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UNITED STATES DEPARTMENT OF ENERGY

Meeting of the National Petroleum Council

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Madison Hotel
Dolly Madison Room
15th & M Streets, NW
Washington, D.C.

Thursday,
November 10, 1983

The meeting of the Advisory Council was called to order at 9:35 a.m.

ADVISORY COUNCIL MEMBERS PRESENT:

ROBERT A. MOSBACHER, Chairman

HON. DONALD PAUL HODEL, Secretary of Energy

RALPH E. BAILEY, Vice Chairman

MARSHAL W. NICHOLS, Executive Director

HON. JAN W. MARES, Assistant Secretary of Energy

THEODORE A. BURTIS, Chairman, Petroleum Inventories and Storage Capacity

I N D E X

P R O C E E D I N G S

9:35 a.m.

THE CHAIRMAN: Would the 86th meeting of the National Petroleum Council please come to order.

You have before you this morning a copy of the agenda, and we have an excellent turn-out we're delighted to see. And, if there's no objection, we'll dispense with the calling of the roll.

I would suggest that -- I hope everyone has checked in at Executive Room A which is out that door and first door on your right as you're going down the hall. If you have not, please do so immediately following the meeting. And that's the way we'll check the attendance.

I would like to introduce the head table at this time. To my far left, Mr. Ted Burtis; next to him is Secretary -- the Secretary Mares, Jan Mares. On my far right is our leader and hard worker for the National Petroleum Council, Marshal Nichols and on his immediate left is Vice Chairman Ralph Bailey. As you see, on my immediate right is the Secretary of Energy. And we're very fortunate to have the Secretary with us this morning. I think we're even more fortunate to have as Secretary of Energy who has a great background and knowledge in the energy industry and the few areas that when he became Secretary he was not -- only in his mind -- totally up to speed. He has quickly not only gotten up to speed

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but is certainly far ahead of most of us.

We are honored and delighted to have with us the Secretary of Energy, Don Hodel who will make a few remarks. We'll introduce new members and we'll answer questions from Council members.

Secretary Hodel.

(Applause.)

SECRETARY HODEL: Thank you, Bob.

I'm much more hesitant being here today than I was a year ago, because a year ago you were all in a forgiving mood because I had just newly been appointed. Now, I've been here a year and I'm probably expected to know something and in view of some of the things that have been happening to us, I sometimes wonder whether we know anything.

I have been predicting that natural gas would pass. We're getting closer and closer to the end of the session and I still continue to predict that a natural gas bill will pass. Some of us -- some of you had a chance to discuss that with me in some detail last night, and I -- I welcomed those opportunities because I get insight everytime, additional, into the whole process.

Let me stop at the beginning here and point out a number of people. Is Danny back there?

Oh, here. Our new Deputy Secretary, sworn in on November 3rd, is Danny Boggs. Stand up, Danny, so everybody

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can see you.

(Applause.)

SECRETARY HODEL: I think, I think many of you know Danny and have probably worked with him on a number of issues during the time he was at the White House or in some of his prior incarnations, here. I am tremendously delighted to have Danny on board. He is an extremely capable and analytical individual who has already made major contributions to our efforts. He will have a major role to play in our efforts here in the closing days of this session to do something about natural gas. And he will also be assuming major areas of responsibilities within the Department, particularly with regard to Defense programs. And I look for him, of course, beyond that to be involved in all of the major policy activities of the Department. I'm just delighted to have him on board and those of you who know him know precisely why.

I also have had, have had join me here today my Executive Assistant who is sitting in the balcony. Don Perlman, if you'd stand and be identified. And the reason I point Don out is that if some of you sometimes have trouble reaching me or Danny, at least I can assure you that if you reach Don you have reached one of us, also. And I appreciate having him with me here today.

The first thing I'd like to do is introduce the six new members. Now, the last time I checked two of these people

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hadn't necessarily shown up this morning, yet; but I will go through in alphabetical order in spite of that. Now, has John Buckley arrived?

(No response.)

SECRETARY HODEL: Okay. John, I'm sure will be here. He is the immediate past president of Northeast Petroleum. He's from Chelsea, Massachusetts. He's long been known as a far-sighted and articulate spokesman for the marketing segment of the industry and for his leadership in industry associations.

Raymond Hefner is here. Ray where are you? There you are. Stand up so people can see you. They already know you, but stand up so they can see you, again.

He's chairman and CEO of Bon Rae Energy Corporation. He's a spokesman for the marketing segment of the industry and he's known for his leadership in industry associations, as well.

George Mitchell is here. I saw -- there you are, George. Chairman and President of Mitchell Energy and Development Corporation, one of the nation's largest independent oil and gas producers. He's an industry leader returning to the National Petroleum Council and he's a past president and chairman of TIPRO.

Sam Knoble is here. Sam? He's Chairman of the Board of Knoble affiliates of Ardmore, Oklahoma, producer; industry association activities, religious association activities,

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civic, educational, cultural endeavors have gained him honors and he's been made a member of the Oklahoma Hall of Fame.

Chelsea Pruett, owner of Pruett Drilling Company, Chelsea? From Eldorado, Arkansas. He's an independent oil and gas producer for the last 35 years. He's also a leader in professional and civic organizations. He's been active in politics and he is on the board of the Cowboy Hall of Fame.

Henry Saril, President of Sooner Pipe and Supply Corporation. Henry is here. He's chairman and chief executive officer of Big Heart Pipeline Corporation in Tulsa. He's a leader in civic, charitable and cultural groups. He has many, many honors, including recognition from the National Conference of Christians and Jews Brotherhood Award.

We are delighted to have all of these people join this august body in which there is probably the greatest single accumulation of knowledge about the oil and gas industry in the world of any organization I can imagine; and it is a great pleasure to have you all here.

