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

WEDNESDAY, May 7, 1975

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you to discuss the budget requirements of the Federal Energy Administration in FY 1976.

As you know, the President's budget submitted for your consideration requested \$112,435,000 and a phased-down staffing level of 1715 positions. This budget level was based on the assumption that the allocation legislation would expire on August 31, 1975, and that only minimal program increases would be supported for the conservation and resource development programs.

The President's National Energy Action Plan has not yet been approved by the Congress and, as a result, the current energy situation is fluid. Until we receive further guidance concerning the implementation of either the proposals in the President's program or Congressionally-developed alternatives, it is now clear that we must continue the operation of the Federal Energy Administration as currently structured. This will likely require the retention of positions previously identified for elimination in the FEA budget submission. The direction and level of our future activity is tentative and will be directly influenced by Congressional actions implementing the President's proposals.

In view of this situation, I am requesting that you consider our budget as submitted with the understanding that, when the Energy Action Plan is finalized, it may be necessary to come back to you with a further budget request to carry out the programs that you have prescribed.

Our request does not include the \$75 million budget amendment included in the proposed legislative program for grants to low income homeowners for "winterization" expenses and for the energy siting requirements. Also, it is our intent to further strengthen our program of auditing producers, refiners and suppliers, particularly the suppliers of petroleum products to utilities for possible violation of FEA pricing regulations with a view toward eliminating any overcharges to the consumer and insuring that any price rollbacks/rebates are actually refunded to the consumer.



My presentation today is organized into three major sections. Section I is a general overview of the energy problems facing this Nation. Section II describes the President's Energy Action Plan deemed necessary to get this country back on the track of energy selfsufficiency. Section III outlines the Federal Energy Administration's FY 1976 program for implementation of this plan.

I. GENERAL OVERVIEW

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

A national energy policy is needed now. We must act promptly if we are to achieve energy independence by 1985 and retain it beyond that time. The United States must take decisive action to meet the energy challenge and to face up to other oil-producing nations.

The embargo of 1973 presented a stark reality for the industrialized nations. Reliance on cheap foreign oil, surging world-wide demand for energy, and the depletion of domestic energy supplies, compounded by significant distortions in pricing placed the United States in a position of energy vulnerability. The oil embargo disrupted supplies to the United States and its allied consuming nations and emphasized the strength of the Organization of Petroleum Exporting Countries (OPEC). OPEC member states also quadrupled prices for their crude oil. This combination of an embargo and rapid, excessive escalation of prices caused a significant drop in our Gross National Product with a resultant rise of unemployment in our labor force of more than 500,000.

It would be nice to say that our dependence upon foreign oil has decreased since the embargo. Unfortunately, this is not the case; 38 percent of the oil we now use is derived from foreign sources--no improvement from our 35 percent dependence in 1973. And by 1977 our imports will probably grow by another 1 to 2 million barrels a day--all from insecure sources. We cannot afford this level of dependency nor the economic impact that another embargo would have on the nation.

Security of supply is not our only concern. Imports are a drain on our national wealth. In 1970, we imported 3.5 million barrels of oil a day at an annual cost of \$3 billion. Four years later, we imported 6.2 million barrels a day at an annual cost of \$24 billion. If the United States does not reverse this trend, our requirement for 8 million barrels a day will cost \$32 billion by 1977.



Moreover, unless the type of programs asked for in the President's energy legislation are forthcoming, dependence on insecure foreign oil will continue to increase to approximately 50 percent of our total requirements by 1985, or about 12 million barrels a day. To compound this situation, the Canadian Government has notified us that, because of their own diminishing production capacity, export of Canadian oil to the United States will be reduced and, finally, eliminated by 1983. This means that an increasing share of our oil imports must come from OPEC member states, predominantly in the Middle East. This trend is intolerable and the need for action is obvious.

II. THE PRESIDENT'S ENERGY ACTION PLAN

The President has presented his proposals to deal with the mounting energy problems in his State of the Union Message, his Fiscal Year 1976 budget recommendations, and the proposed Energy Independence Act of 1975. However, before I discuss the budget implications of the energy program, let me highlight the actions that are required to make this country energy self-sufficient. Basically, there are three distinct phases to the Action Plan:

- A. Near-term (1975-1977)
- B. Mid-range (1977-1985)
- C. Long-Term (Post 1985)

The near-term goal requires immediate action to increase our domestic energy supplies while reducing the amount of energy consumed. Frankly, we are limited in the steps that can be taken to increase either the domestic production or supply of energy in the near-term. Therefore, the Federal, State and local governments, industry and the American people must form a partnership dedicated to the elimination of wasteful uses of energy by day-to-day commitment to conserve, in every way possible, the precious energy resources now available to us.

