Transcript of Proceedings

DEPARTMENT OF ENERGY

NATIONAL PETROLEUM COUNCIL

James Forrestal Building
Auditorium
Washington, D.C.

Thursday, May 25, 1978

Acme Reporting Company

Official Reporters

1411 K Street, N.W.
Washington, D. C. 20005
(202) 628-4888

KB:jv

DEPARTMENT OF ENERGY

NATIONAL PETROLEUM COUNCIL

James Forrestal Building
Auditorium
Washington, D.C.

Thursday, May 25, 1978

REPORTER'S TRANSCRIPT

Reported by: Kathy Boyd

KB:jv

The meeting convened at 9:45 a.m., pursuant to notice, Chairman Collis P. Chandler, Jr., National Petroleum Council, presiding.

NATIONAL PETROLEUM COUNCIL STAFF

Collis P. Chandler, Jr., President, Chandler & Associates, Inc., Chairman

C. H. Murphy, Jr., Chairman of the Board, Murphy Oil Corporation, Vice Chairman

Kenneth E. BeLieu, National Petroleum Council, Executive Director

Hon. Alvin L. Alm, Assistant Secretary for Policy and Evaluation, U.S. Department of Energy

H. J. Haynes, Chairman, Agenda Committee

Kenneth E. Montague, Chairman, Finance Committee

Robert O. Anderson, Chairman, Nominating Committee

COMMITTEE MEMBERS

Robert O. Anderson, Chairman of the Board, Atlantic Richfield Company

L. N. Applegate, Director of Exploration, Ethyl Corporation

Sid R. Bass, President, Bass Brothers Enterprises, Inc.

Howard W. Blauvelt, Chairman and Chief Executive Officer, Continental Oil Company

W. J. Bowen, Chairman of the Board and President, Transco Companies, Inc.

John A. Carver, Jr., Director of the Natural Resources Program

C. Fred Chambers, C & K Petroleum, Inc.

Collis P. Chandler, Jr., President, Chandler & Associates, Inc.

KB:jv

W. B. Cleary, Energy Consultant, Boswell Energy Corporation

Edwin L. Cox, Oil and Gas Producer

Cortlandt S. Dietler, President, Western Crude Oil, Inc.

Hollis M. Dole, Washington Representative, Atlantic Richfield Company

David F. Dorn, Executive Vice President, Forest Oil Corporation

Max D. Eliason, Immediate Past President, Rocky Mountain Oil & Gas Association, c/o Skyline Oil Company

Northcutt Ely, Esquire, Watergate Six Hundred Building

James W. Emison, Partner, Western Petroleum Company

Edward W. Erickson, Professor of Economics and Business

Peter T. Flawn, LBJ School of Public Affairs

Kenneth A. Ford, Past President, Association of Oilwell Servicing Contractors, c/o Ford Tool Company

John S. Foster, Jr., Vice President, Energy Research and Development, TRW, Inc.

Kent Frizzell, Director, National Energy Law and Policy Institute

James F. Gary, President, Pacific Resources, Inc.

Melvin H. Gertz, President, Guam Oil & Refining Company, Inc.

Maurice F. Granville, Chairman of the Board, Texaco, Inc.

Michel T. Halbouty, Consulting Geologist and Petroleum Engineer

Fred L. Hartley, Chairman and President, Union Oil Company of California

H. J. Haynes, Chairman of the Board, Standard Oil Company of California

Kenneth E. Hill, Petroleum Consultant, Blyth Eastman Dillon & Company, Inc.

KB:jv

H. D. Hoopman, President and Cheif Executive Officer, Marathon Oil Company

Mary Hudson, President, Hudson Oil Company

John G. Hurd, Killan and Hurd, Ltd.

Frank N. Ikard, President, American Petroleum Institute

William F. Kenny, Jr., Chairman, Meenan Oil Company, Inc.

Thomas L. Kimball, Executive Vice President, National Wildlife Federation

Arthur C. Kreutzer, Executive Vice President & General Counsel, National LP-Gas Association

George H. Lawrence, President, American Gas Association

Walter J. Levy, W. J. Levy Consultants Corporation

John J. Lichtblau, Executive Director, Chief Executive Officer, Petroleum Industry Research Foundation, Inc.

Duke R. Ligon, Bracewell & Patterson

Robert D. Lynch, Executive Vice President, Oil Heat Institute of Long Island, Inc.

Jerry McAfee, Chairman of the Board, Gulf Oil Corporation

W. C. McCord, President, Chief Executive Officer, Enserch Corporation

D. A. McGee, Chairman, Kerr-McGee Corporation

Cary M. Maguire, President, Maguire Oil Company

Leon V. Manry, Jr., President, The Ocean Corporation

J. Howard Marshall II, Chairman of the Board, Great Northern Oil Company

Charles D. Matthews, Immediate Past President, National Ocean Industries Association

F. R. Mayer, Chairman of the Board, Exeter Company

Randall Meyer, President and Chief Executive Officer, Exxon Company, U.S.A.

KB:jv

C. John Miller, Partner, Miller Brothers

Robert S. Moehlman, President, Newmont Oil Company

Kenneth E. Montague, President, General Crude Oil Company

Jeff Montgomery, Chairman of the Board, Kirby Exploration Company

R. J. Moran, Moran Bros., Inc.

Robert Mosbacher, 2100 Capital National Bank Building

C. H. Murphy, Jr., Chairman of the Board, Murphy Oil Corporation

John N. Nassikas, Cox, Langford & Brown

Glenn E. Nielson, Chairman of the Board, Husky Oil Company

John G. Phillips, Chairman of the Board and Chief Executive Officer, The Louisiana Land & Exploration Company

T. B. Pickens, Jr., President, Mesa Petroleum Company

Ashley H. Priddy, Chairman of the Board and President, Sabine Royalty Corporation

Wilton E. Scott, Chairman of the Board and Chief Executive Officer, Tenneco, Inc.

Robert V. Sellers, Chairman of the Board, Cities Service Company

John S. Shaw, Jr., Chairman and President, Southern Natural Resources, Inc.

J. J. Simmons. Jr., President, Simmons Royalty Company, Petroleum Production

Charles E. Spahr

Netum A. Steed, Independent Operator, Taubert & Steed

John E. Swearingen, Chairman of the Board, Standard Oil Company (Indiana)

Wayne E. Swearingen, Swearingen Management Associates

KB:jv

O J. Tauber, Sr., Chairman, Tauber Oil Company

Stephen A. Wakefield, Baker & Botts

John F. Warren, Independent Oil Operator/Producer

Robert V. West, Jr., Chairman of the Board, Tesoro Petroleum Corporation

John G. Winger, Vice President, The Chase Manhattan Bank

Donald E. Woodrick, Executive Director, Midwest Petroleum Marketers Association

MEMBERS SENDING ALTERNATES	ALTERNATE
George A. Helland, Jr. Past President, Petroleum Equipment Suppliers Assn. c/o Weatherford International Incorporated	James Chenault
Maurice R. Harrison, Jr. Chairman of the Board American Automobile Assn.	Ray H. Daley
W. F. Martin, Chairman of the Board and Chief Executive Officer, Phillips Petroleum Company	William C. Douce
W. A. Strauss, Chairman of the Board and Chief Executive Officer, Northern Natural Gas Company	Gaines L. Godfrey
H. J. Haas, Past President, Gas Processors Association, c/o NHG Petrochemicals, Inc.	Harold Galloway
John H. Williams, Chairman of the Board, The Williams Companies	Barry J. Galt
Howard Boyd, Chairman of the Board, The El Paso Company	Robert N. Harbor

KB:jv

Armand Hammer, Chairman of the Board and Chief Executive Officer, Occidental Petroleum Corporation.	John Kyl
Floyd W. Lewis, President, Middle South Utilities, Inc., and Past Immediate Chairman, Edison Electric Institute	C. King Mallory
Rawleigh Warner, Jr., Chairman of the Board, Mobil Corporation	Allen E. Murray
H. Robert Sharbaugh, Chairman of the Board, Sun Company, Inc.	John L. Olsen
John F. Bookout, President and Chief Executive Officer, Shell Oil Company	J. Carter Perkins
Robert E. Yancey, President, Ashland Oil, Inc.	William E. Perrine
Frank Wood, Jr., Immediate Past Chairman of the Board, American Petroleum Refiners Association, c/o Pride Refining, Inc.	Scott H. Phillips
John M. Shaheen, President, Macmillan Ring-Free Oil Company, Inc.	Paul W. Rishell
O. C. Davis, Chairman of the Board and Chief Executive Officer, Peoples Gas Company	Frederick L. Scott
E. L. Shannon, Jr., Immediate Past President, Western Oil and Gas Association, c/o Santa Fe International Corporation	E. H. Shuler
Leon Hess, Chairman of the Board, Amerada Hess Corporation	J. J. Simmons

KB:jv

MEMBERS NOT ATTENDING

Jack H. Abernathy, Chairman, Big Chief Drilling Company

R. F. Bauer, Chairman of the Board, Global Marine, Inc.

Carroll M. Bennett, Management Consultant

Harold E. Berg, President and Chief Operating Officer, Getty Oil Company

Andrew J. Biemiller, Director, Department of Legislation, AFL-CIO

W. T. Blackburn, Partner, Vaughey, Vaughey and Blackburn

Morton K. Blaustein, Chairman of the Board and Chief Executive Officer, American Trading & Production Corporation

David Boren, Immediate Past Chairman, Interstate Oil Compant Commission

Brant Calkin, Past President, Sierra Club

Richard A. Campbell, R. A. Campbell Company

Jack W. Carlson, Vice President and Chief Economist, United States Chamber of Commerce

E. H. Clark, Jr., President and Chief Executive Officer, Baker International

O. Wayne Crisman, President, Falcon Seaboard, Inc.

Marvin Davis, General Partner and Manager, Davis Oil Company

John R. Dolinger, Immediate Past President, National Rural Electric Cooperative Association, c/o Cumberland Electric Membership Corporation

Charles E. Duckworth, Immediate Past President, American Public Power Association, c/o City Manager, City of Garland

Glenn C. Ferguson, Gerguson & Bosworth

Frank E. Fitzsimmons, General President, International Brotherhood of Teamsters

Andrew K. Fraser, Immediate Past Chairman, National Tank Truck Carriers, Inc.

KB:jv

R. I. Galland, Chairman of the Board, American Petrofina, Inc.

Richard J. Gonzalez

Maurice F. Granville, Chairman of the Board, Texaco, Inc.

John R. Hall, Immediate Past Chairman of the Board, National Petroleum Refiners Association, c/o Ashland Oil, Inc.

Jake L. Hamon, Oil and Gas Producer

John P. Harbin, Chairman of the Board and Chief Executive Officer, Halliburton Company

Charles Hitch, President, Resources for the Future, Inc.

