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STATEMENT OF FRANK G. ZARB, ADMINISTRATOR,
FEDERAL ENERGY ADMINISTRATION, BEFORE THE HOUSE
APPROPRIATIONS SUBCOMMITTEE ON APPROPRIATIONS
FOR THE DEPARTMENT OF INTERIOR
AND RELATED AGENCIES
FEBRUARY 26, 1975

MR. CHAIRMAN:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE SERIOUS ENERGY CHALLENGE FACING THIS NATION. I CONGRATULATE YOU ON YOUR ASSIGNMENT AS CHAIRMAN AND WELCOME THE NEW MEMBERS OF THE COMMITTEE.

WE ARE AT A PIVOTAL POINT OF TIME IN OUR HISTORY WHEN THE DECISIONS WE MAKE CONCERNING ENERGY WILL CHART THE COURSE OF OUR NATION'S DESTINY FOR THIS GENERATION AND GENERATIONS TO COME.

AN AMERICAN ENERGY POLICY IS NEEDED NOW AND WE MUST ACT PROMPTLY IF WE ARE TO RESTORE OUR ENERGY INDEPENDENCE BY 1985. THE TASK AHEAD WILL DEMAND A GREAT DEAL FROM ALL BRANCHES OF THE GOVERNMENT, FROM INDUSTRY, THE ACADEMIC COMMUNITY AND FROM THE AMERICAN PEOPLE.




DECISIVE ACTION BY THE UNITED STATES TO MEET THE ENERGY CHALLENGE WILL SERVE AS A BEACON FOR OTHER NATIONS TO FACE UP TO THE ESCALATING ENERGY PROBLEMS.

THE EMBARGO OF 1973 PROVED TO BE A STARK REALITY FOR INDUSTRIALIZED NATIONS. CHEAP OIL COMPOUNDED BY NEGLECT IN DEVELOPING ADDITIONAL SOURCES OF ENERGY PLACED THE UNITED STATES AND OTHER LARGE CONSUMING NATIONS IN A POSITION OF ENERGY VULNERABILITY. NOT ONLY WERE SUPPLIES DISRUPTED, BUT THE PRICES OF OIL QUADRUPLED. THE EMBARGO CAUSED A SIGNIFICANT DROP IN OUR GROSS NATIONAL PRODUCT AS WELL AS THE UNEMPLOYMENT OF UPWARDS TO ONE-HALF MILLION MEMBERS OF OUR LABOR FORCE.

IN 1970, WE PAID \$3 BILLION FOR IMPORTED OIL. FOUR YEARS LATER, WE PAID \$26 BILLION. IF THE UNITED STATES DOES NOT REVERSE THIS TREND, OUR BILL FOR IMPORTED OIL WILL REACH \$32 BILLION BY 1977.

IT WOULD BE NICE TO SAY THAT OUR DEPENDENCE UPON FOREIGN OIL HAS DECREASED SINCE THE EMBARGO. UNFORTUNATELY, THIS IS NOT THE CASE. 36 PERCENT OF THE OIL WE NOW USE IS DERIVED FROM FOREIGN SOURCES VERSUS 31 PERCENT AT THE TIME OF THE EMBARGO.




I AM SURE THAT YOU WILL AGREE THAT THIS TREND IS INTOLERABLE AND THAT THE NEED FOR ACTION IS EXPLICIT.

THE ADMINISTRATION'S PROPOSALS TO DEAL WITH THE MOUNTING ENERGY PROBLEMS ARE REFLECTED IN THE FISCAL YEAR 1976 BUDGET RECOMMENDATIONS AND THE PROPOSED ENERGY INDEPENDENCE ACT OF 1975 SUBMITTED TO THE CONGRESS ON JANUARY 30, 1975. PRIOR TO A DISCUSSION OF THE BUDGET IMPLICATIONS OF THE ENERGY PROGRAM, LET ME HIGHLIGHT THE ACTIONS DEEMED NECESSARY TO GET THIS COUNTRY BACK ON THE TRACK OF ENERGY SELF SUFFICIENCY.

BASICALLY, THERE ARE THREE CRITICAL PHASES TO THE ACTION PLAN:

1. NEAR TERM,
2. MID RANGE 1975-1985,
3. LONG TERM (POST 1985),


NEAR TERM GOALS REQUIRE IMMEDIATE ACTION TO CONSERVE AND REDUCE THE AMOUNT OF ENERGY CONSUMED. FRANKLY, WE ARE LIMITED IN THE STEPS THAT CAN BE TAKEN TO INCREASE THE DOMESTIC PRODUCTION AND SUPPLY OF ENERGY IN THE NEAR TERM. THEREFORE, THE FEDERAL, STATE AND LOCAL GOVERNMENTS, INDUSTRY AND THE AMERICAN PEOPLE MUST FORM A PARTNERSHIP DEDICATED TOWARD THE ELIMINATION OF WASTEFUL USES OF



ENERGY ALONG WITH A DAY-TO-DAY COMMITMENT TO CONSERVE, IN EVERY WAY POSSIBLE, THE PRECIOUS ENERGY RESOURCES NOW AVAILABLE TO US.

VOLUNTARY CONSERVATION MEASURES HAVE NOT BEEN ADEQUATE. MORE MUST BE DONE THROUGH VOLUNTARY EFFORTS AND AN INCREASED PUBLIC AWARENESS OF THE SERIOUSNESS OF THE ENERGY CHALLENGE IS A HIGH PRIORITY. PUBLIC EDUCATION ON THE NEED, TYPE AND EXTENT OF CONSERVATION NEEDED WILL RESULT IN REDUCED DEMAND OF ENERGY AND I LOOK FORWARD TO A RETURN VISIT WITH THIS COMMITTEE IN EARLY MARCH TO DISCUSS A SUPPLEMENTAL REQUEST TO THE BUDGET OF THE FEDERAL ENERGY ADMINISTRATION FOR A PUBLIC EDUCATION PROGRAM.