Voluntary conservation measures, while praiseworthy on the part of many, on the whole have not been adequate. Heightened public awareness of the seriousness of the energy challenge and the opportunities for personal financial, as well as energy, savings are essential to increased voluntary efforts. We must motivate Americans to conserve energy in both personal and institutional settings. Effective public education on the need, type, and extent of the conservation required is key to reducing the demand for energy. The existing program has already resulted in some reduction; however, an expanded program is needed if we are to achieve the desired result.

Both our important Project Independence Report and subsequent policy studies have illustrated that the United States must formulate an all-inclusive Energy Action Plan with specific targets and goals. A piecemeal or random approach to correct the energy imbalances would simply be a superficial remedy, and five years from now we could still be discussing policy initiatives. This is the reason for the comprehensive proposal now before the Congress.

A. ACTIONS TO MEET THE NEAR-TERM GOAL (1975-1977)

Our specific near-term goal is to reduce our oil imports by 2 million barrels per day by the end of 1977. This reduction is essential to our national interest and reflects the determination of the United States to become less vulnerable to interruptions in our overseas supply.

In these first crucial years, there are only a limited number of actions that we can take to increase the availability of domestic petroleum supplies: the release of production constraints on the Elk Hills, California, Naval Petroleum Reserve (NPR-1), the conversion of oil-fired boilers to coal-fired capability, and the improvement of productivity from existing nuclear power plants while expediting the construction of new plants. The projected impact of these actions on the oil import requirements of the Nation is limited--only the equivalent of 600,000 barrels a day by 1977. The bulk of the import savings must result from actual energy conservation.

Legislation has been proposed to allow full development and production of the Elk Hills Naval Petroleum Reserve (NPR-1). This legislation provides for an increase in petroleum production from NPR-1 from a current rate of 2,500 barrels per day to 300,000 barrels per day in 1977. Some of the financial proceeds made available from this increased production will be used to fill military fuel tanks. Most of the proceeds, however, will be used to establish the National Strategic Petroleum Reserves and to support further exploration and development of the other Naval Petroleum Reserves, including NPR-4 in Alaska.

The Administration has also submitted a set of amendments to the Energy Supply and Environmental Coordination Act of 1974. These would increase the number of oil burning facilities that can be converted to coal in 1975 through 1977 and extend FEA's authority to issue prohibition orders to power plants and other major fuel burning installations.

In the near-term, these limited supply actions will not meet our needs. We must also dramatically cut our energy demand growth rate through the

implementation of conservation actions. There is sufficient evidence to show that the higher prices for petroleum products such as motor gasoline actually dampened demand. Our consumption would have been at least one 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 by approximately 7 million barrels per day, there remains a surplus of oil in the world markets.

The knowledge of this supply surplus has significantly diluted the feeling of urgency which motivated the American people to support voluntary conservation programs. To reverse this trend, we are developing and conducting public education and multimedia campaigns in support of energy conservation. We are also providing support to the State and local governments with their energy conservation programs.

The President has announced his intention to phase out the price controls on "old" oil over the next 25 months. These controls now apply to about two-thirds of our domestic production. This action, increasing the domestic oil price to the free market level, will both reduce the demand and stimulate new domestic production. The proposed increases of import fees, although temporarily delayed by the President, will continue the deliberate increase to the prices of imported oil. Both actions will make vital contributions to the national goals of reducing our dependence on imported crude oil.

There were many ideas and alternatives explored in developing the near-term options. These included a greater infusion of governmental controls such as rationing, import quotas, allocation systems, Sunday closings of gasoline stations, and odd-even days of gasoline purchases. The hardships and inequities that would be imposed upon the American people, along with the necessity for increased Federal and State bureaucracies to administer such regulatory measures, convinced us that the American system of free market supply and demand was, indeed, the most effective and equitable alternative.

B. ACTIONS TO MEET MID-TERM GOALS (1977 - 1985)

To achieve the mid-term goals of the Administration's energy program, our petroleum imports should amount to only four to five million barrels per day by 1985. We should be able to offset a one-year cutoff of these remaining imports through implementation of standby measures and use of the National Strategic Petroleum Reserve in conjunction with the cooperative sharing provisions of the International Energy Program.



To attain these objectives, we must start immediately to remove constraints and to provide new incentives for domestic production. Legislation has been proposed to authorize the exploration, development and production of NPR-4 in Alaska, which is projected to provide 2 million barrels of oil per day by 1985. The initial funds required for exploration of NPR-4 will be obtained from the proceeds resulting from increased production of NPR-1. The President has proposed that the government's share of production from NPR-4 (at least 20 percent or such other amount as the President may determine) be earmarked for financing the National Strategic Petroleum Reserve.

