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UNITED STATES DEPARTMENT OF INTERIOR

NATIONAL PETROLEUM COUNCIL

MEETING

AUDITORIUM
DEPARTMENT OF INTERIOR BUILDING
EIGHTEENTH AND C STREETS, NORTHWEST
WASHINGTON, D. C.

FRIDAY, MARCH 29, 1974
9:00 O'CLOCK A.M.

1 MEMBERS:

2 H. A. TRUE, JR., Chairman

3 HONORABLE ROGERS C. B. MORTON,
4 Co-Chairman

5 VINCENT M. BROWN, Executive Director

6 JACK H. ABERNATHY

7 CARROL M. BENNETT

8 C. H. MURPHY, JR.

9 WILTON E. SCOTT

10
11 PRESENT:

12 HONORABLE JAMES L. BUCKLEY

13 HONORABLE WILLIAM E. SIMON

14 DUKE R. LIGON
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U. S. Office of Oil and Gas

Jack H. Abernathy
Chairman

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Budget Committee

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P R O C E E D I N G S

1
2 CHAIRMAN TRUE: Good morning, ladies and gentlemen.

3 Welcome to the second meeting of the National
4 Petroleum Council for the 1974 Fiscal Year.

5 As we have a lot of business to do this morning,
6 and as each will be introduced to you during the course of
7 the morning, I will dispense with the formality of intro-
8 ducing the head table.

9 We will also dispense with the custom of calling
10 the role, and the official attendance record will be made
11 at the door. Any Council members who did not check in at
12 the door, please do so before you leave so that our record
13 will be complete.

14 This morning, it is a great pleasure for me to
15 introduce the distinguished Government Co-Chairman of the
16 Council, the Honorable Rogers C. B. Morton, Secretary of
17 the Interior.

18 Rogers?

19 (Applause.)

20 STATEMENT OF THE HONORABLE ROGERS C. B. MORTON,
21 SECRETARY, DEPARTMENT OF INTERIOR

22 SECRETARY MORTON: Thank you, Dave.

23 Members of the Council, and our distinguished
24 guests.

25 It is certainly a pleasure to have Bill Simon,

1 John Sawhill, and other members of the Federal Energy Office
2 here with us this morning. I know we are all anxious to hear
3 from Bill.

4 I would like to take only a few, informal minutes
5 this morning to share with you some of our thoughts, and to
6 perhaps request of you some help.

7 I think the President did the right thing when he
8 charged us all in the Government and the country to become
9 energy self-sufficient by 1980.

10 The definition of "self-sufficiency" I think is
11 something that has to be worked out. There are some differ-
12 ences of opinion on the preciseness of it.

13 The obvious proposition is to substantially increase
14 the supply of conventional fuels. Any of the unconventional
15 or non-conventional energy systems require a lead time that
16 will really not affect the energy supply during the period
17 1974 to 1980, in this six-year period. I think we all know
18 that.

19 Obviously, there will be some production of
20 synthetic fuels based on the rate of speed that investment
21 is made in the existing technologies.

22 When you project that out to 1980, you see that,
23 at best, you would be in sort of a demonstration level type
24 of business that would give you some real yardstick informa-
25 tion and data as far as the balance of the century is

1 concerned; for example, in the use of fuels from coal; the use
2 of oil from shale; the use of breeder reactors as an addition
3 to the light water generation, and so forth; and you can
4 even visualize some substantial energy uses derived from solar
5 energy.

6 What we are really talking about, and I think we
7 ought to put it in its perspective, and we ought to try to
8 entice the public into reaching an understanding of it,
9 which is very difficult to do, is the increase of oil and
10 gas and some coal in the period of 1974 to 1980.

11 You are concerned with not only where you are
12 going to get it, but what the economics of it are going to
13 be, and this I think should be all our concern.

14 I believe we should be studying the economic side
15 of this industry as it goes into a production phase that has
16 been accelerated over any past or historic base.

17 We are through the crisis element. I think we laid
18 it to rest pretty well last night. They tried to make the
19 energy crisis funny, and I must admit that both Fred Hartley
20 and John Sawhill did a pretty good job at the dinner for TV
21 people.

22 I hope we laid to rest, at least with the ones who
23 were sitting on each side of me, that the whole thing had
24 been contrived by a few of the oil companies, and that now
25 we were at least faced with a realistic future in terms of

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actually developing our supplies.

I did not hear much talk last night about splitting up the oil companies because they had schemed on this thing; whereas, a couple of months ago, you probably would have heard a lot in that particular group. It is funny how quick things change around here.

What I would like for the Petroleum Council to do is to become involved in advising us on policy in this development phase that we are looking at between 1974 and 1980.

If you will just look quickly at the whole structure system under the American Flag, the first, obvious fact is that the opportunity exists primarily in the short-term on the Outer Continental Shelf.

The policy which has been in effect and making available lands on the Outer Continental Shelf over the years, for the last twenty years, has been more money-oriented, I think, in terms of the Government's side, than production-oriented.

Actually, the amount of revenue that has been developed over those years from gas and oil revenues on the Outer Continental Shelf splits about one-third/two-thirds; two-thirds to governments, Federal and State governments; and one-third through the cash registers of the producers.

This has been an economic formula that has not really produced the kind of production that we wish we had

1 when the Israeli-Arab War triggered the embargo.

2 Based on the price of oil, we have seen over the
3 twenty-year period where OCS production has existed, and
4 based on the price of gas, it is certainly an understandable
5 fact, and we certainly have no reason to criticize the
6 industry or ourselves for having proceeded in the development
7 of this resource so slowly.

8 What I want to do is try and look at everything we
9 have done with a critical eye to see what is right about it,
10 and also to determine where it can be improved.

11 I think the real sounding board, and the real
12 advice and counsel that can be put into what we do here in
13 Interior in our responsibility, and what Bill Simon can do
14 in the Energy Office in his over-all policy responsibility,
15 as well as the other agencies that are involved, particularly
16 those that deal with the back-up systems; with steel, and
17 tubing, and pipe, and labor, and all the rest.

18 We are going to give you a charge, and the charge
19 is to become involved in the policy decisions through advice
20 and counsel, which is your proper role, that will lead to
21 the success of Project Independence.

22 I have some goals in mind that may be too far out;
23 maybe they need modifying; and maybe you should address your-
24 selves to those as well as to the policies through which we
25 implement our programs to reach those goals.

1 It seems to me that a fair figure would be during
2 the six-year period to bring the production, in terms of oil
3 equivalent of the Outer Continental Shelf, up to a multiple
4 of five compared to what it is today.

5 There are some legal constraints, as well as
6 certainly economic and back-up system constraints, that have
7 to be overcome; one is the sovereignty question which involves
8 the Atlantic. It looks as though we are getting down to the
9 end of the line on the sovereignty question as it affects
10 the Cook Inlet area in Alaska.

11 Certainly, the procedures that will be necessary
12 to do the kind of thing that we are talking about, multiply
13 the production by five, will entail moving into frontier
14 areas. I think we want to look at that in terms of how we
15 do it.

16 The old question of whether the bonus-bidding
17 system that we use now, or the heavy front-money system that
18 we use now really will get the job done in terms of increasing
19 supplies is being reexamined.

20 I am not going to tell you all of the different
21 formulae and thoughts that we have because this is not the
22 place.

23 I am going to see if Dave and Vince Brown can put
24 together a kind of a task force or committee within the
25 Council that can take a hard look at our over-all leasing

1 policy and come up either with some options or some answers
2 or some criticisms of the various proposals that we are
3 considering, as well as a rather hard look at the procedures
4 we have used over the last few years.

5 The other area that I think we have to be thinking
6 about, in terms of technological transfer of where the invest-
7 ment is coming from, in terms of who is going to do it, and
8 what the incentives are, and what the economics are, is in
9 the area of secondary and tertiary recovery.

10 All ready, the technology is being advanced at a
11 fairly rapid rate, both on the Government side as well as on
12 the proprietary side.

13 Whether we have reached a price plateau and an
14 economic environment in which there can be a reasonable re-
15 turn on that investment is something I think we have to
16 consider.

17 They look to me as though they are the two, big
18 pools of oil that we might be able to add to our supply
19 between 1974 and 1980; the oil that is yet to be produced
20 on the Outer Continental Shelf, in terms of additions to
21 supply, and the oil that is available in known structures
22 and producing areas for secondary recovery is the only way
23 to get it.

24 The last thing that I mention is that I do not
25 think we can get from here to there unless we have a more

1 realistic gas policy. You know what we are trying to do in
2 terms of deregulation of gas.

3 Again, I think it is proper for the Council to
4 address itself to this problem.

5 I think the best way for us to proceed here this
6 morning is for me to relinquish this podium to Bill Simon.
7 Then, at the end of his remarks, if you want to address some
8 questions to me or to him, I am sure that he will welcome
9 them.

10 A lot of questions have been asked me about how
11 we in Interior relate to the Federal Energy Office.

12 I think, as I see it, and as I think it is
13 functioning, the over-all energy policy of the Government
14 to bring all of the agencies, and there are a good many
15 agencies involved in this, together is a responsibility of
16 the Federal Energy Office.

17 The arms through which that responsibility can be
18 carried out are the line agencies, the agencies that have a
19 specific responsibility in certain areas, such as the Depart-
20 ment of Interior with the wide responsibilities that we have
21 through our Bureau of Mines, through our Office of Coal Re-
22 search, through the Bureau of Public Land Management, and
23 through the Geological Survey.

24 Obviously, we are a Government Agency with specific
25 action responsibilities, and we intend to carry out that

1 responsibility within the policy framework that we are
2 trying to set for ourselves during the last quarter of this
3 century.

4 There is not here a hydra-headed situation in which
5 one agency is going one way, and another agency is going the
6 other way.

7 Sometimes, in the late afternoon, there is a sense
8 that what I have just said is not true.

9 (General laughter.)

10 SECRETARY MORTON: When we wake up the next day,
11 and realize what we are trying to do, and perhaps in a small
12 way readjust our courses on each side, we again get going on
13 the track.

14 I think the wisdom that the President exhibited
15 is establishing within his own Presidency an energy coordin-
16 ator -- I think that is a little better American term than
17 "czar" -- take it or leave it. I do not want to defrock the
18 czar this morning.

19 (General laughter.)

20 SECRETARY MORTON: I think that this Council still
21 has, and even more than in the past, an advisory responsi-
22 bility through its regular channels that will serve the
23 Federal Energy Office to a very high degree.

24 I hope that Bill Simon refers to that opportunity
25 that the Council has.

1 Let us see if we can, during this time of
2 development of American energy and American energy policy,
3 bring the National Petroleum Council closer in to the policy
4 development of all of our procedures in which they are inter-
5 ested during this critical time here in the balance of 1974
6 and in the Fiscal Year coming of 1975.

7 There is no point in having the Petroleum Council
8 if it is just going to be another trade association. You
9 all ready have the Petroleum Institute, and a very good
10 organization it is, and a very well-run organization it is.

11 This is an advisory organization, and I think that
12 it is up to this National Petroleum Council to be advisory
13 in a positive sense, as well as giving us critical opinions
14 when they are deserved.

15 I am going to ask you to do a lot more in terms of
16 telling us not only what is right and what is wrong, but
17 helping us to find a way to go in which there will be a con-
18 tinued and good return on investment, in which there will be
19 a steady increase in supplies, and in which we can build a
20 foundation on a new kind of industry that is dealing with a
21 different situation than we have had in the past, where large
22 amounts of fuel and surplus have been the order of the day.

23 We are obviously looking at a long period of time
24 when energy is going to be more scarce, and when there is
25 going to be a different kind of economic plateau on which

1 this business will be conducted.

2 Expect to do some work. I am going to ask for it.
3 I think that you are undoubtedly, from the individuals I
4 have talked to, ready to perform.

5 Thank you very much.

6 (Applause.)

7 CHAIRMAN TRUE: Thank you, Mr. Secretary, for your
8 very appropriate and timely remarks.

9 We, as the Council, appreciate the continuing
10 opportunity to advise you and your Department. I assure
11 you, Mr. Secretary, that we will do our best to carry out
12 and follow through on the charges that you have given us
13 this morning.

14 You have probably seen more of the next speaker
15 in the papers and on the news media on a daily basis than
16 you have of your own wives and children. I know I have.

17 It is indeed a great honor to introduce to you
18 the Honorable William Simon, Administrator of the Federal
19 Energy Office, and Deputy Secretary of the Treasury.

20 (Applause.)

21 STATEMENT OF THE HONORABLE WILLIAM E. SIMON,
22 ADMINISTRATOR, FEDERAL ENERGY OFFICE

23 MR. SIMON: Thank you, Dave.

24 Rog, you can defrock me anytime you would like to.
25 I think that maybe there was justification to have

1 a czar during a crisis; but now that it is a problem, maybe
2 I ought to be a coordinator.

3 (General laughter.)

4 MR. SIMON: I am delighted to be here today, and
5 I hope that we will have a chance to have a little give and
6 take, whether it is just after my remarks or later in the
7 morning, and have an exchange of ideas so that it is not just
8 the usual Government bureaucrats speaking without response.

9 I would like to discuss with you very briefly what
10 I believe lies ahead in the area of Federal energy policy.
11 My comments are going to fall in really two, major areas:
12 one, the short-term outlook; and, two, the Federal Energy
13 Office's role for the longer term, encompassing, of course,
14 Project Independence, as well as the immediate need and
15 dramatic need for legislation this year.

16 As for the short-term outlook, with the embargo
17 lifted, the production returning to pre-embargo levels, the
18 days of severe shortages are over, even though we know that
19 it will take two months, approximately, for the supply to
20 begin to trickle back on our shores again.

21 We are going to continue to stress, to warn that
22 if the demand were to resume its normal, historic growth
23 rate, that we are going to have problems, and we are going
24 to have shortages, and the shortages could be in the extent
25 of four to six percent this summer.

1 However, we feel that with increased prices, with
2 the mandatory conservation measures, our oil-to-coal switch-
3 ing programs, and the continued cooperation, which I personally
4 feel we are going to get, from the American people, that
5 essentially we will not have a shortage; it will be a manage-
6 able problem.

7 Although we might experience some spot problems
8 throughout the country as we have indeed last year, we will
9 be able to handle these through our allocation program.