(Applause.)

SECRETARY HODEL: I should also acknowledge the departure of the former National Petroleum Council Chairman, John Swearingen who has served on the Council for 23 years. He's been on 25 study committees and, including chairing the Third World Development Study which was done by the NPC. I'm sure John will be missed, although I expect he will be around

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in the industry. In fact, recently, he and I were both on the same programs twice in a row. And the first time, I spoke first and the second time he was scheduled to speak first. And we thought that was only fair; but it turned out that because of my schedule I spoke first the second time, too. So, poor John had to sit through my stuff twice. And I, of course, had to leave when I finished speaking. You know how that works. It really wasn't fair and I owe him two, now, instead of being even on board with him.

I also wanted to recognize that Bud Gertz from Dallas, Texas, was killed in a plane crash. We have a resolution, memorial resolution which will be coming before the group later. He was a member for nine years of the Council. His presence here will be missed and I'm sure we all extend our sympathy and concerns to his family and his friends.

Now, the National Petroleum Council, as you well know, is an outstanding example of industry/Government cooperation. I think that your reports have been comprehensive. They have been incisive; but, certainly, they have been useful. The concrete information which you have presented on massive and complex issues relating to the petroleum ministry has been extremely useful to us. I look forward to receiving the Interim Petroleum Inventories and Storage Capacity report and I guess it's next spring when we receive the final report.

We also look forward to receiving next spring the

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Enhanced Oil Recovery report, on which, I believe there will be a progress report, today.

I've asked that you take a look at two additional tasks. The first one is key to our initiatives at the Strategic Petroleum Reserve. We, we expect the Strategic Petroleum Reserve to be nearly half-way to the 750,000,000 barrel goal very soon. We're pushing 370,000,000 barrels at the present time.

Distribution capability from that Reserve is extremely important. It is one of the areas where we continue to get questions from, from both supporters and critics of the Strategic Petroleum Reserve. And, so, we are hopeful that the National Petroleum Council could provide us with a review of that situation. Many, many of the features of the Strategic Petroleum Reserve, I'm told, stem from earlier NPC studies back in 1973, 1974, having to do with the distribution system. Obviously, changes have occurred in that period of time. And what we'd like is a new study addressing the 1984 to 1990 time frame, the types of crude that are needed, industry transport capability, refiner capacity and so on and any changes that are required or should be built into our planning for the Strategic Petroleum Reserve.

And Bob Mosbacher and I were talking. It may be that this and the second study we request can be actually combined into one. I would certainly defer to the knowledge

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of this group in deciding how this all ought to be structured. But we, also, are concerned about the changes that may have occurred or may be occurring in the world-wide tanker industry since the 1973-74 embargo. And while this may be -- this may be extremely accessible information to you and presumably, therefore, to us, I think what we're looking for is an analysis that relates the current tanker capacity and operation and structure to what we're doing with regard to the Strategic Petroleum Reserve and the Petroleum Emergency Planning activities.

Incidentally, it will probably come as no surprise or shock to anybody, I have asked the GAO to extend the charter for the National Petroleum Council so that it can continue in existence. And that is -- I'm not bringing up at this point to say "You either do those studies or I won't," because I've gone ahead and done it.

(Laughter.)

SECRETARY HODEL: And I anticipate, of course, that that will be provided in due course.

Let me talk a little bit, briefly, about the Strategic Petroleum Reserve. We made the decision in the last quarter of the last fiscal year that we would attempt to increase the fill rate at the Strategic Petroleum Reserve in the first quarter of this fiscal year. Beginning October 1st, we began a fill rate between 220 and 230,000 barrels a day for

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the first quarter.

Now, our required rate, as I recall, is 186,000 barrels a day under the Senate and House language, so, we are filling at a greater rate than that in the first quarter of this year. And our purpose was simply to put more oil in dispose sooner under that fill rate than would have been required if we had levelized the fill rate.

This would indicate that by the end of the year we would have had to adjust downward because of the limitation on funds and we will undoubtedly reduce that rate in some subsequent quarter.

As to oil prices, you probably have better forecasts on that than I do. I think you are probably aware or need to be aware that our official forecasts, the OMB and the Department of Energy official forecasts are that all things being equal that the price of oil will gradually increase over the next several years so that by 1990 in real terms it's somewhere between the current price and $40 a barrel. As some people put it, very close to the official price that existed a couple of years ago.

The only problem with that kind of a forecast is that all things being equal covers a multitude of sins and if you had to bet, today, that all things would remain equal you'd want pretty long odds. And I think that the forecast on prices is an extremely important -- extremely important evaluation

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that we make.

What troubles me about it is that no matter how many qualifiers we put into that forecast, we say we don't know what will happen in the Gulf; we don't know what will happen to other energy supplies, and so on, the fact remains that when the forecast is published all people tend to look at are the numbers. And I'm concerned that we not find ourselves in a situation where we, where we blithly assume we've got a reliably priced supply of oil that is readily available over the long-term future and make national policy changes on that assumption. It seems to me we ought not to be -- we ought not to be evaluating current alternative energy projects based on this kind of a forecast. And, as you know, I struggle with that consistently because I say one of the toughest jobs I have is to try to maintain momentum on renewables and conservation at a time when there appears to be a surplus of energy. We've got a surplus of natural gas at the present time. We have a surplus of oil which is going to be stable priced as far as the forecasts all indicate without taking into account the qualifications.

We have surplus electric generating capacity in the country and so on. And when you put all that together if you assume that that is a sound basis on which to plan for the future of this country, I'm terribly concerned that we are -- we are kidding ourselves.

