

THE FEDERAL ENERGY ADMINISTRATION

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November 1980

U.S. Department of Energy
Office of Management
Office of the Executive Secretariat
Office of History and Heritage Resources

Introduction

For the three-year period between 1974 and 1977, the Federal Energy Administration implemented federal oil allocation and pricing regulations. An independent agency, the Federal Energy Administration was the successor of the Federal Energy Office, a short-term organization created to coordinate the government's response to the Arab oil embargo. By October 1977, when it became a part of the newly established Department of Energy, the Federal Energy Administration had also assumed the tasks of promoting energy conservation, collecting energy supply and demand information, managing the Nation's strategic petroleum reserve, and promoting the development of new energy resources.

The Arab Oil Embargo

On October 6, 1973, war broke out in the Middle East. Although Israel emerged victorious from yet another conflict, the effects of the “Yom Kippur” War soon spread to North America. The Organization of Petroleum Exporting Countries (OPEC) placed an embargo on oil shipped to America. Shortages were soon felt in the United States. By early November the Nation was faced with “the most acute shortages of energy since World War II.” President Richard M. Nixon proposed lowering thermostats, reducing driving speeds, and eliminating all unnecessary lighting. In addition the President called on Americans to unite in “Project Independence” to develop domestic energy sources in order to eliminate dependence on foreign energy supplies. In late November Nixon announced plans for increased production of home heating oil, while allocating reduced supplies, reductions in the amount of gasoline shipped to distributors, and Sunday gasoline station closings.¹

The Federal Energy Office

On December 4, 1973, the President created the Federal Energy Office in the Executive Office of the President to coordinate American efforts to cope with the oil embargo and to allocate precious supplies of crude oil and refined petroleum products. Also charged with controlling oil and gasoline prices, the Federal Energy Office quickly responded to the crisis, serving as the focal point for federal emergency actions. In January 1974, the office established a fuel allocation program covering propane, butane, motor gasoline, residual fuel oil, aviation fuels, crude oil and refinery yield, lubricants, petrochemical feedstocks, and middle distillates. Because information on United States oil reserves, secondary stocks, and energy consumption was incomplete, the office constructed a plan for gathering energy data. The office also assumed responsibility for implementing President Nixon's proposal for “Project Independence.” Dividing

the staff into several task forces, the Federal Energy Office launched a crash effort to increase American energy supplies while instituting long-term planning for preventing another oil embargo.²

William Simon, the deputy secretary of the Treasury, was chosen to head the Federal Energy Office. As his deputy Simon picked John Sawhill, the former associate director for natural resources, energy, and science, Office of Management and Budget. Simon and Sawhill gathered staff for the Federal Energy office from a variety of sources. Providing the basis for their staff was the energy office of the Department of the Treasury. Additionally they drafted personnel from the Oil Import Administration in the Department of the Interior and from the energy division of the Cost of Living Council. Other staff, such as Internal Revenue Service personnel who enforced petroleum allocation and pricing regulations, and personnel of the Office of Oil and Gas of the Department of the Interior, remained a part of their parent agencies but reported to the Federal Energy Office until the shortages created by the embargo were alleviated.³

By April 1974, Simon and Sawhill had built an agency that consisted of 1,497 Washington headquarters employees and 982 field office employees, divided among ten regional offices. The Washington employees, however, were scattered among various buildings and offices. Objectives changed “from month to month and even from week to week,” so rapidly that John Sawhill considered it pointless to develop a formal agency-wide management reporting system.⁴

The Federal Energy Administration

In June 1974, in order to continue the Federal Energy Office functions of fuel allocation, pricing regulation, energy data collection, and energy supply expansion, the Federal Energy Administration was created. The Federal Energy Office (at that time led by John Sawhill) and its staff formed the core of the Federal Energy Administration. Joining the new agency were the offices of petroleum allocation, energy conservation, energy data and analysis, and oil and gas from the Department of the Interior. Rounding out the agency was the energy division from the Cost of Living Council. The Federal Energy Administration was charged with fuel allocation and pricing regulation, and energy data collection and analysis. It was also directed by the President to plan broad energy conservation measures and ways to expand energy supplies. A top priority was to complete long-term energy planning by publication of the “Project Independence” report (completed in November 1974). Despite congressional recognition that the energy crisis was a long-term problem lawmakers only provided for a two-year life span for the agency.⁵