10 Given this new petroleum situation, we are going to
11 alter some of our current programs. The Allocation Program
12 will be modified to make it more responsive to world supply
13 conditions.

14 As you know, the Crude Program is presently being
15 modified to remove the disincentives to imports. We are going
16 to continue to provide 100 percent of current needs for agri-
17 culture as well as essential services.

18 With increasing supplies, we will assure that all
19 industry will get 100 percent of its requirements.

20 To date, the economy has been mostly isolated from
21 the impact of the energy problem, but we must provide the
22 needed fuel for industrial growth and for jobs.

23 Gasoline, in the allocation area, will be gradually
24 increased in the months ahead as the supplies increase.

25 However, a continued program -- and this is the

1 fine line that we are going to have to continue to walk --
2 of energy conservation is a necessity, recognizing that we
3 cannot go back to our old ways.

4 We are going to, in the Federal Energy Office and
5 all components of Government, continue a vigorous public ed-
6 ucation effort, and I know that industry will do the same.

7 Mandatory conservation measures, such as the fifty-
8 five mile-an-hour speed limit, indoor lighting standards, are
9 still a good idea. We intend to continue them.

10 Our more focused measures, like Sunday gas sales
11 and bans or prohibiting outdoor lighting, however, are going
12 to be eliminated because of their potential impact on very
13 narrow economic sectors.

14 We must mount new efforts to bring back certainty
15 into fuel supply, into the attitudes, and this is the diffi-
16 cult fine line, while maintaining that delicate balance so
17 that people do not think that the problem has been solved,
18 but that indeed this was an embargo that induced prices.

19 The auto industry, tourism and the recreation
20 industries have suffered inordinately. It is very difficult
21 for anyone -- I have not talked to anyone who knew how we
22 could help industries that were so dependent on petroleum
23 and petroleum products, as well as consumer attitudes.

24 When a person is afraid, and believes that he is
25 not going to be able to get sufficient supplies of gasoline,

1 he is not going to buy an automobile that will get eight
2 miles to a gallon. He is not going to take a trip if he
3 believes he is going to have trouble either getting there
4 or getting back home.

5 We all must recognize, as I have learned only too
6 graphically in the past few months, that tourism, as far as
7 the economies of some states, is as important as basic in-
8 dustry is to many others; steel, aluminum. They have suffered
9 due to this uncertainty and the change in the attitudes.

10 With an adequate supply of gasoline this summer,
11 we want to assure the people that with normal conservation
12 practices, as described, that they will have a sufficiency
13 to meet their needs.

14 We will, at the same time -- here, again, it almost
15 seems like we are talking out of both sides of our mouths --
16 continue to stress conservation.

17 As far as the longer term is concerned, it seems
18 that we are going through three phases in this problem. The
19 first phase began a long time ago, about fifteen or eighteen
20 years, and lasted for about twelve to fifteen years, and you
21 might call it the "I-don't-believe-it phase"; all of the
22 warnings that we all know, that you know only better than I
23 do.

24 We have moved from the I-don't-believe-it stage
25 to the scapegoat stage, which we are in presently, where

1 everyone is pointing their finger at everyone else, and
2 finding who is to blame for this situation we find ourselves
3 in today.

4 We must move out of this second phase and into the
5 important third phase about solving the problem, which we
6 have the ability to do.

7 As for the longer term, if we are to ultimately
8 find workable solutions to these problems, we must allow our
9 markets to operate.

10 Price controls and allocations are temporary
11 measures. They are not consistent with our long-range
12 energy policy.

13 Let me assure this group that price and quantity
14 regulations will be phased out so that prices, supply and
15 consumption in this country can return to equilibrium.

16 As you know, the allocation system, as the supplies
17 return 100 percent of current requirements, especially,
18 obviously, immediately in the middle distillate area, will
19 make it easier for you to conform with this program.

20 The Trans-Alaska Pipeline Act extended the price
21 controls for petroleum until February, 1975.

22 I do not have to recite to your industry how the
23 spiraling demand outran our domestic capability to meet it.
24 Suffice to say that these trends are no longer acceptable
25 economically, politically or for national defense.

1 To approach self-sufficiency, we need a manifold
2 approach to energy policy. We must establish a central
3 energy organization in the Federal Government. The Federal
4 Energy Office is only the first step toward bringing all
5 policy and implementation under one roof.

6 We need Federal Energy Administration legislation,
7 and have needed it. It has been languishing on the Hill with
8 our other, much needed legislation; energy research and
9 development, as well as ultimately the Department of Energy
10 and Natural Resources.

11 We must have a permanent conservation ethic in this
12 country. Consumers must not revert to old patterns of waste-
13 ful usage. We cannot reverse the trend in imports if the
14 demand continues to spiral upwards.

15 We must remember, as far as this Administration is
16 concerned, that conservation must be a matter of free choice,
17 not a mandated imperative. Nonetheless, it is going to have
18 to become a permanent part of our lives.

19 We must accelerate the development of our massive,
20 untapped domestic energy potential; our resources of coal,
21 shale, oil and gas, the Outer Continental Shelf, and nuclear
22 can and must be used.

23 A new relationship between Government and industry
24 must be forged. There must be a comprehensive reporting
25 system. Our energy data must be complete and timely, and

1 we must be able to verify its accuracy.

2 There has to be a new role for Government in
3 international energy affairs. Industry and Government must
4 work together to assure the most efficient production and
5 use of energy sources.

6 Finally, we have to forge a new structure of
7 international cooperation within the world community between
8 producing as well as consuming nations.

9 In implementing Project Independence, there is one,
10 overriding theme; and that is, that the Government's role is
11 not to build and own and manage and run the various facilities.

12 The Government's role is to assist, to clear away
13 the impediments so that industry can get on with this critical
14 job, allow the market system to operate in an unencumbered
15 fashion.

16 We will expedite and assist and coordinate in every
17 way possible in this way.

18 We have established in our Project Independence
19 group an Early Action Task Force. This task force is working
20 on breaking bottlenecks and administrative red tape, and
21 other problems encountered in getting new supplies of coal,
22 oil or nuclear power to the market place.

23 It helps to site refineries, reducing the nuclear
24 licensing delays, and clearing up material shortages for coal
25 mining. All of these are just brief examples of what this

1 group is performing.

2 A small group in the Federal Energy Office will
3 coordinate and focus all of the Federal Government's activ-
4 ities in this area.

5 To parallel with the Early Action group will be
6 the Project Independence Blueprint effort. A month ago, we
7 commenced the integration of the Federal Energy Office into
8 the economic framework of the Government - the Treasury,
9 the Council of Economic Advisors, the Cost of Living Council,
10 the Office of Management and Budget - to assess the costs
11 and exact feasibilities of Project Independence; the capacity,
12 the supply problems.

13 This is a planning effort which will culminate in
14 a detailed, quantitative plan with policy recommendations to
15 achieve self-sufficiency in the 1980's.

16 It will evaluate technical and resource potential
17 barriers, and incentives to remove them.

18 An interagency group is all ready at work on this,
19 and our analysis will be completed before the end of this
20 year.

21 Project Independence Blueprint or not, we need
22 Congressional action if we are to move towards self-
23 sufficiency, to remove the impediments for our free enter-
24 prise system to function.

25 We have seventeen bills -- and this was written a

1 few days ago so it might be up to twenty by now -- that are
2 on the Hill, and every day that passes, we are that much
3 farther behind.

4 The legislation affects almost every aspect of our
5 program. Legislation could give us the necessary agencies
6 to do this job; REA, ERDA, and, of course, ultimately, DENR;
7 the Mandatory Reporting Bill, the deregulation of natural
8 gas, power plant siting, Elk Hills, strip mining, deep water
9 ports, amendments to the Clean Air Act, just to name a few.
10 The list goes on and on.

11 When we finish our Project Independence Blueprint,
12 I am sure that even more legislative changes are going to be
13 needed, and needed quickly. It must be a year of Congressional
14 action. We welcome debate, and we are willing to work long
15 and hard to reach workable compromises.

16 The Federal Government is changing, the citizens'
17 attitudes are changing, and your industry is changing. A new
18 public understanding is obviously required.

19 The Government and the public are demanding more
20 information concerning your operation. Mandatory legisla-
21 tion now pending will provide this.

22 While there must be a balance between public and
23 proprietary information, that balance has not been struck,
24 and we know that you will support these efforts.

25 There must be a new emphasis on increasing domestic

1 supply. Many current or past programs provide disincentives
2 to increase domestic exploration, production and refining.

3 We are committed to providing incentives, and
4 removing barriers to domestic production. You, simultaneously,
5 must recommit yourselves to an aggressive and wide-ranging
6 program of domestic development.

7 We must also have a spirit of cooperation in
8 developing and bringing to commercial availability a whole
9 new spectrum of technology to give us the self-sufficiency.

10 Achieving the ability for self-sufficiency is
11 going to take the cooperation and commitment of all of us;
12 Government officials, leaders of industry and individual
13 citizens. It is a massive task, and it will take all of the
14 help and the determination that we can muster.

15 It is worth reiterating that what Government can
16 do is to provide the conditions; the free, unencumbered
17 market place that has in the past, and will again in the
18 future, evoke the traditional response from the greatest
19 industrialized nation that this world has ever known.

20 Thank you.

21 (Applause.)

22 CHAIRMAN TRUE: Thank you very much, Mr. Simon,
23 for your candid and challenging comments.

24 We in the petroleum industries appreciate the
25 magnitude of the job that still lies ahead of the Federal

1 Energy Office. As the National Petroleum Council, we
2 certainly hope that as suggested by our Government Co-
3 Chairman, Secretary Morton, that we, as a council, can be
4 helpful, too.

5 It now gives me a great deal of pleasure to
6 introduce to you a Senator I have known and admired for
7 several years.

8 James L. Buckley has served the State of New York
9 as a Senator since 1971, and is an active member of the
10 Senate Interior and Insular Affairs Committee, the Committee
11 on Public Works, and the Select Committee on Small Business.

12 A friend of the free enterprise system, and a fine
13 Senator, Senator James L. Buckley.

14 (Applause.)

15 STATEMENT OF THE HONORABLE JAMES L. BUCKLEY,
16 UNITED STATES SENATE

17 SENATOR BUCKLEY: Thank you very much.

18 It is a great pleasure to be here in front of this
19 very august body.

20 If I may, I would like to just touch on a few
21 subjects, and perhaps answer questions, if that would be of
22 interest to you.

23 I think that you are all reasonably familiar with
24 much of the legislation that is before the Congress, much
25 of the thrust of that legislation.

1 I think that you are probably not all that familiar
2 with some of the fine print as it might affect not only the
3 petroleum industry, but industry at large down the line.

4 First of all, I ought to tell you something about
5 my credentials, as I come from New York, and you are con-
6 cerned with an industry that is not normally associated
7 with that state.

8 Some weeks ago, when we opened up debate on the
9 very controversial roll-back provisions of the Energy Act,
10 I, along with three other Senators, Senators Bartlett,
11 Fannin and Hansen, got up on our hind feet to talk about
12 the perils involved for the nation in trying to put on a
13 lid on the workings of the market place.

14 We like to think that by getting up on our hind
15 legs, we can add to the educative process in the country.

16 I was arguing that the consumer has a direct,
17 important interest in allowing the incentives to work so
18 that we could develop our domestic resources and liberate
19 ourselves from dependence on foreign sources.

20 The next day, I looked at the "New York Times"
21 to see if some of our words of wisdom had trickled through,
22 and our three hours of oratory was dismissed by a single
23 sentence; namely, "Several oil state Senators spoke up in
24 opposition to the measure."

25 (General laughter.)

1 SENATOR BUCKLEY: Knowing that the "New York Times"
2 never makes an error, I quickly telephoned the Department
3 of Resources of New York State, and found out, lo and behold,
4 that New York is an oil state.

5 I found out that we have 5,700 oil wells that are
6 producing the aggregate of 2,700 barrels a day, or less than
7 a half a barrel per well per day.

8 (General laughter.)

9 SENATOR BUCKLEY: I also found out that we are
10 producing one million cubic feet of gas a day, or one-half of
11 one percent of our total consumption.

12 I also found out something tremendously interesting,
13 and that is, that since the freeing up of gas prices occurred,
14 and since the stripper provisions were enacted, oil explor-
15 ation in New York had increased by 400 percent.

16 Reservoirs that had been closed down years and
17 years ago were being reopened, and people were drilling
18 10,000-foot wells.

19 I think we sort of have in minuscule a demonstration
20 of what free economy and a free economy approach will do for
21 this industry, will do for the consumer, will do in develop-
22 ing those resources that remain to be developed.

23 Mr. Simon, who is a most admirable man, was
24 speaking a little earlier about the need for legislation,
25 and also about the need to rely and liberate the free market

1 economy.

2 The problem is that the people in the Congress do
3 not necessarily see eye to eye with Mr. Simon, or with me.
4 Also, the problem is, if we start setting up broad, new
5 authorities, broad, new bureaus, we are apt in the future
6 not to have somebody of the impeccable judgment of Mr. Simon
7 in charge.

8 I would like to take this occasion to talk to
9 you about some of the implications of some of the legislation
10 that is now being discussed seriously on the Hill because
11 I believe not only are we in danger of establishing a pattern
12 that can crucify the oil and gas industry, but, in the
13 process, we will establish a pattern that inevitably will
14 be applied next time around to aluminum, the time after that
15 to the automobile industry, or any industry that happens
16 to be the whipping boy of the time.

17 I want to tell you about this, not only because
18 of your own interest in the oil and gas industry, but also
19 because I believe that if we are to stop some forces now in
20 motion, we will have to enlist the attention, the interest
21 of all American industry, and I appeal to you to do that.

22 Let me just give you two examples of what I am
23 talking about. One of them, I am sure you are aware of, is
24 a proposal introduced by Senator Jackson that would, in effect,
25 establish a system of national chartering for the oil

1 industry.

2 This would inevitably allow bureaucrats to
3 establish all kinds of standards of performance, all kinds
4 of standards of information revelation on oil and gas.

5 One of the proposals involves mandating that there
6 be kind of a Ralph Nader type on your board of directors
7 who would be paid by you, entitled to your pension plans,
8 and all the rest of it, but whose duty would not be to your
9 stockholders; whose duty it would be to do the sort of thing
10 that Ralph Nader does.

11 (General laughter.)

