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UNITED STATES DEPARTMENT OF INTERIOR

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ORA

NATIONAL PETROLEUM COUNCIL

September 10, 1974

P R O C E E D I N G S

1
2 MR. _____: We have been engaged
3 for sometime now on studies which impact on the nation's
4 goal of relative energy self-sufficiency.

5 The issues involved are understandably complex
6 and I would like to put a few of them before you for
7 reflection prior to hearing from our guest speakers
8 and receiving for appropriate action, the committee
9 reports.

10 In the aftermath of the oil embargo, the American
11 public was jolted into an awareness of the affects
12 of energy shortages on their personal lifestyles and on
13 other national goals and priorities.

14 We all realize that increased domestic supplies
15 alone will not bridge the widening gap between domestic
16 energy supplies and demand.

17 The NPC Committee on Energy Conservation, which
18 will report to you today, has determined that more efficient
19 energy management must be utilized at all levels in
20 conjunction with such national goals as economic growth,
21 social well-being and environmental cleanup.

22 This is no easy task. Several potential constraints
23 could block the progress possible in the area of energy
24 conservation.

25 They are limitation on the availability of capital

1 and technical manpower and the restrictiveness of certain
2 environmental standards.

3 The actual magnitude of the energy conservation
4 will depend upon prices and rate of development of additional
5 supplies and their substitutability, which will in turn
6 depend upon policies, laws, regulations and government
7 actions at all levels, particularly that of the federal
8 government.

9 In addition to the new conservation ethic, which
10 resulted from the embargo, the domestic search for supplies
11 is increasing.

12 The Emergency Preparedness Subcommittee on
13 Materials and Manpower Requirements for Petroleum
14 Exploration, Drilling and Production has estimated that
15 drilling activity in 1974 will represent a 15 percent
16 increase over 1973.

17 There has been much discussion here in Washington
18 and down in the oil country about shortages of
19 materials required to develop our domestic oil and gas
20 resources.

21 It is the finding of the NPC Committee on
22 Emergency Preparedness that while oil country tubular
23 goods were in short supply in the first half of this
24 year, this situation is expected to be eased in the latter
25 part of 1974.

1 This does not mean the materials picture is rosy.
2 On the contrary, rigs are now becoming the important
3 constraint in shortterm drilling acceleration.

4 In addition to tubular goods and drilling
5 rigs, basic steel output and many other commodities
6 required for drilling and producing activities are also
7 in short supply, but none of these is expected to seriously
8 restrain drilling activity.

9 The increased domestic supplies resulting from
10 the improved drilling outlook, combined with the potential
11 saving from improved energy conservation, will unfortunately
12 not be sufficient to solve the nation's import
13 dependence problem for at least ten to 15 years.

14 The NPC Committee on Emergency Preparedness
15 has evaluated the recent embargo and its effects and
16 will advise the Federal Government to develop emergency
17 standby programs to reduce the demand and increased
18 useage of less scarce energy supplies in an emergency
19 situation.

20 The Committee will also recommend that a
21 coupon rationing system be carefully prepared so that
22 its implementation in a time of crisis will be both
23 orderly and equitable.

24 Lastly, but most important, the Committee will
25 recommend that emergency petroleum storage programs be

1 instituted with provisions for careful use of the storage
2 supplies in an emergency.

3 The Committee believes a combination of these
4 measures will afford the nation the greatest degree of
5 security possible in the next ten to 15 years while the
6 domestic dependence on imports will continue to be
7 substantial.

8 The Committee on Ocean Petroleum Resources
9 completed its interim report in early July and the
10 copy of that report was sent to you at that time.

11 The Committee is continuing its examination
12 of the offshore resources which are of vital importance
13 to the future domestic energy supply, demand balance.

14 Before we turn to the items on the agenda,
15 let me stress one point, events in late 1973 and early
16 1974 as related to the energy posture of the United
17 States, have again demonstrated the necessity for a
18 national energy policy, which must include balancing
19 energy conservation and other national interests.

20 Government has been active in many areas relating
21 to energy policy, however, there still is no national
22 energy policy relating the various government energy
23 actions one to another.

24 The development of a balanced national energy
25 policy by the Federal Government, including conservation

1 as a major component remains urgent.

2 Other components of such a policy include the
3 continued development of domestic supplies, the resolution
4 of environmental cleanup and the distribution of total
5 energy costs.

6 These should be balanced against the nation's
7 policy of growth, full employment, social well-being
8 and foreign policy.