THE IMPORTANT PROJECT INDEPENDENCE REPORT ACCOMPLISHED BY THE FEDERAL ENERGY ADMINISTRATION AND SUBSEQUENT POLICY STUDIES DEMONSTRATED THAT THE UNITED STATES HAD TO FORMULATE AN ALL-INCLUSIVE ENERGY PLAN WITH SPECIFIC TARGETS AND GOALS. A PIECEMEAL OR RANDOM APPROACH TO CORRECT THE ENERGY IMBALANCES SIMPLY WOULD BE A "BAND-AID" REMEDY AND FIVE YEARS FROM NOW WE MIGHT STILL BE DISCUSSING POLICY INITIATIVES. THIS IS THE REASON FOR THE COMPREHENSIVE PROPOSAL NOW BEFORE THE



CONGRESS. ONE SPECIFIC CONSERVATION GOAL IS A REDUCTION OF OUR IMPORTS BY 2 MILLION BARRELS PER DAY BY THE END OF 1977.

I MIGHT ADD HERE THAT THIS KIND OF A REDUCTION IS IN OUR NATIONAL INTEREST AND APTLY REFLECTS THE DETERMINATION OF THE UNITED STATES TO GET ON WITH THE JOB OF BECOMING LESS VULNERABLE TO FOREIGN INFLUENCES. AVOIDING A DOLLAR OUTFLOW OF \$32 BILLION BY 1977 FOR PETROLEUM IMPORT IS, I AM SURE, OF PARTICULAR INTEREST TO THIS COMMITTEE.

ACTIONS TO MEET THE NEAR TERM GOAL

IN THE FIRST CRUCIAL YEARS, THERE ARE ONLY A LIMITED NUMBER OF ACTIONS THAT CAN INCREASE AVAILABLE DOMESTIC PETROLEUM SUPPLIES: THE DEVELOPMENT OF THE ELK HILLS CALIFORNIA NAVAL PETROLEUM RESERVE AND CONVERSION OF INDUSTRIAL BOILERS FROM OIL TO COAL-FIRING CAPABILITY. SINCE THESE ACTIONS ARE ESTIMATED TO PRODUCE ONLY 300,000 BARRELS PER DAY IN 1975 AND 600,000 BARRELS PER DAY IN 1977, THE REMAINING IMPORT SAVINGS REQUIRED TO MEET THE PRESIDENT'S GOALS MUST RESULT FROM ENERGY CONSERVATION.

LEGISLATION HAS BEEN PROPOSED FOR THE PURPOSE OF DEVELOPING THE ELK HILLS NAVAL PETROLEUM RESERVE. THIS LEGISLATION PROVIDES FOR AN INCREASE IN PETROLEUM PRODUCTION FROM NPR-1 FROM 160,000 BARRELS PER DAY BY THE END OF FISCAL YEAR 1975 TO 300,000 BARRELS PER DAY BY 1977. PROCEEDS FROM 18 MILLION BARRELS OF THIS INCREASED PRODUCTION WILL BE USED TO TOP-OFF MILITARY FUEL TANKS. OTHER PROCEEDS WILL BE USED FOR ESTABLISHING THE NATIONAL STRATEGIC PETROLEUM RESERVES AND FOR EXPLORATION OF NPR-4.

NO INCREASE IN OBLIGATIONAL AUTHORITY WOULD BE REQUIRED BEYOND THE AMOUNT INCLUDED IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1975 AND FISCAL YEAR 1976 TO ATTAIN THIS INCREASE IN PRODUCTION. TOTAL OBLIGATIONS ARE ESTIMATED AT 84.9 MILLION DOLLARS IN FISCAL YEAR 1975 AND 129.7 MILLION DOLLARS IN FISCAL YEAR 1976. THE REVENUES GAINED FROM THE INCREASED PRODUCTION FROM THE ELK HILLS NAVAL PETROLEUM RESERVE, ESTIMATED AT 112 MILLION DOLLARS IN FISCAL YEAR 1975 AND 412.9 MILLION DOLLARS IN FISCAL YEAR 1976, WILL FAR SURPASS THE BUDGET OBLIGATIONS REQUESTED FOR THE CORRESPONDING YEARS.

THE ADMINISTRATION HAS ALSO SUBMITTED A SET OF COMPREHENSIVE AMENDMENTS TO THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION

ACT OF 1974 TO INCREASE THE NUMBER OF OIL BURNING FACILITIES THAT CAN BE CONVERTED TO COAL IN 1975 THROUGH 1977. THE INCREASED COAL CONVERSION ACTIVITIES TO BE ADMINISTERED BY THE FEA WOULD NOT IMPACT THE CURRENT YEAR 1975 BUDGET, BUT WOULD REQUIRE AN INCREASE IN THE BUDGET OBLIGATIONS DURING FISCAL YEAR 1976 BY ONE MILLION DOLLARS ABOVE THE \$1.5 MILLION ALREADY INCLUDED IN THE PRESIDENT'S BUDGET.

THERE IS SUFFICIENT EVIDENCE TO SHOW THAT THE HIGHER PRICES OF PETROLEUM PRODUCTS SUCH AS MOTOR GASOLINE DOES DAMPEN DEMAND. OUR CONSUMPTION WOULD HAVE BEEN AT LEAST 1 MILLION BARRELS PER DAY MORE IF THE PRICES HAD NOT RISEN SO SHARPLY. THE OIL PRODUCING CARTEL ALSO IS REACTING TO THIS IMPACT. ALTHOUGH THE CARTEL CUT BACK PRODUCTION OF SOME 9 MILLION BARRELS PER DAY, THERE IS NOW A SURPLUS OF OIL ON THE WORLD MARKET.