We must continue an aggressive policy for the outer continental shelf (OCS) in the Atlantic, the Pacific, Gulf of Mexico and the Gulf of Alaska areas. 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. We need to double our annual coal production from 601 million short tons (in 1974) to 1.2 billion short tons over the next ten years. Some of this increased production will come from additional leasing of federal coal lands which will produce \$70 million of additional revenues in fiscal year 1980. Doubling coal production will in effect, reduce oil import requirements by about 5 million barrels a day. This increased production must be accompanied by reclamation and the protection of our environment.

The President has proposed amendments to the Clean Air Act, clarifying the meaning of significant air quality deterioration, extending compliance dates, and postponing enactment of strict anti-pollution measures (including installation of scrubbers and permit use of intermittent systems in isolated plants to 1985).

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 percent of planned nuclear expansion and more than 30 percent 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 electricity industry needs assistance through mandated reforms of state utility regulatory practices and a change in tax laws to increase the investment tax credit to a level comparable with other industries. We are reviewing the regulatory practices and procedures governing this industry to determine where changes can be made to make them responsive to the new energy and economic realities, specifically:



1. Eliminate undue regulatory lag by prohibiting suspension of proposed rate schedules for longer than 5 months.
2. Eliminate prohibitions against fuel adjustment clauses to ensure that utility rates accurately reflect increasing fuel costs.
3. Eliminate undue financial hardships associated with construction of capital intensive projects by prohibiting exclusions of construction work in progress from rate base.
4. Eliminate prohibitions against off-peak pricing so utilities may charge lower prices to consumers during off-peak hours.
5. Eliminate prohibitions against exclusions of legally required costs associated with pollution controls from rate base.
6. Eliminate prohibitions against use of normalization method of accounting by a utility.

The President has established a goal of 200 operational nuclear power plants by 1985, a significant increase from the current 54 plants. This is a major, essential part of our plans for energy self-sufficiency. Nuclear power--using our domestic uranium resources--has the potential to provide electric power to consumers at a lower cost than fossil fuel sources.

The FEA is actively engaged in working toward this goal in cooperation with the States and other federal agencies. Our efforts to improve the productivity of power plants by stimulating industry to improve reliability are noteworthy. For example, the FEA Interagency Task Group on Power Plant Reliability has completed more than a one year study of the causes of poor reliability of large electric power plants. The Task Group's report, "A Report on Improving the Productivity of Electric Power Plants", is now being printed by the Government Printing Office. We are following up this report with meetings, through our regional offices, with electric utilities to obtain their cooperation in implementing the Task Group's recommendations. We also are in the process of issuing a contract to study high and low reliability nuclear and coal-fired power plants to determine specific underlying causes of poor reliability in some plants. We believe that, by continuing these actions over the next year, we can develop the cooperation between industry and Government that is necessary to begin improvements.

In the area of new plant construction we are working to stimulate the industry to increase standardization of designs and components. We are



actively reviewing potential hydroelectric facilities which can effect the maximum development of this energy resource consistent with environmental needs. To accelerate the growth of nuclear power, the nation needs a Nuclear Licensing Act to expedite siting and licensing of nuclear plants. An extension of the Price-Anderson Indemnity System to provide financial protection to the public in the unlikely event of a serious nuclear incident is also needed. These legislative items are essential to the orderly, continued growth of nuclear power.

Broader legislation is urgently required to plan for future energy facilities, to reduce energy facilities siting bottlenecks, and to assure sites for needed facilities with proper land use consideration. This legislation would provide for grants to States for the development and the administration of a comprehensive coordinated energy facility planning process.

All of the actions I mentioned will increase our available domestic supplies of energy. Domestic oil production could reach 13 to 14 million barrels per day by 1985 versus the current production of approximately eight and one-half million barrels per day. Coal production could double and nuclear generation could increase from a 4 percent to a 30 percent share of our electrical capacity by 1985. Together, they reflect increased energy production capabilities of more than 10 million barrels per day above the 1974 level.