9 One person who spoke out a long time ago regarding
10 the energy situation, we see developing today, and called,
11 at that time, for the kind of national policy I just
12 mentioned, was John McLaine, then Chairman of the Board
13 of Continental Oil Company.

14 It was my pleasure to have been Chairman of
15 the Council during the final stretch of the U.S. energy
16 outlook study of which he was Chairman.

17 I would like to pause at this time and present
18 for your approval, a memorial resolution for John McLaine.

19 I know all of you knew him well and were deeply
20 saddened by the news of his death.

21 The resolution reads as follows..

22 "The members of the National Petroleum Council
23 were profoundly sorrowed by the death of their fellow
24 member, John G. McLaine on May 20, 1974 at the age of 56.

25 "Mr. McLaine, a member of the Council since July 1,

1 1970, undertook with great spirit, the Herculean task
 2 of guiding the industry's 200 dedicated experts who
 3 served on the most exhaustive of the NPC study efforts,
 4 the U.S. Energy Outlook.

5 "This group produced a 20 volume study which forms
 6 the keystone of information and analysis regarding the
 7 nation's domestic energy posture.

8 "The impact of the study upon the nation's
 9 commitment to energy self-sufficiency gives testimony
 10 to his accomplishments and those of the men who assisted
 11 him.

12 "The Honorable Roger C. B. Morton, Secretary
 13 of the Interior, has said of this study, 'I believe it is
 14 the most comprehensive study of its kind and will
 15 have far-reaching impact on decisions, not only in your
 16 industry, in the marketplace, but in government. The
 17 study itself is a landmark and without parallel'."

18 "The Council is duly proud of both John McLaine,
 19 the man, and his work.

20 "John G. McLaine was born in Portland, Oregon on
 21 June 29, 1917 and was graduated from the California
 22 Institute of Technology in 1938 with a B.S. degree in
 23 Physics.

24 "In 1970, he was presented with that School's
 25 Distinguished Service Award and was elected a Trustee in

1 in 1971.

2 "He earned his Masters and Doctorate degrees
3 at Harvard Business School, where he served on the faculty
4 for 14 years, simultaneously acting as Full Professor
5 and Consultant to business and government.

6 "During that time, he co-authored a book entitled
7 "The Growth of Integrated Oil Companies" and was a
8 contributing editor of over 15 texts on business and
9 management.

10 "Mr. McLaine joined the Continental Oil Company
11 in 1954 and was named Vice President for Coordination and
12 Planning in 1956.

13 "He served successively as Senior Vice President,
14 Executive Vice President, President and Chief Executive
15 Officer and then, of course, Chairman of the Board.

16 "On May 2, 1972, he was elected as Chairman of
17 the Board.

18 "In addition to his inestimable service to the
19 National Petroleum Council, he was a member of the Board
20 of Directors and the Executive Committee of the American
21 Petroleum Institute and served, since 1951, as a member
22 of the Executive Advisory Committee of the Natural Gas
23 Survey formed by the Chairman of the Federal Power
24 Commission and also of the Energy Advisory Committee
25 on Natural Gas.

1 "The philosophy he stated in 1970 may well serve
2 as a guide to us all.

3 "He said: "We face three great challenges today.
4 We need to narrow the gap between our capacity to define
5 the ills of society and our capacity to do something
6 constructive about them.

7 "We need to narrow the gap between the living
8 standards of the developed and the less developed countries
9 and particularly in the business world, we need to narrow
10 the gap between our ability to act and our ability to
11 think creatively about the present and future import of
12 our actions."

13 "John McLaine dedicated himself to the industry
14 and the nation and both have benefited by his outstanding
15 statesmanship, scholarship and personal integrity.

16 "Therefore, be it resolved, be it resolved by the
17 members of the National Petroleum Council, in meeting
18 assembled in Washington, D.C., this tenth day of September,
19 1974, that this resolution be entered upon the permanent
20 records of the Council and appropriate copy thereof, be
21 delivered to the family of John G. McLaine as a testimony
22 of the respect and admiration with which we shall always
23 remember him."

24 I would suggest the unanimous adoption of this
25 resolution by all of us standing for a moment of silence and

1 prayer in concurrence.

2 Thank you.

3 Now, it is a pleasure for me to introduce a
4 man we all know and respect, the distinguished Co-Chairman
5 of the Council, the Honorable Rogers C. B. Morton.