THERE WERE MANY OTHER IDEAS AND ALTERNATIVES EXPLORED IN COMING TO GRIPS WITH THE NEAR TERM OPTIONS. THESE INCLUDED A GREATER INFUSION OF GOVERNMENT CONTROLS SUCH AS RATIONING, IMPORT QUOTAS, ALLOCATION SYSTEMS, SUNDAY CLOSINGS OF GASOLINE STATIONS, ODD-EVEN DAYS OF GASOLINE PURCHASES, RESTRICTIONS IN THE NUMBER OF CARS PER FAMILY AND SO ON.



THE HARDSHIPS AND INEQUITIES THAT WOULD BE IMPOSED UPON THE AMERICAN PEOPLE ALONG WITH FEDERAL AND STATE BUREAUCRACIES TO ADMINISTER SUCH REGULATORY MEASURES CONVINCED US THAT THE AMERICAN WAY OF FREE MARKET SUPPLY AND DEMAND WAS INDEED A MORE EFFECTIVE AND PALATABLE ALTERNATIVE THAN ALL OF THE OTHERS. ADDITIONALLY, THE REBATE CONCEPT WOULD CUSHION THE EFFECT OF HIGHER GASOLINE PRICES.

ACTIONS TO MEET MID TERM GOALS (1975-1985)


THE GOALS OF THE ADMINISTRATION'S ENERGY PROGRAM IS THE ELIMINATION, BY 1985, OF OUR NATION'S VULNERABILITY TO ECONOMIC DISRUPTION BY FOREIGN SUPPLIERS. IN OTHER WORDS, BY THEN OUR PETROLEUM IMPORTS SHOULD AMOUNT TO ONLY THREE TO FIVE MILLION BARRELS PER DAY, AND WE SHOULD BE ABLE TO OFFSET A ONE YEAR CUTOFF OF THESE REMAINING IMPORTS THROUGH IMPLEMENTATION OF STANDBY MEASURES AND USE OF NATIONAL STORAGE RESERVES.

TO ATTAIN SUCH A GOAL, WE MUST START IMMEDIATELY TO REMOVE CONSTRAINTS AND PROVIDE NEW INCENTIVES FOR DOMESTIC PRODUCTION. LEGISLATION HAS BEEN PROPOSED ASKING THE CONGRESS TO AUTHORIZE THE EXPLORATION, DEVELOPMENT AND PRODUCTION OF NPR-4 IN ALASKA, WHICH COULD PROVIDE

AT LEAST TWO MILLION BARRELS OF OIL PER DAY BY 1985. SINCE THE INITIAL FUNDS REQUIRED FOR EXPLORATION OF NPR-4 WILL BE OBTAINED FROM THE PROCEEDS RESULTING FROM INCREASED PRODUCTION OF NPR-1, THE IMPLEMENTATION OF THIS PROPOSED MEASURE WILL NOT RESULT IN ANY BUDGET IMPACT FOR FISCAL YEAR 1975 AND FISCAL YEAR 1976. IT SHOULD BE NOTED THAT THE PRESIDENT HAS PROPOSED THAT THE GOVERNMENT'S SHARE OF PRODUCTION FROM NPR-4 (APPROXIMATELY 15 TO 20%) BE EARMARKED FOR FINANCING THE NATIONAL STRATEGIC PETROLEUM RESERVES.

WE MUST CONTINUE AN AGGRESSIVE LEASING POLICY FOR THE OUTER CONTINENTAL SHELF AREAS, INCLUDING THE ATLANTIC, THE PACIFIC, AND THE GULF OF ALASKA. INCREASED OCS LEASING COULD ADD APPROXIMATELY 1.5 MILLION BARRELS OF OIL PER DAY AND ADDITIONAL SUPPLIES OF NATURAL GAS BY 1985.

IN ADDITION TO FINDING MORE OIL AND GAS, WE MUST TAKE ADVANTAGE OF OUR MOST ABUNDANT ENERGY RESOURCE, COAL. ALTHOUGH THE PRESIDENT VETOED THE SURFACE MINING LEGISLATION PASSED BY THE LAST CONGRESS, THE PRESIDENT HAS SUBMITTED A BILL WHICH BUILDS ON THAT VALUABLE PIECE OF LEGISLATION IN A CONSTRUCTIVE WAY. IT WILL CORRECT THE PROBLEMS



WHICH LED TO THE PRESIDENT'S VETO AND STRIKE A BALANCE BETWEEN OUR DESIRES FOR RECLAMATION AND ENVIRONMENTAL PROTECTION AND OUR NEED TO INCREASE COAL PRODUCTION SUBSTANTIALLY OVER THE NEXT TEN YEARS. WITH THE PASSAGE OF THE PROPOSED SURFACE MINING BILL, THE INCREASED LEASING OF FEDERAL LANDS FOR COAL PRODUCTION IS ANTICIPATED TO PRODUCE 70 MILLION DOLLARS OF ADDITIONAL REVENUES IN FISCAL YEAR 1976.

TO FURTHER INCREASE THE CONSUMPTION OF COAL, WE NEED TO AMEND THE CLEAN AIR ACT, CLARIFYING THE MEANING OF SIGNIFICANT AIR QUALITY DETERIORATION, EXTENDING COMPLIANCE DATES THROUGH 1985 TO ALLOW IMPLEMENTATION OF STACK GAS SCRUBBERS AND PERMITTING USE OF INTERMITTENT CONTROL SYSTEMS IN ISOLATED POWER PLANTS THROUGH 1985. THESE CLEAN AIR ACT CHANGES WILL HAVE NO IMPACT ON THE BUDGET FOR FISCAL YEAR 1975 AND 1976.