12 SENATOR BUCKLEY: At the present time, we are
13 discussing another bill that has as its purpose something
14 that we all agree needs to be done; namely, we need somehow
15 to collect in one place the kind of information that is
16 necessary to enable the Federal Government to have some kind
17 of a grasp on accurate energy information, and thereby equip-
18 ping itself for some sort of intelligent planning.

19 All well and good, and we all agree that that is
20 necessary, but let me give you just some selections from
21 the "Committee Print," Number 3, of the National Energy
22 Information System that currently is being discussed in the
23 Interior Committee.

24 Number one, the "Statement of Purposes" states
25 that "It is the purpose of this act to make all information

1 public" -- all information public -- "that is not for one
2 reason or another defined as confidential."

3 This applies to all energy industries, and all
4 energy industries are defined as the following lines of
5 commerce:

6 One, exploration for or development of mineral
7 fuel resources or non-mineral energy resources.

8 Two, extraction.

9 Three, refining.

10 Four, the generation, transmission or storage of
11 electrical energy.

12 Five, transportation.

13 Six, wholesale or retail distribution and sales.

14 Then it goes on to say that "Major energy
15 companies means a corporation which alone or with its affil-
16 iates is involved in business activities in one or more of
17 the energy industries, or which consumes significant amounts
18 of mineral fuels or electrical energy."

19 In other words, just about any activity in the
20 country remotely associated with the production, processing,
21 transportation or consumption of energy would automatically
22 come under the purview of this legislation at the direction
23 of a future administrator.

24 Then, we come to the scope of the inquiry, which
25 would fall within the responsibility of the administrator of

1 this new bureau.

2 It says, "The administrator or any officer or
3 employee of the administration designated by him shall have
4 right of entry to the real property and access to any books,
5 documents, papers, statistics, data, information and records
6 of any company, business, institution, establishment or
7 organization of any nature whatever when the purpose of such
8 access is to obtain or verify energy information which they
9 are authorized by this Act to obtain."

10 This means, in effect, that a future administrator
11 could have somebody side by side with your geologist examin-
12 ing the bits and cuttings as they come up on an important
13 wildcat well, and the presumption is that this information
14 is public information, available through an electronic net-
15 work to anybody in any major city in the United States.

16 This proposed legislation does provide for
17 classification, although it makes it clear that the burden
18 of proof is to establish that information not be made public.

19 In any event, under the appropriate provision, we
20 see that "energy information received by the administrator
21 shall, in general, be classified public.

22 "Energy information shall be classified confidential
23 if:

24 "One, the officer of the company responsible for
25 submitting such information swears under oath that the

1 company has not disclosed the information directly or
2 indirectly to any person who is not employed by the company";
3 presumably, not your partners, not the bank you borrow money
4 from, or anyone else.

5 "Two, the company shows by clear and convincing
6 evidence that such information constitutes a trade secret,
7 or that disclosure of such information would cause substan-
8 tial harm to the competitive position of the company.

9 "C., notwithstanding a sworn statement of an
10 affirmative finding by the administrator, the administrator
11 shall classify public any energy information when he finds:

12 "One, that such energy information is in the
13 possession of any person not employed by the company; or

14 "Two, the benefit to the public interest in
15 immediately classifying such information public outweighs
16 the demonstrated harm to the competitive position of the
17 company; or

18 "Three, the energy information is of a geological,
19 engineering, seismic, geomagnetic, gravitational, or geo-
20 chemical nature pertaining to undeveloped mineral fuel or
21 non-mineral energy resources on Federally-leased lands that
22 is more than one year old, or on privately-owned lands, if
23 that information is more than two years old."

24 All of your seismic work, all of your regional
25 geologizing, therefore, is opened up to the public within

1 two years' time at the latest.

2 Then we go on to suggest that there is a duty of
3 cooperation, not only on domestic companies, but on foreign
4 companies.

5 "The administrator shall collect from substantial
6 energy resource companies and major energy companies such
7 energy information as they may possess which is acquired to
8 achieve the purposes of this Act."

9 Then it goes on to say, "It shall be the duty of
10 every company, foreign and domestic, to report annually to
11 the administrator full and complete details of all mineral
12 fuel resources and non-mineral energy resources which it,
13 together with its affiliates, owns or controls anywhere in
14 the world."

15 I could go on, but I will not. I think I have
16 made my point.

17 I believe that we are on the verge of significant
18 legislation that will transform our system of a free, private,
19 competitive enterprise.

20 I believe that whereas you are the people, you
21 represent the industry where these theories will first be
22 tested; that if they are adopted by the Congress, if this
23 mood to extend Federal control over every area of our society
24 is not checked, that we will, in a few years' time, see the
25 pattern of disclosure, the pattern of control, the pattern of

1 regulation now being suggested for your industry extended
2 over every sector of the American economy.

3 If there are any questions I can answer with
4 respect to the Congress, I would be happy to do so, or try
5 to do so.

6 (No response.)

7 SENATOR BUCKLEY: Thank you very much.

8 I do plead with you to understand that you need
9 allies. You need allies in the Congress, you need allies
10 in the press, you need allies in other industries if you are
11 to persuade this Congress not to enact revolutionary legis-
12 lation in response to the oil shortage crisis, and if we are
13 to educate the public to some of the basic facts of life,
14 economic facts of life of your industry.

15 One of the things that has astonished me since
16 coming into the Congress is the extent of the ignorance by
17 good and honest men, honorable men, of how our system works,
18 what makes it tick.

19 There is no understanding of why people risk money,
20 why people will scrape and save and invest in ventures where
21 the odds against success are overwhelming.

22 Yet, it is the willingness of people in the oil
23 and gas industry to continue making those risks that enables
24 our economy to wobble along as well as it is.

25 Thank you very much.

1 (Applause.)

2 CHAIRMAN TRUE: Thank you very much, Senator
3 Buckley, for your very thought-provoking and somewhat
4 frightening comments this morning.

5 We will try to follow through as individuals.

6 At the risk of missing someone, I should introduce
7 -- enhanced by the fact that I really cannot see out there
8 to know who is here. There are a few distinguished guests
9 here this morning that I would like to introduce to you.

10 Jack Rigg, Deputy Assistant Secretary of the
11 Interior.

12 Jack?

13 Dr. Vincent McKelvey, Director of the U. S.
14 Geological Survey.

15 John Sawhill, Deputy Administrator, Federal
16 Energy Office.

17 Steve Wakefield, Assistant Administrator, Federal
18 Energy Office, for International Energy Affairs.

19 John Knuble, Deputy Assistant Administrator,
20 Federal Energy Office, for International Energy Affairs.

21 Thank you, and welcome to each of you. We are
22 delighted to have you aboard.

23 At this time, I would like to ask Vincent Brown,
24 Executive Director of the Council, to introduce the new
25 members who have been appointed since our last meeting in

1 Vince?

2 MR. BROWN: May I introduce those new members who
3 are present this morning.

4 Mr. L. N. Applegate of the Ethyl Corporation.

5 Mr. Herbert Clay, Chairman of the American Gas
6 Association.

7 Ken Hill of Blyth, Eastman, Dillon and Company.

8 Somebody really new to you, Minor Jameson,
9 consultant.

10 John Miller, President of the Independent
11 Petroleum Association.

12 Jeff Montgomery, Chairman of the Board of Kirby
13 Industries.

14 Mr. Seymour, President of Consolidated Natural
15 Gas Company.

16 C. P. Siess, Junior, President of APCO Oil.

17 Netum Steed, independent oil producer.

18 Gerry Vinson, oil and gas producer.

19 Jack Warren, independent producer.

20 Ivan West, President of the Association of Oil
21 Well Servicing Contractors.

22 Thank you, gentlemen.

23 CHAIRMAN TRUE: Thank you, Vince.

24 I certainly would like to add my personal welcome
25 to the new members of the Council.

1 The NPC, I believe, has made a significant input
2 towards a better knowledge and understanding of our complex
3 energy industry and problems through the personal efforts
4 of the Council members, which I just cannot say enough for
5 or express sufficient appreciation for.

6 MR. HAMMON: Mr. True, I may have misunderstood
7 the Secretary, and you may be getting around to it, and I
8 realize that we had to defer to the Senator's excellent
9 address, but if I understood your Co-Chairman, he wanted
10 some discussion from the floor or some questions.

11 Before we get into all of the other matters, not
12 that I have anything to suggest, I did want to give the
13 Secretary the benefit of suggestions on the topics he
14 touched on.

15 CHAIRMAN TRUE: Thank you, Jake Hamon.

16 We certainly plan to avail ourselves of the
17 opportunity that the Secretary has given us, and we might
18 find this an appropriate time to do so.

19 I would ask each of you, in the interest of keeping
20 our records correct, to identify yourselves as you do ask a
21 question.

22 We will, at Mr. Hamon's suggestion, declare this
23 meeting open for questions to the Secretary.

24 SECRETARY MORTON: Since we are going to proceed
25 along these lines, it might be good for me to put just a very

1 little capsule of some of the problems as we see them, and
2 some of the questions we want to address ourselves to.

3 First, is the amount of leasing that we should go
4 into on the Continental Shelf.

5 As you know, we have gone from about a million
6 acres a year to a three-million acre plateau. The proposal
7 is, based on the President's wishes, to move in terms of
8 about three times that, possibly to ten million acres a year.

9 I think we have to take a look, at the end of
10 this program, and make a decision as to what each increment
11 ought to be.

12 The other thing is the question of bonus money
13 versus royalty money. This has always been a question, and
14 what the Government role should be, if any, in the explora-
15 tion phase.

16 Should there be an exploration phase between
17 actual, full-scale leasing and development in an effort
18 perhaps to be more selective in the areas that are leased,
19 and that selectivity, hopefully, reducing the ratio of dry
20 holes to producers.

21 Those are the kinds of questions, and where and
22 how should we go into the frontier areas, and that sort of
23 thing. These are the things that we are grappling with as
24 far as the offshore is concerned.

25 Of course, there are many, many problems also in

1 the revision of the 1920 Leasing Act; the whole question of
2 resource development not only for oil but also for hard rock
3 minerals in the onshore area.

4 These are the things we are grappling with, and
5 these are the kinds of problems we are going to delineate
6 in a much more detailed manner and lay before the Council
7 so that the Council can organize itself to reflect on them,
8 and then respond to them.

9 MR. NIELSON: Mr. Chairman?

10 CHAIRMAN TRUE: Mr. Nielson.

11 MR. NIELSON: I am Glenn Nielson, Chairman of
12 Husky Oil.

13 I have particular thoughts on Secretary Morton's
14 comments concerning the large bonuses that have been re-
15 ceived from Government.

16 Having been one of the small companies, comparatively
17 speaking, who has tried to get into that area, we have
18 figured the economics of the bonuses on top of the develop-
19 ment has stopped us many a time from participating. If we
20 would have had some other means of participating, we would
21 have been active, along with others.

22 I am sure that I share the thoughts of a great
23 many of the smaller and medium size producers in commending
24 the Secretary for even raising the question. I think it is
25 a very pertinent one.

1 CHAIRMAN TRUE: Are there any other comments or
2 questions?

3 MR. SEYMOUR: Mr. Chairman, I am Robert Seymour,
4 Chairman of the Consolidated Natural Gas Company.

5 My remarks are really directed to Mr. Simon with
6 reference to a remark that he made, but maybe the Honorable
7 Mr. Morton can answer this question.

8 He spoke of a renewed relationship between
9 Government and industry. I would like to know just which
10 direction he expects that to follow because I believe, from
11 the industry standpoint, every time we come to Washington,
12 we find ourselves in an adversary position whether we are
13 trying to do something constructive or not.

14 I would just like to know whether or not Mr. Morton
15 sees a continuation of that situation?

16 SECRETARY MORTON: I think your remark is very,
17 very timely. Certainly, I will relay it on to Bill Simon
18 because I think he has some thoughts on it, and will come
19 back to you with his thoughts.

20 I have found a growing situation in the Executive
21 Branch that is influenced obviously by various consumer or-
22 ganizations, and the effort to be all things to all people,
23 which is a rather difficult posture, the influence of the
24 Congress, trying to be more universal in our attitudes, the
25 result of which has been, I think, a breakdown of the

1 traditional relationships -- and I am only talking about
2 the Department of the Interior -- that the Department has
3 had with industry - the coal industry, on the one hand, the
4 oil industry, the cattle industry, the resource industry,
5 the recreation industry - that we should respond to and
6 work with.

7 We have to stay within the framework of our
8 Congressional mandate, but I want to assure this organization
9 that I am trying to do in my short tenure here is to make
10 this Department a service to its constituency and not a
11 barrier to the constituencies' effort to do their thing.

12 I will be very candid with you. I do not think
13 so far I have been 100 percent successful, but I believe we
14 are moving a notch at a time, and if we have to proceed at
15 that pace, that is the pace it will be.

16 I am sure, from my point of view -- and I wish
17 Bill was here to speak for himself because I am sure he
18 would concur.

19 We were beginning to move away and become sort of
20 an adversary to the free enterprise system and to the very
21 economic pillars that are the fiber of the economy that we
22 are trying to support and trying to develop.

23 A great example was, back in the good old days of
24 the energy crisis, when I was the fellow who at that time was
25 charged with the management, along with Duke Ligon, of the

1 shortfall, which, to me, is the most -- there is no fun in
2 it at all.

3 (General laughter.)

4 SECRETARY MORTON: I said, "Duke, let's you and I
5 go out and get about 250 people out of the industry that
6 know what an oil truck looks like, and know who to call up
7 when they want to get ahold of one of them, and get them
8 out of the industry."

9 I got an article, an editorial in the "Washington
10 Post" saying how stupid could I be in wanting to go out
11 and get some people from the oil industry to come in and
12 help manage an oil problem.

13 Well, if this isn't a hell of a country to live in
14 when that is stupid.

15 What do you do when you get sick? You don't go to
16 a blacksmith.

17 (Applause.)

18 SECRETARY MORTON: So -- though sometimes you
19 would kind of like to.

20 (General laughter.)

21 SECRETARY MORTON: I just want to assure you that
22 if I do not leave anything else here in my wake, I want to
23 try to improve in terms of mutuality the relationship between
24 the Department of Interior, its responsibility to resource
25 development, resource husbanding and conservation, the

1 relationship with the basic industries who, in themselves,
2 are the only people out on the ground who can do the job.