P. N. Howell, President and Chief Executive Office, Howell Corporation

Henry D. Jacoby, Professor of Management, Alfred P. Sloan School of Management, Massachusetts Institute of Technology

Minor S. Jameson, Jr.

A. V. Jones, Jr., Immediate Past President, Independent Petroleum Association of America

J. F. Justiss, Immediate Past President, International Association of Drilling Contractors, c/o Justiss-Mears Oil Company, Inc.

John A. Kaneb., President, Northeast Petroleum Industries, Inc.

George F. Kirby, Chairman and President, Texas Eastern Transmission Corporation

J. Hugh Liedtke, Chairman of the Board, Chief Executive Officer, Pennzoil Company

Patrick J. McDonough, Independent Oil and Gas Operator

John R. McMillan, Chairman of the Board, Reserve Oil and Gas Company

Charles R. Matties, President, National Congress of Petroleum Retailers

John F. O'Connell, Director, The Bechtel Group

KB:Jv

R. L. O'Shields, President and Chief Executive Officer, Panhandle Eastern Pipe Line Company

Thomas Patton, Immediate Past President, National Oil Jobbers Council, c/o Tri-Ton Incorporated

Walter E. Rogers, Immediate Past President, Interstate Natural Gas Association of America

James W. Scanlan, President, Pennsylvania Oil Company

Jay W. Schmiedeskamp, Director of Research, The Gallup Economic Service

Arthur R. Seder, Jr., Chairman and President, American Natural Resources Company

Robert E. Seymour, Chairman of the Board, Consolidated Natural Gas Company

William T. Smith, Immediate Past Chairman of the Board, Mid-Continent Oil & Gas Association, c/o Champlin Petroleum Company

Edgar B. Speer, Chairman, Board of Directors, United States Steel Corporation

Elvis J. Stahr, President, National Audubon Society

J. B. Sunderland, Immediate Past President, American Independent Oil Company

Robert E. Thomas, Chairman of the Board, MAPCO, Inc.

H. A. True, Jr., Partner, True Oil Company

G. L. Jerry Vinson, Oil and Gas Producer

Frank Wood, Jr., Immediate Past Chairman of the Board, American Petroleum Refiners Assn., c/o Pride Refining, Inc.

KB:jv

The following resolutions were adopted by the Committee:

1. Resolution to undertake studies, H. J. Haynes, Chairman, Agenda Committee

2. Resolution to approve the annual budget for Calendar Year 1978 and the selection of Arthur Young & Company to continue as the Council's outside auditors for Calendar Year 1978, Kenneth F. Montague, Chairman, Finance Committee.

3. Resolution for a slate of officers for the Agenda Committee and the Appointment Committee, Robert O. Anderson, Chairman, Nominating Committee

4. A memorial resolution to John M. Kelly by Robert O. Anderson and a memorial resolution to Harold M. McClure, Jr., by C. John Miller

5. Resolution on bylaws, C. H. Murphy.

The meeting was open to the public and the public was invited to participate or make comments from 11:55 a.m. until 12:00 noon. Approximately 60 members of the public were in attendance.

KB:jv

P R O C E E D I N G S

CHAIRMAN COLLIS: Let me call the 76th meeting of the National Petroleum Council to order. You have before you a copy of this morning's agenda. You will note that most of your action will be administrative. This marsk a momentous occasion in the history of the National Petroleum Council. After 32 years of service to the Department of Interior, we will be considering the council's future service to the new Department of Energy. The first item of business is the calling of the roll. Marshall Nichols.

MR. NICHOLS: Jack Abernathy?

MR. ABERNATHY: Aye.

MR. NICHOLS: Burce Anderson? Robert Anderson?

MR. R. ANDERSON: Here.

MR. NICHOLS: L. N. Applegate? Sid R. Bass?

MR. BASS: Here.

MR. NICHOLS: R. F. Bauer? Carrol M. Bennett? Harold E. Berg? Andrew J. Biemiller? W. T. Blackburn? Morton K. Blaustein? Howard B. Blauvelt?

MR. BLAUVELT: Here.

MR. NICHOLS: John F. Bookout?

MR. BOOKOUT: Here.

MR. NICHOLS: David Boren? W. J. Bowen?

MR. BOWEN: Here.

MR. NICHOLS: Noward Boyd? Brant Calkin? Richard A.

KB:jv

Campbell? Jack W. Carlson; John A. Carver?

MR. CARVER: Here.

MR. NICHOLS: Fred C. Chambers?

MR. CHAMBERS: Here.

MR. NICHOLS: Collis Chandler?

CHAIRMAN CHANDLER: Yere.

MR. NICHOLS: E. H. Clark? W. B. Cleary?

MR. CLEARY: Here.

MR. NICHOLS: Edwin L. Cox?

MR. COX: Here.

MR. NICHOLS: O. Wayne Crisman? Marvin Davis? O. C. Davis? Cortlandt Dietler?

MR. DIETLER: Here.

MR. NICHOLS: Hollis Dole?

MR. DOLE: Here.

MR. NICHOLS: John R. Dolinger? David Dorn?

MR. DORN: Here.

MR. NICHOLS: Charles Duckworth? Max Eliason?

MR. ELIASON Here.

MR. NICHOLS: Northcutt Ely?

MR. ELY: Here.

MR. NICHOLS: James Emison?

MR. EMISON: Here.

MR. NICHOLS: Edward Erickson?

MR. ERICKSON: Here.

KB:jv

MR. NICHOLS: Glenn Ferguson? Frank Fitzsimmons; Peter Flawn?

MR. FLAWN: Here.

MR. NICHOLS: Kenneth A. Ford?

MR. FORD: Here.

MR. NICHOLS: John Foster?

MR. FOSTER: Here.

MR. NICHOLS: Andrew Fraser? Kent Frizzell?

MR. FRIZZELL: Here.

MR. NICHOLS: F. I. Galland? C. C. Garvin? James Gary?

MR. GARY: Here.

MR. NICHOLS: Melvin Gertz?

MR. GERTZ: Here.

MR. NICHOLS: Richard Gonzalez? Allen Grant? Maurice Granville.

MR. GRANVILLE: Here.

MR. NICHOLS: H. J. Haas? Michel Halbouty?

MR. HALBOUTY: Here.

MR. NICHOLS: John R. Hall?

MR. HALL: Here.

MR. NICHOLS: Jake Hamon? John Harbin? Maurice Harrison? Fred Hartley?

MR. HARTLEY: Here.

MR. NICHOLS: H. J. Haynes?

KB:jv

MR. HAYNES: Here.

MR. NICHOLS: George Helland? Leon Hess?

MR. FITZSIMMONS: Fitzsimmons for Leon Hess.

MR. NICHOLS: Kenneth Hill?

MR. HILL: Here.

MR. NICHOLS: Charles Hitch? Harold Hoopman?

MR. HOOPMAN: Here.

MR. NICHOLS: P. N. Howell? Mary Hudson?

MS. HUDSON: Here.

MR. NICHOLS: John JUrd?

MR. HURD: Here.

MR. NICHOLS: Frank Ikard?

MR. IKARD: Here.

MR. NICHOLS: Henry Jacoby? Minor Jameson? A. V. Jones? J. F. Justiss? John Kaneb? William Keeny?

MR. KEENY: Here.

MR. NICHOLS: Tom Kimball?

MR. KIMBALL: Here.

MR. NICHOLS: George Kirby? Arthur Kreutzer?

MR. KREUTZER: Here.

MR. NICHOLS: George Lawrence? Walter Levy?

MR. LEVY: Here.

MR. NICHOLS: Floyd Lewis? John Lichtblau?

MR. LICHTBLAU: Here.

MR. NICHOLS: J. Hugh Liedtke? Duke Ligon?

KB:jv

MR. LIGON: Here.

MR. NICHOLS: Robert Lynch?

MR. LYNCH: Here.

MR. NICHOLS: Jerry McAfee?

MR. MCAFEE: Here.

MR. NICHOLS: W. C. McCord?

MR. MCCORD: Here.

MR. NICHOLS: Patrick McDonough? D. A. McGee?

MR. MCGEE: Here.

MR. NICHOLS: John R. McMillan? Cary Maguire?

MR. MAGUIRE: Here.

MR.NICHOLS: Leon Manry?

MR. MANRY: Here.

MR. NICHOLS: Howard Marshall?

MR. MARSHALL: Here.

MR. NICHOLS: W. F. Martin?

MR. DOUCE: William Douce for Mr. Martin.

MR. NICHOLS: Charles Matthews?

MR. MATTHEWS: Here.

MR. NICHOLS: Charles Matties? F. R. Mayer?

MR. MAYER: Here.

MR. NICHOLS: Randall Meyer?

MR. MEYER: Here.

MR. NICHOLS: John Miller?

MR. MILLER: Here.

KB: jv

MR. NICHOLS: Robert Moehlman?

MR. MOEHLMAN: Here.

MR. NICHOLS: Ken Montague?

MR. MONTAGUE: Here.

MR. NICHOLS: Jeff Montgomery?

MR. MONTGOMERY: Here.

MR. NICHOLS: R. J. Moran?

MR. MORAN: Here.

MR. NICHOLS: Robert Mosbacher?

MR. MOSBACHER: Here.

MR. NICHOLS: C. H. Murphy?

MR. MURPHY: Here.

MR. NICHOLS: John Nassikas?

MR. NASSIKAS: Here.

MR. NICHOLS: Glenn Nielson?

MR. NIELSON: Here.

MR. NICHOLS: John O'Connell? R. L. O'Shields? Thomas Patton?

MR. LYDEN: Bill Lyden for Tom Patton.

MR. NICHOLS: Thank you. John Phillips?

MR. PHILLIPS: Here.

MR. NICHOLS: T. B. Pickens?

MR. PICKENS: Here.

MR. NICHOLS: Ashley Priddy?

MR. PRIDDY: Here.

KB:Jv

MR. NIHCOLS: Walter Rogers? James Scanlan? Jay Schmiedeskamp? Wilton Scott?

MR. SCOTT: Here.

MR. NICHOLS: Arthur Seder? Robert Sellers?

MR. SELLERS: Here.

MR. NICHOLS: Robert Seymour? John Shaheen?

MR. RISHELL: Paul Rishell for John Shaheen.

MR. NICHOLS: E. L. Shannon? Robert Sharbaugh? John Shaw?

MR. SHAW: Here.

MR. NICHOLS: J. J. Simmons?

MR. SIMMONS: Here.

MR. NICHOLS: William Smith? Charles Spahr?

MR. SPAHR: Here.

MR. NICHOLS: Edgar Speer? Elvis Stahr? Netum Steed?