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We've been putting a great deal of emphasis, recently, on emergency preparedness. We look at what kind of capability we had to respond and answer the questions that the American people would naturally ask in the event of an interruption of the supply of oil out of the Gulf. That's a significant portion of the free-world's oil supply. As you know better than I do, that's not replaceable by increased surge capacity from other quarters. As a result, we felt we had to have an analysis which would indicate to us just how significant it was. And, of course, a total interruption of the supply out of the Gulf would not be tolerable and the President, not too many nights ago, on the Press Conference indicated in response to a question that we would not tolerate it.

And in that regard he did not change any policy or make any new policy. He is carrying forward a policy which was ennunciated in prior administrations and it should not be a surprise to us, but I think it underlines, again, the importance of our being prepared.

As a result of our involvement at the Secretary of Office level in that process with Assistant Secretary Bill Vaughn is responsible for emergency preparedness there has been some restructuring of that office. The Deputy Assistant Secretary, Bart House, who is known to many of you is very much involved in this process. The policy direction is coming from the Assistant Secretary and from me. We are attempting

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to get ourselves organized and if people on your staff who are responsible for these kinds of areas received communications from us, I hope that you will encourage them to take them seriously because we are taking them seriously. The whole administration is.

Let's talk briefly about natural gas, clarify our position if at all possible. I've said consistently since the adoption by the Senate Committee by a resounding 11 to 9 vote without recommendation of Senate 1715 that we favored the adoption of Senate 1715 without amendment.

Let me emphasize that that is our preferred position, but we also recognize that if in order to obtain a majority of the votes which is obviously necessary to pass something, adjustments have to be made in the Senate. But I can't imagine that the Administration would resist a good bill just because it isn't precisely what is in Senate 1715.

I don't know how to make it any plainer than that. What I am trying to say is we are not participating or encouraging amendments to 1715. We do recognize that the legislative process is a process of compromise. And we expect that those who want to put together a majority for the basic thrust of Senate 1715 will, will take into account -- will attempt to accommodate changes that are proposed by people who can't live with what's in 1715.

We recognize that if that process is successful and

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50 votes can be put together for it, that it would be unwise for us to indicate that we would not be willing to entertain something that was good for the country, that moved in the right direction, that tried to accomplish the objectives that the President sought in proposing a natural gas decontrol bill simply because it wasn't precisely the words that were in 1715 I hope -- I hope that's clear.

I would still expect that what we will see is a significant flurry of activity in the closing minutes, hopefully, hours of this session of Congress before they go home. I still believe that there is tremendous apprehension on the Hill about the prospects of going home at Christmastime not having dealt with the issue of natural gas. Even though the price at the well head in this country has fallen on average a couple of cents over the last six to eight months, the price at the burner tip has gone up. It's gone up on the average seven to ten percent. This ought to tell you something about where some of the price pressure is coming from. It seems to have no impact on the people presently dealing with the issue in the legislative arena.

But because of those facts this means that the consumer is going to see higher prices this winter for its natural gas; and if we have a normally cold winter he will see not only 10% higher prices per unit, but he will be consuming about 10% more gas than he consumed last year and I

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haven't done the calculations, but it suggests to me he will see prices in excess of 20% per month higher than he paid last year, if that all came to pass.

And I submit to you that if the prices last year during a warm winter caused the kind of consternation in the Congress that it did, then a higher price this year will cause even greater consternation.

So, I think that for those of you who are concerned about natural gas, as I think many of you are, as I am, now is an excellent time to try to get your act together and to work with the Congress and come up with something you can wholeheartedly support which has a chance of passage.

It isn't enough to have something you can wholeheartedly support, it's got to have a chance of passage to do you the good you want it to do. And if you don't do that, I think there's a great risk that we all face in January, a sudden panicky reaction on the part of a Congress now beleagered by constituents who are paying high prices and demanding some kind of quick fix.

So, I urge you to give that your earnest attention. You're in town; this is a super opportunity to think great thoughts and communicate them to each other as may seem appropriate. I would never advocate anybody lobby.

(Laughter.)

One last thing is there will be testimony by the

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Department on -- and others -- on the subject of, I think it's a generic hearing, on the subject of natural gas and Alaska. We are cognizant of the, of the commitments made in prior Administrations which we have carried forward which are, in our view, is that we would seek to remove Federal Government and other governmental obstacles to the construction of the Alaskan natural gas transmission system. And there is now some suggestion that there are other approaches for the getting of gas out of Alaska that ought to be considered. And we will be suggesting that -- depending on the assumptions made or the facts with regard to how much gas is available and the like that we do not visualize this Administration trying to stand in the way of enterprises which have a legitimate opportunity to succeed.

But in the end we do not believe it is a Federal responsibility to try to fund or support the building of energy facilities at the operational level. And we do not think that our commitment to Canada goes as far as the Federal Government becoming involved in some kind of program to build a transmission system.

I think the question is and I think rightfully the sponsors of the project have asked that they be given the opportunity to -- the sponsors of the ANX Project be given the opportunity to seek investors who are willing to support the project on its commercial merits. And that we strongly favor.

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And I hope that our testimony today will be plain on that subject.

With that, I would be happy to try to respond to questions and the floor is open.

VOICE: Mr. Secretary?

SECRETARY HODEL: Yes?

VOICE: We are positive thinking people. We are going to get a gas bill, but January comes and we don't have a bill. What are the plans -- how can we counteract the dry hole?

SECRETARY HODEL: I don't have a good answer for the question. It's a good question and it's something you should be thinking about. We're thinking about it, but I don't have a good answer.

A lot will depend on what happens in the wanning days of this session. If we make a good run at it and strike out, we're in one posture. If we simply can't get to the floor with a proposal, we may be in another posture. I would expect that -- I would expect that the effort would have to be made in January to have a viable responsive decontrol bill as an alternative to the quick fix proposal that will be coming forward. How much strength we can put behind it at that time remains to be seen. But I can't imagine that you can ever afford to be in the situation of leaving Congress with a recontrol proposal or nothing as its alternatives. I think

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that makes their choice quite simple and not one that you should favor.