6 Mr. Secretary?

7 SECRETARY MORTON: Thank you, very much, Dave.
8 I want to welcome all of the members here and we have a
9 rather full program of guest speakers for you, so I am
10 going to take a very minimum of time and I do not know
11 whether you will meet him later, but you know Duke Ligon,
12 John Sawhill is down at the end, Mr. Scott and I am
13 expecting both Allen Greenspan and Bill Simon to show
14 up momentarily.

15 It is hard to really thank the members of this
16 organization for the work they have done over the years.

17 I think we have been organized in the National
18 Petroleum Council for about 20 years and that, I think,
19 speaks well for the continuity and the effort and all of
20 the work that has been done.

21 We are launching, here at Interior, on an
22 accelerated program for the development of energy resources.

23 We have onboard, following in the footsteps of
24 a very distinguished Assistant Secretary, Holace Dole,
25 whom nearly all of you knew personally, a young man who has

1 assumed that responsibility and whom you will meet later,
2 who is the Assistant Secretary for Energy and Mineral
3 Resources of the Department.

4 He comes to us with a large amount of government
5 experience and background which I think fits very well into
6 the work and effort of this Council, particularly in its
7 desire to help government form a working energy policy that
8 will project helpfully us into the next century.

9 He is Jack Carlson, whom you will meet later,
10 sitting there in the center of the table, and I hope
11 that he will have the opportunity to meet many of the
12 members individually and will have the opportunity to
13 work, not only with Vince Brown and his staff, but with
14 all of you in the efforts that we are pretty sure
15 that will be forthcoming.

16 I think the government needs to consider the
17 viewpoints of many segments of the society. There is no
18 question of that and forthcoming economic summit meetings,
19 are moves in the right direction.

20 As you know, President Ford has taken the
21 economy on as the number one mission and we are all
22 throughout the government dedicated to help in this any
23 possible way that we can.

24 I think the broadest of viewpoints are necessary,
25 the depth of creativity that is also necessary to bring forth

1 ideas which can result in constructive actions by the
2 Administration and by the President himself, of course,
3 are exceedingly valuable.

4 We are going to hold the Natural Resources
5 and Recreational Resources and Power Resources, Timber
6 Resources Meeting in Dallas on the 16th.

7 This will be one of about eight or nine pre-
8 summit meetings and hopefully, we will be able to
9 condense some ideas there in Dallas as will be done in
10 Pittsburgh, Washignton and other cities by the preliminary
11 meetings so that the summit meeting which will be
12 attended by the President himself, will be as valuable
13 as we can possibly make it in terms of input from the
14 various points of view throughout the nation.

15 Last March, we pointed out that the short term
16 opportunity for additional production was on the
17 OCS and I asked for your technical views on our
18 leasing policies and we proceeded with our examination
19 of this promising area.

20 A great technical challenge to you exists if
21 we are going to make the decisions to move into such
22 frontier OCS areas as the Gulf of Alaska or the Atlantic.

23 We will not make such decisions, however, unless
24 we are convinced that the resources in these areas can
25 be developed safely and with a minimum of disruption to the

1 environment in the sea as well as on the land.

2 We recently approved a plan for development
3 in the Santa _____ unit in the Outer Santa Barbara
4 Channel.

5 We did so after a very lengthy study of the
6 questions involved and particularly of the technology
7 available and the likely costs and benefits.

8 We made a part of this approval a commitment
9 on our part with the cooperation of the operators to
10 closely monitor the environmental effects before, during
11 and after commencement of development.

12 Similar studies were instituted in the _____
13 area and you may be sure that intensive and continuing studies
14 will be commenced when, as and if we move into new
15 frontiers.

16 I ask you to work with us to develop comprehensive,
17 detailed monitoring programs that will help evaluate the
18 risks and if they are acceptable, to convince those
19 who can be reasonably convinced, at any such development
20 may be done without significant harm to the human
21 environment.

22 Your industry has taken the challenge for development
23 of its drilling and production technology seriously and
24 the Santa _____ platform will be one of the deeper
25 production facilities operating in the world.

1 However, it appears that any decision to advance
2 our resource development into deeper oceans will require
3 rapid acceleration of subsurface production systems
4 technology.

5 Your industry has the incentive and the
6 ability, and hopefully the financial capacity, to make
7 the technology safe and a practical reality.