OF COURSE, THE MARKET FOR COAL, AS WELL AS THE AVAILABILITY OF ELECTRIC POWER, DEPENDS UPON THE ELECTRIC UTILITIES INDUSTRY. IN RECENT MONTHS, UTILITIES HAVE CANCELLED OR POSTPONED MORE THAN 67% OF PLANNED NUCLEAR EXPANSION AND MORE THAN 30% OF PLANNED ADDITIONS TO NON-NUCLEAR CAPACITY. THE

DELAYS AND DIFFICULTIES THIS INDUSTRY IS CURRENTLY EXPERIENCING COULD LEAD TO HIGHER IMPORTED OIL REQUIREMENTS AND INADEQUATE SUPPLIES OF ELECTRICITY WITHIN FIVE TO TEN YEARS.

THE ELECTRIC UTILITIES NEED ASSISTANCE THROUGH HIGHER INVESTMENT TAX CREDITS, MANDATED REFORMS AND STATE UTILITY PRACTICES, AND A CHANGE IN TAX LAWS APPLICABLE TO ALL INDUSTRIES, INCLUDING UTILITIES, WHICH ALLOWS DEDUCTION OF PREFERRED STOCK DIVIDENDS FOR TAX PURPOSES. THE PRESIDENT HAS PROPOSED THAT THE CURRENT 4% INVESTMENT TAX CREDIT FOR UTILITIES BE RAISED TO 12% FOR ONE YEAR (THREE YEARS FOR FACILITIES WHICH BURN NEITHER OIL OR GAS), AFTER WHICH TIME IT WOULD BE LOWERED TO 7%, A RATE WHICH APPLIES TO OTHER INDUSTRIES. INDUSTRIES OTHER THAN UTILITIES WOULD BE GRANTED THE INCREASE FROM 7% TO 12% FOR ONE YEAR ONLY.

IN ADDITION THE PRESIDENT HAS REQUESTED THE ENERGY RESOURCES COUNCIL TO REVIEW THE ENTIRE REGULATORY PROCESS AND FINANCIAL SITUATION RELATING TO ELECTRIC UTILITIES AND TO DETERMINE WHAT FURTHER REFORMS OR ACTIONS ARE NEEDED.



TO ACCELERATE THE GROWTH OF NUCLEAR POWER, THE CONGRESS NEEDS TO PASS A NUCLEAR FACILITY LICENSING ACT TO EXPEDITE SITING AND LICENSING OF NUCLEAR PLANTS.

BROADER LEGISLATION TO REDUCE ENERGY FACILITIES SITING BOTTLENECKS AND ASSURING SITES FOR NEEDED FACILITIES WITH PROPER LAND USE CONSIDERATION IS URGENTLY REQUIRED. THIS HAS BEEN PROPOSED TO THE CONGRESS. THIS LEGISLATION PROVIDES FOR FACILITIES SITING GRANTS TO STATES FOR A COMPREHENSIVE COORDINATED PLANNING PROCESS FOR ENERGY FACILITY SITING.

ALL OF THE ACTIONS I HAVE MENTIONED WOULD INCREASE OUR AVAILABLE DOMESTIC SUPPLIES OF ENERGY. OIL PRODUCTION COULD REACH 13 TO 14 MILLION BARRELS PER DAY VERSUS APPROXIMATELY NINE MILLION BARRELS PER DAY CURRENTLY.

COAL PRODUCTION COULD DOUBLE AND NUCLEAR GENERATION COULD INCREASE FROM A 4 TO 30% SHARE OF OUR ELECTRICAL GENERATION CAPACITY BY 1985.

HOWEVER, AS IN THE SHORT TERM, SUPPLY ACTIONS ARE NOT ENOUGH. WE MUST ALSO DRAMATICALLY CUT OUR HISTORICAL DEMAND GROWTH THROUGH THE IMPLEMENTATION OF ENERGY CONSERVATION ACTIONS. THE PRESIDENT ANNOUNCED A NUMBER

OF ENERGY CONSERVATION MEASURES TO REDUCE DEMAND INCLUDING:

- ° GREATER AUTOMOBILE EFFICIENCY
- ° MANDATORY BUILDING THERMAL STANDARDS
- ° A 15% ENERGY CONSERVATION TAX CREDIT FOR RESIDENTIAL INSULATION
- ° A LOW INCOME INSULATION ASSISTANCE PROGRAM
- ° VOLUNTARY APPLIANCE EFFICIENCY STANDARDS
- ° MANDATORY APPLIANCE AND AUTO EFFICIENCY LABELING

THE IMPLEMENTATION OF THESE ENERGY CONSERVATION ACTIONS COULD PROVIDE IMPORT SAVINGS BY 1985 OF 1.7 TO 2 MILLION BARRELS PER DAY.

IN ADDITION TO THESE MEASURES TO INCREASE DOMESTIC SUPPLIES AND REDUCE DEMAND, STANDBY MEASURES AND EMERGENCY STORAGE WOULD YET BE NEEDED IN 1985 TO INSULATE THE U.S. FROM FOREIGN CURTAILMENTS. THE PRESIDENT HAS REQUESTED CONGRESS FOR AUTHORITY TO DEVELOP AN EMERGENCY STORAGE SYSTEM OF ONE BILLION BARRELS FOR DOMESTIC USE AND 300 MILLION BARRELS FOR MILITARY USE BY 1985. INITIAL ENGINEERING, PLANNING, AND ENVIRONMENTAL STUDIES WILL BE COMPLETED WITHIN ONE YEAR.

THE PRESIDENT HAS ALSO REQUESTED A SET OF EMERGENCY STANDBY AUTHORITIES TO BE USED TO DEAL WITH ANY SIGNIFICANT AND FUTURE ENERGY SHORTAGES.