Yes?

VOICE: Mr. Secretary, in your flexibility on Senate 1715 which response I understand, would that flexibility go so far as to would you still support 1715 if it were modified to the point that it was passed by maintaining controls on some categories of gas in order to facilitate decontrol of other kinds of gas?

SECRETARY HODEL: Fred, I'm going to -- did everybody hear the question?

The question is in our being flexible on 1715 does the flexibility go so far as to, as to permit us to consider supporting 1715 even if it is changed in such a way as to leave controls on significant categories of gas.

As I indicated, we are trying to avoid putting ourselves in the posture of initiating or welcoming compromise proposals. Any response I give to you in substance, Fred, is going to invite discussion of possible merits. My inclination, therefore, is not to answer your question and to respond by saying Danny Boggs gave me a great phrase the other day: "Our position on 1715 is that we are flexible, but not supine."

(Laughter.)

SECRETARY HODEL: All right. I appreciate the opportunity to be here. I intend to stay through the, the

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reports that are to be presented. I welcomed the opportunity last night to meet many of you, again, and talk with you. And I hope that I will have that opportunity many times in the future. Whether we -- whether we're meeting at receptions or otherwise, what I'd like to emphasize is I, I do believe that energy is tremendously important to this country.

You are familiar with the national energy policy plan which we have put out. It is a working document within the Department. I think we've laid out some principles and some strategies there that are sound and viable. And we welcome the advice and counsel of people who are in the energy industry. We think that the people who know something about the industry can sometimes provide very important contributions and in spite of the conflict of interest laws which suggest that people who know something about something are not allowed to discuss it, we welcome the opportunity to get advice and counsel. And I hope that you'll find that our door is open and that we are responsive.

Again, it is a great pleasure to be here and good luck to you, today, in your deliberations.

(Applause.)

THE CHAIRMAN: Thank you, Mr. Secretary, and thank you for taking time from your very busy and hectic schedule not only to come here as Co-Chairman of the National Petroleum Council and as Secretary of Energy, but also to stay as long as

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you can with these reports which are so important. We appreciate it.

There's another guest here who is partner to the Secretary in a much larger sense than National Petroleum Council or even the Department of Energy. And we're delighted to see Ms. Hodel, here. Barbara, would you stand up?

(Applause.)

THE CHAIRMAN: We're also delighted to know that you recommend the extension of the Charter to this organization because many of us thought we might lose our jobs and have to change our way of living.

(Laughter.)

THE CHAIRMAN: And, so, we're greatful for that.

And now, speaking of the reports and the important work that goes on here, we have the report, an interim report on inventory and storage by Mr. Ted Burtis who is its chairman and has worked very hard, speaking not only for his committee but particularly for himself in preparing this. Ted.

MR. BURTIS: Thank you, Bob.

Mr. Secretary, ladies and gentlemen, a year ago the Secretary requested the National Petroleum Council to update the inventory and storage volumn of the 1979 petroleum storage and transportation capacities study.

NPC has conducted nine such studies for the Federal Government since 1948 aimed principally at emergency planning

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purposes. This committee was appointed by the Chairman in March of 1983 and had its first meeting on March 18th. And at the meeting, the Committee agreed on the scope, the organization and the general time schedule for the study which I will briefly review before turning to a condensed discussion of the draft interim report that is before you this morning.

To assist the Committee with this assignment, the Chairman of the NPC appointed a Coordinating Subcommittee and a Task Group. The Task Group, composed of representatives of major oil companies, independent refiners, marketers, gasoline and distillate jobbers, manufacturing companies, academia, and research organizations, is examining the secondary system and the tertiary segment. The Coordinating Committee which is composed of representatives of major oil companies, independent refiners, transportation companies and, also, academia, has prepared the primary system analysis and has oversight responsibility for the Task Group's assignment. DOE designated J. Erich Evered, Administrator of the Energy Information Administration, Jimmy Petersen, Director of the Office of Oil and Gas of EIA, and James M. Diehl, Director of Data Quality Section of EIA's Petroleum Supply Division, to be the Government Co-chairmen of the Committee, the Coordinating Subcommittee, and the Task Group, respectively.

The Committee agreed that the primary petroleum distribution system would be the principal focus of the study. This

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Committee also agreed that an extensive examination of the secondary distribution system and the tertiary storage segment should also be undertaken because of the size and the potential impact on the primary system.

Now, this part, that is the secondary and primary part of the study, will examine secondary inventory and storage capacities as of March 31, 1983. And that date was selected in order to be consistent with the primary system analysis.

The analysis of the secondary system will be conducted in two steps: the inventory and storage at retail fuel marketing outlets will be estimated from industry data, while the amount in bulk plants will be determined by a survey that has already been sent to approximately 2,000 holders of motor gasoline, diesel or distillate fuel oil, kerosine, and residual. The survey is very short -- only three questions on inventory and storage capacity and five questions on the petroleum futures markets.

Several state and regional petroleum marketing associations have expressed their support for the survey and have described it in their trade publications. The NOJC has also agreed to distribute for publication by their state affiliates a statement describing this important study.

A high level of response is important to the success of this survey. Companies -- and if you're among them -- selected to receive the survey are urged to participate, as it

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is certainly in the best interests of EIA and the industry to have a better understanding of this important link between producers and consumers in the whole petroleum supply system.

For the tertiary segment, the Task Group will analyze published data and industry estimates of the various consuming sectors.

Because the study and the analysis of the primary system could be completed much earlier than the balance of the study, it was agreed that an interim report should be issued. The final report will integrate the secondary distribution system and the tertiary segment analyses with the primary system and will also include a discussion on the relationships among the distribution systems and the tertiary storage segment.