To give added impetus to the conservation programs, the President has announced a number of energy conservation measures, including:

1. Greater automobile efficiency--a 40 percent improvement in the fuel economy of new automobiles by model year 1980. Commitments to achieve this goal have already been obtained from auto manufacturers. The President has also announced that he will seek amendments to the Clean Air Act to achieve a better balance between environmental and energy needs.
2. A tax credit for 15 percent of the cost of installing insulation and making other energy conserving modifications to homes.
3. A winterization assistance program to install insulation, weatherstripping and caulking in homes of low income individuals.
4. A mandatory program to develop and ensure the adoption of energy conservation standards for all new residential and commercial buildings.
5. Mandatory motor vehicle and appliance energy labeling programs.
6. A voluntary appliance efficiency improvement program which has a goal of achieving an average of 20 percent improvement by 1980.



The implementation of these energy conservation actions will provide import savings of 1.7 to 2 million barrels per day by 1985. We believe that combining these efforts with our on-going voluntary programs will be the most effective means of achieving major energy savings.

In addition to these measures to increase domestic supplies and reduce demand, standby measures and emergency petroleum storage capabilities are required to insulate the United States against future petroleum import curtailments. The President has requested Congress to grant him authority to develop an emergency storage system of up to 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 implemented in the event of any significant future energy shortage.

C. Actions To Meet Long-Term Goals (Beyond 1985)

For the longer term, our goal is to sustain a position of energy independence. This means that, as a Nation, we must reaffirm our commitment to a strong energy research and development program, which will develop all our current domestic energy resources and encourage innovation in the development of new energy sources and improve the efficiency of energy utilization in all sectors of our economy. We applaud the creation of the Energy Research and Development Administration (ERDA) which consolidates major research and development functions into a single organization. We shall work with ERDA, wherever appropriate, to assist in the accomplishment of their goals.

A national Synthetic Fuels Commercialization Program to assure a commercial production capacity for synthetic fuels is also a priority. Currently, FEA, ERDA, the Department of Interior, EPA, the Office of Management and Budget, and the National Science Foundation are working to forge a program which will fill this void.

The Congress has given the Federal Energy Administration its mandate to provide national leadership in the development of programs necessary to achieve energy self-sufficiency. To meet this mandate, the Agency has developed five major program areas each of which concentrates its efforts on a single phase of the comprehensive energy plan. These program areas have a direct relation to the goals of the President's Energy Action Plan. Working together, with the Congress, we have the responsibility for the development of plans and implementation of the programs essential to meet our national energy goals.



We are continuing the development and analysis of national energy policy options to include the refinement of the national energy plan, continued supply/demand forecasting; and the collection and analysis of the data essential to the development of realistic and valid programs. Since no country in the world can act alone to meet the international energy crisis, we must also insure that this country meets its requirements as a partner in effective multi-national energy programs to include contingency energy-sharing plans in the event of a future embargo. Further, we must maintain the proper balance between the development of the national and international energy programs and goals plus a realistic American energy import-export program.

The remaining three program areas--conservation/environment, resource development and regulation--correspond directly to clearly identifiable portions of the currently enacted energy legislation as well as those programs the President has proposed in his Energy Action Plan. With renewed emphasis on mandatory and voluntary energy conservation programs, the FEA has taken the lead in the development of education and action-oriented programs. These conservation programs are the major tools we have to meet the national goals of oil import reductions in the near-term. We must create both public understanding of the requirement for energy conservation and a public desire to meet the needs of the nation in this area.

Through our energy resources development activity, we have concentrated on those actions required to expedite the development of domestic energy sources other than coal, oil and natural gas. These programs must be well underway if we are to meet our mid-term goals for the increased supply of domestic energy.

Our regulatory activity assures compliance with the price and allocation regulations through audits and investigations of producers, refiners and suppliers under the provisions of the Emergency Petroleum Allocation Act. Major emphasis will continue on protecting the market shares of independent retailers and refiners. In addition, this activity is charged with the execution of the audit of suppliers of petroleum products to utilities. Until such time as the proposed conservation and resource development actions bring us to our energy goals, we must take steps to insure that we are never again so vulnerable to external manipulation of our energy supply. The regulatory activity has the responsibility to develop and maintain contingency plans against future energy emergencies.

While the long-term goals of the Energy Action Plan relate to the missions of ERDA, the programs required to meet the near-term and mid-term goals are clearly within the mandates of the FEA Act of 1974. The energy needs of this nation demand we continue our efforts until all our goals are met. Our support of the country's requirements must not be terminated prematurely.



In FY 1976, the Federal Energy Administration will continue to provide the national leadership required to implement the programs that we have jointly developed to meet the national energy goals. The Congress and the Administration have worked closely during the past several years of increased energy awareness to insure that the requirements of the nation are met. We will continue to work together to meet the energy challenge.