8 I ask you, working with us, to shift the
9 gears on this effort and make it more moveable more
10 rapidly.

11 I think the recent storm in the Gulf also
12 should be a motivation to accelerate subsurface
13 completion technology, though I was frankly amazed
14 that the damage was as light as it was, and the forethought
15 of removing all affected personnel from the area before
16 it got to violent was a great step and everyone involved
17 should be congratulated.

18 I think, out of the list of the damage that I
19 got, only one tersh remark was made dealing with one
20 platform and it just said it simply disappeared.

21 I am sure we can find it. The Geological
22 Survey will help you.

23 We will be holding an experimental royalty
24 sale on ten tracks in the Gulf of September sale and
25 we will be studying the results of the experiment closely

1 to determine whether it means, whether it is a means of
2 getting more oil with less financial burden to the industry.

3 Remember that we asked you for your ideas. We
4 published several alternatives in the Federal Register.

5 What we have practically done is gone a complete
6 circle and we believe that although there still should be
7 some exploration of various methods by which we should
8 expose the public land so that it is done very equitably,
9 we are anxious to see how this particular experiment goes,
10 but we have generated a great deal more confidence in the
11 system that already existed by reason of the fact that
12 we explored in-depth other systems of leasing and other
13 arrangements for the relationship between government and
14 industry in connection with leasing on public lands.

15 The serious problem, as I said at the beginning,
16 is inflation and we would like this Council to really
17 give some thought to the effect of inflation on the
18 industry and conversely, a great deal of thought as to the
19 effect of the industry and its policies on inflation.

20 We will be seeking the views of all segments
21 of the economy, as I said, but I want to take this opportunity
22 to request, from your technical perspective, a -- on a
23 greatly accelerated basis, an industry discussion and I
24 think we can do that within the framework of the expertise
25

1 of this Council in short order.

2 I would like to know the extent of our shortages
3 in capital, manpower and material available for developing
4 domestic resources at a rate that may reduce inflationary
5 imports of high cost energy and mineral resources.

6 If we can complete a study of that kind, it may
7 give us a guideline for policy development in this
8 area.

9 The immediate steps necessary to assure an
10 adequate supply of such resources and products derived
11 from them to the consumers of this country at a reasonable
12 price.

13 An updating of the Energy Outlook Study to reflect
14 recent changes in the cost of imported crude oil is necessary
15 and could form the basis for technical overview of the
16 effect of inflation on our energy costs as well as the
17 reverse, that of energy costs on inflation.

18 I am pleased to observe the activity on energy
19 conservation by your Committee. We must place a high
20 priority on the efforts to conserve energy useage.

21 The best way to do this, in my opinion, is to
22 rely on price that really truly reflects the scarcity
23 of energy.

24 Prices that are artificially held down and thereby
25 signal that energy is cheap, serve conservation poorly. This

1 is the problem with the continuation of the ceiling on
2 old crude oil at about one-half the market price.

3 Perhaps as many as more than one-half million
4 barrels of oil consumed, would not be consumed if the
5 old price of crude oil were determined in the marketplace.

6 Many other issues involving the economy must
7 be developed and hopefully sharpened at the economic
8 summit meetings.

9 As a result of this process, I may request
10 additional technical industry studies from the Council.

11 Frankly, I would like to point out the delicate
12 nature of the challenge facing us. We must find ways
13 to fight inflation that is plaguing our economy and to
14 do so without pushing the balance of the economy over
15 into recession and unemployment that many people think
16 we are staring in the face.

17 This is one of the problems of dealing with
18 this sensitive problem. There is probably some very
19 good argument politically for not removing the
20 control price on old oil because of the secondary and
21 primary effects that it would have both politically and
22 economically on the economy.

23 However, I think, that we will rue the day if
24 we artificially hold down the price of oil in the marketplace
25 because there will inevitably be, I believe, a failure on the

1 part of domestic production to backoff in any substantial
2 amount imported crude or imported products and the
3 supply side is not flexible enough so that we are going
4 to have any remarkable change in barrels per day, levels
5 of production that we can see between now and 1980 and
6 in fact, the only impact that we see on that is the amount
7 of oil that might be backed off of the country through
8 the delivery system from the Arctic, through Alaska.

9 Therefore, it would seem to me that we have got
10 to put more emphasis on the conservation side and I realize
11 that this also has an economic impact on this industry,
12 but nevertheless, we cannot afford to get too thin at
13 the end of the line before other technologies, for example
14 example, the technologies that will bring coal more into
15 the center of gravity of the energy mix, technologies that
16 will bring onboard a much broader application of nuclear
17 fusion and of nuclear power through the liquid-cool
18 reactor system, more technology that is involved in the
19 development of the more sophisticated energy sources, such
20 as solar energy, geo-thermal, oil from shale and all the
21 rest.