MR. STEED: Here.

MR. NICHOLS: W. A. Strauss?

MR. GAGNE: Fred Gagne for Mr. Strauss.

MR. NICHOLS: J. B. Sunderland? John Swearingen?

MR. SWEARINGEN: Here.

MR. NICHOLS: Wayne Swearingen?

MR. W. SWEARINGEN: Here.

MR. NICHOLS: O. J. Tauber?

MR. TAUBER: Here.

MR. NICHOLS: Robert Thomas? H. A. True? Jerry

KB:jv

Vinson? Stephen Wakefield?

MR. WAKEFIELD: Here.

MR. NICHOLS: Rawleigh Warner?

MR. MURRAY: Allen Murray for Rawleigh Warner.

MR. NICHOLS: John Warren?

MR. WARREN: Here.

MR. NICHOLS: Robert West?

MR. WEST: Here.

MR. NICHOLS: John Williams? John Winger?

MR. WINGER: Here.

MR. NICHOLS: Frank Wood?

MR. WOOD: Here.

MR. NICHOLS: Robert Yancey?

MR. PERRINE: William Perrine for Mr. Yancey.

MR. NICHOLS: Thank you, Mr. Chairman.

CHAIRMAN COLLIS: Thank you, Marshall.

Let me take a minute to introduce the people at the head table. On my far right is Ken Montague. Ken is Chairman of the Finance Committee. Next to Ken is Bob Anderson. Bob is Chairman of the Nominating Committee. On my immediate right, of course, is Ken BeLieu. On my far left is Bill Haynes, Chairman of the Agenda Committee. To his right is Charlie Murphy, who is Vice Chairman of the Council, and sitting to Charlie's right is Al Alm, DOE Assistant Secretary for Policy and Evaluation.

KB:jv

The meeting was started late this morning because Secretary Schlesinger is attending a meeting at the White House. We expect him about 10:15, but for the reason that the Secretary is delayed, we will juggle the agenda and I will now call for a report from the Nominating Committee from Robert O. Anderson.

MR. ANDERSON: Thank you, Collis. Gentlemen, as you know, the council's bylaws require that an organizational meeting shall be held each year; the council shall elect a chairman and a vice chariman to serve until the next organizational meeting. In addition, the council shall elect an Agenda Committee and an Appointment Committee to serve for the same period.

The Nominating Committee have duly met, recommends essentially the reappointment or the reelection of the existing slate. We have not met in the past year, and our feeling is these people are still fresh and have a good year of service in them, so with that, we are recommending that Collis be reelected as Chairman and Charlie Murphy, Jr., be reelected for a second one-year term as Vice Chairman.

The Agenda Committee has recommended the following individuals for the Calendar Year 1978 for the Agenda Committee. We recommended that Bill Haynes be retained as Chairman and Carroll Bennett, Ed Cox, Maurice Granville, John Miller, Rawleigh Warner, Ken Montague, Bob O'Shields, Bob Sellers,

KB:jv

Ed Speer and Elvis J. Stahr.

For the Appointment Committee we recommend Harold Berg as Chairman, Howard Blauvelt, James W. Emison, Mary Hudson, Thomas Kimball, Robert Yancey, John R. McMillan, W. F. Martin, Jeff Montgomery, John S. Shaw, Jr., J. J. Simmons, Jr.

Mr. Chairman, this completes the report of the Nominating Committee, and Imove the council elect the proposed slate of officers.

CHAIRMAN COLLIS: Thank you, Bob. Is there a second to the motion?

VOICE: Second.

CHAIRMAN COLLIS: It has been moved and seconded that the report of the Nominating Committee be approved as rendered. All in favor, signify by saying Aye. Opposed? That is the only thing that has happened to me unanimously this year.

Thank you very much, gentlemen, I hope that the forthcoming year will be a good deal more productive than the last one.

May we next pay tribute to two truly outstanding members that have passed away since our last meeting -- John Kelly and Butch McClure. As did many of you, I knew both John and Butch for many years, and we would all agree that they were instrumental members of this council.

KB:jv

Bob Anderson has prepared and will present a memorial resolution to John Kelly.

MR. ANDERSON: Gentlemen, the members of the National Petroleum Council note with a deep sense of loss and sorrow the passing, on December 19, 1977, of one of its most accomplished and active members, John M. Kelly.

In all of his duties during his long career of service to industry and to Government, he achieved true distinction and respect. Born in Chelsea, Massachusetts, his life and name are more closely tied to his beloved State of New Mexico. A graduate of the New Mexico School of Mines and recipient of an Honorary Doctorate of Science from the New Mexico Institute of Mining and Techno-ogy, John Kelly began his career of Government service as Executive Director of the New Nexico Oil Conservation Commission. He held a series of State and Federal posts culminating in his appointment from 1961 to 1965 as the Assistant Secretary of the Interior for Mineral Resources. During that time he served as U.S. Delegate to the Energy and Petroleum Committees of the Organization for Economic Cooperation and Development in Paris. In 1965, he was appointed a member of the National Petroleum Council to which he generously donated his valuable expertise, serving over the years on a total of 17 study and administrative committees. He attended every meeting of the National Petroleum Council during his tenure as a member, 22 in all.

KB:jv

In addition to his many Council activities, he gave freely of his time and expertise to numerous Government and industry associations. He served as a Fellow of the Geological Society of America and the American Association for the Advancement of Science, as a Director of the New Mexico Oil and Gas Association, and as a member of the New Mexico Board of Educational Finance and the Advisory Board of the Small Business Administration, to cite a few.

Today, at the first meeting in over 12 years at which John Kelly is not present, the members of the National Petroleum Council pause to pay tribute to his memory as a leader in Government and the petroleum industry. We are saddened by his passing, yet express our gratitude for the service that he rendered the National Petroleum Council and the Nation. We extend to his wife, Esther, and his family our sincere sympathy

NOW, THEREFORE, BE IT RESOLVED, on this 25th day of May, 1978, in the city of Washington, D.C., that this resolution be entered upon the permanent records of the Council and an appropriate copy thereof be delivered to the family of John M. Kelly as a remembrance of the affection and respect which we shall always have for him.

CHAIRMAN COLLIS: John Miller has prepared and will present a resolution to Butch McClure.

MR. MILLER: The members of the National Petroleum

KB:jv

Council were deeply saddened by the death on December 27, 1977, at his home in Alma, Michigan, of their distinguished associate, Harold M. McClure, Jr., at age 56. His endeavors and accomplishments in behalf of the oil and gas industry were many, including landmark contributions to the Council.

The grandson and son of pioneering oilmen, his career in the oil and gas business started while still in his teens. He was born on January 13, 1921, in Mendon, Ohio and worked with a rod gang when still in high school. In the years that followed, his drilling ventures and allied enterprises were concentrated in Michigan, but also moved across both state and international boundaries.

His leadership is fully evidenced by the years in which he served with distinction in a great many industry, civic and community roles. He was named to the National Petroleum Council on January 1, 1958, and contined as a dedicated member for 20 years. In this period he served actively with many Council committees, earning the respect and gratitude of fellow members.

He served two terms as president of the Michigan Oil and Gas Association and also served exceedingly well as president of the Independent Petroleum Association of America. Seemingly tireless, his participation and work simultaneously touched many states, civic, educational, business and religious endeavors.

KB:jv

Certainly one of his legacies is that of his courage, his enthusiasm and his optimism. No better could this be demonstrated than by his continuing participation in industry affairs until a few days before his death.

Harold's devotion to God, family and country was profound. Yet, his love and his dream was oil -- the people involved in it and its role in making his country the envy of the world.

THEREFORE, BE IT RESOLVED that the National Petroleum Council offer this tribute to the memory of its friend and fellow member, Harold M. McClure, Jr., and in so doing extend deepest sympathies to his family. Now, be it further resolved on the 25th day of May, 1978, in the city of Washington, D.C., that this resolution be entered in the records of the Council, and an appropriate copy thereof be delivered to the family of Harold M. McClure, Jr., as a remembrance of the admiration which the National Petroleum Council shall always have for him.

CHAIRMAN COLLIS: Would all members show their approval of the two resolutions by standing for a moment silently.

(Brief pause)

CHAIRMAN COLLIS: We are pleased to have Assistant Secretary of Energy for Policy and Evaluation, Al Alm, with us this morning. The Secretary will make a few remarks to

KB:jv

us. Mr. Secretary.

MR. ALM: I feel like a sandwich. I am assuming when the Secretary comes in, I will go back in my seat and let him make his remarks. After that, or if I continue on longer than I suspect, I would like to leave some time open for questions.

Energy policy is obviously subject to a lot of misunderstandings. It reminds me of the story of a football coach and his young quarterback and the coach gave the quarterback an explicit set of instructions for the first series of plays in the game. In the first play, the quarterback was to go through the right side of the line and the second play to go around to the left end, and the third play to throw a long pass to the wide received, and then in the fourth down to punt,and so he got out in the field.

The quarterback called the first play to to to the right side of the line, gained a couple of yards on the second play, goes around the left end and again gained a couple of yards. On the third play, the quarterback falls back and throws a long pass; he is successful and they go all the way down to the two yard line and line up for the fourth down. They come down in punt formation and they punt. At this point in time, the coach is absolutely livid. And the young quarterback comes back and the coach says, young man, what were you thinking of when you called a punt and the

KB:jv

quarterback said, I was thinking what a stupid coach I have.

I hope some of the misunderstandings on energy policy are of the similar nature, but I am afraid some of them may be more fundamental. I would assume Secretary Schlesinger will talk briefly about the energy problem as he sees it so I will not get into this very deeply other than to say that we in the Department view the future in terms of energy supply and demand as a very critical national problem. It is going to require the best efforts of Government, industry, and all groups in our society.

As one looks to the future and looks at the probable productive capacity of both OPEC and domestic capacity and if one looks at the demand trends, one can only conclude that we are reaching a point sometime in the 80's when energy is going to be very scarce, particularly petroleum.

We are not going to run out of petroleum, but the implications obviously are for highest prices, higher prices then depressing economic activity, not only in the United States, but throughout the whole world. This prospect dampens the expectation and growth of all the countries of the world and the expectations of the better life, so to me the energy problem is essentially an economic problem.

We can take steps to reduce the demand and increase supply. These steps can have tremendous implications in terms of world oil productive capacity, and hence oil prices

KB:jv

and all energy prices which will have trememdous impacts on growth and development worldwide. If we don't take the steps, the loss of GNP here and abroad would be tremendous.

The National Energy Plan was designed to deal really with four major issues -- one, to reduce the demand growth through a whole series of measures, some measures of a price nature, some of a regulatory nature, and some of a direct budgetary nature such as grants for schools and hospital conservation.

