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STATEMENT OF FRANK G. ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

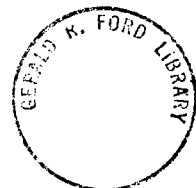
BEFORE THE

SUBCOMMITTEE ON CONSERVATION, ENERGY AND NATURAL RESOURCES

GOVERNMENT OPERATIONS COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 9, 1975



Mr. Chairman, Members of the Committee, I am pleased to be here today to discuss various aspects of FEA's operations. As you requested, my remarks will be limited to our objectives, the status of our compliance activities, oil shale and Outer Continental Shelf development programs, and the operation of our State and local government programs.

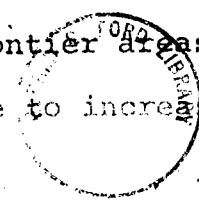
Upon its inception, FEA dealt with the emergencies that had arisen out of the embargo of 1973. While attempting to resolve those difficulties, the Agency began to address itself to the foreseeable problems of the Nation's energy future. For the short-term, we have stressed the need for conservation. For the mid-term, we have emphasized the continuing need for conservation, coupled with an upturn in the domestic production of conventional forms of energy. For the long-term--the last quarter of the century--we have stressed the need for the development of new energy sources to further enhance this Nation's energy independence. Our mission and objectives, therefore, are clear--to formulate and assist in executing national energy policies which will most effectively solve our energy problems. That will require the formulation of conservation measures that are viable and equitable, and of resource exploration and development efforts that are rational, balanced, and within acceptable environmental standards. Lastly, it means that all of our activities will remain consistent with international realities and our foreign



policy goals. Through a vigorous public information and education program, FEA will strive to keep the Congress and the public aware of the progress made in achieving our goals.

Our compliance program, begun under the Federal Energy Office, continues to provide assurances that the prices being paid for petroleum products are in accordance with FEA's regulations. Over \$160 million has been returned to the market, and over \$400 million has been deducted from the cost "banks." We will continue our vigorous efforts to insure that producers, refiners, wholesalers and retailers comply with the law, and will continue to improve our program, wherever and whenever necessary.

The mid- and long-term aspects of the President's energy program place a heavy reliance on increasing production of domestic energy resources. A substantial portion of this production must come from the Outer Continental Shelf (OCS) and the commercialization of synthetic fuels, including oil shale. OCS development, under the direction of the Department of the Interior, is a vital part of our push for energy independence. Total production from the OCS at the end of 1973 was 3.2 billion barrels of oil and 20.6 trillion cubic feet of gas. The OCS can and will supply more oil and gas in the future. By exploring and developing frontier areas, such as the Atlantic and offshore Alaska, we hope to increase

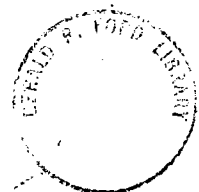


production by more than 1.5 million barrels per day by 1985. This production could be delivered in an environmentally acceptable manner.

The President has also set a goal of one million barrels of oil per day equivalent from production of synthetic fuels by the 1985 time period. The synthetic fuels covered by this goal include coal gasification, coal liquefaction, oil shale, and others. An Executive Branch task force has already been meeting regularly to develop a program of financial incentives for synthetic fuels, including possible Federal budgetary and legislative support, and assessing water and manpower requirements and other possible constraints. Preliminary analysis indicates that the cost of shale oil from high grade deposits will be less than the cost of synthetic oil or gas derived from coal and, at best, will be marginally competitive with current world oil prices. Further, while oil shale resources are large enough to produce more than 250,000 barrels per day by 1985, environmental problems could forestall this growth. The formulation and implementation of a viable national energy program cannot be achieved without strong Federal, State and local government cooperation. FEA's authorizing legislation requires a close working relationship with other governmental bodies. FEA has vigorously worked with government officials at all levels and taken pride in



its special relationships with such representative bodies as the National governors' Conference, the National Conference of State Legislators, the Council of State Governments, the National League of Cities/United States Conference of Mayors, the National Association of Counties, and others. Through meaningful and genuine liaison among the Federal, State and local governments, which see the social and economic impacts of energy policy, it is our hope that energy conservation and development initiatives will be taken up at all government levels.