The schedule agreed to by the Committee called for consideration of the primary system analysis by this Committee today, and that's what is in front of you, and for completion of the entire assignment in the spring of '84, and the Subcommittee will meet that schedule.

Another slide.

I got a little ahead of myself, but -- now. We've had -- the Subcommittee had six meetings and the Task Force three times and the work is going on.

As to the objectives, the Committee agreed at the early meeting that these principal objectives for the primary system were these: Estimate the minimum operating inventory

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levels for crude oil and principal refined products; analyze the volumes of inventory that the system held on September 30, 1982 and March 31, 1983; and to determine the amount of storage capacity that's in the system.

Now, to develop the data on the primary system, the NPC surveyed the companies that report primary inventory data to the Energy Information Administration on a monthly basis. Price Waterhouse received and tabulated the survey results under contract to the NPC. And that contract specified that no individual company inventory data would be released to any representative of the Department of Energy, the National Petroleum Council or any other organization. And that confi= dentiality has been kept.

The DOE mailing list contains 505 companies. Now, 44 of these do not hold inventories of the products covered by the NPC Survey. Of the remaining 461 companies, 250 or 54%, responded to one or more of the questionnaires. Of the 250 responses, 23 were not usable. This 54 response rate is consistent with the 55% response which we experienced in the 1979 Survey.

Could I have the next slide, please, and we'll talk about some results.

The real significance is not so much in the number of responses from companies, but is in the coverage computed on a volumetric basis. And the response coverage by category

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ranged from a high of 92% -- I think perhaps you can see that -- for crude oil to a low of about 54% for residual fuel oil. Now these 1983 Survey responses are a little less than those that were received from the 1979 Survey.

The Subcommittee evaluated the levels of response to determine whether they were adequate for use in drawing conclusions about -- from the Survey results. And they did conclude that the coverage is high enough to permit analysis of the results as representative of the way that inventory and tank capacities are managed in the distribution system, primary distribution system. Therefore, the key inventory and tankage data were adjusted upward to the DOE universe by dividing by the percentage of volumetric coverage.

For example, the sum of the responses for individual company minimum operating inventory for motor gasoline as of March 31, '83, was 154 million barrels. And so to adjust to the DOE universe that 154 was divided by 84.8 percent which was the volume coverage and then -- which yields the overall figure of 181.8 million barrels.

For crude oil, however, certain modifications for crude oil lease stocks and Alaskan crude oil in transit by water were made prior to the adjustment in order to ensure a consistency with the data as they are reported to EIA

The petroleum inventories and the storage capacities by the Survey included neither the Strategic Petroleum Reserve

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nor crude oil and products located in U.S. possessions and territories or in transshipment facilities in the Caribbean. These volumes, however, are discussed in the appendices to the report, which you have.

Now, the report itself -- if I might have the next slide -- is organized this way. First, an introduction and Executive Summary of the report's findings and conclusions; an overview of the petroleum distribution systems and the role of inventory and storage capacity; an analysis of the changes that have occurred in the primary system since the '79 report; and, then, finally, as you see, a list of appendices that have background information, methodology-related information data.

Well, let's talk some about the findings and the conclusions beginning with the minimum operating inventory. If I might have the next slide, please. The major objective of the study is to re-examine the minimum operating inventory levels estimated by the Council in the '79 report. And the minimum operating inventory level is defined as the inventory level below which operating problems and shortages would begin to appear in a defined distribution system.

As you can see from the slide, the 1983 minimum operating inventory estimates are lower than in 1979, primarily because refineries and pipelines and tankage have been taken out of the distribution system in response to the lower demand since that time.

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As in the two previous NPC estimates of the minimum operating levels, the '83 estimates were developed by a decision-making process in which individual judgments were discussed in the context of operating experience, obviously, and, of course, the relative statistical -- the relevant statistical data.

In addition to historical inventory data, the Sub-committee considered the sum of the individual company minimum inventory -- minimum operating inventories as reported in the '83 survey and the industry-wide estimates of minimum levels which were reported on the survey.

Now, historical inventory data let us test the reasonableness of the previous operating levels by determining whether any spot shortages or distribution problems occurred when the stockes were either above or below the 1979 minimum operating levels. These problems, then, can be explained in the context of the minimum operating inventory levels -- changes, since the last study.

Now, I've got a few slides to try to illustrate that. Let's have the next one which deals with crude oil. Can you see that? They're a little obscure. But this slide shows the level of crude oil inventories since 1978 and the previous minimum operating inventory estimate, which you see is 290 million barrels.

Because the crude oil inventories have been above the

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minimum operating level at all times since the last Survey and no significant physical shortages have developed, no physical test of the reasonableness of that estimate has occurred. Both the sum of the individual company responses and the average of the industry-wide estimates suggest that the modest proposed reduction in the crude oil minimum level estimate from 290 million barrels to -- over on the red, as you see -- 285 million barrel is reasonable and is justified.

Now, the 1983 minimum operating inventory estimate includes slightly over 30 million barrels of Alaskan crude oil in transit and the majory of which was not included in the 1979 estimate. The addition of 42 million barrels of crude oil storage capacity which has occurred would also increase the minimum operating inventory estimate. These increases, however, are believed to have been more than offset by the effect of refinery closures, the reduced quantities of imported crude which is being processed and reduced refinery runs.

Let's turn to motor gasoline, the next slide. This shows the inventories over the 1978 to '83 period. Now, while motor gasoline inventories on a national basis have not dipped below the '79 estimate of the minimum, they came very close in the spring of 1982 and again in the spring of 1983. And at those times some companies announced temporary localized allocations of motor gasoline at the primary distribution level. It does appear that this was more a result of inventories being

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rapidly drawn from the primary into the secondary and tertiary levels because of expectations of increasing prices -- and I guess this year increased tax -- than it is a result of actual physical shortages. No significant regional shortages developed in the primary system.