3 (Applause.)

4 MR. OLMSTEAD: Cecil Olmstead from Texaco. I
5 on the Council's Seabed Committee.

6 Mr. Chairman, Mr. Secretary, I would like to, I
7 suppose, make a comment in the form of a question.

8 You raised the question of sovereignty about the
9 Outer Continental Shelf, and I assume that applies to the
10 margin as well.

11 This really raises two questions; one is the
12 case brought by Maine, et al, against the United States,
13 raising again the question of jurisdiction as between the
14 states and the Federal Government for the Continental
15 margin.

16 I understand that is the hands of a special master
17 up in Philadelphia, referred there by the Supreme Court,
18 and we do not know how far away that is from a decision.

19 Secondly, and a more immediate concern, is something
20 that this Council has worked on, and I guess here I am asking
21 for reassurance.

22 In the conference on the Law of the Sea, that is
23 beginning in Caracas in June, are we going to adhere to our
24 position that Coastal States will have jurisdiction over the
25 full extent of the margin, not 200 miles, not 200 meters

1 water depth, not 2,500, but for the full margin, down to
2 where it meets the deep ocean floor?

3 If we do not, I think we run the risk, for the
4 generations ahead, of putting petroleum resources into some
5 regime which those who follow us might place a heavy responsi-
6 bility upon us for doing.

7 I suppose what I am asking for is reassurance that
8 we are going to stick to that position.

9 SECRETARY MORTON: Let me first address the
10 question of the suit filed by the Governor of Maine, et al,
11 on this question of jurisdiction. I think we are probably
12 about fifteen months away from having an opinion on that by
13 the court.

14 I do not think there is anything you can do to
15 speed it up. We have not learned any tricks over here to
16 speed up the workings of the Supreme Court. There is no
17 way.

18 Hopefully, we will have a decision so that orderly
19 plans can be made for whatever decisions are made in connec-
20 tion with that frontier.

21 Of course, I am not alone on the island when it
22 comes to the policy there. You pretty well articulated my
23 position. I will probably have a vote, and it will probably
24 be a minority vote.

25 I do think that there is an attitude among the

1 people who I have been talking to who are sort of the
2 formulators of the policy that we sort of harden our position
3 on the margin.

4 What we will actually go to Caracas with in that
5 respect, I really do not know. I feel strongly that way
6 that we should because I think that if that is the universal
7 policy -- the reason that I feel that it should be across
8 the board that way is because I think that the Outer
9 Continental Shelf is more important in the days to come and
10 in the future of the world as a resource development area
11 than it is an area for military defense.

12 We should technologically go beyond the use of
13 the Outer Continental Shelf as an area for military defense.

14 I do not think we can economically grow on into
15 the future unless we use the Continental Shelf for energy
16 resources and mineral resources.

17 MR. HARTLEY: Mr. Chairman?

18 CHAIRMAN TRUE: Fred Hartley.

19 MR. HARTLEY: Fred Hartley of Union Oil Company
20 of California.

21 The Secretary and the Administration, I believe,
22 were the original proponents of the concept of the windfall
23 profits tax, as it has been named, an excise tax on crude
24 oil above certain base price levels, and that has now been
25 picked up by the House Ways and Means Committee.

1 I, frankly, to be honest with you, sir, am trying
2 to digest the latest draft of that which came out last night.
3 I understand that they have integrated the depletion decline
4 with, at the same time, a decline in the windfall profits
5 tax so that five years from now, in summary form, the
6 depletion would be zero and the price of so-called "old
7 oil" would have risen from approximately \$5.25 to \$8.25 a
8 barrel.

9 I am not positive of those numbers, but that is
10 as near as I can work out the mathematics.

11 If that resulted in the industry having profit
12 increases of somewhere between 100 percent to 300 percent,
13 would the Administration be as equally relaxed as it is on
14 proposing this concept?

15 SECRETARY MORTON: It beats the hell out of me,
16 Fred.

17 (General laughter.)

18 SECRETARY MORTON: I do not know. I think we got
19 snookered and snowed a little bit in the whole area. There
20 is a political area here that you have to realistically deal
21 with. I found this to be true when I was on the Ways and
22 Means Committee.

23 If you will remember, when the big tax bill went
24 through the House, there was a lot of blood on the floor as
25 to the depletion allowance. George Bush and I tried to

1 compromise one percent, but it did not do much.

2 I wish I could really answer your question, but
3 I cannot. I do not know how George Shultz feels about it,
4 and I do not know how Bill Simon feels about it.

5 We have not had time to really discuss this since
6 the Ways and Means Committee made these statements.

7 Is John Sawhill still here?

8 (No response.)

9 SECRETARY MORTON: I am going to fight for an orderly
10 capital growth system because I think that is what it needs.
11 I price this Project Independence, as I see it through the
12 eyes of Interior, somewhere in the neighborhood of \$300
13 billion.

14 That money has to come from the capital growth in
15 the industry. It has to come from its credit, and its re-
16 tained earnings, and its cash flow.

17 I hope that the attitude is prevailing now,
18 particularly as we are seeing it harden up in terms of
19 getting away from price controls, harden up in terms of
20 letting the equilibrium take place in the market, that we
21 are not going to go for any kind of a program that is going
22 to really inhibit the capital growth of this industry. This
23 is a political tightrope, as you know, and it is a very
24 difficult one.

25 I think this is something that this National

1 Petroleum Council perhaps has not done enough work on; and
2 that is, in the area of economics and capital growth.

3 We have not sold the idea of profit and retained
4 earnings to the public. You know this, and I know this,
5 and I do not know whether we can or not.

6 I know that the New York Stock Exchange has been
7 trying to do it, the industry has been trying to do it
8 through the television, and the Stockholders' Associations
9 of America have been trying to do it, but profit has an evil
10 connotation now, particularly in the minds of a lot of
11 people.

12 When there is a change, a rapid change in profits
13 due to a rapid change in price, as we have had in this
14 industry, then, all of a sudden, it becomes completely
15 simple.

16 I do not know how to overcome it. I think for
17 my part and what I can contribute, I am going to try to do
18 everything I can to make sure that this industry can pay
19 the price of \$300 billion, or whatever is necessary, to
20 increase its service to the public; to produce more oil,
21 and to produce more energy in the various forms that you do.
22 That is where we are.

23 I think we have to take a position on what Mills
24 is saying and doing. I do not think the Administration
25 has shaken down and taken that position.

1 MR. MONTAGUE: I am Kenneth Montague of General
2 Crude Oil Company, Houston.

3 Mr. Secretary, my company is a small, independent
4 company that has been successful in the past in oil well
5 lease sales, but recently has not been.

6 We find ourselves with no quarrel against the
7 bonus system, but we do have a great deal of concern about
8 the size of the size of the savings.

9 It seems to us we were brushed aside in the rush
10 for the few crumbs that the Government tosses out at each
11 one of these individual sales.

12 We heard the Administration, and I think you said
13 this morning that there is going to be an increased size of
14 sales. I was wondering when this is going to occur?

15 SECRETARY MORTON: Do you mean the size of the
16 individual sales, or the total number of acres offered a
17 year?

18 MR. MONTAGUE: Yes, sir.

19 SECRETARY MORTON: Which one?

20 MR. MONTAGUE: Any one.

21 SECRETARY MORTON: We are at the three-million acres
22 a year plateau right now. We came up from a million a year
23 ago, and we are operating on a three-million acre plateau
24 now. I do not know what is planned exactly.

25 Do you have a plan for 1975? Vince McKelvey is

1 here. Who is from BLM? Anybody?

2 (No response.)

3 SECRETARY MORTON: Vince, do you know what the
4 exact acreage is or the planned sales that are all ready
5 contemplated or those that we are considering for 1975?

6 MR. McKELVEY: I do not know the exact figures,
7 Mr. Secretary, but the plan that the President has asked to
8 be carried out would call for ten million acres in 1975,
9 with a reevaluation at that time, or at the end of that
10 time, what the level would be in the future.

11 SECRETARY MORTON: We may not hit the ten million,
12 but we will be right on that doorstep. It will be some
13 six or eight times the amount that has ever been offered
14 before in that given time frame.

15 MR. MONTAGUE: Mr. Secretary, as a comment, I
16 would suggest that consideration to increasing the individual
17 size of these sales would put a lot more acreage into active
18 development.

19 SECRETARY MORTON: We are going to have to do that.
20 A little bit of this will depend upon the nomination process
21 that we are using now in terms of the competition that we
22 would be getting from industry on the tracts themselves. I
23 think your point is well taken.

24 I do not think we can achieve a ten-million acre
25 exposure of the Shelf to industry unless we very, very

1 substantially reduce the number of acres that we are putting
2 up for sale; otherwise, we would be having a sale about every
3 month, and, administratively, we just cannot do that.

4 MR. WEST: Mr. Secretary, I am Bob West, Tesoro
5 Petroleum Corporation.

6 Getting back to the adversary position of the
7 Government vis-a-vis the industry, it seems to me that the
8 strongest adversary position resides in the Congress.

9 I would like to hear comments from you on what you
10 think this Council or the industry can do to educate the
11 Congress better, and to change its increasingly stronger
12 adversary position to the industry back to one of more
13 understanding and cooperation; and, hence, a continuation of
14 the free enterprise system in the industry?

15 SECRETARY MORTON: You want to hear my political
16 speech.

17 (General laughter.)

18 SECRETARY MORTON: I do not know. I was talking
19 to a fellow Congressman the other day. He has been there
20 a long time, and has been there longer than I have, actually.
21 We are old friends, but we never have agreed on anything.

22 I think that my comment to him was that we both
23 agree that you can go for a long time in this business and
24 not learn anything. We just have not agreed which one has
25 had this experience.

1 (General laughter.)

2 SECRETARY MORTON: Of course, if I knew the answer
3 to your question, I would be President of the United States.
4 I will tell you that.

5 I am sure that the President would like to have
6 the answer to that question. He would probably like to have
7 the answer to it more than anybody.

8 (General laughter.)

9 SECRETARY MORTON: I think, however, it is not an
10 impossible job. I think we contact Congress usually at a
11 time when it is sort of on an emotional wave. We respond
12 to the things that are being said in Congress, as Fred
13 pointed out, which really kind of shock us, in terms of
14 taxation, which shock us in terms of formation of Federal
15 corporations.

16 I got a whole, long treatment the other day by
17 Patsy Mink's Subcommittee on Mines. The rationale that they
18 had was this:

19 If the TVA is successful, why shouldn't we drill
20 all the oil in this country with a Federal corporation?

21 It would be pretty hard to attack that loop because
22 reason cannot find its way in.

23 (General laughter.)

24 SECRETARY MORTON: The way I think we can do it is
25 to meet these people on their home ground; talk to them more

1 when they are in their districts.

2 There is a funny thing about a Congressman. He is
3 a peculiar element. Up here, individuals are the public.
4 Back home, individuals are constituents, and there is one
5 hell of a difference.

6 (General laughter.)

7 SECRETARY MORTON: I was there, Charlie.

8 I think what we do not do in industry and in
9 business, and what I do not need as Secretary of the
10 Interior is meet these guys on their home ground.

11 We always seem to confront them in front of a
12 committee, behind a witness table, and that is a show; that
13 is an entertainment to a large extent, in many cases, unfor-
14 tunately, particularly since it is all being recorded in
15 video.

16 The only way that I can say that we can do it,
17 obviously, is to replace the ones you do not like with ones
18 you do like, and that is a cliché that I guess everybody has
19 heard.

20 I think we ought to meet with them and talk with
21 them in their districts, on their home ground, and in their
22 states, with the Senators, showing those people what the
23 contribution of this industry, my industry, your industry,
24 or whoever it is, is making in terms of jobs, in terms of
25 the economic welfare of the area.

1 I just think that this is the only short-term way
2 that I see that can do it. I find that that is a very good
3 thing. They have more time for you. They are honored and
4 flattered by the fact that you have kind of come to them,
5 and it has not been as a result of a subpoena.

6 I think this is an area where we can do it. You
7 can be relatively free from the pressures of the media and
8 the press that sort of have some influence on a Congressman's
9 interview. I think that this is the way to go.

10 MR. MOEHLMAN: Mr. Secretary, I am Bob Moehman,
11 Newmont Oil Company in Houston.

12 I would like to note that we have a pressing,
13 immediate problem on tubular goods. The Government bodies,
14 of course, are aware of this. We know that Duke Ligon's
15 office is working quite actively on it, but it is here with
16 us.

17 Speaking as a consumer of tubular goods, and who
18 wants to be a consumer of tubular goods, rather than circulat-
19 ing mud waiting for it, is there some way that the price
20 controls on tubular goods can be lifted so that we can keep
21 the steel in this country rather than letting it go out, and
22 so that we can perhaps assure people from whom we borrow it
23 that we are going to get it in the not too distant future?

24 SECRETARY MORTON: My understanding is -- I think
25 Duke's here, and he might answer the question, but I believe

1 we are looking at April 30th, are we not, Duke?

2 MR. LIGON: Yes, sir; that is right. April 30th
3 for the complete removal of controls. There have been some
4 controls lifted on the smaller plants.

5 MR. MOEHLMAN: That is thirty days from now. In
6 the meantime, the pipe is moving out of New Orleans.

7 SECRETARY MORTON: If you can get anything done
8 around here in thirty days, consider it a success.

9 (General laughter.)

10 SECRETARY MORTON: A guy came into me the other
11 day with an application to build 5,400 miles of 42-inch
12 pipe.

13 I said, "Have you got it?"

14 He said, "Oh, sure. We can get it easy."

15 It is a problem. This back-up system is the thing
16 that really concerns me. The thing is, though, Bill Simon
17 has a pretty good philosophy.

18 He says, "If the price is right, I'll get the
19 piping."

20 You better believe it. This is a peculiar country.
21 There is more elasticity in this country than anybody ever
22 gives it credit for.

23 Those of us, and there are many here whose hair is
24 as gray as mine, who have lived through World War II -- well,
25 my father was always making airplane wings out of orange

1 crates. I know, because I had to fly one of them.

2 (General laughter.)

3 SECRETARY MORTON: I, of course, have been talking
4 with and jawboning with all of the steel people because not
5 only are the back-up systems for this industry involved, but
6 certainly for the mining industry.