ACTIONS TO MEET LONG TERM GOALS (BEYOND 1985)

FOR THE LONGER TERM, THE GOAL IS TO SUSTAIN A POSITION OF ENERGY INDEPENDENCE, AND TO ENHANCE IT, SO THAT THE U.S. WILL AGAIN BE CAPABLE OF SUPPLYING A SIGNIFICANT SHARE OF THE FREE WORLD'S ENERGY NEEDS. THIS MEANS THAT, AS A NATION, WE MUST REAFFIRM OUR COMMITMENT TO A STRONG ENERGY RESEARCH AND DEVELOPMENT PROGRAM, AIMED NOT ONLY AT DEVELOPING CAPABILITY TO TAP ALL OUR MAJOR DOMESTIC ENERGY RESOURCES, BUT ALSO IN IMPROVING THE EFFICIENCY OF ENERGY UTILIZATION IN ALL SECTORS OF OUR ECONOMY.

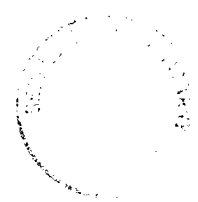
A NATIONAL SYNTHETIC FUELS COMMERCIALIZATION PROGRAM TO ASSURE A RATE OF PRODUCTION CAPACITY FOR SYNTHETIC FUELS EQUALVALENT TO ONE MILLION BARRELS OF OIL PER DAY IS ALSO A PRIORITY. CURRENTLY, FEA, THE DEPARTMENT OF INTERIOR, AND THE OFFICE OF MANAGEMENT AND BUDGET ARE JOINTLY UNDERTAKING A STUDY TO DETERMINE THE INCREASED OBLIGATIONAL AUTHORITY REQUIRED IN FISCAL YEAR 1976 AND BEYOND TO IMPLEMENT THIS PROGRAM.

THE CREATION OF THE ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION, HAS CONSOLIDATED MAJOR RESEARCH AND DEVELOPMENT FUNCTIONS INTO ONE ORGANIZATION AND THE PRESIDENT HAS PLEDGED TO SEEK WHATEVER FUNDS ARE NEEDED FOR FUTURE R&D ACTIVITIES.

RESOURCE REQUIREMENTS FOR THE TOTAL ENERGY PROGRAM

THE FEDERAL ENERGY PROGRAM AS OUTLINED IN THE PRESIDENT'S ENERGY MESSAGE TO THE CONGRESS WILL REQUIRE BUDGET AUTHORITY IN FY 1976 OF \$2,491.0 MILLION AND OUTLAYS OF \$2,240.0 MILLION. THESE AMOUNTS INCLUDE ALL SUPPLEMENTALS BEING REQUESTED FOR FY 1975 AND PROPOSED BUDGET AMENDMENTS FOR FY 1976.

THESE FUNDS ARE BEING JUSTIFIED BY THE FEDERAL ENERGY ADMINISTRATION, DEPARTMENT OF THE INTERIOR, FEDERAL POWER COMMISSION, NUCLEAR REGULATORY COMMISSION AND SEVERAL OTHER AGENCIES WITH THE MAJOR PART OF THE FUNDS BEING REQUESTED BY ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION. A BREAKDOWN OF THE BUDGET AUTHORITY AND OUTLAYS FOR FY 1976 FOLLOWS:



(IN MILLIONS OF DOLLARS)

<u>DEPARTMENT/AGENCY</u>	<u>BUDGET AUTHORITY</u>	<u>OUTLAYS</u>
INTERIOR.....	50	47
ERDA.....	1,885	1,638
ENVIRONMENTAL PROTECTION AGENCY.....	112	113
FEDERAL ENERGY ADMINISTRATION.....	187	208
FEDERAL POWER COMMISSION..	36	36
NUCLEAR REGULATORY COMMISSION.....	220	198
TOTALS.....	<u>2,491</u>	<u>2,240</u>

A BREAKDOWN BY PROGRAM FOR FY 1976 IS AS FOLLOWS:

(IN MILLIONS OF DOLLARS)

<u>PROGRAM</u>	<u>BUDGET AUTHORITY</u>	<u>OUTLAYS</u>
GENERAL OPERATING PROGRAMS.....	548	498
REGULATION.....	178	164
RESEARCH AND DEVELOPMENT.....	1,764	1,577
TOTALS.....	<u>2,491</u>	<u>2,240</u>

THESE AMOUNTS ARE EXTREMELY SMALL WHEN VIEWED IN THE CONTEXT OF THE COST OF REMAINING VULNERABLE TO FOREIGN SUPPLY CUTOFFS. IT IS ESTIMATED THAT LAST YEAR'S EMBARGO COST ON OUR COUNTRY APPROXIMATED 13 BILLION DOLLARS IN LOSS OF GROSS NATIONAL PRODUCT. FOR EACH ONE MILLION BARRELS, IT IS ESTIMATED THAT THE ECONOMY WOULD LOSE OF GROSS NATIONAL PRODUCT OVER 30 BILLION DOLLARS PER YEAR. IF NONE OF THE PRESIDENT'S PROPOSED ENERGY MEASURES WERE IMPLEMENTED, VULNERABLE IMPORTS IN 1985 ARE EXPECTED TO BE 12 TO 13 MILLION BARRELS PER DAY, REFLECTING A POTENTIAL

LOSS IN GROSS NATIONAL PRODUCT OF APPROXIMATELY 350 BILLION DOLLARS IN CONSTANT 1973 DOLLAR VALUES IF IMPORTS WERE CUT OFF FOR A YEAR.