And as a result of this experience and the '83 Survey results, the Committee is proposing that the minimum operating inventory estimate for motor gasoline be reduced from 210 million barrels as in the '70 to 200 million. A modest reduction, but it seems to be justified by the facts.

Let's go to another one and look at kerosine and kerosine-type jet fuel at the next level. Nationally, these inventories have not fallen below the minimum levels established in the '79 study and no shortages were known to exist for these products during that entire period.

Again, therefore, we have no critical test of the validity of the '79 minimum operating level. Based on this operating experience and the decreased sum of individual company minimum operating inventories, the NPC's previous estimate of the kerosine and the kerosine-type jet fuel minimum level is proposed to be decreased from 35 million barrels to 30 and 5 million barrels of which is in fact the kerosine minimum.

Distillate fuel oil -- the next slide -- is a somewhat different situation. A five-year history of distillate

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fuel inventories which fell well below the minimum levels in the spring of 1982 and in the spring of 1983. And spot shortages occurred in the spring of '82 because April, for most of the country, was an unseasonably cold month. In '83, inventories were tight, actually falling slightly below even the proposed '83 minimum level, but widespread shortages did not occur because of the fact the heating season was over and demand was pretty low.

The sum of the individual company minimum operating inventories and the fact that the inventories had been below minimum operating without widespread shortages support the proposed reductions in the minimum operating estimates from 125 million barrels as in the '79 Study to 105 million, which is the number you probably can't read in red on that slide.

Residual fuel oil in the next slide, the '78 to '83 inventories of resid are shown on this slide and because the resid market is till undergoing significant changes an estimate of the minimum operating inventories for resid oil deserves less confidence than those of the other products.

Residual fuel inventories have been below the '79 estimate of minimum for most of '82 and of '83. Shortages have not occurred; but the market has been very tight, with inventories at about 45 million barrels, as you can see from the chart.

Heavy reliance on residual fuel imports and the

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significant reduction in residual oil demand because of decreased economic activity and fuel switching support a large reduction in minimum operating inventory for residual fuel from 60 million barrels to 40 million barrels, which is being proposed here. Now, a word of caution, a stronger economy could increase the minimum operating level for residuals in the future, but we face the same crystal ball problem that the Secretary referred to on prices.

I'd like to move now and talk about another important aspect and that is the question of a day's supply of inventory. One of the principal uses of a minimum operating inventory estimate is in emergency preparedness planning. Minimum operating inventory levels do not decline proportionately with demand nor are they available for use without causing some shortages. So that a day's supply calculation of inventory -- of product based on total inventory do not represent a true indication of the availability of products. That is, almost in essence, a going out of business kind of scenerio.

For example, on March 31, 1983, the data for gasoline indicated 33 days of supply when calculated on the basis of total inventory. A better way to assess the adequacy of the inventory levels is to look at how much inventory above the minimum required to run the system is available. And by this method, March 31, '83, data for gasoline would indicate 3.5 days' supply.

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Now, let's look at some of the others. Here's crude oil, as well as gasoline. We calculated it both ways, on the total inventory and on the available above the minimum operating. And, of course, it shows what appears to be a rather startling difference from 32 days in one case for crude to 6.5 days of gasoline, 32.7 and 3.5 distillate fuel and 40 to 4.7.

It is, though, the second one, the day's supply above minimum shows a lot smaller number, but it is a better measure of the available supply and should be more useful in emergency planning.

Now, a word of caution, an apparent low number of days' supply above minimum should not be a matter of concern in times of normal operation. The inherent flexibility of the petroleum supply and distribution system backed by an ample supply of crude, by available refining capacity and transportation facilities ensure the ability of the system to meet product demand.

I think that these two calculations, in a sense, are extremes; so, the one on total days is a going out of business where everything gets drained on, which is unrealistic. The other says this is the availability at which no disruption of any kind would occur. And, obviously, there are gray areas inbetween. But this really, the second one, we think more accurately represents the way the system actually works.

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Well, I leave that for the moment and then I'd like to go on and talk next about the question of total levels of inventory, and we have another slide. It's out of focus -- there, we go.

The next slide does show that the levels of inventory held in the system has dropped since the '79 Study. You have copies of these charts, incidentally, in the materials before you if you can't read these very well. The reduction occurred in PADDs i - IV, while PADD V, I think you can see from there, showed an increase. The major reason overall for the reduction is lower market demand. Some other factors that have led to decreased inventory levels are the, first of all, the perceived security of supply of crude oil and petroleum products and, of course, the high cost of carrying inventory.

Storage capacity is also an important part of the study, and if I might have the next slide, tankage -- well, comment first. Tankage in operation and under construction together with tankage idle but available within 90 days provide an estimate of the total tankage available to the system. And what we have here is the shell capacity of the tankage.

There is a net increase of 42 million barrels in storage capacity in operation for crude oil between '78 and '83. Product storage capacity declined some 67 million barrels during this period causing the total storage capacity in operation in the system to be less in '83 than it was in '79.

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You can see a million 492 in this year's study against a million 504 in the earlier study.

The decline in capacity is due to reductions in product demand, to some refinery shut-downs, to removal from service of tankage which was not retrofitted to meet some environmental regulations, and, of course, a certain amount of physical deterioration of the tankers.

Now, idle tankage can be restored to service, but much of it is scattered in small volumes all across this country; and, therefore, the report concludes that reliance on any substantial part of this tankage for emergency preparedness is really not very practical.