Autumn Crisis

Events in fall 1974 challenged the very existence of the Federal Energy Administration. Gerald R. Ford, who succeeded Nixon as President in August, signed the Energy Reorganization Act of 1974 on October 11, 1974. Not only did the act create the Energy Research and Development Administration to manage long-term energy research, and the Nuclear Regulatory Commission to regulate the nuclear power industry, but it also created the Energy Resources Council to coordinate federal energy policy formulation and implementation. Although the administrator of

the Federal Energy Administration became a member of the council, Interior Secretary Rogers C. B. Morton was appointed chairman. Disappointment swept the Federal Energy Administration when Morton, without fully explaining his actions to agency personnel, assigned an automobile efficiency program to the Department of Transportation.⁶

Almost simultaneously the agency lost its leader. Sawhill, who had come under fire for proposing an increased gasoline tax and other unpopular energy proposals, submitted his resignation to President Ford on October 25. President Ford tapped Assistant Secretary of Commerce for Maritime Affairs Andrew Gibson to replace Sawhill but withdrew Gibson's name from nomination because the *Wall Street Journal* raised questions about Gibson's relations with the Interstate Oil Transport Company. By early November experienced observers were questioning whether the Federal Energy Administration could remain a viable agency.⁷

Zarb Rebuilds the Agency

Recovery from the autumn crisis began in December 1974, when the agency received a new administrator, Frank Zarb. Until October the agency had functioned largely with *ad hoc* task forces--either coping with oil allocation problems or producing the "Project Independence" report. Zarb, a former assistant secretary of labor and associate director of the Office of Management and Budget, sought to create a mission for the Federal Energy Administration and to define its relationship to the Energy Resources Council. In addition he worked to establish a formal organization structure and an agency-wide management system.

Retaining the basic structure of the Federal Energy Administration, including the ten regional offices, Zarb decided that the agency should assume a major role in implementing energy policies established by the Energy Resources Council and provide some staff support for the Council. He concluded that the agency would be rebuilt around allocation and pricing programs as well as energy conservation programs. Of somewhat lesser importance to Zarb were programs for expanding domestic production of oil, natural gas, coal, oil shale, nuclear energy, solar energy, and geothermal energy. To help him manage these programs and the agency's 1,908 headquarters and 1,490 regional employees, Zarb enlisted John Hill and Eric Zausner as deputy administrators.⁸

The agency's work on the petroleum allocation and pricing program, which was managed by the assistant administrator for operations, regulations, and compliance, centered on revision of the allocation and pricing regulations in light of the changing market conditions. To provide the basis for revision of the allocation and pricing program, numerous public hearings were held in Washington, D.C. and around the country. As part of the allocation program the agency monitored supply and demand throughout the petroleum production and distribution system.⁹

The agency also had to enforce the regulations. The problem of enforcing the regulations was simplified by the creation of a computerized system to identify firms which should be audited. By September 1976, violations of pricing regulations amounting to \$459.1 million had been discovered, and of this sum \$2.9 million had been recovered through civil penalties.¹⁰

Conservation programs attempted to reduce energy consumption in heating and lighting, residential and commercial buildings, and in transportation. Through programs such as Utilities Conservation Action Now, Voluntary Energy Conservation, and Project Conserve, the agency sought to enlist a wide variety of government agencies, industries, and members of the public in conservation efforts. In addition, the Federal Energy Administration disseminated information widely on the potential for energy conservation in the home and in industry.¹¹

The Federal Energy Administration sought to promote the more efficient use of scarce energy resources and to increase reliance on more abundant energy resources. These energy development programs were managed by the assistant administrator for energy resource development. Through them the agency studied methods of increasing coal transportation, identified federal buildings in which solar heating and cooling equipment could be installed, assessed institutional barriers to the development of geothermal energy, encouraged utilities to convert power plants from the use of oil or natural gas to coal, and required all new power plants to be built with the capacity to use coal.¹²