ALSO, THE INCREASED OBLIGATIONAL ESTIMATES HERE ARE EXTREMELY SMALL WHEN COMPARED TO THE COST OF PURCHASING PETROLEUM FROM FOREIGN SOURCES AT CURRENT AND PROJECTED PRICES. IN 1977, THE 2.2 MILLION BARRELS PER DAY SAVINGS RESULTING FROM IMPLEMENTATION OF THE MEASURES DISCUSSED HERE TODAY WOULD SAVE THE UNITED STATES EIGHT BILLION DOLLARS. IN 1985, THE NINE MILLION BARREL PER DAY SAVINGS WOULD SAVE THE UNITED STATES APPROXIMATELY 23 BILLION DOLLARS.

RESOURCE REQUIREMENTS FOR THE FEDERAL ENERGY ADMINISTRATION

THE FISCAL YEAR 1976 APPROPRIATION REQUEST FOR THE FEDERAL ENERGY ADMINISTRATION TOTALS \$112,435,000 AND 1,715 POSITIONS WHICH IS A DECREASE OF \$14,600,000 AND 1,410 POSITIONS UNDER OUR APPROPRIATIONS AVAILABLE IN FISCAL YEAR 1975. THIS DECREASE IS PREMISED ON THE EXPIRATION OF THE EMERGENCY PETROLEUM ALLOCATION ACT ON AUGUST 31, 1975. SHOULD THIS ACT BE EXTENDED IN ITS PRESENT FORM OUR REQUIREMENTS IN FY 1976 WOULD INCREASE

BY \$25 TO \$30 MILLION DOLLARS. THESE FIGURES DO NOT INCLUDE A \$15,000,000 PROPOSED SUPPLEMENTAL FOR FISCAL YEAR 1975 OR A \$75,000,000 PROPOSED BUDGET AMENDMENT FOR FISCAL YEAR 1976, BOTH OF WHICH REQUIRE AUTHORIZING LEGISLATION.

CONCLUSION

MR. CHAIRMAN, I THINK THIS COMMITTEE WAS PRUDENT IN SCHEDULING THE FEDERAL ENERGY ADMINISTRATION'S APPROPRIATION HEARINGS LATE IN APRIL OF THIS YEAR. THE BUDGET WHICH HAS BEEN FURNISHED THE COMMITTEE WAS FORMULATED IN THE FALL. THE PRESIDENT AND THE CONGRESS ARE NOW IN THE PROCESS OF ESTABLISHING A NATIONAL ENERGY POLICY WHICH MIGHT WELL REQUIRE A BUDGET AMENDMENT TO REFLECT THE ENERGY PRIORITIES OF THIS POLICY. MR. CHAIRMAN, THIS CONCLUDES MY PREPARED REMARKS. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU OR THE COMMITTEE MEMBERS MAY HAVE.



STATEMENT OF FRANK G. ZARB, ADMINISTRATOR, FEDERAL
ENERGY ADMINISTRATION, BEFORE THE HOUSE APPROPRIATIONS
SUBCOMMITTEE ON APPROPRIATIONS FOR THE DEPARTMENT OF
INTERIOR AND RELATED AGENCIES

FEBRUARY 26, 1975

Mr. Chairman:

I appreciate the opportunity to appear before you today to discuss the serious energy challenge facing this Nation. I congratulate you on your assignment as Chairman and welcome the new members of the Committee.

We are at a pivotal point of time in our history when the decisions we make concerning energy will chart the course of our Nation's destiny for this generation and generations to come.

An American Energy Policy is needed now and we must act promptly if we are to restore our energy independence by 1985. The task ahead will demand a great deal from all branches of the government, from industry, the academic community and from the American people.

Decisive action by the United States to meet the energy challenge will serve as a beacon for other nations to face up to the escalating energy problems.

The embargo of 1973 proved to be a stark reality for industrialized nations. Cheap oil compounded by neglect in developing additional sources of energy placed the United States and other large consuming nations in a position of energy vulnerability. Not only were supplies disrupted, but the prices of oil quadrupled. The embargo caused a significant drop in our gross national product as well as the unemployment of upwards to one-half million members of our labor force.

In 1970, we paid \$3 billion for imported oil. Four years later, we paid \$26 billion. If the United States does not reverse this trend, our bill for imported oil will reach \$32 billion by 1977.

It would be nice to say that our dependence upon foreign oil has decreased since the embargo. Unfortunately, this is not the case. 36 percent of the oil we now use is derived from foreign sources versus 31 percent at the time of the embargo.

I am sure that you will agree that this trend is intolerable and that the need for action is explicit.

The Administration's proposals to deal with the mounting energy problems are reflected in the fiscal year 1976 budget recommendations and the proposed Energy Independence Act of 1975 submitted to the Congress on January 30, 1975. Prior to a discussion of the budget implications of the energy program, let me highlight the actions deemed necessary to get this country back on the track of energy self sufficiency.

Basically, there are three critical phases to the action plan:

1. Near term.
2. Mid range 1975-1985.
3. Long term (post 1985).

Near term goals require immediate action to conserve and reduce the amount of energy consumed. Frankly, we are limited in the steps that can be taken to increase the domestic production and supply of energy in the near term. Therefore, the Federal, State and local governments, industry and the American people must form a partnership dedicated toward the elimination of wasteful uses of energy along with a day-to-day commitment to conserve, in every way possible, the precious energy resources now available to us.

Voluntary conservation measures have not been adequate. More must be done through voluntary efforts and an increased public awareness of the seriousness of the energy challenge is a high priority. Public education on the need, type and extent of conservation needed will result in reduced demand of energy and I look forward to a return visit with this Committee in early March to discuss a supplemental request to the budget of the Federal Energy Administration for a public education program.

The important Project Independence Report accomplished by the Federal Energy Administration and subsequent policy studies demonstrated that the United States had to formulate an all-inclusive energy plan with specific targets and goals. A piecemeal or random approach to correct the energy imbalances simply would be a "band-aid" remedy and five years from now we might still be discussing policy initiatives. This is the reason for the comprehensive proposal now before the Congress. One specific conservation goal is a reduction of our imports by 2 million barrels per day by the end of 1977.