Secondly, the National Energy Plan was designed to encourage conversion from oil and gas use to greater use of more abundant resources, coal, nuclear and other materials such as biomass in some cases.

Third, to create a pricing environment where there would be incentives for a greater production by the industry and a greater sense of certainty, and finally, to make a start in the effort to develop renewable and virtually inexhaustible resources.

In the development of the National Energy Plan, it was recognized that further supply would be necessary in the short period of time available for the development of the NEP. There simply wasn't time to get into many of the supply issues, and I am talking about the technologies that will be needed in the late 80's and 90's and beyond to meet our continued energy needs.

KB:jv

We did a relatively brief eight-week review of supply initiaties that could be made available to this Congress. From that and from a number of discussions with the Office of Management and Budget, we submitted a package of initiatives to the Congress I guess about a week and a half ago, and let me go over some of these very briefly with you.

In terms of synthetic fuels, we had a number of initiatives. First of all for oil shale, we recommended a limited $3 a barrel tax credit, a provision that is already in the Senate Energy Tax Bill, but the Administration recommendation would limit that tax credit to the first 10,000 barrels a day so the purpose would be directed at the demonstration level and not as a contined subsidy for oil shale production.

We also changed the entitlements program so that oil shale would receive the same entitlements treatment as would imported oil. These two incentives taken together are worth somewhere around 7 to $8 a barrel and should provide the impetus for the development of oil shale in a number of cases.

Secondly, we moved forward in the area of coal liquefaction. The Department will be asking for design proposals for coal liquefaction plants. We are assuming we will probably get four or five proposals. The second stage of this will be to limit ourselves to two designs for detailed

KB:jv

design with the idea of moving ahead with one or two coal liquefaction plants in 1980.

In terms of gas, we have two initiatives. One is to increase funds for development of geopressurized methane a $10 million increase to expand our drilling program to learn more about the resource and the technical problems involved in extracting gas from a geopressurized zone, and secondly, moving ahead with the program to encourage a limited number of IBTU coal gasification plants. The Department strategy is twofold. One is to advocate where appropriate, the kind of tariff agreements and non-completion agreements that would provide the insurance for firms to move ahead.

If the so-called non-completion agreements were not the most appropriate to move ahead, the other alternative would be loan guarantees, and we have asked the Congress both for $20 million in the budget as a resolving fund for loan guarantees and we have also asked for new loan guarantee authority so that we can use either the non-completion agreement mechanism or the loan guarantee mechanism depending on which is the most appropriate.

Our main concern in terms of which mechanism to use is whether or not the rate payers are the main beneficiaries of the project compared to whether a project has broader applicability as a R and D project and should be shared by

KB:jv

shared by the nation as a whole as compared to being shared by certain rate payers.

These represent the supply initiatives in the conventional sense. In addition to these initiatives, the Department recommended a hundred million dollar's worth in the area of solar and other renewable sources. This includes more funds for research on photovoltaic, solar energy, demonstrations of wind power, future work in gas and liquid fuels and biomass, a loan program and greater development in the area of the below head hydro, expanding the appropriate technology grants program, a new program for dispersed energy demonsrations, a design competition for solar heating and cooling, and funds for solar training and education.

These are a large number of relatively small initiatives in dollar terms, but many of them will be quite important in moving ahead on renewable energy sources.

We are in the process now of developing our National Energy Supply Strategy, which is the big acronym. Like all Government projects of NESS, we hope to have a draft of this work finished sometime in the winter or fall. The final product would be the second National Energy Plan as it is required by both DOE Organization Act and the National Energy Act.

In that document we will be projecting out beyond the

KB:jv

Year 2000, looking at various alternatives in terms of supply, demand, energy price, looking at a broad range of technological options, conservation options, all of which are designed to keep oil imports that have been within manageable bounds from a balance of payments point of view, and also to relieve pressure on the world oil market to make the transition from a period of rough abundance of oil and gas to a period of scarcity.

This will be a fairly major effort by the Department. We are planning a very significant outreach program, We will be working with industrial groups of various kinds, consumer groups, environmental groups.

What we are attempting to do here which we did not have time to do in the development of a National Energy Plan is to meaningfully involve the public in energy decision making to solicit publicity, I guess, and to develop a program that if not receiving overall consensus, at least will be relatively well under by the groups that are interested in National Energy Policy, so we would look forward to working with many of you in the development of a National Energy Supply Strategy.

I think I have rambled on enough. Why don't I leave the floor open for questions and I will skedaddle until the Secretary comes.

MR. LAWRENCE: Mr. Lawrence, American Gas Association.

Where do you stand with respect to the supply initiatives you mentioned as far as OMB or administration budget approval or lack thereof?

MR. ALM: We have the administration approval and support. We have submitted the package to the Congress and are hopeful they are going to move ahead on the initiatives we have submitted.

MR. HARTLEY: When you talk about getting ideas to the public, are you including the oil industry as part of that public or who are you talking about? I am trying to understand. Can you give me a little bit of advice? We have been getting ideas from the public on inventions and for over 75 years we have yet to get one idea that is usable, so I am curious what you mean by getting ideas from the public.

MR. ALM: When we talk about the public, we are talking about the broadest range of the public. I think that we will be getting advice on numerous levels. Some advice will be more in a policy context, some of the advice will be both policy and technical.

We clearly plan to work with the oil industry, and we plan to work with all other groups, also. What we are trying to do is to create a dialogue, an understanding of energy policy and to reduce the divisiveness that has occurred over the last year. I personally think it is not healthy. Not that there is going to be that much agreement on any particular course of action, but at least there ought to be a common understanding of the facts, and the attitudes of all parties.

For example, even something basic-like projections, supply and demand, we would want to work very closely with the broad range of groups so that we are getting a better understanding of the assumptions that go into alternative estimates and likewise that groups get a better feel for the assumptions that went into our estimates.

MR. HARTLEY: What role do you think the marketplace will play in making these determinations? For example, many of us in the oil industry are spending a fair amount of money given our harness and process heaters and so on, line equipment, just giving recognition of the fact that we are now burning fuel oil, at $10 to $13 or $14 a barrel, with sulphur limitations, and giving the community the heater efficiencies, if they are not less then 10 percent, might be as high as 20, and we are not having to get any instructions from the public or anybody else.

We are simply doing it because the old ballgame of having a marketplace to make the decision for us. This is the thrust that pushes it forward. To what extent do you think we should rely on that?

MR. ALM: The marketplace will have by far the largest impact on the energy policy compared to any governmental actions, so that I think the marketplace has been a major thrust of energy policy to the extent that market signals do not provide the right signals and then there is a need for new ways of dealing with the problem.

Let me give you an example. In terms of imports right now, we have a system to decontrol a particular price control system where we provide a direct subsidy to imports. Now obviously there may be differences of opinion about how to deal with that problem, but one of the options is a crude oil equalization tax which would bring the cost up to refiners, up to the world price.

That kind of market signal is critical in terms of a decision made across the country by the consumers.

MR. HALBOUTY: Mike Halbouty, Houston Indiana.

You have talked about all of these incentives toward oil shale, coal liquefaction, and so forth, renewable energy sources. I think these are good that you have these incentives. The only immediate source of energy that we have or we can really rely on is petroleum. What incentives does DOE plan for the petroleum industry to build more wild catwells so that we could be able to have enough diversion in this country to give us the lead time to establish all these other renewable sources?

MR. ALM: I am not sure I completely follow your question. Wild catwells are stripper wells for decontrol, obviously. In terms of incentives for new production, the national energy plan indicated that new discovery of oil should receive the world price and also I recommended the tertiary recovery receive the world price of oil.

Right now, there are discussions and contacts about the level of incentives, differences of opinion in the Congress. I assume that in the context of agreement on COETO there will be a hard look by the Congress of additional incentives.

I don't want to get into detail because those discussions are in a real state of flux.

MR. NELSON: Glen Nelson, chairman of Husky Oil.

I think perhaps I have been a member of this council about as long as anyone here. I have observed what has obtained results over the years and what didn't and I think we have had one policy that I have never been able to understand and that is concerning the reserves.

There seems to be in the country generally a feeling that there is sort of windfall profits and a desire to see that old reserves of both oil and gas are depleted on the basis of original cost rather than on the basis of replacement cost, and I think that is one of the greatest mistakes that is being made policy-wise, both in government and otherwise, because when we have to take our old reserves out at costs of discovery which were back many. many years ago when costs were much less, that we have to replace that same barrel on today's basis we are just gradually forcing the industry into am almost impossible situation and one that I think is not bringing forth what it should be bringing forth, the degree of exploration and development or the bringing in or marginal production such as tertiary and the heavy oils, many of which are shut in today, and which could be a significant factor in helping to replace this out flow and other dependence on overseas production.

I would suggest that that be one matter that be given serious consideration because I think it has been a mistake. I have observed that Canada some years ago in their natural gas situation and I should explain our operations are about evenly divided between the two countries, they took the position that natural gas sales should be made on the basis of replacement costs which I think showed some wisdon and judgment there.

And so I would just like to leave that with you, Mr. Secretary, as a factor that I think is rather vital to the future of industry.

MR. ALM: I ought to make a brief comment in terms of tertiary recovery. As I indicated before, the NEP called for tertiary recovery, receiving the world price. The reason the nation is in the position that it is in now in terms of the controls, it goes back to very precipitous increase in oil prices during the embargo, a fourfold increase over a very short period of time.

What you have in terms of old oil wells are wells that were discovered and started producing when oil was around $3 a barrel. Now insofar as production unique now, there is a procedure now, I realize that there is probably a lot of skepticism in this room about procedure, I thought I would recognize that before anybody recignized it for me, but the procedure would allow for price increases.

We have had discussions about streamlining that procedure, and getting a better understanding of the procedure fundamentally. We feel that the incentive ought to be in the development of new resources. The reserve levels in this country are falling dismally behind production levels. In the lower 48, the reserve production ratio is 7.5, which is the lowest as far as I know of anywhere else in the world.

This is something to be extremely concerned about, and we feel strongly that new discovery, new production, deserve the highest price that you can get which is the world price of oil.

MR. NIELSON: If I may respond to that also, the part that I think is so vital that has been disregarded, that barrel of old oil will produce just as much energy as the new oil, but if industry is not able to dispose of that barrel at today's cost of discovery, the exploration will be limited just to that very degree, and I think it is very observable and the results and the increasing dependence that we have on OPEC, if I might go back to that situation for a moment, the industry had a real discouraging period over a great many years when the policy was to bring in overseas oil at prices $1 to $2 below the domestic costs to hold the industry back, and as late as President Nixon's RETA, the conclusion to that commission when they were called to study these overseas oil problems was to the effect, if I remember the words correctly, that the flood gates of overseas oil should be opened up and the price of domestic oil rolled back some fifty cents a barrel or 35. I don't remember just which it was, but either one was the same philosophy.