7 We have had a hell of a time getting roof poles.
8 Can you imagine that?

9 It is a simple thing; a rod with a plate on it.
10 It is has been a very difficult thing, and the whole reason
11 has been because of the price control. People just do not
12 make things that are not profitable. You cannot blame them.

13 Hopefully, we are going to come out of that; and,
14 hopefully, our basic industry is going to have a better
15 capital growth situation than we have had.

16 I do not want to take any time, but the proposition
17 has been that when we put the environmental costs on top of
18 the normal manufacturing costs, and materials costs, and
19 labor costs of a basic industry like steel, and you replace
20 a plant like let us say Bethlehem has over here at Sparrow's
21 Point, a great big plant that grew up under an entirely
22 different environmental ethic than what is demanded now in
23 terms of its response to the Clean Water Act, the Clean Air
24 Act, and so on and so forth, there is no way that the cash
25 flow from the old plant can provide enough capital to replace

1 itself with a new plant because of these tremendous additional
2 systems costs that are added on to it.

3 This goes for your own refineries, too, and you
4 know this.

5 We should take that into consideration in our
6 tax system so that the capital growth is there, and we can
7 move these basic industries ahead by replacing the old with
8 the new.

9 We are not getting the kind of expansion in
10 aluminum and in steel and in the roller mills and in the
11 refineries that we need to keep up with the show.

12 I think the reason is because we have not
13 recognized capital growth as a very, very important factor
14 in the continuing growth of an industrial economy.

15 CHAIRMAN TRUE: Thank you, again, Mr. Secretary,
16 for your very frank and straightforward answers and comments.
17 We certainly do appreciate your being here.

18 Let me interrupt. I see Chatski Owens is just
19 leaving. I had intended to introduce him, and ask him for
20 comments later on, but I certainly want to recognize
21 Charles Owens, and to express our appreciation for his being
22 here.

23 MR. OWENS: Thank you very much, Dave.

24 CHAIRMAN TRUE: Again, Mr. Secretary, thank you.
25 We understand that you do have to leave shortly to catch an

1 airplane on one of your many travels. We do appreciate your
2 taking the time to be with us.

3 To get into our own business this morning, we will
4 first have a report from the NPC's Committee on Energy
5 Conservation, an interim report on the first phase of the
6 study by C. H. Murphy, Junior, Vice Chairman of the Committee.

7 Charlie?

8 STATEMENT OF C. H. MURPHY, JR., VICE CHAIRMAN,
9 COMMITTEE ON ENERGY CONSERVATION

10 MR. MURPHY: Mr. Chairman, Mr. Secretary, gentlemen
11 of the Council.

12 We have all had the experience of being associated
13 with colleagues who would go to seemingly any length to leave
14 us with a chore to do for them.

15 Butch Granville is in New Zealand today, and that
16 has to be close to a record of some kind.

17 Butch and I have worked closely on this thing, and
18 we take some satisfaction in the progress that so far has been
19 made.

20 You will remember that at our summer meeting last
21 year, the Agenda Committee received a request that this
22 matter be taken up.

23 The Agenda Committee cleared it, and this Committee
24 was duly organized, and went to work.

25 You received the interim report just a few days

1 ago. This is an interim report that was in response to the
2 Secretary's demand that we tell him how we are getting along.
3 I, therefore, want to emphasize that it is a progress report
4 only.

5 In tackling this job, the Committee decided that
6 it had to divide the thing into two phases, and this is the
7 phase that I am talking about right now.

8 We then go into dividing the thing into what can
9 be done in the short term, and then looking farther down the
10 road at what can be done to save energy in the future.

11 We, of course, anticipate that the measures which
12 will be implemented in the short run will have to be applied
13 quite cautiously to be sure that they are not counter-
14 productive over the longer haul.

15 In a minute, I am going to introduce Bob McKay,
16 who will present the report on behalf of the Coordinating
17 Subcommittee. Before I do, a couple of more observations
18 seem to be in order.

19 The first is that this Committee is tackling the
20 job of delving into the saving of energy in literally every
21 area where any energy is used.

22 For example, we have had to go into industry and
23 discuss steel, aluminum, pulp and paper.

24 Frankly, gentlemen, we did not feel smart about
25 a lot of those things, so we felt it necessary to reach out

1 into those industries and to bring in expertise and experience
2 probably to an extent that has not been found necessary before
3 in the work of this Council.

4 After all, if we are dealing with a steel shortage,
5 and the steel companies were undertaking to see how to save
6 steel, we might appreciate being consulted on whether or not
7 an intermediate type casing is necessary in our wells.

8 This is a major part of the activity, and it is
9 somewhat time-consuming, I must say, and we are going forward
10 with it, of course.

11 A second observation that I would like to make is
12 the very one that was brought out so cogently by His Czarship
13 here a little earlier in the day; and that is, that energy
14 conservation is becoming a reality.

15 It must become more of a reality because of a sense
16 of purpose on the part of the people. I join the Secretary
17 and almost everyone else who has touched indirectly on the
18 subject today, that as conscientious as our people are, the
19 thing that is really going to make all of us most conscious
20 of this necessity as consumers is price. I think we are
21 seeing some effect of that right now.

22 An awareness, beyond price, does need to be
23 stimulated on the part of the populace, and a great deal of
24 work is being directed to do just exactly that.

25 At this time, I want to call on Bob McCay, who has

1 done a yeoman's job here heading the Coordinating
2 Subcommittee. Here is Bob McCay.

3 (The statement follows.)
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1 STATEMENT OF R. C. McCAY, CHAIRMAN,
2 COORDINATING SUBCOMMITTEE

3 MR. McCAY: Thank you, Mr. Murphy.

4 The Committee working structure is made up of the
5 Coordinating Subcommittee and six task groups. Four end-
6 use task groups concern themselves with the broad areas of
7 energy consumption: electric utilities, transportation,
8 industry and residential/commercial.

9 In appointing members to each of the end-use task
10 groups, as Charlie mentioned, every effort was made to see
11 that both energy-consuming industries and energy-supplying
12 industries, along with government, were adequately repre-
13 sented.

14 We thereby assured ourselves not only of having
15 access to the requisite expertise, but also that the findings
16 and recommendations of each group would have a balance and
17 would have some internal consistency which might otherwise
18 have been lacking.

19 A Patterns of Consumption/Energy Demand Task
20 Group was designed and set up to establish the energy and
21 economic framework, both for the present and through 1985,
22 within which the end-use task groups work.

23 The sixth group is the Consumer Task Group, whose
24 function has been to interface with all other task groups
25 and assess their findings and recommendations as to their

1 acceptability to the public, the Government, and any
2 concerned special interest groups.

3 Establishing the Consumer Task Group as part of
4 this study, with a membership representing interests outside
5 the petroleum industry, has been unique for the National
6 Petroleum Council.

7 This task group is chaired by Howard McKinley of
8 Continental Oil Company, and its membership is composed of
9 representatives of the Rice Center for Community Design and
10 Research, the United Auto Workers, the General Electric
11 Company, a professor of management from MIT, the New York
12 State Public Service Commission, the Sierra Club, and a
13 Consumer Affairs Specialist.

14 This group is reviewing the energy conservation
15 considerations developed by the end-use task groups from
16 the viewpoints of their special concerns with regard to the
17 economic impact on the consumer, changes in life style,
18 economic effect on the nation, environmental concerns, impact
19 on the industrial complex, government policy change consid-
20 erations, and consumer response and education.

21 To date, these concerns have been assessed in
22 broad terms. It is recognized that solutions to many of the
23 programs will not be attainable during the short term of
24 Phase I, but it is felt that initiation of action is imper-
25 ative to move simultaneously toward both short- and long-

1 term goals.

2 This task group has met four times, and I have been
3 present during a portion of each of these meetings. The
4 other task group chairmen also were present during the third
5 meeting.

6 I can assure you that this Consumer Task Group
7 is functioning as an ombudsman, a conscience, and a veritable
8 guardian of the consumer's interests.

9 We shall endeavor to pass their muster, in large
10 part, which should add an extra element of credibility to
11 the final reports of both Phases I and II.

12 The Coordinating Subcommittee coordinates the
13 working groups, of course, and consolidates each group's
14 work into a unified whole.

15 The concept of the definition of energy conserva-
16 tion within the framework of this study was given much de-
17 liberation by the Coordinating Subcommittee.

18 It was basically decided that we would primarily
19 deal with "evolutionary" concepts rather than "revolutionary."
20 Stated simply, we visualize energy conservation as a natural
21 reaction to economic incentive forces, primarily the rising
22 cost of BTU's, rather than a mandated or dictated action
23 which provides energy conservation without a natural free-
24 enterprise driving force.

25 An exception to this philosophy is the analysis

1 which is being undertaken by the Consumer Task Group on
2 the impact of rationing under both voluntary and mandatory
3 curtailment.

4 This analysis has been specifically requested by
5 the Government.

6 An additional concept of energy conservation which
7 the Committee has been asked by the Government to consider
8 is the evaluation of the possibilities of switching from
9 less abundant to more abundant fuels.

10 Committing further on the two phases of the study,
11 as described by Charlie Murphy, Phase I is the short term,
12 1974 to 1978, and is concerned with what can be done by
13 voluntary and administrative action and with little addi-
14 tional investment beyond that which is all ready scheduled.

15 It contemplates some changes in Government policies
16 and consumer attitudes, but none so profound as to substan-
17 tially affect our way of life.

18 Phase II, covering the period 1979 to 1985, differs
19 from Phase I in that time is available for the planning and
20 research that must precede the massive investment and social
21 and governmental reorientation necessary if we are to have
22 energy conservation play a meaningful part in achieving our
23 national goal of energy self-sufficiency capability.

24 This Interim Report concentrates on the short
25 term, 1974 to 1978, period. Initial efforts have been

1 centered on researching and evaluating studies by Government
2 agencies, universities, trade associations, and industry.

3 The findings of this report are preliminary;
4 however, short-term measures have been quantified to a
5 limited extent.

6 The initial findings and proposed areas of
7 additional study may be expanded or revised as the study
8 progresses.

9 The final report on Phase I will be directed to
10 further assessing and quantifying potentials identified in
11 this report.

12 The Consumer Task Group has identified items
13 relating to energy conservation that will require detailed
14 investigation for a completely effective conservation program.

15 These areas are primarily concerned with price/-
16 demand elasticity, input-output, and other econometric
17 studies which the NPC considers to be beyond the scope of
18 its energy conservation study.

19 Task group participants will address the qualitative
20 aspects of these.

21 The NPC recommends that quantitative research in
22 these critical areas be conducted under Government auspices.

23 In some cases, individual task groups have made
24 all ready initial estimates of savings which will be quanti-
25 fied in the final report.

1 These savings would primarily result from citizen
2 actions plus professional programs of energy management in
3 the business sector, stimulated by an enlightened Government
4 policy.

5 In some consuming sectors, there are examples of
6 energy savings that exceed ten percent; however, at this
7 time, there is not sufficient experience or data to sub-
8 stantiate the permanence of such savings in a continuing
9 energy management program.

10 A major responsibility of energy management will be
11 to guarantee that, once realized, energy savings levels are
12 maintained.

13 Good energy management can have relevance for all
14 users, from the large manufacturing firm to the home-owner
15 and private motorist.

16 In all instances, an essential preliminary step
17 should be to identify and quantify the various applications
18 of energy within the user's control.

19 Once these are known, the potentials for energy
20 savings can be investigated.

21 A key activity in an energy management program
22 must be surveillance and control. In industrial and commer-
23 cial establishments this will involve reducing heat losses,
24 recycling scrap and combustible waste, recovering waste
25 heat, et cetera.

1 At the level of the individual consumer, the
2 surveillance and control function must take the form of
3 regular maintenance of all energy-using devices, with
4 particular attention given to automobiles, home heating and
5 cooling.

6 Major savings accrue simply by altering temperatures
7 and decreasing illumination.

8 In addition, individuals must be convinced of the
9 need to operate vehicles and appliances in an energy effi-
10 cient manner.

11 In the household, this will entail instilling a
12 sense of discipline in all family members. Once under way,
13 a viable energy management program requires a continuing
14 review of goals and strategies.

15 The governmental energy research budget should not
16 only be directed to increasing energy supply, but should
17 also give consideration to research in the area of end-use
18 consumption.

19 Examples of areas where such research could be
20 conducted are energy-use patterns for communities; community
21 development which takes into consideration the possibility of
22 mass transit systems to move people to and from work; inter-
23 modal transportation shifts; more efficient heating and
24 cooling systems; increased recycling of energy-intensive
25 materials; and increased substitution of communication for

1 travel.

2 For the most part, short-term savings in these
3 areas will be small; however, if they are to have an effect
4 on conservation efforts within the next five to fifteen years,
5 preliminary study must begin now. The opportunities for
6 major long-range impacts are promising.

7 Some of the proposed energy savings measures may
8 require relaxation of environmental standards; for example,
9 lead requirements for gasoline and desulfurization of fuel
10 oil, or deferral of their implementation.

11 Any recommendation thereon must be considered
12 cautiously due to human health considerations. Careful
13 consideration must be given to evaluating the trade-offs of
14 energy savings versus environmental and health costs.

15 In other areas of environmental concern, there
16 continues to be controversy as to the most effective way to
17 achieve environmental standards; one example is the disagree-
18 ment between the Environmental Protection Agency, EPA, and
19 the electric utility industry as to the effectiveness and
20 reliability of the stack gas scrubber.

21 This is an area deserving additional research and
22 development work.

23 In the short-term, some oil- and gas-fired boilers
24 and furnaces could be converted to burn coal; however, some
25 sulfur restrictions would have to be relaxed.

1 Coal production and transportation capacity will
2 have to be expanded. The coal industry is unable to sig-
3 nificantly increase production to supply plants burning fuel
4 oil and natural gas on the East Coast without building new
5 capacity which would require at least three years.

6 However, a coal allocation program could be
7 implemented that would divert a portion of current pro-
8 duction to convertible plants.

9 Measures such as a coal allocation program and
10 diversion of some transportation equipment to critical areas
11 could offer some short-term relief.

12 An additional contribution that coal could make
13 would be by increasing load factors on coal-fired utility
14 plants, thus reducing the oil and gas requirements of an
15 electric power system.

16 While this possibility has not been fully explored,
17 it appears that existing transmission facilities are limited
18 in their ability to distribute the added electricity to oil-
19 or gas-consuming areas.

