales each went up 2.5 per cent while industrial sales decreased 2.9 per cent. Total sales of electric energy to ultimate consumers in the United States from all sources—publicly, cooperatively, and investor-owned—decreased 0.1 per cent.

Electric operating expenses of the

investor-owned utilities rose 33.7 per cent, from \$24.78 billion to \$33.13 billion. Included in the electric operating expenses were fuel costs which shot up 66.9 per cent, from \$8.23 billion to \$13.74 billion, and federal taxes paid, which declined 0.1 per cent from \$673 million in 1974 to \$672 million in 1975. Federal income taxes paid represented 1.6 per cent of total electric operating revenues for the later period in the comparison, while they were 2.1 per cent in the earlier.

Total revenues of investor-owned utilities rose to \$40.88 billion from \$31.37 billion, a 30.3 per cent boost, while interest charges increased 26.1 per cent from \$3.86 to \$4.87 billion.