In addition, the Federal Energy Administration assessed energy policy alternatives and the country's ability to become free of foreign energy sources. To provide data for policy planning the agency operated the National Energy Information Center, which collected and disseminated energy data. The agency established the *National Energy Outlook*, an annual series of forecasts assessing the impact of various energy policies. To produce the energy outlook series the Federal Energy Administration created and refined an analytical framework and methodology known as the Project Independence Evaluation System (PEIS).¹³

Finally, the Federal Energy Administration performed many of the same routine functions as other government agencies. It contributed to the shaping of foreign policy in the energy field. It created an ombudsman function and the machinery for appeals to agency regulations. The general counsel served as the agency's chief law officer and as general legal advisor on statutory authorities and on regulations promulgated to enforce them. The agency maintained liaison with energy-related organizations in federal, state, and local governments and administered programs designed to reduce the impact of energy shortages on consumers, the poor, the handicapped, the elderly, and minorities. It had its own public and congressional relations functions and the mundane but vital functions of budget, finance, security, and personnel planning.¹⁴

The Energy Policy and Conservation Act

In late 1975, Congress reinforced Zarb's basic missions of petroleum allocation and pricing, conservation, and energy development. On December 22 lawmakers approved the Energy Policy and Conservation Act, which expanded the agency's major programs and gave the agency a new function. The act directed the Federal Energy Administration to modify petroleum pricing regulations to allow the price of crude oil to rise gradually. Subject to congressional review the agency could now remove refined petroleum products from the control of pricing regulations. By June 1976 fuel oil, middle distillates, naphthas, and gas oils were removed from the control of allocation and pricing regulations.¹⁵

One of the major objectives of the Energy Policy and Conservation Act was to encourage energy conservation in the United States. The act authorized the Federal Energy Administration to develop rationing and emergency conservation plans, to establish energy efficiency standards for household appliances, to make grants to state conservation programs, and to monitor the energy efficiency of the fifty largest energy-consuming industries. With passage of the act, the agency's conservation responsibilities shifted from general policy formulation to program management.¹⁶

The act expanded energy development programs. The Federal Energy Administration was given discretionary authority to provide loan guarantees for underground coal mines and to allocate materials and equipment used to produce oil and gas. In addition the agency could now order power plants to switch from burning oil to burning coal.¹⁷

Finally the Energy Policy and Conservation Act charged the Federal Energy Administration to create a strategic petroleum reserve. To build the national reserve, crude oil was placed in underground storage accessible to tankers and pipelines so that oil could be easily drawn out in the event of another oil embargo. By the end of 1978, the reserve was to contain 150 million barrels of crude oil; by the end of 1982 the schedule called for a reserve of 500 million barrels.¹⁸

The Energy Conservation and Production Act

In August 1976, the Energy Conservation and Production Act was signed, giving the Federal Energy Administration added responsibilities and extending its "life" to December 31, 1977. The act improved procedures for granting exceptions to the allocation and pricing regulations administered by the assistant administrator for operations, regulations, and compliance. It gave the agency the authority to provide grants to states for insulating low income homes, to guarantee loans made for energy conservation in public and commercial buildings, and to make grants for supplemental state energy conservation programs. The act also enabled the agency to provide incentives to stimulate oil productions through enhanced recovery techniques, to develop electric utility rate structures designed to encourage conservation, and to fund demonstration projects to improve utility load management procedures.¹⁹

Concerned about the objectivity of energy data, Congress, through the Energy Conservation and Production Act, required the Federal Energy Administration to improve data collection by the creation of an assistant administrator for energy information and analysis. To ensure the integrity of energy data collection and reporting, the data collection functions were separated from agency policy-making functions. The new assistant administrator was assigned the tasks of creating a National Energy Information System, making periodic reports to Congress on energy supply and demand, and coordinating the diverse energy data functions spread throughout the Federal Government.²⁰

Program Growth

Federal Energy Administration programs grew outside of the frameworks of the Energy Policy and Conservation and Energy Conservation and Production Acts. The agency created a program to allocate Canadian crude oil when the Canadian government decided to phase out oil exports to

the United States. As liquefied petroleum gases and synthetic natural gases became important supplements to pipeline supplies of natural gases, the agency began reevaluating its regulations concerning both products.²¹