Utilization of tank capacity -- let me have the next slide. And this is the last one. This compares the percentage utilization of tank capacity -- and now we go back over the 35-year -- the history of the NPC series of reports. Inventory in tankage has averaged about 46% of storage capacity over the whole period. And this average persists because I guess we kind of know this by instinct individual tanks fluctuate between full and empty, and at anytime the industry-wide utilization hovers somewhere around 50%. The 8% decrease in tank utilization in '83 as against '78 may reflect the impact of a number of factors.

These include, again, the decline -- demand decline in the period, increased spare refining capacity and once

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again, the higher cost of holding inventories. It is also expected that some storage capacity reported in the 1983 Survey will be deactivated and which will then tend to return the percentage utilization figure closer to the 46% historical average.

Well, that's the last slide. If I may have the lights. Just a few more comments.

In the course of the study, there were some topics examined which had not been examined in the previous report. And they are identified as factors in this analysis: refinery utilization, the availability of naphtha-type jet fuel, and the impact of the Strategic Petroleum Reserve on private inventory levels, and the question of what, what was the significance of the petroleum futures market.

The study sought to quantify the changes in stock levels attributable to spare refining capacity, which in effect allows refiners more flexibility to change product slates seasonally. The Survey results were not adequate to quantify the impact of spare refining capacity on inventory levels; but you'll see that the report states that the Committee believes that spare refining capacity is, in fact, a factor in the observed decrease in product inventory levels. And spare refining capacity in a sense is a surrogate for inventory.

Because of the strategic nature of naphtha-type jet fuel, stocks normally in storage and stocks of components that

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could be immediately made available as naphtha-type fuel were surveyed. The Survey results show that on March 31, 1983, the normal stocks of naphtha-type jet fuel could have been increased by more than half by blending jet fuel components in storage into finished jet fuel. Now, this increased the question of production of jet fuel and would cause a corresponding reduction in some of the other products where those components would ordinarily go given a fixed amount of crude.

The Survey also asked if the existence of the SPR contributed to a decrease in private stock levels. And with only one exception, the response was that the SPR did not impact the company's decisions on inventory management.

And, finally, a concern had been expressed that in the event of a supply shortage, some companies may rely on the futures market for supply, only to find in case of a disruption that the wet barrels might really not be there. The NPC Survey results suggest that, at this time, petroleum futures do not effect the level of inventories held at the primary level.

Probably current impact of the petroleum futures market on secondary inventory levels will be discussed in considerably more detail in the second -- in the Subcommittee's final report.

Well, a good deal more details about these findings and conclusions is in the draft report before you. I must say the draft was reported -- was prepared with an extremely

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dedicated effort on the part of the Coordinating Subcommittee and a good many hours of analysis and discussion have been distilled into this succinct presentation of the current industry operations and the changes that have occurred since '78.

The Coordinating Subcommittee deserves our thanks for the thoughtful analysis and for meeting a difficult schedule. The Energy Information Administration representatives worked long and hard along with them and made a major contribution to this effort.

Mr. Chairman, that completes the report of the Committee on petroleum inventories and storage capacity, and I would like to move that the draft report be approved by the National Petroleum Council subject to final editing.

THE CHAIRMAN: Thank you, Ted, for an excellent job.

We have a motion. Do we have a second?

MR. BAILEY: Second.

THE CHAIRMAN: We have a second.

Is there any discussion?

VOICE: Mr. Chairman?

THE CHAIRMAN: Yes, Graham.

VOICE: Ted, you referred to in the study, the references made to secondary and tertiary -- it's been my observation all through last decade that the secondary and tertiary inventories, whatever they are, are just as important

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as primary in product. And I'm really wondering whether the DOE is really addressing this problem. To me, it is just as important a factor in emergency in '78 and '79, '73 and '74 as having all this good information about what happened to the primary.

MR. BURTIS: Well, of course, that's what -- the rest, you know, we're not finishing this report till May; and what's going on from here on is for the first time, an examination of the secondary and the tertiary. I'm sorry if I didn't make that clear.

This is only -- the interim report is only the primary part of it and we are addressing the secondary and the tertiary.

VOICE: What I mean is somebody has to find the mechanism of getting the data.

MR. BURTIS: Well, that's why I was trying to be subtle and polite because you may all get questionnaires and there isn't -- it's been difficult to get it and I'm just urging everybody to respond to these so that we get a reasonable basis for making these kinds of estimates.

VOICE: On the lack of the responses, what do you do? Do you estimate? Do you fill in your total figures --

MR. BURTIS: On the primary system that I was referring to? Well, the methodology is that -- as I tried to say, it's not so much that you got 250 out of the 500 who were addressed

to respond, the more important thing is and you do have a pretty good sense of how much of the volume actually there is covered by the responses. And that's really where the adjustment is made.

I cited the example that the actual numbers for gasoline on a particular date were 154 million, but that covered about 85 percent of the potential volume. So, it was adjusted to the DOE universe simply by dividing the 154 by the 180. This, incidentally, is consistent methodology, the methodology that has been used in all these studies.

VOICE: If the primary storage is in terminals, that's the definition for primary, what are your definition points for secondary and tertiary, so we understand this.

MR. BURTIS: Well, I'm going to turn to Warren Burcher and the Coordinating Subcommittee because I think it's -- well, wait a minute, here.

VOICE: The primary goes on up through the terminals that receive oil by pipeline, barge or tanker. The secondary will pick up -- and, also, 50,000 barrels or larger.

The secondary will be those that do not receive oil by pipeline, tankers, barges and are less than 50,000 barrels.

Basically, what we are talking about is the jobber where you pick up the secondary.

VOICE: There is a chart on page 13 of the report that segments each of these.

VOICE: What is the tertiary end?

VOICE: The tertiary is the consumer end.

VOICE: What he's got in his tank, in his home?

VOICE: His home, residual fuel inventories, the airlines, the trucks, the oil in the automobile tank, right at the consumer level.