COMPLIANCE

I would now like to address our compliance operations. As you know, the Federal Energy Office, forerunner of FEA, was organized by combining segments of the other government offices, adding large numbers of detailees from other departments and agencies, and hiring a number of new employees. The agency was charged with implementing regulations unprecedented in the industry within 30 days of its creation.

As we have gained experience, we have continuously attempted to improve our performance. As will be shown, FEA is currently revising the direction of its program because of changing economic conditions, the experience gained from the first year of compliance authority, and the helpful and objective recommendations made by persons outside FEA, including the Congress and the General Accounting Office.

FEA's compliance program, coupled with substantial voluntary compliance with our price regulations at all levels of the petroleum industry, has provided and will continue to provide the American people with assurance that the prices they must pay for petroleum products are equitable and within the law. The amounts represented by all the violations or possible violations identified to date represent a small fraction of the total lawful costs passed to the American consumer.

To put the overall results in perspective, during the first year of our refinery audit program, we discovered potential

violations of \$658.6 million in 47 cases involving 23 of the 30 major refiners subject to continuous audit. During that same period, these same 30 refiners had total product sales of about \$65 billion. Thus, the percent of unlawful costs has been about one percent.

FEA has been and remains committed to insuring the American people an adequate supply of petroleum at prices that are equitable and within the law. We have taken, and will continue to take whatever action--administrative or legal--is necessary to rectify violations and to maintain the integrity of FEA's pricing and allocation program. Whenever a violation is discovered, even months after it occurred, the violator can be held liable and appropriation restitution obtained. We will continue to expand and upgrade our investigations until we are satisfied that overcharges have been returned to the consumers.

History of the Compliance Program

The authority for the present FEA price and allocation program originated with the Emergency Petroleum Allocation Act (EPAA) of 1973 and the Economic Stabilization Act of 1970.

The Federal Energy Office was established by Executive Order on December 4, 1973, and was charged with carrying out the mandatory price and allocation program called for under the EPAA. The Phase IV price control program of the Cost of Living Council (CLC), covering petroleum products and crude oil,



was transferred from the CLC to FEO, and officially became FEA regulations on January 15, 1974. Also on that date, FEO's mandatory allocation program became effective.

All FEO compliance responsibility was transferred to IRS for the period December 26, 1973 to June 30, 1974, which meant simply that IRS would continue responsibility for price control compliance efforts since that agency performed the same functions for the Cost of Living Council. IRS was delegated the authority to find violations, impose restitution and compromise civil penalties.

On June 26, 1974, when the Federal Energy Administration officially came into being, the IRS transferred control of the regional compliance force to the FEA regional administrators, subject to National Office policy guidance. IRS compliance reporting and case control systems were transferred to the FEA National Compliance Office.

Changing Priorities and Constraints

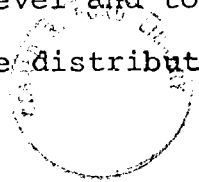
In the early days of the program under the IRS, the majority of the compliance efforts focused on the retail level where violations were most readily apparent, easily remedied, and most often the subject of consumer complaints.



A second major area of emphasis was the refiner. Refiners were identified at the outset as the key link in the supply chain as regards compliance with both price and allocation regulations. It is at the refinery that crude is processed into a wide range of petroleum products. The added costs of the crude over the May 15, 1973 levels are apportioned among the various refined products in accordance with FEA's price regulations. The complexity of the passthrough transactions involving refinery operations, particularly in major integrated oil companies, required a high level of investigative expertise to discover potential abuses of the system. A force of auditors was assigned by IRS to provide an in-depth review of the records of these companies to assure compliance.

The remainder of the available effort was devoted to the wholesale sector and to the pursuit of specialized compliance efforts responsive to particularly troublesome areas. For example: pricing violations apparently existed at the wholesale level for propane, which was then in critically short supply. Propane prices were, therefore, made the subject of a special compliance project.