I might add here that this kind of a reduction is in our national interest and aptly reflects the determination of the United States to get on with the job of becoming less vulnerable to foreign influences. Avoiding a dollar outflow of \$32 billion by 1977 for petroleum import is, I am sure, of particular interest to this Committee.

Actions to Meet the Near Term Goal

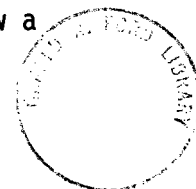
In the first crucial years, there are only a limited number of actions that can increase available domestic petroleum supplies: decontrol of domestic crude oil prices, the development of the Elk Hills California Naval Petroleum Reserve and conversion of industrial boilers from oil to coal-firing capability. Since these actions are estimated to produce only 300,000 barrels per day in 1975 and 600,000 barrels per day in 1977, the remaining import savings required to meet the President's goals must result from energy conservation.

Legislation has been proposed for the purpose of developing the Elk Hills Naval Petroleum Reserve. This legislation provides for an increase in petroleum production from NPR-1 from 160,000 barrels per day by the end of fiscal year 1975 to 300,000 barrels per day by 1977. Oil or proceeds from sale or exchange of this increased production will be used first to top-off military fuel tanks, and for establishing the National Strategic Petroleum Reserves and for exploration, development, and production of NPR-4 and other Naval petroleum reserves.

No increase in obligational authority would be required beyond the amount included in the President's budget for fiscal year 1975 and fiscal year 1976 to attain this increase in production. Total obligations are estimated at 84.9 million dollars in fiscal year 1975 and 129.7 million dollars in fiscal year 1976. The revenues gained from the increased production from the Elk Hills Naval Petroleum Reserve, estimated at 112 million dollars in fiscal year 1975 and \$468.9 million dollars in fiscal year 1976, will far surpass the budget obligations requested for the corresponding years.

The Administration has also submitted a set of comprehensive amendments to the Energy Supply and Environmental Coordination Act of 1974 to increase the number of oil burning facilities that can be converted to coal in 1975 through 1977. The increased coal conversion activities to be administered by the FEA would not impact the current year 1975 budget, but would require \$2.5 million in budget obligations during fiscal year 1976.

There is sufficient evidence to show that the higher prices of petroleum products such as motor gasoline does dampen demand. Our consumption would have been at least 1 million barrels per day more if the prices had not risen so sharply. The oil producing cartel also is reacting to this impact. Although the cartel cut back production of some 9 million barrels per day, there is now a surplus of oil on the world market.



There were many other ideas and alternatives explored in coming to grips with the near term options. These included a greater infusion of government controls such as rationing, import quotas, allocation systems, Sunday closings of gasoline stations, odd-even days of gasoline purchases, restrictions in the number of cars per family and so on.

The hardships and inequities that would be imposed upon the American people along with Federal and State bureaucracies to administer such regulatory measures convinced us that the American way of free market supply and demand was indeed a more effective and palatable alternative than all of the others.

Actions To Meet Mid Term Goals (1975-1985)

The goals of the Administration's energy program is the elimination, by 1985, of our nation's vulnerability to economic disruption by foreign suppliers. In other words, by then our petroleum imports should amount to only three to five million barrels per day, and we should be able to offset a one year cutoff of these remaining imports through implementation of standby measures and use of national storage reserves.

To attain such a goal, we must start immediately to remove constraints and provide new incentives for domestic production. Legislation has been proposed asking the Congress to authorize the exploration, development and production of NPR-4 in Alaska, which could provide at least two million barrels of oil per day by 1985, and to deregulate the price of new natural gas. Since the initial funds required for exploration of NPR-4 will be obtained from the proceeds resulting from increased production of NPR-1, the implementation of this proposed measure will not result in any budget impact for fiscal year 1975 and fiscal year 1976. It should be noted that the President has proposed that the government's share of production from NPR-4 (at least 20%) be earmarked for financing the National Strategic Petroleum Reserves.

We must continue an aggressive leasing policy for the outer continental shelf areas, including the Atlantic, the Pacific, and the Gulf of Alaska. Increased OCS leasing could add approximately 1.5 million barrels of oil per day and additional supplies of natural gas by 1985.

In addition to finding more oil and gas, we must take advantage of our most abundant energy resource, coal. Although the President vetoed the surface mining legislation passed by the last Congress,

the President has submitted a bill which builds on that valuable piece of legislation in a constructive way. It will correct the problems which led to the President's veto and strike a balance between our desires for reclamation and environmental protection and our need to increase coal production substantially over the next ten years. With the passage of the proposed Surface Mining Bill, the increased leasing of federal lands for coal production is anticipated to produce 70 million dollars of additional revenues in fiscal year 1976.

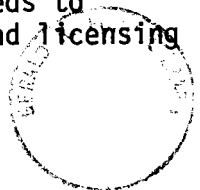
To further increase the consumption of coal, we need to amend the Clean Air Act, clarifying the meaning of significant air quality deterioration, extending compliance dates through 1985 to allow implementation of stack gas scrubbers and permitting use of intermittent control systems in isolated power plants through 1985. These Clean Air Act changes will have no impact on the budget for fiscal year 1975 and 1976.

Of course, the market for coal, as well as the availability of electric power, depends upon the electric utilities industry. In recent months, utilities have cancelled or postponed more than 67% of planned nuclear expansion and more than 30% of planned additions to non-nuclear capacity. The delays and difficulties this industry is currently experiencing could lead to higher imported oil requirements and inadequate supplies of electricity within five to ten years.