The Federal Energy Administration faced a crucial test as the severe winter of 1976-1977 struck the Nation. When temperatures dropped, demand rose for natural gas, propane, and fuel oil. Therefore, the agency revised allocation regulations to allow greater residential and industrial use of propane and monitored supplies of all three fuels on a daily basis.²²

The Federal Energy Administration also enlarged its efforts to promote the development of new energy resources. It assessed the impacts of liquefied natural gas imports, of outer continental shelf development, and of energy development on the environment. The Agency analyzed prospects for solar energy commercialization and for the development of synthetic fuels and geothermal energy. It studied the most effective locations for new energy facilities. Finally, to fulfill requirements of the Alaskan Natural Gas Transportation Act, the agency selected a system for bringing Alaskan natural gas to continental markets.²³

Energy Reorganization

On November 2, 1976, Jimmy Carter, who had promised to combine diverse federal agencies and responsibilities into a department of energy, was elected President of the United States. In March 1977, the President submitted legislation to create a new department. Consolidating responsibility for policy formulation and implementation, the President decided to abolish the Federal Energy Administration, the Energy Research and Development Administration, the Federal Power Commission, and the Energy Resources Council. On August 4, 1977, the President signed the bill establishing the new Department of Energy, which began functioning on October 1, 1977.²⁴

After September 30, the Federal Energy Administration ceased to exist and its functions and personnel were assigned to a variety of offices in the Department of Energy. Administrator John O'Leary, who had replaced Frank Zarb in February 1977, became the Deputy Secretary of Energy. Deputy Administrator David Bardin became Administrator of the Economic Regulatory Administration, which included the petroleum allocation and pricing functions, two energy development programs, the ombudsman function, and the ten regional offices of the former Federal Energy Administration.²⁵

All conservation programs were placed under the assistant secretary for conservation and solar applications while the environmental programs were under the assistant secretary for environment. Most energy development programs were under the assistant secretary for resource application. The energy information functions became the core of the Energy Information Administration.²⁶

The Federal Energy Administration's routine functions wound up in a variety of departmental offices as did those of the Energy Research and Development Administration. As a result of the new department found itself with two staffs and management systems for policy analysis and congressional relations, budget, personnel, finance, and security. Melding these diverse groups

into a single team under a unified management system was a major task as the new department brought the government's energy policy planning, energy research and development, petroleum allocation and pricing, and energy data collection functions together into a single agency.^{[27](#)}

Endnotes: The Federal Energy Administration

1. James W. McKie, "The United States," in Raymond Vernon, ed., *The Oil Crisis* (New York, 1976), pp. 83-84 (hereafter cited as McKie, "The United States" in Vernon, *Oil Crisis*); John Blair, *The Control of Oil* (New York, 1976), p. 261; Address on the Energy Emergency by President Richard M. Nixon, November 7, 1973, reprinted in Senate Committee on Energy and Natural Resources, *Executive Summary Documents* (Washington, 1978), pp. 81-93 (hereafter cited as SCEN, *Energy Documents*); Address on the National Energy Policy by President Richard M. Nixon, November 25, 1973.
2. Executive Order, December 4, 1973, reprinted in SCEN, *Energy Documents*, pp. 99-108; Overview of FEA (Federal Energy Administration), N.D. but probably written in January, 1977 (hereafter cited as Overview of FEA); White House Fact Sheet, January 23, 1974, reprinted in SCEN, *Energy Documents*, pp. 134-140; Bill Simon, Bipartisan Leadership Meeting Talking Points, January 23, 1974; Overview of FEA; Sawhill to Assistant Administrators, General Counsel, and Director, Office of Research and Development, March 6, 1974.
3. McKie, "The United States" in Vernon, *Oil Crisis*, p. 81; Overview of FEA; Ligon to Sawhill, June 13, 1974; Administrator to Director, Cost of Living Council, December 20, 1973; Ligon to All Office of Oil and Gas Employees, January 5, 1974; and Department of Energy Press Release, John Sawhill, October 4, 1974. For a brief history of the Office of Oil and Gas see: Alice L. Buck, *The Office of Oil and Natural Gas Supply Development* (Washington, Department of Energy Historian's Office, rev., 1980).
4. Simon to Sawhill, January 18, 1974; Sawhill to Malek, February 8, 1974; Federal Energy Office, Headquarters Organizational Directory, March 1, 1974; FEA Executive and Senior Staff; and Hiring Rate Guidelines April 17, 1974.
5. Federal Energy Administration Act of 1974, reprinted in U.S. Energy Research and Development Administration, *Compilation of Selected Non-nuclear Energy Legislation* (Washington, 1976) (hereafter cited as ERDA, *Compilation*); Statement of the President on Signing the Federal Energy Administration Act of 1974, May 7, 1974, reprinted in SCEN, *Energy Documents*, pp. 149-152; Federal Energy Administration, *Annual Report, 1975/1976*; Federal Energy Administration, *Project Independence: A Summary* (Washington, 1974).
6. Energy Reorganization Act of 1974, reprinted in ERDA, *Compilation*; Memorandum to Rogers C. B. Morton, November 1, 1974.
7. Overview of FEA; *Public Papers of the Presidents of the United States, Gerald R. Ford, Book I* (Washington, 1975), pp. 493-494 and 581-582; *Time*, Vol. 104, November 11, 1974, pp. 61-62, and November 18, 1974, p. 62; Memorandum to Rogers C. B. Morton, November 1, 1974.
8. Overview of FEA; Memorandum to Frank G. Zarb, December 21, 1974; Federal Energy Administration, *Organizational Structure*, January, 1975; Federal Energy Administration, Functional and Employment Summary, January 14, 1975; and FEA, *Organizational Structure*, January, 1976.