I think there has been a noticeable decrease and will continue to be so in this exploration and development. Now I am shocked at the cost we have and our company is comparatively small in this industry, but we are in every facet of it, and I am shocked at some of the costs of operation that we encounter today.

Now we only have one source of money. Well, either the public has to put new money in or we have got to generate it from the supply of oil that we now have and if we can't replace our inventory that we must take out at the -- at some price close to what it used to be, we are just gradually forcing the industry and our country into a greater dependence.

Now if there were time, I could go into specific details on sources of oil that are actually being shut in today and not being developed today because of these policies that we are discussing, and I do not believe it is to the interest of the consumer, the country and particularly our nation.

MR. ALM: Let me take a minute. I have no disagreement with your basic premise about the need to develop domestic oil supplies, including current old oil, and indeed I have spent a significant part of my time resiliently on the California crude problem and have been concerned about how a series of cinentives can be structured to assure that we can use greater crude rather than having it shut in.

I agree with the premise. There might be disagreement with particular policies to achieve the objective, but it is something the Department is concerned about, and the information you have on specific areas being shut in would be most welcome.

I would appreciate receiving that and we will investigate those situations and get a reply back to you.

MR. ELY: Northcutt Ely.

I have been greatly puzzled by the apparent contrast between the real problem the nation faces in the falling of the dollar due to the tremendous balance of payments deficit, the payment of foreign oil on the one hand with the administration's proposal of a wellhead tax to increase the cost of domestic oil and equally the cost of imported oil.

Why is it that the increase in the cost of consumers of domestic oil will have any effect at all in meeting the true problem which diminution of the balance of payments for foreign oil?

MR. ALM: There is a complicated answer to that question.

The first obvious point is that by getting rid of the subsidy for domestic oil through imported oil, consumers across the country will get proper market signals and you will have significant conservation gains.

Secondly, the issue of getting our prices of oil up to the world price has achieved, has reached international dimensions and the State Department and Treasury tell us that European and other OECE nations look at the crude oil equalization tax as a symbol of the U. S. will to do something about the energy problem, and I think it is no secret that Secretary Bloomenthal is very concerned that the U. S. take some action to increase the prices of oil in the U. S. as an indication of the nation's willingness to get on with the energy problem.

So you have got both the substantive reason for reducing demand by sending out the proper market signals and, secondly, the international dimension the crude oil equalization tax has taken on, and the symbol of the U. S. determination to do something about its energy problem.

MR. SCHWARTZ: Schwartz of Indiana.

Would you explain to me how against your objective of increasing production of oil and gas in this country, a crude oil equalization tax which will raise the price to the consumer, will produce one more barrel or reduce our dependence on foreign oil?

MR. ALM: The crude oil equalization tax was not designed to be a production stimulus. It clearly wasn't. The other incentives I mentioned which are like the crude oil equalization tax, on the other hand, will produce more production. One is the world price for new discoveries of oil, world price for tertiary, and the incentives that are under discussion is part of the settlement providing further incentives.

The crude oil equalization tax was designed as I indicated before to send out market signals to reduce the demands. The COET would reduce demands by 500,000 to 600,000 barrels a day in the early 1980's which is a significant reduction in demands.

MR. SWING: Wayne Swing from Tulsa.

I am not associated with standards of Indiana. Speaking solely as an independent, we observed in Oklahoma that the Department of Agriculture now outnumbers the number of farmers and we wonder when the Department of Energy may outnumber the members of the petroleum industry. It seems also an observation from Oklahoma that whereas crude oil equalization tax has the laudable effect of reducing demand, would not price decontrol do the same thing?

MR. ALM: Let me comment on your first question. I have been concerned about when the personnel compliment of the Department would exceed that of the industry. I heard the roll call this morning saying that there are quite a few of you.

I was somewhat heartened. Well, I think that the Department's personnel growth will stay, will be very moderate if at all. I think -- what was your second question, again?

MR. SWING: Would not the laudable effect of reduction of demand by increase in price be achieved as well by decontrol of crude oil prices?

MR. ALM: Now I understand why I forgot the question. I think that the instance that you proposed is an equity issue. The answer is that any measure that would bring you up to the world price of oil from a demand restraint point of view would be equal.

The reason we chose the COET route was that we felt that immediate decontrol of oil would shift billions of dollars from consumers, from producers to consumers, but let me mention a second practical problem. If that were done, you would have the problem of windfall profit tax, and the clinical issue and that would never happen.

I think I have talked long enough.

CHAIRMAN CHANDLER: I think you, Secretary Alm.

As I mentioned to you members of the council in calling this meeting, there have been several discussions with Secretary Schlesinger and his staff to determine how the council could best serve the needs of the Department and the Federal Government.

These discussions were pretty well summarized in the correspondence which were attached to my letter. The council's operating procedures evolved over the years and Secretary Schlesinger's changes represent a continuation of this evolutionary process.

I believe that I speak for the council when I say that regardless of procedural changes, the really important consideration is the quality of the response of this council to government needs.

We are delighted to have Secretary Schlesinger with us to discuss these along with some other matters.

Mr. Secretary.

SECRETARY SCHLESINGER: Thank you very much, fellows. Can you hear me out there? I am sorry that I am late. We had a lively session of the cabinet discussing prospective constraints on out year spending and that, of course, is something that always engages the attention if not the enthusiasm of cabinet members, but I think it may be welcome news now.

It was fortuitous that I arrived at the moment that I did because I believe that I may have rescued Al Alm. Well, we have had a long delay in getting together. There are a number of reasons for the delay. The first was our optimistic belief that we should defer the meeting of the National Petroleum Council until such time as the National Energy Act was enacted.

As the months wore on, it seemed preferable to have a meeting of the council even in the absence of the passage of the National Energy Act, for that may take until the end of time actually to get fully aboard.

Secondly, we wanted to meet in the Forestal Building. You will have noticed we have established a small bridge headletter and you are under heavy fire from the Department of Defense. I think that we will maintain and expand the bridge head in the months ahead.

Welcome to the Forestal Building, the new home of the Department of Energy.

The subject which I think is the underlying subject of the future of the country, the future of our political, economic system, lies in the area of government, industry, relations, the separate and mutual responsibilities of government and industry and in that regard I think the National Petroleum Council has a special role to play.

As I wrote initially, this is a unique institution, and because it is a unique institution it cannot be fitted into the Procrustean bed of legislation governing government advisory committees. It has a life of its own. It has a special status.

It must retain that special status. It permits, I think in a special way for the government, in this case the Department of Energy, to draw upon the expertise embodied in the oil and gas industry. The changes we plan to make are relatively minor.

There will be an expanded number of outsiders representing a broader spectrum of the public. There will be a smaller total membership, something on the order of 90 or 100 rather than 140 or so at the present time.

I think that I will touch on two or three issues. First, we want the relationship to be a productive one in which you offer us your best advise on matters technical rather than on matters of a policy nature. We have been discussing this for some time.

I don't know, Collis, when you mentioned the five subject areas in which it seemed to us to be appropriate for the council to work. The first is unconventional gas. We got into that by discussing what the future of geopressured methane might be, but broader than that resource, what we can make in the out years from shale, coal seam gas and the like.

A second area which has come to my attention as we present our grim prospects over the next 20 years regarding the potential quality for petroleum production to continue to fuel the expansion of the economy is alleged speculated on or mythical resources that exist somewhere out there.

We have been pressed by Congressional committees who assert that there are substantial areas in which the industry has never explored or sought to explore with the motivation attributed to the industry, it is not entirely laudatory, but the question of the facts as presented by various technicians to the various Congressional committees regarding the degree to which sedimentary basins around the world have been explored to this juncture is something that I think -- on which we should shed some light.

A third area if the petroleum inventories and storage capacity. A fourth area, transportation capacities and in this connection, as we were discussing last night, we might look at the relationship between various qualities of oil and the refining capacity as matched geographically to the available oil.

Finally, the materials and manpower requirements for the U. S. oil and gas industry in the years ahead, unspecified; 1985 is obviously one key date. I think that this depends upon a number of conjectural points, the first of course being government policy, the degree to which the OCS gets leased up, the repetitive with which drilling takes place and so on,

Consequently, I think that one has to parameterize the expectations with regard to military and manpower requirements but those are five technical problem areas on which we will be seeking your best advice, Just how you think these studies should be prioritized, Collis, is a question that I will leave to further discussion.

We have gotten through at least a very large step with regard to natural gas regulation. The reviews continue to be somewhat mixed, but I think it represents a definite improvement relative to the status quo. We will have a national market, and the effects of the existing system of control cannot be described as anything other than pernicious both with regard to pricing and the distribution of available natural gas.

It also had a system of control, an expressive effect on incentives because of the lack of adequate access, appropriate access in the interstate market for gas produced in the intrastate market. I think that these are problems. They are very clear short term problems that had to be resolved.

I recognize that many of you think that it does not resolve long term problems. Howsoever, if we don't solve our short term problems, we will not have an opportunity to solve our long term problems.

I have heard some discussion of that natural gas bill. I will make a few comments on that. Collis passed on to me this document yesterday. I am sure it is familiar to most of you. It is pretty good, a pretty good document. It provides a flow chart which emminates from the new legislation as we understand it at this juncture.

I think that one of the purposes of the flow chart at the time the distribution was to demonstrate the complexity of this legislation, I would submit two propositions. First, that the flow chart does not include non-price regulation and in relation to non-price regulation, there is no comparison between the existing system and the prospective legislation.

Non-price regulation is virtually eliminated. It could not have been put on any chart such as this. Secondly, with regard to price regulation, I doubt that the current system could be diagrammed largely because the decisions that come at the outset would reflect the existing, the year of sale, first sale, the vintaging arrangements which exist under the current system.

If you examine that chart with some care, I think that you can say that there are considerable improvements not only in the incentives category to which I referred before, but the category of certainty, of stability for the industry, and I believe that it is stability that the industry most requires.

I have heard some discussion of 23 categories of gas. There aren't 23 categories of gas. Most of those 23 categories reflect various types of incremental pricing which may be the responsibility of pipelines or the pain of the ultimate purchaser, but it is not a problem basically for the oil and gas industry itself.

We could have reduced that number, 23 categories. Three of those categories refer to gas that is being deregulated, for example, below 15,000 feet of shale, geopressurized methane. It had been our impression that there was some desire for deregulation of hish cost gas, so we were rather surprised that this is totalled up in the score against the alleged complexity of this legislation, but I think that the legislation will provide incentives and it will provide certainty. It will prodice clear signals so that the industry can finance its operations with confidence regarding prices in the years ahead.