As the shortage eased and gasoline prices at retail began to be determined by market forces at levels below legal maximums, efforts were redirected away from the retail level and toward the more complex areas at earlier stages of the distribution system.



At the same time, problems concerning producers were being addressed. The refinery audit program included a review of prices paid by refiners for their crude oil supplies. Since the regulations had frozen supplier/purchaser relationships, refiners' books would show any major shifts in the prices paid for crude to individual producers. Also, a certification requirement was included in the regulations for the sale of any crude oil not subject to price controls. This was done both to promote compliance and to create a permanent record that would be subject to audit at any later date.

We also watched the trends in the overall composition of total domestic crude production from month to month. Had there been persistent and widespread violations of the crude oil price rules, the percentage of "old" or price-controlled oil would have dropped sharply and the percentage of oil reported as exempt from price controls would have risen sharply. The data we had did not show any such trends.

Accordingly, it did not seem justifiable during the shortage period to divert our limited investigational capability from the refiner-retail-wholesale area, especially in light of the great number of complaints received by the agency in the early



part of 1974 and the high rate of violations relative to complaints. During the period May through October 1974, a total of 7371 investigations (mostly in response to complaints) disclosed 3675 violations, for a violation rate of 49.9 percent.

It has been suggested that a number of spot-checks might have been made throughout the producer area, advertising them widely, so as to let everyone know we were not ignoring the potential for violations at this level. The redeployment of manpower to this effort is now underway, and by the end of Fiscal Year 1975, we have targeted a total of 212 positions dedicated to crude producer audits. In addition, the refiner audit guidelines have been revised to place additional emphasis on crude pricing. Results of the refiner audits will be used as leads to see that the efforts of the producer auditors are directed at those producers most likely to be in violation.

The separate propane program has been retained because of the crucial importance of propane to large numbers of small consumers, particularly in rural areas, and because propane continues to be the product in shortest supply. This occurs because 70 percent of propane production comes from natural gas and at the same time, propane is the most sought after substitute for natural gas customers whose supplies are curtailed.

We will continue the wholesale and retail programs with the principal emphasis on the wholesale level.



This redirection of priorities required both a redistribution of the total available staff among FEA's ten regions and a change in the mix of skills the staff possessed. However, budgetary limitations, personnel ceilings, and unresolved issues with respect to the reemployment rights of personnel in regions where staffing levels were being reduced delayed the attainment of December 1974 staffing targets.

Based on findings from its investigations of wholesalers, FEA initiated in December 1974, a major investigation of the suppliers of utilities. This effort is currently the top priority undertaking.

Several other actions were initiated in late 1974 to upgrade the effectiveness of the compliance effort including the implementation of:

1. A regional manpower reporting system, and
2. a computerized case control system. The data being collected includes the level of distribution involved, the type of product, the nature of the suspected violation, the action taken, and the final results.

Overall Program Results to Date

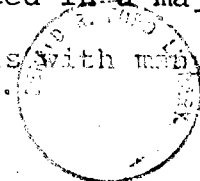
FEA compliance and enforcement efforts have resulted in direct refunds or price reductions of \$161 million and adjustments in "banked" costs (that is, unrecouped costs available for pass-through in future months) of \$418 million. In addition,

unresolved cases in which at least a notice of probable violation has been issued are estimated to involve approximately \$179 million in refunds, rollbacks, or price adjustments if violations are eventually found to exist and current estimate of amounts involved are borne out. The National Office's surveillance of the allocation program has resulted in the direct redistribution of 649 million gallons of petroleum products valued at \$151 million. Finally, as a result of our compliance effort, \$898,000 in civil and criminal penalties have been "compromised" by FEA, and an additional amount, as yet undetermined, has been collected as a result of court orders or compromises obtained by the Department of Justice.