9. FEA, *Organizational Structure*, January, 1975; FEA, *Annual Report 75/76*, p. iv; Overview of FEA.
10. FEA, *Annual Report 75/76*, pp. iv, 53-55, and 60; Overview of FEA.
11. Overview of FEA; FEA, *Organizational Structure*, January, 1975; and FEA, *Annual Report 75/76*, pp. iii and 26.
12. Overview of FEA; FEA, *Annual Report 75/76*, pp. iv, v, and 9-18.
13. FEA, *Organizational Structure*, January, 1975; and FEA, *Annual Report 75/76*, p. ii.
14. FEA, Functional and Employment Summary, January 14, 1975; FEA, *Annual Report 75/76*, pp. iii, v-vi, 3 and 22; FEA, *Organizational Structure*, January 1975.
15. Energy Policy and Conservation Act, reprinted in ERDA, *Compilation*; and FEA, *Annual Report 75/76*, pp. iii and 26.
16. Energy Policy and Conservation Act, reprinted in ERDA, *Compilation*; and Overview of FEA.
17. Energy Policy and Conservation Act, reprinted in ERDA, *Compilation*; and Overview of FEA.
18. Overview of FEA; and FEA, *Annual Report 75/76*, p. 21.
19. Overview of FEA; Federal Energy Administration, Telephone Directory, Spring 1977; Energy Conservation and Production Act, reprinted in ERDA, *Compilation*.
20. Overview of FEA; Energy Conservation and Production Act, reprinted in ERDA, *Compilation*.
21. Federal Energy Administration, *Annual Report 1976/1977* (Washington, 1977), pp. 38, 43, and 49 (hereafter cited as FEA, *Annual Report 1976/1977*).
22. FEA, *Annual Report 1976/1977*, pp. 59-60.
23. FEA, *Annual Report 1976/1977*, pp. 18, 25-34.
24. *Public Papers of the Presidents of the United States: Jimmy Carter- 1977 Book I* (Washington, 1977), pp. 257-259; *Public Papers of the Presidents of the United States: Jimmy Carter- 1977 Book II* (Washington, 1978), pp. 1410-1411 and 1581-1582.
25. *Public Papers of the Presidents of the United States: Jimmy Carter- 1977 Book II* (Washington, 1978), p. 1584; Department of Energy, Announcement No. 1, September 28, 1977 (hereafter cited as DOE #1).

26. *Public Papers of the Presidents of the United States: Jimmy Carter- 1977 Book I* (Washington, 1977), p. 259.