20 The current shortage of available fossil fuels puts
21 a high premium on maintaining, or advancing, the scheduled
22 commercial operating dates of nuclear power plants.

23 Units planned for operation in what are now oil-
24 or gas-dependent regions of the country should be expedited
25 to meet projected in-service deadlines.

1 The NPC's Emergency Preparedness Report has all
2 ready identified and proposed a number of short-term transpor-
3 tation energy-saving measures; for example, lowering of high-
4 way speed limits, the development of computerized car-pool
5 systems, et cetera.

6 The automobile industry appears well on the thresh-
7 old of developing and/or shifting to more efficient models.
8 Consideration should be given to shifting passengers and
9 freight to less energy-intensive modes.

10 At this juncture, the major shortcoming is an
11 articulate, dynamic and forceful research and development
12 program for a total systems program that reaches across all
13 transportation modes.

14 This program should include the development of
15 an integrated transport system capable of conserving energy
16 and which is consistent with preserving life styles and/or
17 accommodating a smooth pattern of social evolution.

18 The consumer will cooperate in solving the nation's
19 energy problem if sufficiently educated and advised. There
20 is a definite need for timely information which is complete,
21 comprehensive and credible.

22 This must be a coordinated effort, including
23 consumer concern groups, educational institutions, communi-
24 cation media, Government and industry.

25 The consumer will be responsible to conservation

1 efforts over a period of time if there is equity in sharing
2 conservation burdens.

3 It is, therefore, important that the consumer be
4 informed of Government and industry conservation efforts and
5 how he may be of assistance.

6 The consumer is affected most directly in his mode
7 of living, working and transportation. Many of the savings
8 in these areas will require investment on the part of the
9 consumer and will probably not occur unless the consumer is
10 given some direct aid.

11 An example of a positive incentive would be a tax
12 consideration for retrofitting insulation; a negative incentive
13 would be a surcharge on excess energy usage.

14 Most of these incentives can only occur at state,
15 local or Federal Government direction; such as, changes in
16 building codes, zonings, tax incentives, excise taxes, et
17 cetera.

18 A number of specific areas for potential energy
19 conservation will be developed by the individual task groups
20 in depth in the final report of Phase I.

21 Downstream and lateral effects will be evaluated
22 to the extent possible. Among these specific areas are
23 included:

24 Evaluation of mass transit as a concept.

25 Impact of energy conservation on urban and

1 suburban life styles.

2 Recycle of scrap steel and aluminum.

3 Highway; car-pooling, emission controls.

4 Residential; insulation.

5 Commercial; utilization of utility customer service
6 organizations to advise consumers on energy conservation
7 means.

8 Electric utility; the effects of air and water
9 quality measurements.

10 Charlie Murphy has mentioned that we have a total
11 of 106 people working on this study, and we plan to be sure
12 that the energy conservation measures which will be included
13 in the final report will be reviewed with associations rep-
14 resenting these industries so that we do have a concurrence
15 of the user industries on the conservation measures that we
16 display.

17 Now I would like to mention just a few words on
18 the Phase II, covering 1979 to 1985. This Phase II report
19 is scheduled for completion later this year, and the various
20 task groups have been developing their plans of approach.

21 We must recognize at the outset that the longer the
22 forecast period, the less sure we become as to any conclusions
23 and recommendations that we may draw.

24 Take the matter of the technological base that is
25 assumed. The easiest course would be to assume that we would

1 merely draw on present technology, and that by 1985, we would
2 have reached the limits of what could be done, given that
3 base.

4 This would patently understate what our energy
5 conservation accomplishments could be. As we all know,
6 growth in technology is a function of need, either as ex-
7 pressed in the market place through rising prices, or under
8 governmental pressure, as in time of war or other grave
9 national necessity.

10 Rising energy costs will certainly spur private
11 and industrial research and technical development. Govern-
12 mental concern, if it takes the form of incentives rather
13 than outright direction, will also do much to hasten the
14 rate of discovery and rate of application of new discoveries.

15 On the other hand, we must avoid assuming
16 scientific and technical advances that most probably and
17 rightly belong in the Twenty-first Century.

18 We just cannot assume that we will be able to use
19 hydrogen from the sea as a power source by 1985.

20 Another imponderable is the impact that energy
21 conservation will have on public attitudes and our life style
22 generally, and our task groups will have to weigh these
23 considerations carefully.

24 But somehow, I myself feel that these will not be
25 the problems that they may be in the short run, where

1 relatively abrupt changes may have to be considered.

2 Americans have certainly shown themselves to be an
3 adaptable people, and I am sure that a new and more pleasing
4 life style will slowly evolve.

5 Charlie, this completes the summary of the
6 Interim Report.

7 MR. MURPHY: Bob, thank you very much.

8 Gentlemen, while the main Committee is by no means
9 shirking its policy responsibility here, I think it is plain
10 to you that the work simply could not be done without these
11 various task groups.

12 I want to compliment Bob McCay and his task force;
13 they have really turned to.

14 Mr. Chairman, that is the best we can do at the
15 moment.

16 Here is the Interim Report in response to the
17 Secretary's request. I respectfully move, sir, its adoption
18 by the Council, and that the Executive Director be instructed
19 to hand the report to the Secretary.

20 CHAIRMAN TRUE: Gentlemen, you have heard the
21 motion. Is there a second?

22 MR. OLMSTEAD: I second the motion.

23 CHAIRMAN TRUE: Normally, the Council does not
24 approval all interim reports, but, certainly, this one is an
25 exception to that procedure.

1 I think in the interest of having been specifically
2 requested, and also of its importance, we should take official
3 action to approve it.

4 Is there any discussion?

5 (No response.)

6 CHAIRMAN TRUE: All in favor?

7 (Chorus of ayes.)

8 CHAIRMAN TRUE: Any opposed?

9 (No response.)

10 CHAIRMAN TRUE: So ordered.

11 (The report follows.)
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1 CHAIRMAN TRUE: Thank you very much, Charlie,
2 and thank you, Bob.

3 Having watched how closely Charlie has worked with
4 the Chairman of the Committee, Butch Granville, and also
5 having watched how hard the Coordinating Subcommittee has
6 worked, I feel that these two gentlemen are exceptionally
7 qualified to present this most important point.

8 Next, as you know, the NPC Committee on Emergency
9 Preparedness certainly has been brought to task by the
10 events of the last few months, particularly the embargo.

11 It is a very good example of how a seemingly
12 routine report can explode into tremendous proportions.

13 I am embarrassed when I recall when I called
14 Carrol Bennett and asked him to chair this Committee. I
15 referred to it as an "update report," and one that should
16 be very simple, based on his background with NPAD and NPGA,
17 and his current involvement as Regional Administrator of
18 that organization.

19 Certainly, I did not prepare him for the tremendous
20 amount of work that this Committee has been called on to per-
21 form.

22 Carrol, will you update the report?

23 STATEMENT OF CARROL M. BENNETT, CHAIRMAN,
24 COMMITTEE ON EMERGENCY PREPAREDNESS

25 MR. BENNETT: Thank you, Dave.

1 In the interest of time, I know we are running a
2 little behind schedule, I am going to leave my prepared
3 statement, I think, and just jog your memory a little as to
4 what our original assignment was; and, as Dave said, that
5 has changed considerably.

6 In fact, I told him the other day that I thought
7 our Committee would set a record. We would be the first
8 permanent committee of the Council because it seems that we
9 get more assignments as time goes on.

10 If you will recall, our original assignment was
11 to take a period, beginning in 1974 and in 1978, and antici-
12 pate a shortfall of a million and a half or three million
13 barrels per day.

14 This, of course, became a reality in October of
15 last year rather than a game. We requested then by the
16 Secretary to assemble all of our dope on the 1974 case and
17 provide him with that as soon as possible.

18 This, we did in a release on November 15th, which
19 I am sure you all have copies of.

20 It was then felt, as time went on, since we had
21 had no actual experience with the embargo situation and had
22 to postulate our findings, we decided in February that per-
23 haps to give the Secretary a better answer to his request, we
24 should update our November 15th report.

25 The result of that is the one that was issued to

1 you today here, and I think you also have one at home. I
2 believe it was mailed out.

3 We have had a new request by the Secretary for a
4 study on materials, supplies, manpower, and the effects that
5 they would have on exploration, drilling and production.

6 This Committee was formed recently, and Ken Hill
7 accepted the Chairmanship of this Subcommittee, which is a
8 subcommittee under our Coordinating Subcommittee of our
9 main Committee.

10 Ken, if you will come up and give us a report
11 on your progress.

12 (The statement follows.)
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1 STATEMENT OF KENNETH H. HILL, CHAIRMAN,
2 SUBCOMMITTEE ON MATERIALS AND MANPOWER REQUIREMENTS
3 FOR PETROLEUM EXPLORATION, DRILLING AND PRODUCTION
4 MR. HILL: Thank you very much, Carrol.

5 Secretary Wakefield's request for a study of
6 the availability of materials, manpower and equipment neces-
7 sary for the exploration, drilling and production of oil
8 during the next two years, also asked the Council to indicate
9 the probable limitations on drilling activity due to any
10 shortage, and the duration and causes of such shortages,
11 together with any possible measures to alleviate them.

12 We do not have to go into all of the details, but
13 you all know -- it has been alluded to today -- that we are
14 short of drilling rigs, onshore and offshore; casing, tubing,
15 drill pipe, and tool joints are all hard to come by; the
16 lead time on pumping units, sucker rods, downhole equipment,
17 and many other things, has dramatically increased.

18 We are finding out that one of the major road-
19 blocks is skilled manpower, which is almost impossible to
20 recruit.

21 Hardly anything we use is easy to obtain, and lack
22 of many of these short supply items can result in constraints
23 to drilling and production maintenance.

24 Reduced abandonment programs have dried up the used
25 casing and tubing supply while programs to increase

1 production from old wells compete with new well completions
2 for the same subsurface equipment and services.

3 To address Secretary Wakefield's request, the
4 Subcommittee on Materials and Manpower Requirements for
5 Petroleum Exploration, Drilling and Production, designated
6 six task groups:

7 One on Outlook; one on Exploration and Drilling;
8 Production Equipment; Tubular Steel; Well Servicing; and
9 Gas Processing Plants.

10 In addition to Council member representation,
11 several very knowledgeable persons were recruited for the
12 task groups from manufacturers and suppliers of oil field
13 equipment, from drilling and construction contractors, and
14 from service companies.

15 This will assure us that the best information
16 available on the present materials and manpower situation
17 goes into the study.

18 During the first meeting of the task group
19 chairmen, who are also members of the Subcommittee, it was
20 agreed that since a number of significant equipment items
21 have a present lead time of one to two years or more, a
22 materials supply availability study would have more meaning
23 if extended to three years.

24 The Department of the Interior concurs with this
25 opinion, and the study will include 1974, 1975 and 1976.

1 The Outlook Task Group will also look ahead to
2 1980, considering the possible effect on the number of wells
3 drilled and producing if various 1974 constraints are removed.

4 The tentative guidelines to be followed in this
5 study include, among others:

6 It is assumed that there will be adequate economic
7 incentives for industry to expand drilling and production
8 activities within the limitations of available material,
9 equipment and manpower during these three years.

10 It is assumed, further, that financing will not be
11 a constraint for expansion of drilling and production oper-
12 ations of the oil producers, for for orderly expansion of
13 capacity of the oil field equipment manufacturers, contractors
14 and service companies.

15 No estimates will be made of the possible quanti-
16 tative effect of any changes in prices and tax laws on the
17 level of activities.

18 However, the qualitative effect of certain Government
19 policies may be addressed and discussed.

20 Projections of oil and gas productions are not
21 going to be within the scope of the study. Volume estimates
22 necessary for projection of production and gas plant mater-
23 ials requirements will be consistent with the NPC report,
24 "United States Energy Outlook," December, 1972.

25 Each of these six task groups have met, and have

1 started to work on their assignments. Our target dates are
2 to have a first draft report in June, and the final report
3 in August.

4 This is a formidable task, but with the quality
5 of talent we have, made available by the Council and the
6 outside supporting industries, I believe it can be done.

7 Thank you very much.

8 (Applause.)

9 MR. BENNETT: Thank you, Ken.

10 You will notice that he was introduced this
11 morning as a new member. It did not take us long to put
12 him to work.

13 (General laughter.)

14 MR. BENNETT: As to the remainder of our assignment,
15 which was the 1978 case, we have gone back to work on that
16 now, and hope by the next Council meeting that we will have
17 it available for your approval.

18 Since the report before you today is an interim
19 report of the interim report, or an update of the interim
20 report, I do not believe it needs to be accepted by the
21 Council necessarily.

22 That concludes my report.

23 CHAIRMAN TRUE: Thank you very much, Carrol, and
24 thanks to you, Ken.

25 Certainly, this Committee and its Subcommittees

1 have done yeoman's service for the Council and for the
2 industry.

3 Let us now turn to a status report of the NPC
4 Committee on Petroleum Storage Capacity, which will be
5 presented by Earl W. Unruh.

6 Earl?

7 STATEMENT OF EARL W. UNRUH, CHAIRMAN, TECHNICAL
8 SUBCOMMITTEE ON PETROLEUM STORAGE CAPACITY

9 MR. UNRUH: Mr. Chairman, distinguished gentlemen,
10 and members of the National Petroleum Council.

11 As you are aware, periodically, at the request of
12 the Department of the Interior, the National Petroleum
13 Council has conducted a survey of the availability of pet-
14 roleum inventories and storage capacity.

15 These reports, in the past, have provided assistance
16 in evaluating our emergency preparedness to withstand inter-
17 ruptions in our normal oil supplies, whether by domestic
18 dislocation or by foreign intervention.

19 Last July, the Department of the Interior requested
20 the National Petroleum Council to update its earlier studies
21 on the nation's inventories of petroleum and storage
22 capacities.

23 The Department recognizes the need for accurate
24 information and a clear understanding of the fact that there
25 is a substantial level of inventory which is completely

1 unavailable.

2 There is also an increment above the absolutely
3 unavailable which is a necessity for continuity of operation.
4 This is generally defined as the level below which problems,
5 such as run-outs and shutdowns, begin to occur.