Plans for Improving Compliance Program Effectiveness

FEA recognizes that past methods and strategies may not be appropriate for the current national energy situation. No longer are there long lines at the gas stations or unavailability of heating oil for cold winter weather. FEA is now in a position of having to cope with the long-term energy problem, a severe problem, but not an acute one. The problems not only lie with the end sellers of the products, but also lie with the producers, the refiners and the wholesalers. Accordingly, FEA has taken appropriate steps to change investigative emphasis.

In October 1974, the Compliance Office completed a field workload and staffing study that has resulted in a major shift in manpower resources from these areas with many



retail operations to those areas where oil production and refinery operations are concentrated. By June 30, 1975, the compliance field operation will have 784 personnel. Increases will occur in the Dallas, Kansas City and Denver Regions with decreases occurring in other regions. These changes should permit FEA to perform audits and investigations in the higher priority areas, while retaining a strike capability in major urban areas should another crisis arise.

In January 1975, the Compliance Office developed an action plan aimed at revamping and revitalizing the compliance program in line with the constantly changing national energy situation.

This plan includes these major priority actions:

1. Expand the compliance staff in Regions VI, VII, and VIII. Evaluate and upgrade the technical qualifications of compliance staff in all regions.
2. Launch major training programs. Develop standardized compliance and enforcement manuals for each element of the program.
3. Develop computerized compliance analysis capability through redesigned, more detailed forms and computerized analysis of data to focus the compliance effort on problem areas.
4. Add National and regional General Counsel staff to support the enforcement program.



5. Clarify division of responsibilities for the enforcement program between the National Office and regional administrators
6. Develop a new target selection strategy for the retail and wholesale segments of the industry.

This plan's implementation is now being executed vigorously with my full support.

In the area of training, FEA has taken positive measures toward the retaining of current staff and the training of new staff coming on board. It has completed the development of a modular basic training course designed to cover most areas of the petroleum energy universe and three sessions of the course have already been held. It has also developed a number of specialized courses designed to give experienced auditors and investigators the knowledge needed to perform in areas of special assignment. FEA also has under development a complete Compliance Manual that will give the field a definitive set of operating procedures and provide for more consistent application of the FEA Regulations.

Moving to the area of compliance targeting, FEA currently has underway a pilot program of a proposed sampling system for wholesalers and retailers. Firms are selected at random and asked to complete a questionnaire concerning their pricing structure. The information obtained is then used to select



firms to be audited. A ten-week test is being conducted in New York and New Jersey to determine the validity and effectiveness of the system.

FEA will be developing a computerized targeting system similar in concept to the computerized targeting used by IRS. It intends to review thoroughly the forms in use by FEA and revise them so that they become compliance self-reporting forms. It will then develop a computer program that will run the data from these compliance forms against current regulations and various weighted factors. The result should be an unbiased, relatively accurate system for selecting possible violators for intensive audit.

With respect to the plan to increase legal support to the Regional and National Compliance Offices, in order to provide more timely review and advice on compliance matters, eight new attorneys in the National Office of the General Counsel will be assigned exclusively to compliance activities, as will 12 new attorneys in the regional offices.

The objective of all these efforts is to assure that we are using our available resources most effectively. Once they are completed, we will be able to determine what, if any, additional resources we need to assure the most effective possible compliance program.



Mr. Chairman, I would like to stress my personal commitment to a vigorous and effective compliance program. We have not done everything right in the past. We will, however, improve the effectiveness of the program in every way we know how with the resources made available to us. During this process, we welcome criticism and existing review of our past actions, current plans, and rate of progress. I assure you that these points will receive full consideration.



OFFSHORE DEVELOPMENT

The Outer Continental Shelf (OCS) is of unquestionable importance when considering overall energy policy. Development on the OCS began after passage of the OCS Lands Act of 1953 which authorized the Secretary of the Interior to issue leases and supervise operations. The results, to date, have had a marked effect on the oil and gas industry and U.S. Treasury. Almost 25 million acres have been offered for lease, and in excess of 11 million acres have been leased. At the end of 1973, 3.2 billion barrels of oil and 20.6 trillion cubic feet of gas had been produced on the OCS. Oil and condensate production on the Outer Continental Shelf for 1974 was 988,000 barrels per day, while gas production in the same year was 9,629 million cubic feet per day. Front-end bonuses have exceeded \$15 billion and royalties to the Treasury have exceeded \$2 billion. Almost 12,000 wells have been drilled.