27. DOE #1.

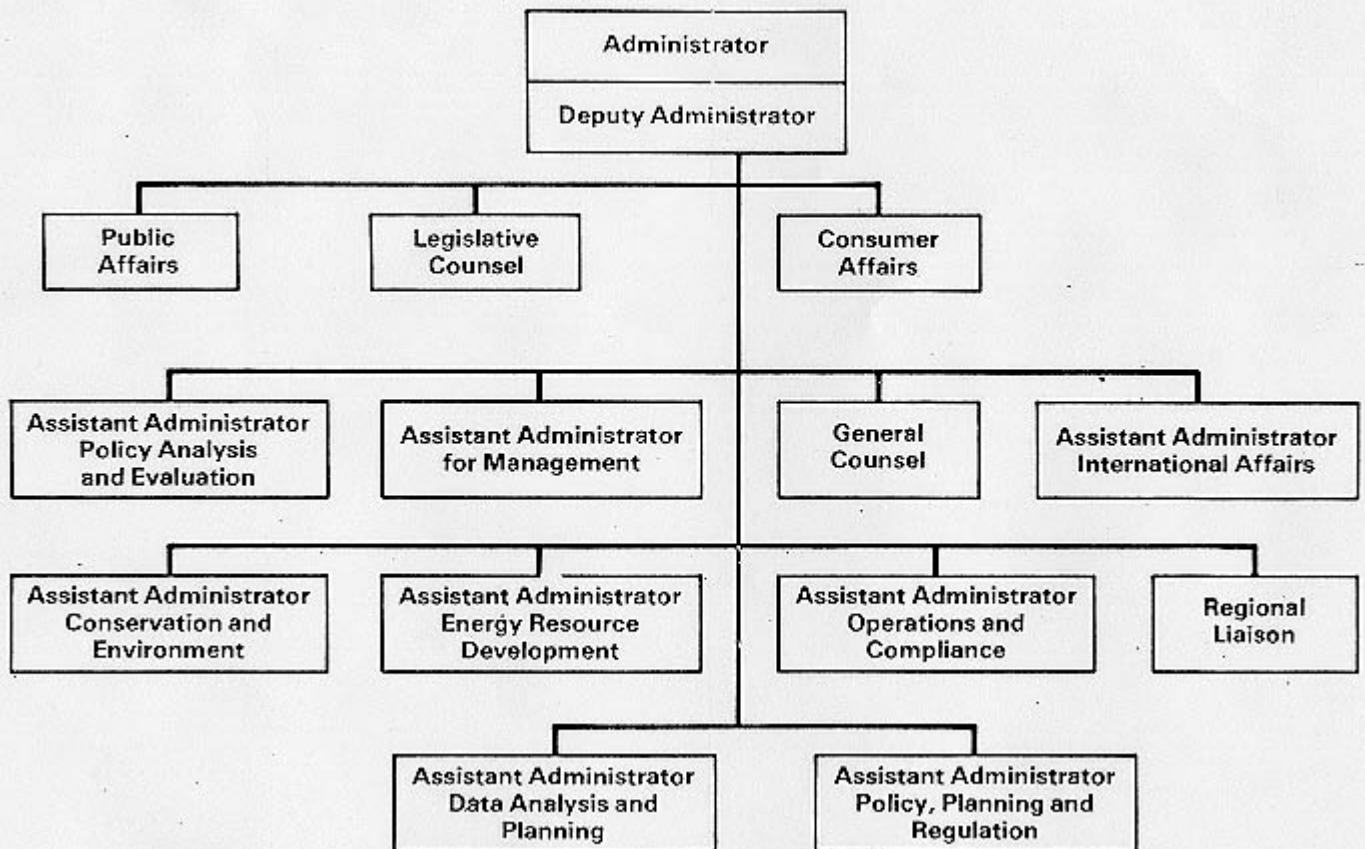
Chronology of the Federal Energy Administration

DATE	EVENT
October 17, 1973	Arab Oil Embargo declared.
December 4, 1973	Federal Energy Office established.
December 4, 1973	William Simon named administrator.
March 17, 1974	Arab Oil Embargo lifted.
May 5, 1974	Federal Energy Act of 1974 signed.
June 27, 1974	Federal Energy Office becomes Federal Energy Administration.
October 11, 1974	Energy Resources Council established.
October 25, 1974	John Sawhill resigns.
November 12, 1974	“Project Independence” report published.
December 18, 1974	Frank Zarb named administrator.
December 22, 1975	Energy Policy and Conservation Act signed.
August 14, 1976	Energy Conservation and Production Act signed.
August 4, 1977	Department of Energy Act signed.
October 1, 1977	Department of Energy begins functioning.