6 Only those supplies in inventory above this point
7 can be considered available for consumption.

8 To prepare the update, as requested, and to study
9 the situation in light of current problems, the Council
10 established a Committee under the Chairmanship of Mr.
11 Charles E. Spahr, Chairman of the Standard Oil Company of
12 Ohio.

13 Charlie asked me to chair a technical subcommittee
14 to survey and analyze the current situation. We are also
15 attempting to define the levels of inventory of various
16 products at which we can expect to have troubles in the
17 future.

18 To those not familiar with the petroleum industry
19 and its vast and sprawling operations, inventories generally
20 mean only one thing; readily available supply.

21 We are attempting to show in our report, which is
22 in the final drafting stage, that, first of all, to compre-
23 hend available supply, one must have an understanding of the
24 nation's vast distribution system, its modes and its
25 limitations.

1 Secondly, it is necessary to understand the
2 distinction between total inventories and available inven-
3 tories.

4 Absolute, unavailable inventory is tied up in
5 pipeline line-fill, refinery operations and facilities,
6 and in tank bottoms.

7 Pulling everything down to this absolute, unavail-
8 able inventory level would represent a "shutdown" or inop-
9 erable situation.

10 To operate on a normal basis, an additional,
11 substantial increment of inventory is necessary for con-
12 tinuity of operations, and must also be considered unavail-
13 able for consumption.

14 Again, the readily available inventory may be
15 only a small percentage of total inventories reported and
16 that we see published.

17 This report will provide national and regional
18 information on the nation's inventories and storage cap-
19 acities as they are distributed throughout the country.

20 Approximately 1,400 questionnaires were sent to
21 all facets of the industry where primary inventories of crude
22 oil and refined products exist.

23 Secondary or consumer storage, such as that of
24 chemical companies, utility companies, railroads, trucking
25 companies, or the military, was considered beyond the scope

1 of our study.

2 It is our purpose to make this report as meaningful
3 and helpful as possible to the Department of the Interior and
4 agencies involved in petroleum energy supply and distribution.

5 The work of the technical subcommittee should be
6 completed in approximately one month.

7 After the parent committee has received and
8 approved the report, it will be mailed to members of the
9 Council for their approval.

10 Mr. Chairman, that concludes the status report of
11 the Committee on Petroleum Storage Capacity.

12 CHAIRMAN TRUE: Thank you very much, Earl.

13 We certainly look forward to receiving your final
14 report.

15 Next, Wilton Scott, Chairman of the main committee,
16 and Cecil Olmstead, Chairman of the Coordinating Subcommittee,
17 will report on our new study request undertaken by the NPC
18 Committee on Ocean Petroleum Resources.

19 STATEMENT OF WILTON E. SCOTT, CHAIRMAN, COMMITTEE
20 ON OCEAN PETROLEUM RESOURCES

21 MR. SCOTT: Thank you, Dave.

22 As the Secretary mentioned this morning, in January
23 of this year, the Department of the Interior requested the
24 Council to undertake additional studies concerning ocean
25 petroleum resources in order to assist Interior and the other

1 concerned agencies of the Government in the further preparation
2 for the Third Law of the Sea Conference under the auspices of
3 the United Nations which will be held this summer in Caracas,
4 Venezuela.

5 This study will be the fourth in a series which
6 has been undertaken by the Council regarding oil and gas
7 potential and development on the Continental Margin.

8 Previous issues addressed have included inter-
9 national community interest in freedom of navigation, in-
10 cluding that in the international straits, security of
11 investment in mineral resource development in offshore areas,
12 marine pollution, accommodation of multiple ocean uses, and
13 compulsory settlement of disputes within the context of the
14 international negotiations which have been taking place in
15 the United Nations since 1968.

16 The Council's original study, completed in March,
17 1969, provided a comprehensive analysis of the complex problems
18 involved in the exploration and development of petroleum re-
19 sources under the ocean floor, with careful consideration of
20 the U. S. energy policy objectives and geological, technolog-
21 ical, economic, legal and multiple-use aspects.

22 It is worth reminding you, perhaps, in view of
23 the current energy supply problems, what the Council said
24 in its March, 1969 report in this regard. I will quote four
25 statements included in that report:

1 "The United States is dependent upon continuing
2 adequate and secure supplies of energy."

3 "Petroleum, the leading source of energy, will be
4 needed in increasing quantity far into the future."

5 "A healthy and expanding domestic petroleum industry
6 is essential to the security of the United States and the
7 defense of the free world."

8 "The ratio of U. S. reserves to production and
9 the rate of new discoveries on land are in a declining
10 trend.

11 "It is imperative that the United States Government
12 take all appropriate measures toward assuring the availability
13 of additional domestic reserves."

14 Unfortunately, these words are only now beginning
15 to be heard.

16 That comprehensive report of March, 1969, was
17 based largely on 1968 data. The new study request asks that
18 the Council update that 1969 report, expanding it to in-
19 clude the potential for offshore oil and gas discovery
20 and development around the globe.

21 It further solicits consideration of certain
22 other questions relating to vessel transport of petroleum,
23 marine pollution and settlement of disputes.

24 The United Nations' Third Law of the Sea Conference
25 will involve well over 100 nations, and will probably be the

1 largest conference ever held by the United Nations.

2 It is perhaps the most significant and complex
3 conference ever conducted on ocean issues.

4 The significance of the subject matter, and the
5 broad nature of this new study is recognized by Secretary
6 Morton, who will serve as the Co-chairman of the Main
7 Committee.

8 Reporting to the Main Committee is a Coordinating
9 Subcommittee supported by four task groups, the chairmen of
10 each of which are members of the Coordinating Subcommittee.
11 The four task groups are organized, as follows:

12 One, the Offshore Exploration and Production.

13 Two, Ocean Tankers and Deepwater Port Facilities.

14 Three, Finance and Economics; and

15 Four, Legal.

16 The Coordinating Subcommittee held its first
17 meeting last week on March 21. I have asked Cecil Olmstead,
18 Vice President of Texaco, Inc., and Chairman of the Coordin-
19 ating Subcommittee, to outline for you the manner in which we
20 intend to tackle this new assignment.

21 The Government Co-chairman who is working with
22 Cecil is Jared Carter, Deputy Under Secretary of the Interior
23 Department.

24 Before calling on Cecil, however, I would remind
25 you that we are going to have to have assigned to these

1 various working groups a number of technical experts, and
2 I urge you all to work with us in that respect because
3 with that, I am assured that the Council will be able to
4 mount and make a thorough study of this additional report.

5 Cecil, will you take over?

6 After that, Mr. Chairman, that will conclude our
7 report.

8 Cecil?

9 STATEMENT OF CECIL J. OLMSTEAD, CHAIRMAN,
10 COORDINATING SUBCOMMITTEE, OCEAN PETROLEUM
11 RESOURCES COMMITTEE

12 MR. OLMSTEAD: Thank you, Scottie.

13 Mr. Chairman, members of the Council, ladies and
14 gentlemen.

15 If you would indulge me just a moment before I
16 get into this, I noticed when the Government representatives
17 here departed, the high intensity television lights went
18 down, the roar of the video machines turned off. I thought
19 for a moment this was an energy conservation measure.

20 I thought a little more about, though, and I was
21 reminded of a story that the late Judge John Parker told
22 once. Some of you knew him. He was the Chief Judge of the
23 Federal Court of Appeals down in the Southeast. A great man.

24 Judge Parker said that when he was early on the
25 bench, he was observing another judge in a trial case, and

1 a young lawyer came in.

2 He was loaded down with books, and documents, and
3 evidence of every kind under the sun, and a string of wit-
4 nesses from here to there.

5 When he started to present his case, the Judge
6 said, "Young man, don't bore me with the facts, just tell me
7 what the law is."

8 Just as we were getting down to reviewing the work
9 of the NPC, which gets into the vital energy issues of the
10 day, I noticed that some people do not want to be bored with
11 the facts, or perhaps we do not have the glamour of those
12 who departed.

13 Mr. Chairman, one would have thought that since
14 1968, when the National Petroleum Council began the first
15 of its several studies on Law of the Sea and petroleum rela-
16 tions thereto, that we would have said all there was to say
17 on that subject.

18 In other words, if it could not be said in three
19 reports, why should we think another report will add anything
20 significant. Let me see if I might suggest why.

21 First, the NPC has been attempting to zero-in on
22 targets that have proven to be rather rapidly moving ones.
23 During the time frame from 1968, when our work in this area
24 commenced, there have been dramatic changes in fundamental
25 energy relationships along with improved technological means

1 of finding and producing petroleum from the seabed.

2 Second, the negotiating positions among nations in
3 the United Nations Seabed Committee, in preparation for the
4 forthcoming Caracas Law of the Sea Conference, have provided
5 parameters or guidelines for a more precise definition of
6 U. S. national position.

7 Third, environmental concerns affecting both ocean
8 transport of petroleum and exploration and production of
9 offshore petroleum have introduced new dimensions to all
10 ready complex subject matter.

11 Thus, it is important that our Government delegation
12 at Caracas be currently and well-informed regarding the po-
13 tential for oil and gas in various areas of the U. S. Contin-
14 ental Margin so that it may determine, as well as is practi-
15 cable, the effect on the United States of various limits on
16 coastal state mineral resource jurisdiction over the seabed.

17 That was why I was so anxious to hear the Secretary
18 this morning reassure us that our position will include the
19 entire Continental Margin which would greatly simplify this
20 particular problem.

21 Also, the time frame for development of technology
22 for seabed petroleum development in deeper waters is of
23 critical importance to our Government as it prepares for
24 Caracas.

25 Hopefully, our Committee will be able to update

1 the state of this technology.

2 Critical questions regarding the enforcement of
3 pollution control standards with respect to petroleum tankers
4 remain to be answered, as well as the determination of modal-
5 ities and institutions for determining international pollution
6 control standards both for vessels and seabed petroleum
7 development.

8 Thus far, the National Petroleum Council has not
9 addressed itself to definitive arrangements for mineral re-
10 source exploration and development in the seabed of the deep
11 ocean area beyond coastal state jurisdiction.

12 For several reasons, we believe now that the NPC
13 should review this matter of regime for deep ocean mineral
14 resource development; the existence of oil and gas in the
15 deep ocean area beyond the Continental Margin certainly
16 cannot be excluded; and, should the convention place limits
17 on coastal state mineral resource jurisdiction which do not
18 embrace the full Continental Margin, the outer portion of
19 that margin might be subject to international arrangements
20 or an international regime.

21 The economics of offshore petroleum production
22 will be updated, and we intend to make comparative cost
23 studies of oil and gas produced from deep water areas with
24 that produced from alternative sources, such as shale, tar
25 sands and gasification of coal.

1 One aspect of this study imposes severe time
2 limitations. Our Government delegation to the Caracas Con-
3 ference would like to receive any information which can be
4 made available while it is still preparing for the Conference.

5 Thus, we intend to select certain top priority
6 matters for interim analysis and study so that tentative
7 preliminary comments and views can be furnished. Of course,
8 this would have to be by the middle of May to be of any use
9 in that process.

10 Now how are we organized to do the job?

11 As Mr. Scott stated, we are fortunate that
12 Secretary Morton is serving as Co-chairman of the Main
13 Committee. I think this emphasizes the importance the
14 Government places upon this effort.

15 The Government Co-chairman of the Coordinating
16 Subcommittee is Mr. Jared G. Carter, Deputy Under Secretary
17 of the Department of the Interior.

18 Four task groups are being organized to carry out
19 each of the areas of the study:

20 The first, Offshore Petroleum Exploration and
21 Production has as its Chairman Mr. John Sherborne of Union
22 Oil Company of California, with Dr. Vincent E. McKelvey,
23 Director of the U. S. Geological Survey as Co-chairman.

24 The second task group is Ocean Tankers and Deep-
25 water Port Facilities. The Chairman of that is Captain

1 Billy Smith of Gulf Oil Corporation, with Admiral William
2 M. Benkert, Chief of the Office of Marine Environment and
3 Systems, U. S. Coast Guard Headquarters, Department of
4 Transportation, as Co-chairman.

5 The task group on Finance and Economics has as
6 its Chairman Mr. Richard E. Faggioli of the Exxon Corporation,
7 with Mr. Darius Gaskins, Assistant Director, Policy Analysis/
8 Economics, Office of the Assistant Secretary, Program
9 Development and Budget, Department of the Interior, as
10 Co-chairman.

11 The Legal Task Group has as its Chairman Mr.
12 Northcutt Ely, the District of Columbia Bar, with Mr. Leigh
13 S. Ratiner, Deputy Assistant Administrator for International
14 Political and Economic Affairs, Federal Energy Office, as
15 Co-chairman.

16 Certainly, the Government and the industry have
17 made available outstanding personnel to conduct this study.
18 And we are grateful for them.

19 About a year ago, or a little less than a year ago,
20 the Council approved the 1973 report, entitled "Law of the
21 Sea." You may recall that on the cover it had a large
22 tanker.

23 Just so I can relate to you how that volume has
24 been used, it was among the most referred to documents at
25 the Geneva Committee meeting of the United Nations on the Law

1 of the Sea last summer, not only with our delegation, but it
2 was not unusual to see delegates from other governments
3 actually reading and studying that book.

4 I want the Council to understand, Mr. Chairman,
5 that this work is having an impact.

6 I would also like to say, because I think too
7 often perhaps we take the work of the staff of the Council
8 for granted.

9 I would like to commend and thank Vince Brown
10 and Max McKnight for the great support they have given now
11 for five or six years to this work.

12 They have both taken a personal interest in it,
13 and Max, particularly, has become one of the world's leading
14 experts on it. I just want to make sure that that is under-
15 stood.

16 In closing, Mr. Chairman, I want to say that our
17 ability as a nation and in industry to meet future energy
18 requirements and to restore energy capacity here at home
19 depends in substantial degree upon a rational regime for
20 ocean uses and seabed mineral development, including
21 petroleum.

22 Thank you, Mr. Chairman.

23 CHAIRMAN TRUE: Thank you, Cecil, and thank you,
24 Scottie.

25 It is indeed rewarding when we see the reports of

1 the Council used as extensively as the one Cecil mentioned
2 has been used.

3 As you gentlemen know, the Council has several
4 other studies in addition to the four we have had reports
5 by chairmen on this morning.