The Project Independence Report estimated the potential loss in oil production from existing fields on the Outer Continental Shelf (comparing 1975 with 1974) at 141,000 barrels per day. Development has been inhibited by several factors. We project that by 1985, under business-as-usual conditions, OCS development could result in an additional production of 2.1 million barrels of oil per day. Under accelerated development, this could increase another 1.5 million barrels a day, mostly from



the Atlantic, Pacific (Santa Barbara Channel), and Gulf Coast areas. Because of these large quantities, it is imperative that we achieve environmentally effective methods of producing this oil. In the early days of exploration, a lack of prior experience in open seas operations and sophisticated equipment slowed progress; however, many original obstacles have been overcome through improved technology. The passage of NEPA of 1969 prompted major changes in preleasing evaluations and operating procedures relating to the assessment of environmental safety. These additional requirements have contributed to delays involved in OCS leasing. Furthermore, legal cases between the States and the Federal Government pertaining to ownership of submerged lands have slowed development. However, the Supreme Court in U.S. v. Maine recently ruled that the submerged lands bordering the East Coast beyond the three mile limit were the property of the Federal Government and not the adjoining states. Clarification of the ownership issue should expedite further OCS exploration and production.

In total, these actions have resulted in an erratic overall program of OCS development. In order to permit a more responsible evaluation of the OCS program, the Secretary has published an OCS Planning Schedule. The schedule outlines potential lease sales through 1978 and presents the time frame within which each essential step in the procedure is expected to be completed. The schedule contains frontier areas (never



before subject to leasing) such as the Atlantic, Bering Sea, and Gulf of Alaska. Exploration of the frontier areas will become more essential as the present producing areas are fully developed. We support a program of orderly development of the frontier areas giving consideration to the requirement of existing law.



OIL SHALE DEVELOPMENT

As part of the President's energy program, announced in January, a goal was established of one million barrels of synthetic fuels and shale oil production per day by 1985 together with an incentive program to achieve it. To attain this goal, it is anticipated that 20 synthetic fuel plants will be built and operated. The principal synthetic fuels considered include oil from shale, and a range of solid, liquid, and gaseous fuels derived from coal. The Executive Branch has established a task force to provide recommendations on how the President's goal might be realized. The Committee has expressed a particular interest in oil shale which is one of our most abundant energy resources.

The "identified" resources of shale oil in the United States total about two trillion barrels of oil in shale that averages about 15 gallons of oil per ton of rock. This enormous resource is about five times as much oil as the estimated total of all the crude oil discovered to date in the United States.

Most of the Nation's richest oil shale resources are contained in the Green River Formation located in the States of Colorado, Utah, and Wyoming. The Green River Formation underlies an area of about 17,000 square miles and contains an "identified" resource of about 1.8 trillion barrels of oil. Of this total,



1.2 trillion barrels are in Colorado, with the remaining portion about evenly split between Utah and Wyoming.

Within the Green River Formation, there has been identified 418 billion barrels of high-grade shale oil resources. These resources average more than 30 gallons of oil per ton of rock. It is these high-grade shale oil resources that are most likely to be the first oil shale deposits developed commercially. Even with a resource of this high quality, it is our best estimate that shale oil would have to sell in the \$10 - \$14 per barrel range before a shale oil industry would become commercially feasible.

Black shale deposits of marine origin underlie more than 250,000 square miles in Eastern and Central United States. These shale deposits form an immense, but low-grade deposit of oil and gas. Eastern shale deposits have been given very little attention. This lack of attention is due in large measure to their relatively poor quality.

It is estimated that Eastern oil shales, commonly called Devonian shales, contain an estimated one trillion barrels of shale oil in deposits with 10 - 25 gallons per ton of rock. Of this total, 200 billion barrels are classed as "identified" resources, and 800 billion barrels are classified as "hypothetical" resources. Identified resources are those deposits that have been identified but may or may not have




been evaluated as to extent or grade. Hypothetical resources are undiscovered deposits that are geologically predictable as existing.