Federal Energy Office and the Federal Energy Administration Administrators and Deputy Administrators

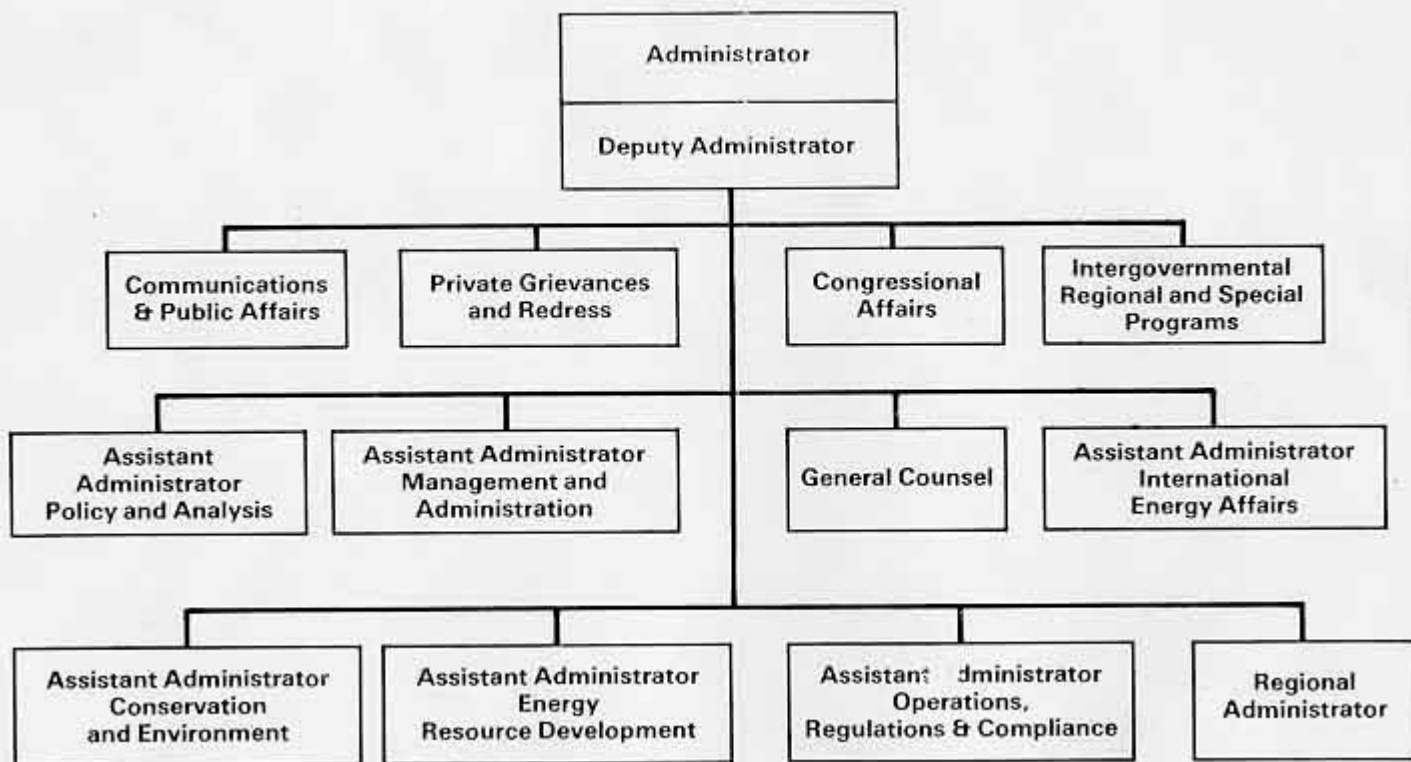
<i>Administrators</i>	Term of Office
William Simon	December 4, 1973-April 17, 1974
John Sawhill	April 17, 1974-December 1974
Frank Zarb	December 18, 1974-January 15, 1977
Gorman Smith (Acting)	January 15, 1977-February 3, 1977
John O'Leary	February 5, 1977-September 30, 1977
<i>Deputy Administrators</i>	Term of Office
John Sawhill	December 4, 1973-April 17, 1974
Eric Zausner	December 18, 1974- Designated Acting July 31, 1976
John Hill	Early 1975-July 1976
David Bardin	May 1977-September 30, 1977
Gorman Smith (Acting)	February 1977-June 1977