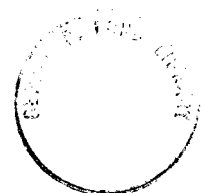
III. FEA ACTIVITIES TO MEET FY 76 PROGRAMS

The Federal Energy Administration program is composed of six formal budget activities of which five are programmatic in nature and the sixth provides the executive direction, administrative and staff support to the Agency.

The resource requirements identified for the program activities are consistent with our formal budget submission. Please bear in mind that these requirements were based on program assumptions that may no longer be totally valid. Generally speaking, the financial resources required for Energy Policy and Analysis, Energy Conservation and Environment, Energy Resource Development and International Energy Affairs are not expected to vary greatly from that which is presented here. A description of these activities along with their appropriation requests follows:

1. Executive Direction and Administration. This activity comprises the executive, managerial and personnel support functions that are essential to the orderly operation of the agency and its staff. Included are all legal, financial, personnel and procurement services, as well as Public Affairs, Congressional Affairs, and Intergovernmental and field activity coordination. These activities will require 413 positions and \$30,452,000 in fiscal year 1976. The funds requested include \$10,000,000 for reimbursement to the States for their involvement in energy management, fuel allocation, energy conservation and energy resource development programs.
2. Energy Policy and Analysis. This activity includes the coordination of Federal energy policy studies and analyses, both short and long-range. It includes staff support for continuing development of a national energy policy, continuation of an independent Federal center for gathering and accessing energy data, short and long-range supply/demand forecasting, coordination of energy policies, and provisions of all ADP support for FEA, including such things as energy statistics and allocation data systems.

To carry out the responsibilities of this program, we will need 355 positions and \$23,574,000 in Fiscal Year 1976 as compared to 366 positions and \$20,017,000 in FY 1975.



3. Regulatory Programs. This activity is responsible for the administration of mandatory allocation programs and price regulations in accordance with the Emergency Petroleum Allocation Act. Audit and enforcement activities assure compliance with our regulations by producers, refiners and suppliers. Major emphasis in FY 1976 will be on continuing protection of the market shares of independent retailers and refiners. It is also charged with the design and maintenance of standby plans to cope with future energy supply emergencies. In addition, this activity will continue the operation of the Oil Import Appeals Board and the Private Grievance and Redress functions mandated by the FEA Act.

Resource requirements for this activity are 462 positions and \$21,749,000 in Fiscal Year 1976 as compared to 1975 levels of 1,750 positions and \$41,954,000. This request, of course, assumes that the Petroleum Allocation Act will expire on August 31, 1975. Aside from that, as I indicated in my opening remarks, our discussions on substantive legislation with the Congress to date make it clear that modifications of this request will likely be necessary.

4. Energy Conservation and Environment. This activity responds to the charter of the Federal Energy Administration to reduce the rate of energy demand growth and fulfills FEA's responsibilities under the National Environmental Policy Act. It promotes efficiencies in the use and development of energy resources, and provides policy analysis on environmental issues. Developing and implementing new programs to reduce energy demand in transportation, building, industrial and utilities areas, developing and conducting public education and multimedia campaigns in support of energy conservation programs, and providing technical and program support on energy conservation to states and localities are among the major effort of this activity.

The resources required under this heading are 200 positions and \$25,066,000 in Fiscal Year 1976. The figures compare with 183 positions and \$17,906,000 in FY 1975.

5. Energy Resource Development. This activity develops and implements programs to increase the domestic energy supply through both improved production from existing sources and the development of additional sources. The program includes expansion of domestic production, development of a strategic petroleum reserve, development of the coal conversion program and increasing the efficiency of energy conversion.

In addition, this activity is responsible for the continuing analysis of energy supply alternatives to insure the development of a domestic energy production mix consistent with national energy policy. Additional production and resource development are encouraged through program incentives for expansion of energy sources and improvement of conversion facilities and through identification of actions necessary to eliminate legislative impediments to future development.



The resources required in this activity are 244 positions and \$10,208,000 in Fiscal Year 1976 as compared to 205 positions and \$10,765,000 for Fiscal Year 1975.

6. International Energy Affairs. This activity deals with general policy review and coordination of all FEA international activities, National Security Council matters related to the energy situation, international energy agreements, multi-national energy negotiations and programs, transportation of energy from abroad, and liaison with the Department of State, Defense and nuclear energy agencies. This includes the development of policy options for oil sharing, mandatory conservation, cooperation in energy supply, and encouraging cooperation in restraining energy demand, and development and evaluation of U.S. export-import options for energy resources and energy-related materials and products.

To carry out the responsibilities under this activity will require 41 positions and \$1,386,000 in Fiscal Year 1976, as compared to 44 positions and \$1,506,000 in Fiscal Year 1975.

Conclusion

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