6 Vince Brown, the Executive Director of the Council,
7 will now present a report on the progress of other committees.

8 STATEMENT OF VINCENT M. BROWN, EXECUTIVE DIRECTOR,
9 NATIONAL PETROLEUM COUNCIL

10 MR. BROWN: Since our last meeting, the Council
11 has also been involved in completing its work in other
12 studies we started some time ago.

13 The work outputs from the 1,000-man, four-year
14 "U. S. Energy Outlook Study" is just about now totally complete.

15 Individual Fuel Task Group reports which supply
16 the detailed, back-up information to that over-all study
17 have been or are being published.

18 Reports on gas demand, nuclear energy availability,
19 coal availability, oil and gas availability and gas transpor-
20 tation were issued since our last meeting.

21 Today, we are releasing the New Energy Forms Task
22 Group report. I do not know whether they passed them out or
23 not. There are some up there in the back of the room, other-
24 wise.

25 This report discusses the potential contribution of

1 unconventional energy forms, as well as the processes which
2 can increase the efficiency of possible fuel electric power
3 generating plants in the period 1971 to 1985.

4 The task group's examination of these fuels and
5 technologies indicate that the nation will continue to be
6 highly dependent upon hydrocarbons and nuclear energy through
7 the Year 2000, and concludes that there is little possibility
8 that new energy forms not all ready in an advanced state of
9 development will have a significant impact on energy supply
10 in this century.

11 If history is an indicator of the future, it is
12 quite reasonable to expect that another energy resource will
13 begin to emerge before the Year 2000.

14 This could be nuclear fusion, solar energy, or
15 possibly, although unlikely, some other resource not yet
16 discovered.

17 No matter which resource it happens to be, a great
18 deal of diligent research and many years of development will
19 be required before the United States can enjoy this potential
20 resource.

21 Two final tas groups remain to be published;
22 Water Availability, and Energy Demand. Their publication
23 will conclude the NPC study on "U. S. Energy Outlook."

24 Computer programs were developed to facilitate the
25 processing of data in two of the task groups' efforts in the

1 oil and gas and nuclear. In connection with those, the
2 Council wanted to make these unique computer programs avail-
3 able to the public in the most beneficial manner for their
4 continuing usefulness.

5 Thus, the NPC recommended, and the Interior
6 Department concurred, that the computer programs be offered
7 to universities with the proviso that the contracting uni-
8 versities could make the programs accessible to the public
9 at a reasonable cost.

10 A computer seminar was held in New Orleans in
11 November to present the program to the universities.
12 Universities such as MIT, Colorado School of Mines, and the
13 Universities of Southern California, Texas and Wyoming
14 have all ready contracted for one or both of the computer
15 programs.

16 The summary report of the Committee on Factors
17 Affecting U. S. Petroleum Refining was transmitted to the
18 Secretary of the Interior at the last meeting, the May 10th
19 meeting, 1973.

20 In the summary volume, the Committee discussed
21 the economic, governmental, technological and environmental
22 factors which affect the domestic refining industry's
23 ability to respond to demands for essential petroleum
24 products.

25 Last September, that Committee published an update

1 of the refining chapters of the 1967 report on the impact
2 of new technology on the U. S. petroleum industry.

3 The final report of the Committee, which will
4 supply the back-up data and analysis for the summary report,
5 will be ready for publication late this spring.

6 Thank you.

7 CHAIRMAN TRUE: Thank you, Vince.

8 Duke R. Ligon is with us today. He has a dual
9 capacity in connection with the Government and our industry.
10 As you know, he is the Director of the U. S. Office of Oil
11 and Gas, and he is also the Assistant Administrator of the
12 Federal Energy Office for Policy, Planning and Regulation.

13 When he moved away from the head table as the
14 lights went down, I wondered if he is just so used to
15 testifying before committees with television facilities that
16 he did not feel at home without them, but I am delighted
17 to see him back.

18 Duke, we would appreciate any comments you might
19 care to make to the Council.

20 STATEMENT OF DUKE R. LIGON, DIRECTOR,

21 U. S. OFFICE OF OIL AND GAS

22 MR. LIGON: Thank you, Dave.

23 I think you had enough speeches and reports this
24 morning to last you for a while, and I am not going to burden
25 you with anymore.

1 I did want to say that on behalf of Bill Simon,
2 in the Federal Energy Office, as well as Secretary Morton,
3 in the Department of Interior, I want to thank sincerely
4 the NPC and the various committees that have been involved
5 in much constructive work for both of those agencies and
6 departments here the last year.

7 Particularly, a special thanks to Carrol Bennett
8 and his committee. They, indeed, were brought to task under
9 a great deal of pressure.

10 The kind of help and support that these committees
11 and you, as members of the National Petroleum Council, have
12 given us throughout the year has been appreciated very much.

13 I hope that in the future, you will continue to
14 support us in the advisory role that you were intended to
15 serve because that help is invaluable, and I am not kidding
16 in any way about that.

17 Thank you very much.

18 (Applause.)

19 CHAIRMAN TRUE: Thank you, Duke.

20 Let me express the Council's appreciation for all
21 of the help, cooperation and assistance that you have given
22 as an individual in our work.

23 Part of the responsibilities of any organization
24 are budgetary. As the activities of the Council have escalated
25 over the past few years, so have the budget requirements.

1 The very active Chairman of our Budget Committee
2 has worked hard on our pressing budget problems this past
3 year, and he will now present a report of that committee.

4 Jack Abernathy?

5 STATEMENT OF JACK H. ABERNATHY

6 CHAIRMAN, BUDGET COMMITTEE

7 MR. ABERNATHY: Thank you, Mr. Chairman.

8 You know, this is an interesting committee report
9 I am going to give you. It will be very brief.

10 The first comment I would like to make is that I
11 am reporting to you from the only committee which does not
12 have Government participation.

13 (General laughter.)

14 MR. ABERNATHY: You have heard some excellent
15 reports today, as we have always had. You get from Secretary
16 Morton's and Mr. Simon's report, and even Duke's brief
17 remarks -- and, by the way, Duke, I sure appreciate your
18 staying as the last Government fact to hang on around here.
19 I sure appreciate that.

20 You can hear from what they told us today that
21 regardless of the form in which requests finally come to
22 and are approved by the Agenda Committee, that we really
23 have not seen anything yet, I guess, in terms of the require-
24 ments of the Council; of course, that is a part of our role.

25 All of this costs money, and that is why I am here.

1 I should, I guess, give you a little history. Those of you
2 who were here last July at the formal reorganization of the
3 Council will remember that a budget in the amount of \$845,000
4 was adopted at that time.

5 That was an approximate \$200,000 reduction from the
6 preceding year in which about \$1,050,000, if my memory is
7 correct, was expended; the reason being that the very large,
8 as quoted here earlier, 1,000-man report on the energy out-
9 look was virtually complete, and it was thought maybe that
10 we might drop back to a less frantic, if not less frenetic,
11 pace.

12 Of course, the October War, and the Arab embargo
13 changed all of that, and with the predictable result that
14 approximately the 10th of January Mr. Brown and Mr. True
15 advised the Budget Committee that based on the best guess
16 that they could make in the midst of the frantic pace and
17 the emergency pace truly on which the Council was operating,
18 in a few, spare moments they had to think about the money,
19 they suddenly looked up and it was nearly all gone.

20 As nearly as they could estimate, the requirements
21 for the current fiscal year, that is, the year ending June
22 30, 1974, would be about \$1,365,000, approximately \$600,000
23 in excess as compared to the budget which had been adopted
24 when you count a few carry-over things that we had not quite
25 figured out either.

1 The Budget Committee looked into this as well as
2 we could. Incidentally, you can see that we were pretty
3 nearly out of available funds at that time.

4 The Budget Committee made a rather hurried
5 examination of the situation. You all may remember that
6 you get a letter over my signature, which was dated January
7 the 18th, one week later after we found out about this, or
8 approximately so, that told you that there was an estimate
9 of perhaps a \$600,000 shortfall or overrun, whichever way
10 you want to put it, recommending that the members of the
11 Council contribute approximately \$300,000 on a hurry-up
12 basis, on the same basis on which they had originally made
13 their contributions to the Council's work.

14 Incidentally, I might tell you that the response
15 to that request for additional funds was quite gratifying
16 to the Committee, and I know to Mr. True and certainly
17 to Vincent Brown, in that I believe you told me yesterday
18 afternoon, Vincent, that all but about \$25,000 of that is
19 in right now, and that, of course, has reduced the pressure
20 somewhat.

21 We made two other recommendations at the time to
22 Chairman True. The first recommendation was that the Budget
23 Committee be enlarged somewhat by the addition of represent-
24 atives from some, another one or two or three of the larger
25 contributors.

1 He responded by appointing Mr. Mike Wright of
2 Exxon, and Mr. Butch Granville of Texaco to the Budget
3 Committee, which previously had been composed of Mr. McLean
4 of Continental, Mr. Swearingen of Amoco, myself, John Kelly,
5 and Dean McGee.

6 We thought it needed a little broader representa-
7 tion.

8 Anyhow, the next recommendation that we made,
9 which Chairman True also adopted, with the vigorous consent
10 and assent of Vincent Brown, was what we chose to call an
11 "Administrative Analysis Subcommittee" of the Budget
12 Committee be appointed.

13 The idea of the Administrative Analysis Sub-
14 committee was to take a real good, hard look at NPC operations.
15 As has been mentioned here earlier today, the costs of NPC
16 have been escalating rapidly in response to the requirements
17 from Government for assistance have escalated.

18 In fact, they have changed from around \$300,000
19 four years ago to about \$1,350,000 for the current year.
20 That is quite a gain.

21 The Budget Committee felt, in its responsibility
22 to the Council members, that we will try to get a better
23 grip on that.

24 Mr. True accepted that recommendation, and appointed
25 this Administrative Analysis Subcommittee. The members of

1 that are Mr. J. O. Edwards, who is the Comptroller of the
2 Exxon Corporation. He serves as Chairman of the Administra-
3 tive Analysis Subcommittee.

4 Again, Mr. Cecil Olmstead, who wears more hats
5 than anyone almost I know, who is Vice President and
6 Assistant to the Chairman of Texaco.

7 And Mr. D. R. Voorhees, who heads the Employee
8 Relations for Gulf Oil.

9 The Budget Committee, in a meeting, devoted some
10 time to trying to really define the job, as we saw it, not
11 to limit it exactly, but at least to give the Administrative
12 Analysis Subcommittee some sort of a charge as to what they
13 ought to be doing.

14 We wrote out and handed them, on their appointment,
15 a list of actually eighteen separate questions. I will not
16 try to read those to you.

17 Incidentally, these were not intended to limit
18 the Subcommittee in any way. We want them to chase any leads
19 that they thought were advisable, but we did want to give
20 them some sense of direction and the concerns that the
21 parent committee had, as we saw it outlined.

22 These eighteen questions fell into four general
23 categories. The first one was the organization and procedures
24 followed within the NPC organization, to provide liaison
25 between program requirements and costs thereof.

1 Up to now, we have not really done as good a job,
2 I confess, that is involved in the process for some time of
3 relating requirements to costs as perhaps should have been.

4 The second general area of questions was to sharpen
5 up and really make more effective the budgeting and fore-
6 casting process.

7 The third area was to provide the Agenda Committee
8 specifically with the financial and manpower implications of
9 requests in advance of formal approval thereof.

10 We are going to do better, Jake, than we have
11 been able to do so far.

12 Finally, to review and assure budgetary and
13 expense controls within the actual administration of the
14 National Petroleum Council office.

15 That was the situation as of approximately the
16 end of January, at the time we sent out the letter and we
17 received contributions.

18 The action that has been taken so far is that the
19 Administrative Analysis Subcommittee has been appointed; it
20 is working.

21 We are informed that the Budget Committee can
22 expect their complete report sometime, hopefully, by the
23 first of May, and certainly no later than the 15th, at which
24 time, the Budget Committee will meet to receive their report,
25 and consolidate it with our own ideas.

1 I might as well warn you that the Administrative
2 Analysis Committee confirms our suspicion that there will be
3 some shortfall this year.

4 The method of handling that will possibly take the
5 form of -- and, incidentally, the Administrative Analysis
6 Committee will also help us with the definition of a budget
7 for the coming fiscal year, Fiscal Year 1975.

8 Hopefully, late in May, or at the latest, early
9 June, we will be able to send out to the Council members a
10 budgetary request for contributions for Fiscal Year 1975,
11 which request will include a request for the funds necessary
12 to complete the current fiscal year, along with such other
13 items it seems appropriate to report at that time.

14 Obviously, we may have short of a shortfall at
15 that time, and some of the larger contributors, it will be
16 suggested, frankly, that maybe they might hurry and get
17 their contributions in in order that we do not have to go
18 to the bank too often, Jake, like you used to do.

19 That completes my report, Mr. Chairman. I hope
20 the members now have sufficient warning to anticipate the
21 letter on or about June 1st requesting funds.

22 Thank you.

23 CHAIRMAN TRUE: Thank you very much, Jack.

24 Thank you and your committee for the work you have
25 done and the contribution you are making.

1 It seems like all of our committees this year have
2 been called on to make greater and greater contributions
3 than historically the same committees were called on to make
4 in the past.

5 Is there any other business to come before the
6 Council?

7 (No response.)

8 CHAIRMAN TRUE: Mr. Hamon, do you have anything
9 else?

10 MR. HAMON: I move we adjourn.

11 CHAIRMAN TRUE: Before you do that, Mr. Hamon,
12 and you have no further business, I would like to conclude
13 my welcome of the new members of the National Petroleum
14 Council, and urge you to become involved in the Council's
15 work, and to participate and work on committees.

16 I am sure you will find it most rewarding.

17 There will be a press conference immediately
18 following adjournment in the Secretary of the Interior's
19 Conference Room, which is Room 5160, of this building. All
20 interested parties are invited to attend.

21 I would thank you all for being with us, with
22 particular thanks to those of you who have actively partici-
23 pated.

24 The meeting of the Council is hereby adjourned.

25 (Whereupon, at 11:58 o'clock a.m., the meeting

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was adjourned.)

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CERTIFICATE OF SHORTHAND REPORTER

I, Eugene Arnou, official reporter, do hereby certify that the testimony which appears in the foregoing matter was taken by me and thereafter reduced to typewriting by me or under my direction; that said transcript is a true record of the testimony given; that I am neither counsel for, related to, nor employed by any of the parties in this matter, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of this Proceeding.

Eugene Arnou

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