Finally, I want to mention prospects for oil which in some ways are associated with the origins of the government-industry relations to which I referred at the outset, the notion that has been brooded about for many years that some day we might run out of oil. As you will recall, Harold Dickis in World War II encouraged this development of government/industry relations partly because of that pre-occupation on his part.

We have had many warnings that our capacity to expand production will begin to be sufficiently constrained that we will have to turn to other resources. I think that the warnings which have been demonstrably untrue in the past are probably true, though not demonstrably true in the years ahead.

And I believe that there is general agreement within this group on that point. We will be attempting to increase gas production though we expect no miracles. We are hoping to see gas production improved. We would hope to see oil production kept over the 10 million barrel a day mark in the United States, but if we are to grow in our dependence upon oil, that means one thing and that is increased imports.

For the financial health of the country, we will have to reduce imports. That means a variety of measures will have to be taken. It means stretching out, husbanding of the supplies of oil. It is for that reason that the national energy plan encourages the movement of industry and prescribed the movement of utilities away from oil burning capacity.

Our underlying belief is that for boiler fuel there is an easy substitute at relatively small penalty for oil. For other uses of oil in the transportation sector in particular there is no easy near term substitute so that a larger growing share of the available petroleum should be encouraged to move towards that area in which the requirement is highest, the maintenance of our transportation segment, and that a diminishing share of the available oil will be going to oil fuel.

In this way, I think that we can husband our oil resources, encourage the shift towards coal with little penalty to the economy.

There is a good deal of talk of course these days about an oil glut. I think most of us recognize that this is at best a transitory phenomena. It is most marked in the State of California, what we have is a glut of imported oil from Alaska or insufficient demand to associate what is a new source of production or a transportation deficit.

It certainly does not suggest an elimination of our basic long term problem. Nonetheless, there is a good deal of suiting talk during this transitory period. The intelligence community continues to estimate, if we continue on our present course with the present legislation, that we around the world assuming we will face at constant dollar prices, a deficit of petroleum something on the order of five to nine million barrels a day by 1985, and a beginning of trouble around 1982 if we continue on our present course.

Of course, markets will balance. We will not consume more than we produce so that if there is no oil available we will have equilibrium in the market. The equilibrium will come through rising prices and/or through a decline in income output and employment, probably a combination of both.

The trick of policy is to attempt to avoid those economic impacts because if we run into those economic impacts in the middle 1980's, the political consequences of this country will be severe. They will be as severe as those in the depression of the 1930's, and they will shake the political foundations of this country.

So it behooves us to move the nation through this transition as smoothly as we possibly can. Now I don't think that to this group there is anything novel if what I have said. This industry has been ringing the toxins about the future energy problem long before anybody else, any large number of people were aware of it.

They were ringing the toxin and, of course, the motives were suspect, but nonetheless, I think that in that regard you were serving the public and the messege that you were presenting tended to be disregarded. It is still disregarded by some, but the society as a whole has heard.

We will have a difficult period. We will have to work together to move this country through a transition that will be enormously difficult. This does not mean that we should not attempt to produce domestically as much oil and natural gas as we can.

Right now we are 75 percent dependent and we expect by the year 2,000 to reduce that to a 50 percent dependency, but that is still half of our energy resources. It will require hard work by all hands. It will be a challenging environment. I described the environment of the future of oil and gas down in Houston to a somewhat disbelieving audience as the golden age of the oil industry.

I continue to believe that. Let me stop there and see if there are any comments of questions.

CHAIRMAN CHANDLER: You are not aware, I don't thin, -- yes you are, too, the Agenda Committee met yesterday afternoon on your five, six study requests, and Billy, if the questions hinge on the study areas, I think you might intervene and paraphrase the Agenda Committee's report which follows you, Mr. Secretary.

MR. SELLERS: Mr. Secretary, Bob Sellers, City Service.

In the letters that you exchanged with Collis and in the early part of your comments you referred to the structure of the council. Currently there are 23 members of the council who have no contacts, no direct relationship with the petroleum industry and in many cases very limited knowledge of the industry.

You have said both today and in that correspondence that you intend to increase that number and decrease the total membership of the council to below 100. I am concerned about whether or not this council can continue to function effectively with that degree of limitation on experienced people in the membership and with that degree of dilution of industry knowledge.

SECRETARY SCHLESINGER: That seems to me to be a valid point. At the time that we wrote the letter we, the information that there were 23 members who are outsiders, that was not the number that we had, not in the view that we had.

That would seem to be indeed a satisfactory or perhaps more than satisfactory proportion of so-called outsiders to the total.

MR. SELLERS: They may not represent the interests that you wanted represented, but that is a different issue.

SECRETARY SCHLESINGER: That is right. I think the point is well taken. It is not. The intention in an organization with a special expertise is to provide technical advice on oil and gas to so dilute it and make it kind of representative of the league of nations sort of thing so that it appeals to the eye of outside political observers that it could not perform its function.

So I think that the extent we should alleviate the concern and there have been a general view that the growth of the council to 140, 150 people has made it somewhat unwieldy.

MR. MILLER: Mr. Secretary, John Miller, independent from Michigan.

I want to express to you that 25 years ago when I entered the oil and gas industry it was never my conception or desire that I would obtain stability and certainly not from the Federal Government. I wanted the opportunity to be an entrepreneur in the oil and gas business.

I think that the complexity that the industry feels is inherent in the gas bill is best demonstrated by the complexity that now exists in the oil regulation, entitlements and other types of things, and I am greatly concerned over the loss of productive time and the accompanying expense through the abiding by the regulatory process as opposed to being by the oil and gas.

This is a tremendous burden on the entire oil and gas industry and therefore on the consumer public, and I just fear for the future of our country and this industry under the over-managed economy that we are experiencing today.

(Applause.)

SECRETARY SCHLESINGER: I don't know, John, whether you will take yes for an answer. By and large I agree with that, perhaps not with some of the intonations, but I think that the general points are well taken.

The question of stability and certainty to which I refer was not geological, economic certainty. It was legislative stability, stability of the social framework in which you have to operate. You take the risks, but those risks should not be augmented by capricious changes in regulation.

We cannot resolve the risks. We do not want to do that. If the enterprise has as its advantage the willingness of private bodies to take risks, we cannot and should not attempt to eliminate those risks, but we certainly can discriminate among categories of risk.

I think that your latter comments reinforce the point that I am making. The time that is devoted by senior management personnel or by their subordinates to fiddling with changes or making the reports of one sort or another to regulatory bodies which seem to have no end, that that is in itself a reflection of the instability of our present arrangements which we are attempting to cure and to the extent that we cure those, then we can resolve to some extent at least the costs and shall I say the psychological burdens of having to wrestle with these things.

As I indicated, we are attempting in a variety of ways to reduce this regulatory burden. The legislation, for example, requires no filings, no filings from producers. The pipelines are a public utility. They are a regulated public utility, free and clear, and they are used, too, and it is appropriate for them to bear those kinds of burdens and continue to make those filings but the legislation wipes out that requirement.

I indicated also that it wipes out the non-price regulation whish so far as I can judge talking to various producers is maybe more irritating even than the price regulations. So that is a close call.

In the area of petroleum, we have been attempting for the better part of eight months to get rid of motor fuel control. That is not a problem of the producer, but it will resolve a certain number of problems that we face in this industry.

It is for a variety of reasons that we have not been able to do so. Some were legal at the outset going from the FEA to the DOE and the change in authority that we went through since that authority went in part to the FERC rather than being concentrated in the Administrator of FEA and more recently they have been political, but once we begin to move out of those forms of control we will be able to reduce, it is our estimate, the 1400 bodies that we inherited from FEA who are engaged in regulatory activities to 400.

I am not sure you think that that movement goes quite far enough, but I think that that is the direction that we want to go in. The FERC is going to be moving vigorously, vigorously, to get rid of regulatory obligations on producers. They serve no purpose. They serve no purpose. They are there because the present law requires them and we will begin to eliminate those, I believe, or the FERC will begin to eliminate those.

Many of you have been cheered by the prospect of light at the end of the tunnel. I think that there is some light at the end of this particular tunnel, but in general I would agree with your observations. Price regulation is ineffective, it is not a desired kind of tool.

At best, it is a second-best kind of a tool to carry one through a period of transition. We cannot rewrite history. We have a tangled and emotional history of natural gas in this country. I have now as a result of six months' participation in the legislative process come to understand what hell is.

Hell is eternal sessions of the National Gas Conference. It is hellish, but in order to get legislation moved it is necessary to get the votes in two Houses of Congress, the majority of those votes. From an ideal standpoint, sitting down there in Houston, for example, that may seem to be a nickling and small metter. It is not. You have got to put together 50 percent of the votes in both parties.

Now the history of natural gas is an emotional one. For those who develop the system of FPC regulation, this represents by God their lives work. It is their temple, and along comes somebody who in moderate tones says that the effect of it is pernicious, like myself, and some of you who use less moderate tones, but the burden of the argument is the same and they run to the defense of their temple.

We have seen that not only this year but two years ago and even over the last 20 years. That is a powerful sentiment, some of that was expressed yesterday and, of course, during this entire debate.

For the producers, price regulation of natural gas represents in a sense the surviving example of a constraint in the form of evil that has been clamped down on the free enterprise system. It exterpation will lead us to the Promised Land. It is not so, either.

I think in view of the tangled emotions involved here, in view of the consequences of that, of the pernicious consequences of that system of regulation, particularly after 1970 when shortages began to develop that one has got to move away from it with some care. Personally, I don't prefer price regulation at all.

My preferred system is market clearing prices. And if you happen to think that the returns are too high to produce a group, then you propose a differential tax on that particular group, but you don't try and regulate the price mechanism.

That happens to be my preference. I don't think in view of the history and the fact that you can't run the camera backwards that my preference in that regard was any more relevant than your preferences. I think that we have to ease away from the existing system, reducing the burdens as we go.

As to the burden of your remarks, John, my sympathies. Well, let me change that.

MR. MILLER: I appreciate that.

SECRETARY SCHLESINGER: Well, I once testified before Russell Long, of all people, about seven or eight years ago and there was John Williams of Delaware sitting to his left, and I was testifying for the Bureau of Budget. He insisted on raising the question of the family stance plan about which he was not at all enthusiastic, and I kept ducking him and bobbing and weaving and defending the President's position. He would raise objections and I would say well, I have got some sympathy for that point of view, Senator, and he said I don't want your damn sympathy, I want your support, but that may have something more to say.

MR. EMISON: Mr. Secretary, my name is Jim Emison. Western Petroleum.

I wonder if you could be more specific about when we are going to get gasoline decontrol.

SECRETARY SCHLESINGER: I don't think the prospects, given the delay in the legislation, are good before September. I say that with some regret because that will mean a slippage of one year. Most of our burden comes from the control at the refinery level.