Not only are Eastern shales leaner than Western shales, but they also have a lower hydrogen-to-carbon ratio. For this reason, Eastern shales yield little oil by conventional retorting. The huge Antrim shale deposits of Michigan, for example, average eight to ten gallons of oil per ton of rock by conventional retorting. Thus, it is not likely that Eastern oil shales will be commercially exploitable between now and 1985 with currently available technology. That is not to say that economically attractive recovery techniques cannot be devised.

Past Federal research was devoted principally to Western oil shales because of their better quality and their Federal ownership. The Energy Research and Development Administration, in cooperation with the Department of Interior, is currently putting together an accelerated research program on the in situ recovery of oil shale resources. It is their intention to include projects on Eastern oil shales in that program.

The physical properties of Eastern oil shales are such that in situ recovery techniques are more likely to be successful than conventional retorting. If in situ recovery technology can be developed, the strategic location of Eastern shales will be advantageous to their exploitation. They are located near



abundant supplies of water and near large population centers, so that the availability of water and manpower would not be significant constraints.

This is not the case for Western oil shale resources which are located in a fragile environment in a sparsely settled area and in an arid region. The availability of water, skilled and semi-skilled workers, and environmental regulations will be crucial factors in the rate of growth and ultimate size of an oil shale industry.

The water resources of Colorado, Utah, and Wyoming are adequate to support shale oil production of up to one million barrels per day by 1985, but the right to use the water and the construction of new impoundments will probably require appropriate legislation and considerable negotiation with state governments and consumer representatives. For example, Colorado's 1980 air quality standards for SO_2 would limit shale oil production in that state to 200,000 barrels per day with present technology. If the proposed EPA standards are adopted, shale oil production in Colorado would be constrained to 350,000 barrels per day.

If the present economic conditions justified investing in a shale oil plant, initial production could start in 1978 at a rate of about 10,000 barrels per day. An initial plant--presumably in the West--could be at full plant capacity of 50,000 barrels per day by 1980.



It is too early to say what percentage of the one-million-barrels-per-day 1985 goal for synthetic fuels will come from oil shale. However, our very preliminary assessment of costs suggests that oil shale, from high-grade deposits, might sell at a significantly lower price than oil from coal or gas from coal. It is our best estimate that, under appropriate economic conditions, the United States is capable of having a shale oil industry in 1985 with a daily capacity to produce up to 500,000 barrels of refined shale oil.



INTERGOVERNMENTAL RELATIONS

The formulation of national energy policy is a complex task which requires the close cooperation of Federal, State and local government bodies. Similarly, effective implementation of important energy programs in the areas of conservation and resource development depends, to a great extent, upon the degree of cooperation and coordination attained between these levels of government. In fact, Section 20 of the FEA Act (PL 93-275) specifically mandates that the Federal Energy Administration develop a close working relationship with State Governments, consulting with the states on major issues and providing technical assistance.

Because the national energy problem requires more than normal intergovernmental coordination, FEA has made a concentrated effort to work with government officials at all levels. The specific functions in this area have been centralized in the Office of Intergovernmental, Regional and Special Programs, whose Director reports directly to the Administrator. A professional staff of specialists works daily with state and local government officials, national associations of elected officials, business, consumer and other interests on a wide range of energy issues of particular concern to the states and the public. Furthermore, personnel from the National Governors' Conference, the National Conference of State Legislatures, the Council of State Governments, the National League of Cities/United States



Conference of Mayors, and the National Association of Counties have been detailed to FEA in Washington, and these organizations provide further advisory and communications services through their own energy projects. To assist these agencies in this work, FEA helps provide financial assistance.

In addition, to provide for more direct and ongoing consultation with state and local government officials, FEA has located Federal Liaison Officers in a number of state capitols and intergovernmental relations specialists in each of the ten FEA Regional Offices to coordinate their work with the national office, and to provide continuous input of state concerns to FEA policy makers at the executive level.