22 We cannot afford to let our depletion get down
23 to the point where we are heavily involved in and heavily
24 dependent on foreign sources of oil before these systems,
25 other alternative systems, really become meaningful in terms

1 of their contribution to the country's energy.

2 It is for that reason and the general welfare
3 reasons that we should put a tremendous amount of emphasis
4 on the conservation side.

5 I think a lot of times people are not properly
6 thanked for what they do in this Council.

7 This has been a strong pillar of strength to the
8 Secretaries of Interior throughout the history of this
9 organization and we receive these reports sometimes,
10 study and look over them without full understanding of
11 the number of hours that top flight people in this
12 industry have put into them in giving their service.

13 I am looking forward to receiving all of the
14 reports that I know are going to be forthcoming, but I
15 must thank Mike Wright, as Vice-Chairman of the Committee,
16 for the report on Emergency Preparedness for
17 Interruption of Petroleum Imports, together with Jim Cross.

18 The work they have done, I am sure, has been
19 demanding and we are delighted that both gentlemen could
20 be here.

21 Mike is the Vice Chairman of that Committee. Carol
22 Bennett, unfortunately has been ill and cannot be with us.

23 I would like to thank you for the work that has
24 been done by Ken Hill for the Availability of
25 Materials, Manpower and Equipment for Exploration that was

1 referred to by Dave; Charley Murphy, who is here and
2 Bob McKay for the work they have done on energy conservation
3 and Earl Unrruh and Bill Scott, Cecil Homestead and all
4 of the others who have worked on these reports.

5 I know that it is a chore because I work on a few
6 myself and I know what is involved. We are fortunate,
7 I think, at this point in time, to have some mutual
8 agreement in the government on energy.

9 I want to be very candid. I believe that the
10 method that we have followed that was brought by crisis
11 of fragmenting the energy effort into a rather heterogenous
12 group of responsibilities to me is a little bit frightening,
13 because I believe, in substance it moves away from the
14 very thing we were trying to do in carrying out the
15 recommendations of the ASH Council for the consolidation
16 of energy and natural resource management into a
17 Department of Energy and Natural Resources.

18 There seems to be now a trend back toward that
19 direction. We will, I hope, see in the next Congress,
20 some very lively discussion, hearings and hopefully, actual
21 marking up of bills that will go toward the creation of
22 a Department of Energy and Natural Resources so that we
23 can put together the machinery in better order that is
24 charged with the responsibility of policy development
25 in this area.

1 Hopefully, this can be achieved early on in
2 the next Congress.

3 In the meantime, we have a very fine working
4 relationship between the Chairman of our Cabinet level
5 Energy Committee, Bill Simon, Secretary of the Treasury,
6 John Sawhill, who is the head of the Federal Energy
7 Administration and the Department of Interior and
8 other organizations which have some impact on energy
9 policy development and on the government's role actually
10 in the resource management, such as the Department of
11 Commerce and others.

12 It is a good working relationship. We are
13 all dedicated to the same proposition. We have a good
14 deal of bureaucratic in-fighting going on down the line
15 without which I would feel that we had become completely
16 neutralized.

17 Whenever the government departments stop competing
18 with each other you are in a hell of a fix because there
19 really is not anyone else to compete with and I think a
20 little competition is good for the soul.

21 Thank you very much.

22 (Applause.)

23 MR. _____: Thank you, Mr. Secretary. The
24 Council is most proud of its long association with you and
25 looks forward to continued cooperation.

1 Secretary Morton has expressed his willingness
2 to respond to questions from Council members. Please
3 identify yourself for the record and speak up so that
4 everyone is able to hear your question.

5 Are there questions?

6 Mr. Secretary, you are getting off very easy this
7 morning.

8 SECRETARY MORTON: Well, you never get off
9 easy but do not press them.

10 (Laughter.)

11 MR. _____: Our next speaker is charged
12 with assisting in the formulation of energy policy and
13 implementing such policy, the Administrator of the Federal
14 Energy Administration, John C. Sawhill.

15 John?

16 DR. SAWHILL: Thank you very much, Dave. I
17 appreciate the opportunity to get a chance to address
18 this Council and talk a little bit about some of the things
19 that we are doing in the Federal Energy Administration
20 and to have an opportunity to discuss with you the
21 progress that we are making in
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