We have got to get rid of it, but I had hoped to get rid of it last winter. The problem that we have had is that the House members have insisted on the passage of the dealer day in court bill and that has moved slowly. I don't think we want -- I suspect that you would prefer, some of you would prefer not to deregulate during the summer driving season.

So I think that September, early fall, looks like the likeliest prospect. If we didn't have the natural gas legislation lying around. if we didn't have all of these things on the table, we would be prepared to move more rapidly.

Indeed, if I may pursue John Miller's comments on the basis of that question, one of the worst aspects of the regulatory system as I see it, is that it has legitimate and built-in causes for delay. On its merits we should have gotten rid of most fuel controls sometime back, but that requires approval within the political framework, a degree of consensus where you have other items which rightly or wrongly you may regard as more paramount, such as the natural gas bill.

The tendency is to defer in order not to arouse opposition, and the effect of that is to create a continuing hew, and there are problems that should be resolved today that are being deferred until tomorrow.

I think motor gas controls is a very evident example of that sort. Also, I think that it points to the fact that in order to develop that political consensus, you much engage in trades which in some cases may be desirable, but in all cases are not desirable.

MR. MATTHEWS: Mr. Secretary, Charles Matthews.

All of us, of course, are concerned about natural gas pricing because that cuts on our minds, but since we are talking about regulatory delay, and concerns in that regard, let me change the subject just slightly to another legislative issue. That is the amendment to the outter-continental shelf lands act, S.9, which is in conference right now, and under this bill there will be 50 new sets of regulations required.

The intent of the administration is to reduce regulation, but this legislation increases it. Isn't this going to cause delay, Mr. Secretary?

CHAIRMAN CHANDLER: I am not sure that question is in order, Mr. Secretary.

SECRETARY SCHLESINGER: I thank you, fellas.

MR. MATTHEWS: I apologize for asking it.

SECRETARY SCHLESINGER: If you read the most optimistic account, the answer is no. I don't necessarily believe the most optimistic accounts. I find your question distressing.

MR. NASSIKAS: Mr. Secretary, what policy initiatives do you contemplate with reference to liquefied natural gas imports and gas pipeline?

SECRETARY SCHLESINGER: I think the general framework would be the following: We seek to develop our domestic r-source in the existing regulatory framework and contractual framework. There is a good deal of subsidization. Our judgment that inherent subsidization should not be directed towards the subsidization of foreign, particularly foreign insecure sources of supply; indeed it should be directed, its inherent subsidization, towards domestic sources of supply through rolled in pricing.

For example, we can encourage, as the legislation does, bringing down of natural gas from Alaska. Our first preference, of course, is to develop our own conventional resources, develop our -- encourage the development of unconventional resources, including gasification, coal gasification.

To the extent that we must import, we prefer cheaper imports and that means pipeline gas. We do not want to destabilize the Canadian market by prices of Mexican gas that would result in a sudden shift upward of those Canadian gas prices, but we do indeed expect and trust that we will obtain and expect to obtain a Mexican gas by pipeline.

With regard to LNG, the costs in large part reflect the distances. We are more sympathetic to LNG sources near at hand than further away. There are a number of LNG projects as it were, were in the pipeline when the Department came into existence.

Therefore, they have to be treated with care, but in general with LNG from distant parts, of course the $4.50 per MCF which is well above the price of alternative sources of energy and to a considerable extent represents foreign exchange costs, we are not amicable to LNG.

MR. HARTLEY: Mr. Secretary, on this question of natural gas pricing by pipeline, the latest number I was given came from Alaskan gas. It costs at the 49, the barrel, about 450,000 for $26 a barrel.

How do you relate that to the problem with the price of Mexican gas?

SECRETARY SCHLESINGER: Are those constant dollar numbers or current dollar numbers? I believe they may be current dollar numbers. That is 1985 dollars or 1983 dollars.

The numbers that we developed originally came to $2.75 per MCF in constant 1977 dollars, and we would have to examine the two.

It seems to me quite evident that the -- assuming the numbers are right, though, that the costs of Alaskan gas are indeed dramatically higher than the cost of imported gas. Under those circumstances, we have a difficult trade-off. I think we have a natural preference to avoid foreign exchange costs when we can and develop our own resources, but not at very great penalty, and in the case that you cite, penalty quite clearly in cost terms is as great as LNG and if indeed we were convinced that that were the price, we would have to, we should have reflected more before going forward with this project.

Let's take a look at those numbers. We think that in constant dollars the price is lower or to put it another way, that the current dollar price of new gas used in the lower 48 states at the time the pipeline somes into being is likely to be on the order of $3, $3.15, so that the penalty is relatively small.

I think that given our shortage of hydrocarbons that ultimately one way or another we are going to want to get that gas out, and going by pipeline is better than any alternative way.

MR. ANDERSON. Robert Anderson.

A year ago, the President described the energy problem, I think, as more accurately and in better terms than anyone had done heretofore. He enunciated 10 basic principles that I suspect you have a high degree of unanimity in this group that those are all valid, very basic points.

In the interim, I think the dialogue has been over the adequacy of the resolution, but one point that everyone in this room has advocated, I think, was the recognition of long term energy had to be done on a replacement pricing basis.

I wonder, is that going to be a -- I am sure it is lost in the shuffle at the moment -- but will that be a basic principle?

SECRETARY SCHLESINGER: Yes. The intent was to go to replacement costs, clearly, so in the case of oil, waffled a little bit in the case of natural gas, somebody here may have noticed that, but that clearly so indicates the oil, most to world oil prices, and by and large follow those world oil prices.

We made no commitment to follow them in the future. If the OPEC price jumped 20 percent in one year, there was no commitment to follow them, but if the price of OPEC oil, world oil price, moved within a reasonably narrow change, there was a purpose.

The goal of the COET was to impose upon the users even for those categories of OL which merged the world oil price, and through a variable tax floated up there in the process getting rid of the entitlement system, John, so that the user would pay, would face at least replacement costs.

You may be proceeding for producer returns as opposed to user costs in your question. The replacement costs did not necessarily imply that the producers would get the entire benefits of that sudden escalation of prices in 1973.

As many of you know, some of you have participated -- I have discussed various ways of gradually eliminating these differentials that exist under the present system through decline rates of one sort or another so that we would phase out what it the source of the difficulty of the EPCA arrangement which is differential pricing.

If then if talking in constant dollars in 1985, the world price of oil suddenly jumps, takes a hypothetical, extreme case, jumps in one year from $15 a barrel to $25 a barrel and if that jump in 1985 is regarded as providing excessive returns for the producers, then those excessive returns can be taxed, but we will have eliminated through this mechanism the requirements for an equalization tax.

If you eliminate the price differential, you do not need an equalization tax, Under those circumstances, you still might be opposed to a tax of uniform nature on the domestic production of crude, presumably the prices at that juncture, the untaxed part of price, world price, would be sufficiently high to give good incentives to producers to continue drilling, but you would have eliminated the requirements for equalization which exist under the EPCA.

Secondly, you would be following the world oil price. It seems to me that sooner or later we just have to face up to that. Now if you have sudden surges of prices, to some extent macro economic effects, but more keenly distributional and political effects, I think those have to be eased.

About seven months ago I had a question -- maybe it is a year ago -- from Fred Hartley and I pointed out that the governments tended to follow voter preferences and indeed that charge is well placed. Governments survive on the basis to a large extent of following voter preferences. Those preferences have to be adjusted over time, but no elected government is in a position simply to disregard what are the consequences of a sudden increase in a critical commodity which is a large part of the family budget and the implication of a sudden diminution in the real income of the average citizen.

If it is phased over time, then it is something that can be associated by the system with no great change, but a sudden change of that sort provokes political antagonism which some of you may have noticed after 1973. Some of that antagonism is wholly unjustified.

MR. ANDERSON: I think old oil is the point in the industry, and is seen on a replacement basis because in the year constant dollar basis has gone downhill, and Glen Neilson pointed out the people who have spent their life hunting for it, don't know where to find it today.

The old oil is really the toughest spot.

SECRETARY SCHLESINGER: Of course you have got a conflict of objectives there. I noticed that with the heavy weathering that Al was into when I entered the room that I heard the phrase windfall profits, I believe, and I think that that is a problem.

I think that many of you, probably most of you, recognize that there are problems in which inventories have been developed at a dollar a barrel and suddenly you have got escalation of price. All of you know families or a family that has 100 million barrels of oil.

The effect of an increase in the price of crude for those existing inventories is a cool billion dollars. I think that when one has price gyrations of that sort that one has difficulty explaining underlying equities to the public.

Now that may not be consistent with abstract economics, one syllabus view of the operations of the price mechanism in classical economy, but it is political reality that I think we have to take into account.

One of the principles to which you have referred in the President's program was that somehow or other all members of the society, all categorists, had to share equitably in burdens, the inherent burdens of the energy program, and relating that to the efficiency of the economy, is not easy.

There are some inequities involved in old oil. On the other hand, there would be some inequities of moving rapidly toward world prices and where one strict balance even in a judicious sense is fairly hard in the political climate in which we exist. It is not easy to do.

MR. ANDERSON: And I don't see a 100 million barrel dependence.

SECRETARY SCHLESINGER: It is not a large category.

MR. HARTLEY: Mr. Secretary, to bring this to perhaps a more constructive viewpoint, I believe the administration desired to implement COET in some way, shape or form, now that presumably the natural gas issue has been reasonably settled to the point where someone can take action.

Whether we share in COET or whether we don't, at least it is a prime objective COET should go into effect, go into effect on a total basis. Let's get away from this concept of year one, year two and year three. We have got the form at the devil in this program. You know the California situation. Even the governor said the whole damn thing is ridiculous. I don't happen to agree with him most of the time, but this is one time I do.

For example, with the program we have got, we folks out there are simple. We used to take care of the heavy crude oil program. We simply got rid of the damn stuff in world trade. We looked for the best market. We even put it up to the East Coast. Today we can't put it anywhere except in the storage tanks or down the wells. And all of this was brought about by the entitlements program which is one of the factors, and some silly concept that if you import crude oil into the country to make up our balance of supply, we can't control product crude oil quality by being able to support those raw materials we happen to have in our country that aren't compatible with the transportation fuel requirements.

We are no longer in the fuel oil business in California. Pollution regulations have taken care of that. Six months ago there was zero hydro power production in California for electrical energy. Today it is 57 percent hydro. That is a major swing and Mother Nature took over. She is running the show and we are in water which has got -- where people are setting up the size of the waves to regulation. We can't maneuver, we can't take a direction. So I would implore upon you if we are going to have COET, and I trust industry will participate in it, if for no other reason to take into account inflation since 1937, then I would at least say that let's for God's sake get rid of the entitlements program, show the world the United States has some capability of making a decision and making it fast.