Major Intergovernmental Activities

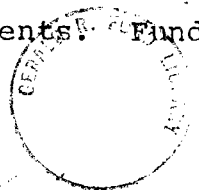
Examples of the major intergovernmental efforts undertaken by the Agency are as follows:

- State and local governments have actively been involved in reviews and provided comments on FEA draft rules, regulations, policies and programs.
- A special unit of FEA's National Energy Information Center (NEIC) has been established for the collection and dissemination of energy data to state and local governments. Ten special information meetings were held throughout the country last fall for state officials. Currently, NEIC is capable of conducting a bibliographic



search of more than 65 data bases, and has the ability to obtain information abstracts from each base concerning a wide range of energy-related topics.

- The National Governors' Conference and the National Conference of State Legislatures monitor and review state energy legislation for FEA. A recent survey of the states was completed which identified those states which enacted or proposed state legislation in the areas of land use, coastal zone management, power plant siting, and surface mining. From an analysis of this information, suggested model legislation will be drafted.
- State and local government officials testified at each Project Independence regional hearing to assure state and local consideration in the Project Independence Report.
- FEA has provided technical assistance to state and local governments, including reimbursement, advice, and consultation on energy problems.
- FEA has undertaken to reimburse the states for a portion of their FY 1975 expenditures for energy activities. Specifically, under the Special Energy Research and Development Act (PL 93-322), FEA is distributing \$10 million to state governments. Several meetings between Federal and State officials culminated in the establishment of broad program guidelines identifying those program expenditures eligible for reimbursement. States may make funds available to local governments. Funds



are distributed on a population based formula and must be matched by the states on a 65-35 Federal-State basis. FEA views this reimbursement program as a major segment of its overall effort and has requested a similar sum of \$10 million for FY 1976. The continued capability of state and local governments to finance their activities in the energy area is essential for the partnership of all levels of government in addressing our energy problems.

Recognizing that state level expertise and experience is valuable for national policy evaluation, the National Governors' Conference and the Federal Energy Administration have worked out a unique mechanism to involve the states in forming national policy in the battle to conserve this Nation's energy resources.

A formula to regularize the relationship between the Federal Government and the States has been developed.

The mechanism involves identifying an issue, preparing a written analysis of the problem areas, conducting meetings between FEA and NGC staff, setting up task forces of state and Federal experts to research the issue and draw up agreements where possible, writing issue reports and recommendations, and then presenting these to the Governors and top staff of the FEA to make the decisions.



For example: One issue concerns the winterization of low-income homes. President Ford's Omnibus Energy Bill provides \$55 million annually for three years to winterize homes (Title XI). Eight million single-family homes occupied by low-income families are probably thermally inefficient. But these families lack the funds to upgrade their homes to save fuel, and money.

The problems include who should coordinate a national effort, should the program be limited to owner-occupied units, how should funds be divided among the states.

The winterization task force, comprised of representatives from the Governors of Texas, Maine, Pennsylvania and North Carolina and from NGC and FEA, has come up with certain recommendations, to be considered by the Governors and Mr. Zarb.

FEA is also actively working with task forces on Building Energy Conservation Standards, the Energy Facilities Planning and Development Act, and the Utilities Act (Title VII of the Omnibus Energy Bill), and Conservation Information and Education.

This process has been cited by Federal and State officials as an extremely innovative development in Federal-State relations. At present, formal procedures have also been established with the National Association of Counties, and the National League of Cities/U.S. Conference of Mayors.

In the past, state governments have worked closely with FEA on the petroleum allocation program and administered the state

set-aside program. State and local governments have also undertaken important initiatives in the conservation and resource development areas. An important element of a comprehensive, national energy program must be similarly wide-reaching efforts at the state and local levels to complement Federal initiatives.

It is our hope that in the future state and local governments will continue to play an expanding role in the formulation and implementation of national energy policy.

Mr. Chairman, I would be happy to respond to any questions you may have.