The electric utilities need assistance through higher investment tax credits, mandated reforms and state utility practices, and a change in tax laws applicable to all industries, including utilities, which allows deduction of preferred stock dividends for tax purposes. The President has proposed that the current 4% investment tax credit for utilities be raised to 12% for one year (three years for facilities which burn neither oil or gas), after which time it would be lowered to 7%, a rate which applies to other industries. Industries other than utilities would be granted the increase from 7% to 12% for one year only.

In addition the President has requested the Energy Resources Council to review the entire regulatory process and financial situation relating to electric utilities and to determine what further reforms or actions are needed.

To accelerate the growth of nuclear power, the Congress needs to pass a Nuclear Facility Licensing Act to expedite siting and licensing of nuclear plants.



Broader legislation to reduce energy facilities siting bottlenecks and assuring sites for needed facilities with proper land use consideration is urgently required. This has been proposed to the Congress. This legislation provides for facilities siting grants to states for a comprehensive coordinated planning process for energy facility siting.

All of the actions I have mentioned would increase our available domestic supplies of energy. Oil production could reach 13 to 14 million barrels per day versus approximately nine million barrels per day currently. Coal production could double and nuclear generation could increase from a 4 to 30% share of our electrical generation capacity by 1985.

However, as in the short term, supply actions are not enough. We must also dramatically cut our historical demand growth through the implementation of energy conservation actions. The President announced a number of energy conservation measures to reduce demand including:

- Greater automobile efficiency
- Mandatory building thermal standards
- A 15% energy conservation tax credit for residential insulation
- A low income insulation assistance program
- Voluntary appliance efficiency standards
- Mandatory appliance and auto efficiency labeling

The implementation of these energy conservation actions could provide import savings by 1985 of 1.7 to 2 million barrels per day.

In addition to these measures to increase domestic supplies and reduce demand, standby measures and emergency storage would yet be needed in 1985 to insulate the U.S. from foreign curtailments. The President has requested Congress for authority to develop an emergency storage system of one billion barrels for domestic use and 300 million barrels for military use by 1985. Initial engineering, planning, and environmental studies will be completed within one year.

The President has also requested a set of emergency standby authorities to be used to deal with any significant and future energy shortages.

Actions to Meet Long Term Goals (Beyond 1985)

For the longer term, the goal is to sustain a position of energy independence, and to enhance it, so that the U.S. will again be capable of supplying a significant share of the free world's energy needs. This means that, as a nation, we must reaffirm our commitment to a strong energy research and development program, aimed not only at developing capability to tap all our major domestic energy resources, but also in improving the efficiency of energy utilization in all sectors of our economy.

A national synthetic fuels commercialization program to assure a rate of production capacity for synthetic fuels equivalent to one million barrels of oil per day is also a priority. Currently, FEA, the Department of Interior, and the Office of Management and Budget are jointly undertaking a study to determine the increased obligational authority required in fiscal year 1976 and beyond to implement this program.

The creation of the Energy Research and Development Administration, has consolidated major research and development functions into one organization and the President has pledged to seek whatever funds are needed for future R&D activities.

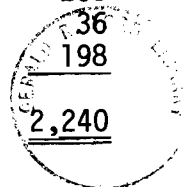
Resource Requirements for the Total Energy Program

The Federal energy program as outlined in the President's Energy Message to the Congress will require budget authority in FY 1976 of \$2,491.0 million and outlays of \$2,240.0 million. These amounts include all supplementals being requested for FY 1975 and proposed budget amendments for FY 1976.

These funds are being justified by the Federal Energy Administration, Department of the Interior, Federal Power Commission, Nuclear Regulatory Commission and several other agencies with the major part of the funds being requested by Energy Research and Development Administration. A breakdown of the budget authority and outlays for FY 1976 follows:

(in millions of dollars)

<u>Department/Agency</u>	<u>Budget Authority</u>	<u>Outlays</u>
Interior	50	47
ERDA	1,885	1,638
Environmental Protection Agency	112	113
Federal Energy Administration	187	208
Federal Power Commission	36	36
Nuclear Regulatory Commission	220	198
Totals	<u>2,491</u>	<u>2,240</u>



A breakdown by program for FY 1976 is as follows:

(in millions of dollars)

<u>Program</u>	<u>Budget Authority</u>	<u>Outlays</u>
General operating programs.....	548	498
Regulation.....	178	164
Research and development.....	<u>1,764</u>	<u>1,577</u>
Totals.....	<u>2,491</u>	<u>2,240</u>

FY 1976 outlays for energy programs will increase by over 50% from FY 1975 yet, they are modest when viewed in the context of the cost of remaining vulnerable to foreign supply cutoffs. It is estimated that last year's embargo cost on our country approximated 13 billion dollars in loss of Gross National Product. If none of the President's proposed energy measures were implemented, and another embargo were imposed, the impact on our GNP could be even more severe.

The increased obligational estimates here are also modest when compared to the cost of purchasing petroleum from foreign sources at current and projected prices. In 1977, the 2.2 million barrels per day savings resulting from implementation of the measures discussed here today would save the United States eight billion dollars. In 1985, the nine million barrel per day savings would save the United States approximately 23 billion dollars. We believe, however, that these funds are ample to carry out the President's program in an effective manner.

Resource Requirements for the Federal Energy Administration

The Fiscal Year 1976 appropriation request for the Federal Energy Administration totals \$112,435,000 and 1,715 positions which is a decrease of \$14,600,000 and 1,410 positions under our appropriations available in Fiscal Year 1975. This decrease is premised on the expiration of the Emergency Petroleum Allocation Act on August 31, 1975. Should this Act be extended in its present form our requirements in FY 1976 could increase by \$25 to \$30 million dollars. These figures do not include a \$15,000,000 proposed supplemental for Fiscal Year 1975 or a \$75,000,000 proposed budget amendment for Fiscal Year 1976.

Conclusion

Mr. Chairman, this concludes my prepared remarks. I will be happy to answer any questions you or the Committee Members may have.