Now if our little state can take an increase in lettuce price of five times without having a march in the state capital or the county, if we can see meat prices go up 16 percent in two months, let's don't be afraid of this so-called pressure in this area of energy. I think the people are waiting for leadership and I want Dr. Schlesinger to provide it.

SECRETARY SCHLESINGER: Well, I evade the flattery. What you say about the situation in California is well taken. It is ludicrous. We have strapped ourselves into this position. The refineries can't handle the Alaskan crude. We can't explore it. Given the sentiments up there going back to how much you can put on the political, how many political burners you can have hands on at the same time, we probably could win that fight if we wanted to.

I am not sure what the immediate cost would be. There certainly is vigorous sentiment in the House opposing any support. I think that sentiment applies more to Alaskan crude than it does to heavy California crude. It is kind of nutty. I don't know how you put a better face on it than that. There are those who are concerned with the macro economic effects of going in one step. I am sympathetic to your observation. We ought to follow the Lady MacBeth principle, if it were done, it is better it were done quietly.

MR. HARTLEY: Ladies like it that way, too.

SECRETARY SCHLESINGER: You speak from experience. The preference of those who study macro economics is always to phase things in gradually so that the last increment comes somewhere in the distant time.

I think that getting rid of the entitlement system is highly desirable. The whole thing is kind of squalid. We have got this pool of $15 billion out there that is allocated on the basis of political pressures and administrative judgment, so-called, and where you have that kind of pool, pressures are going to be very large.

I think there was one point that I neglected to cover.

CHAIRMAN CHANDLER: Thank yoo, Mr. Secretary.

(Applause.)

CHAIRMAN CHANDLER: I will now call on the resolution of bylaws by Chairman Murphy, Vice Chairman of the Council.

VICE CHAIRMAN MURPHY: Thank you, Mr. Chairman.

Fellow members, the Chairman's letter to you of

April 25 included a proposed resolution to be introduced at this meeting. Its purpose is to set into wheels of motion to amend the Council's articles of organization, bringing them into accord with changes that have occurred.

The text of the resolution is included in the packets distributed to you this morning, and I would like to read it. Whereas, the National Petroleum Council has since its correction in 1946 provided advice and recommendations to the Department of the Interior and in accordance with its articles of organization, and whereas since the Council's last meeting various functions of the Department of Interior have been transferred by the Department of Energy Organization Act of 1977, to the newly created Department of Energy, including areas of responsibility with respect to which the Council has provided its advice and recommendations in the past, and whereas the Department of Energy has requested the National Petroleum Council to be available to provide advice and recommendations, therefore be it resolved that the National Petroleum Council shall in accordance with the procedures in its articles of organization, provide advice and recommendations to the Department of Energy, and that the Chairman shall cause to be prepared for consideration by the Council appropriate amendments to the articles of organization, and to provide that the National Petroleum Council shall render advice in the recommendations to the Department of Energy.

Mr. Chairman, I move adoption of the resolution.

CHAIRMAN CHANDLER: Thank you, Mr. Murphy.

Is there a second?

VOICE: Second.

CHAIRMAN CHANDLER: Is there any discussion?

All in favor then signify by saying "aye."

Those opposed.

The resolution carries.

We move now to the report of the Agenda Committee and I will call on the Agenda Committee Chairman, Bill Haynes.

MR. HAYNES: Thank you, Mr. Chairman.

In recent conversations with the Secretary of Energy and his staff, the Council has been requested to undertake a number of studies and pursuant to bylaws of the Council, our chairman has referred the request to the Agenda Committee which has considered them in order to make recommendations to the Council members today.

Now the Secretary mentioned these study requests, and I propose to mention them once again only very briefly. One is for the Council to conduct a new survey of petroleum inventories and storage capacity. Since 1946 the NPC has conducted eight surveys of this nature. Historically this survey has been conducted about every four years and since the last one was completed in 1974, it should be considered at this time in order to maintain the continuity of the series.

Now another request involves the updating of the 1967 NPC study on U. S. petroleum and gas transportation capacities. This would require the compilation of data representing an inventory of aggregate capacity of the five principal modes of transportation, crude oil and petroleum products, pipelines, natural gas transmission lines, inland waterway barges, tank cars and tank trucks.

Update of this information would be helpful to government and in emergency planning as well as in understanding the nation's oil and gas logistical system. So it is the recommendation of the Agenda Committee that these first two requests be conducted by a single committee effort.

A third request is the for Council to conduct an analysis of potential recovery from unconventional gas sources to include recovery fram shale, coal seams, tight gas sands and deep geopressurized zones. We are all aware of the wide variety of potential recovery as described to these sources, and the Agenda Committee feels that such an analysis is a proper Council undertaking.

Another request is for an examination of U. S. refinery capability to process high sulphur and heavy crudes. The committee feels that due to the changing patterns of crude sources for our domestic refineries the topic is appropriate for analysis by the Council.

Another topic discussed is an updated study of terms and manpower requirements of the U. S. oil and gas industry to cover the period 1978-1985. The Council has conducted such studies periodically with the latest being released in 1974. The committee feels that due to the projected increase levels of activity in the petroleum industry such an analysis is indeed warranted.

As the Secretary mentioned, we have another request for an examination and an estimate of the worldwide petroleum resource potential.

And, Mr. Secretary, the Agenda Committee will give very careful consideration of this request and after some consultation with the American Association of Petroleum Geologists and others, we will formulate our recommendation and submit our recommendation to Collis Chandler, and hopefully within the next several days and certainly within the next few weeks.

Mr. Chairman, the Agenda Committee has very carefully considered these requests, and in full realization of the substantial commitment of time and resources of each Council member that will be required, and also in recognition of the reputation that this Council has for excellence in all of its studies and its reports, we recommend that the Council undertake the following studies, a combined study of petroleum inventories and storage transportation capacities, an examination of the potential for unconventional gas sources and analysis of U. S. refinery capabilities, process high sulphur and heavy crudes, and a study of materials and manpower requirements of the U. S. oil and gas industry '78 to '85.

And we plan to have continued discussions with the Secretary of Energy and his staff in order to delineate fully the parameters and the definitions prior to starting the actual work on each of these studies.

Mr. Chairman, I move that these recommendations be adopted by the membership of the National Petroleum Council.

CHAIRMAN CHANDLER: Is there a second to the committee recommendation?

VOICE: I so move.

CHAIRMAN CHANDLER: Second?

VOICE: I second it.

CHAIRMAN CHANDLER: The motion has been made and seconded. Is there any discussion? If any of you have later thoughts, I am sure you could, you ought to channel them into Bill's Agenda Committee. All in favor of the motion, signify by saying "aye."

Any opposed?

The motion carries.

MR. HAYNES: Mr. Chairman, I have one other matter. I referred to it yesterday as having to embalm if you will a couple of studies that carry over from 1976, somebody said I should bury them. I don't know, they might come up again, but in any event if I could just take one more minute or two of your time, the Council does have some old business which the Agenda Committee has discussed with the Department of Energy officials.

In December of 1976 the Council was requested to undertake an analysis of the possible vulnerability of the U. S. oil and gas supply system to interruptions caused by natural disasters or acts of sabotage. Because of the timing of the report, the Council officers and I have decided to delay formal action on this request until the new administration was in place and could review the request.

Creation of the Department of Energy and the Council's subsequent transfer further delayed a decision on the vulnerability study. In our recent discussions with the Department of Energy officials, they have indicated a more pressing need for other work by the Council.

The Agenda Committee therefore considers the rquest to be withdrawn and no further action is required by the Council.

The second item, the old business, the future energy prospect study, as you recall, the study was requested in August 1975 and was very actively pursued until the spring of 1977. At that time national interest and the pending transfer of the Council led to a decision by the Council officers and the committee chairman, by Sharbaw, to suspend work on the study.

The Agenda Committee has reviewed this with the Department of Energy officials and after discussion it was agreed that much of the work of the committee would have to be substantially revised if not totally reconsidered, so because of this fact and because of the other pending business before the Council, our Agenda Committee recommends that the Council will hold further action on the future energy prospects study until such time as the Council may be specifically requested to prepare a new study on this subject.

We are closing the books on that, though I would like to express the Agenda Committee's gratitude to the many Council members who participated in that study and to express a special note of thanks to the individuals from industry and organizations from outside the Council membership who devoted considerable time and effort to the project.

Mr. Chairman, this completes the second part of the report of the Agenda Committee, and I move that it be adopted by members of the Petroleum Council.

CHAIRMAN CHANDLER: So moved.

MR. ANDERSON: So moved.

VOICE: Second.

CHAIRMAN CHANDLER: Any discussion? All in favor signify by saying "aye."

Opposed?

It carries.

Mr. Haynes, you are new to the job of Agenda Chairman. You are an excellent chairman.

I call on Ken Montague for the Finance Committee report.

MR. MONTAGUE: Mr. Chairman, your Finance Committee met and reviewed the administrative financial procedures of the Council and I am pleased to report that the financial condition of the Council has been and continues to be excellent. You may recall that our financial procedures are based on a calendar year period, but it became apparent that there would be no Council meetings prior to the start of '78, a meeting of the Finance Committee was conducted on the 14th of November '77.

The purpose of the meeting was to review continued expenditures previously approved and available funds to provide for Council activities into 1978. The committee recommended and the chairman concurred in an interim expenditure schedule in order to maintain the staff and facilities in minimum operating condition.

At our meeting yesterday, the committee considered a proposed budget for calendar year 1978 based on study requests which have just been presented to you by the Agenda Committee. Based on this review, the committee concluded that a budget of $1,300,000 is required to cover the Council's operating cost for 1978.

The committee also discussed with our outside auditors the annual financial report which gave us a clean bill of health.

Mr. Chairman, the Finance Committee recommends that the membership approve, one, an annual budget for the calendar year 1978 in the amount of $1,300,000 and, two, the selection of Arthur Young & Company to continue as the Council's outside officers for calendar year 1978.

Mr. Chairman, I move that the Council adopt this report of the Finance Committee.

CHAIRMAN CHANDLER: Is there a second to the chairman?

VOICE: Second.

CHAIRMAN CHANDLER: Any questions concerning the budget? All in favor signify by saying "aye."

Opposed?

Motion carries.

I am very comfortable with you as Chairman of our Finance Committee. Thank you very much.

This completes our agenda for the morning. Does any member of the Council have any additional old business to bring before us? New business? Does any non-Council member at this time have any matter to raise before the Council?

There being none, I declare the '76th meeting of the National Petroleum Council adjourned.

Thank you.

(Whereupon, at 12 noon the Council was adjourned.)