Federal Energy Office



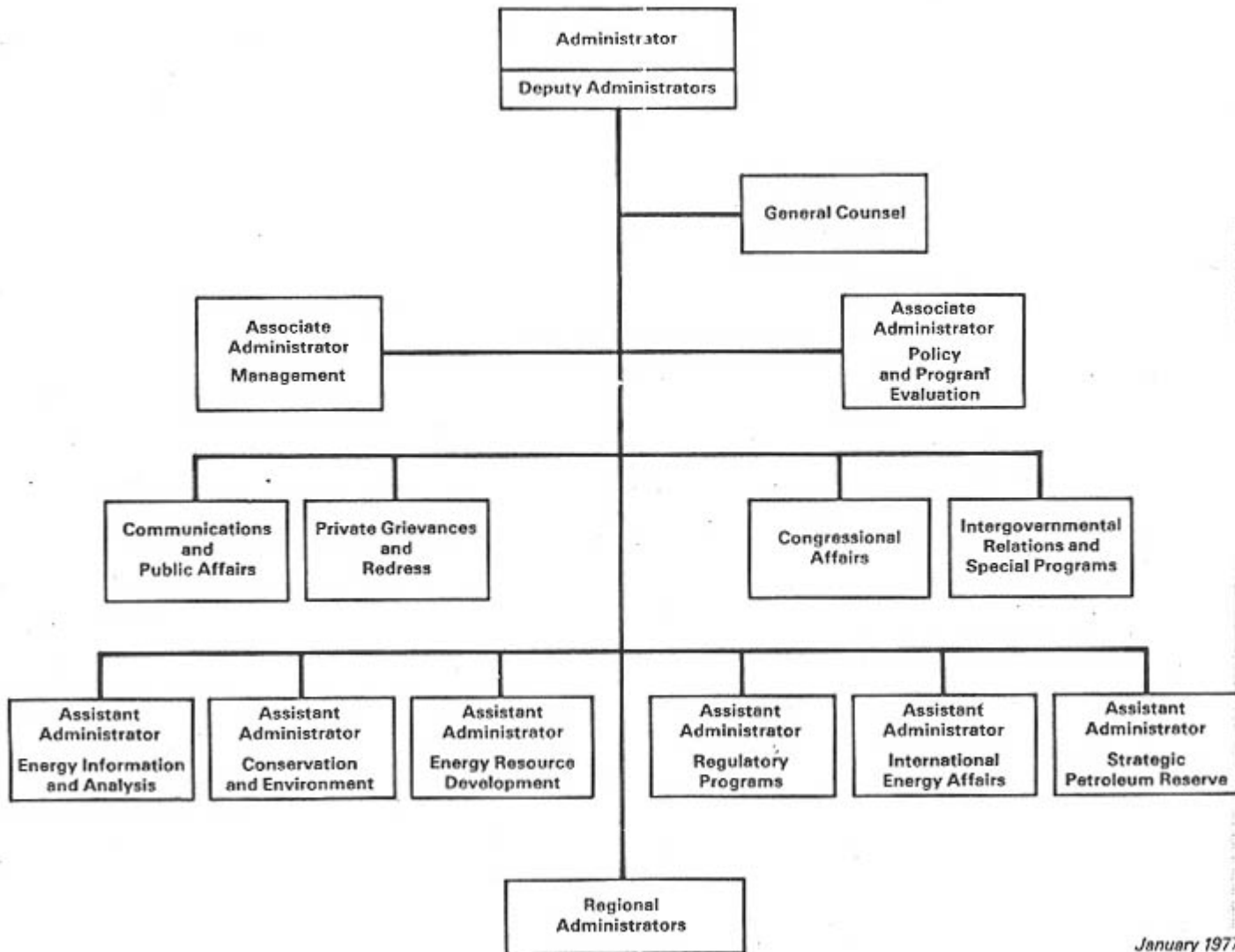
March, 1974

Federal Energy Administration



January 1975

Federal Energy Administration



January 1977