MR. BURTIS: This is probably a case where we have more data than we can use rather than less.

THE CHAIRMAN: George?

VOICE: One other point, since your statistics were at a time when the economy was a little bit off, is there a correction on, say, a 3 percent growth pattern to recover some of the past growth, wouldn't that change your minimum requirement on primary, secondary and tertiary.

MR. BURTIS: I don't really know how you would do that. We picked spot dates and what we are trying to show here, as a way of getting at that is to see how those minimum shave been tested over the period of time, because you've got -- you know, you've got five years and there's been changes in the economy.

The caution, I think, we noted in the report, particularly with resid, is that it is in a very changing kind of situation and a very strong economy, if it came

back through resid rather than gas or coal, it might very well have it.

VOICE: Thank you.

THE CHAIRMAN: Any other questions or discussions?

VOICE: Bob, this is not a question on the report, but it is a question I'd like to ask the Secretary.

Is there any contemplation of ever having a dry run on letting the oil come out of the Strategic Reserve and actually be used by the oil companies, just to see how it works?

(Continued on following page.)

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SECRETARY HODEL: Yes, I can answer that. Can you hear me? Can you hear me, now?

The question was have we ever considered a dry run and actually letting the oil come out of Strategic Petroleum Reserve and be utilized in the system, and, yes, we have considered such a dry run. And, frankly, some of the technical problems have really blocked us from doing it. We've run dry runs insofar as pumping it out of the Reserve and putting it into tanks on the surface just to prove we can get it out, move a million barrels in a day, and that sort of thing. But, structuring a test which would not subject us to incredible criticism is a little difficult because we have the, we have the problem that when you have a normal system and you're pulling out of the Strategic Reserve we would, we would be -- say, if we'd pull a million barrels out and we sell it to somebody, we would be buying to replace at the very time that we're pulling out, and I can assure you that if there's any price differential between what we pull it out at and what we put -- and what we put the new in, it'll be a national scandal.

So, it's a matter of some real concern to us as to how we would structure that. And one of the things we've talked about is the possibility of frankly just a straight trade which would require additional handling on the part of somebody with a refinery just in order to prove that you can take oil out of the Reserve and run it through a refinery and

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that it will work.

As soon as we get into a straight trade talk somebody says, "Well, yes, but there would have to be some compensation for the additional cost imposed upon the refiner;" and I can assure you that you've got another making of a national scandal as soon as you start talking about us compensating somebody to refine our oil.

So, that has been an obstacle, but it is not by any means something we've precluded and there has been some discussion with members of Congress about the possibility that maybe we ought to try to structure something that would be pre-conditioned in such a way that the arguments about the propriety of the process would be eliminated by the way it's structured in advance.

THE CHAIRMAN: Is there another question?

VOICE: I would simply offer a comment.

There are 4 or 5 of us operating LOOP (ph.) far under capacity. But it is in operation every day. Am I right in assuming that the people who run SPR have been over to LOOP and actually seen how it works. You know, they put it down in those salt caverns every day and take it out and, physically, it does work.

Is there some cross-fertilization going on?

(Laughter.)

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SECRETARY HODEL: Well, I -- (a) I don't know, but I'm sure there has been. We had a hearing yesterday on the current status of the Strategic Petroleum Reserve. As you know, we have an arrangement there which has gone through an extensive assessment of the, of all the problems that can be identified. I simply don't have an answer to whether we've looked at that, but in light of what you've said, I'll pass it on.

THE CHAIRMAN: Well, when we get to the, before the agenda committee, at the Secretary's request, I think you'll find there very probably be studying the SPR further and there will be answers that we hope will be appropo at that time.

We've had the motion; we've had a second. Any further discussion?

(No response.)

THE CHAIRMAN: If not, may I have a vote?

Those in favor, please signify by saying "aye."

(Whereupon, a chorus of ayes were voiced.)

THE CHAIRMAN: Opposed?

(No response.)

THE CHAIRMAN: Okay. Thank you very much, again, Ted, to you and your committee and we'll look forward to the final report in the spring.

(Applause.)

THE CHAIRMAN: We now have another Herculeon task

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going on and we are going to have an interim report -- not a report, actually, a progress report which will not require action, but a bringing up to date on the enhanced oil recovery and Mr. Ralph Bailey, who has been working very hard and has this committee, will give us his report. Ralph.

MR. BAILEY: Since this report is a progress update, it will be relatively brief. I reported here at the May meeting that it was the judgment of my committee that a complete re-study was in order rather than just an update of the study that was made on enhanced oil recovery back in '76. And this was primarily due to the technical, economic, environmental and also legislative changes that we've seen since that time.

And, as you may recall from my last report, an organization was established with a coordinating subcommittee -- that's the smart guys -- and -- who would report to the committee on EOR.

Additionally, four task groups were established to assist the coordinating subcommittee in defining a consistent, reasonable estimate of the amount and, also, the timing of incremental oil that might be recovered under various assumptions and constraints. And a report that there has been considerable activity on the part of the study's working group certainly would be an understatement

The subcommittee has been meeting monthly since the

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start of the study and currently have been meeting more than once per month and leave someone question their commitment, I note that the subcommittee recently held a Sunday meeting.

The task groups' pace has been even more intensive with most groups holding more than one multi-day meeting per month. And I believe that that schedule is a testimony to the strong support that the study is receiving from the numerous Council members, from this organization, and also from the DOE.

And I am pleased to report that this activity has resulted in substantial progress and the study's completion is in sight. The process task groups, assigned to study three major processes which are chemical, miscible, displacement, and thermal, have concentrated their efforts on improving a data base and developing computer models for us in the analysis and are just now completing the initial predictive runs.

The economic parameters and the sensitivities to be applied in the analysis have been defined by our Cost and Economics Task Group, as well as a methodology for compositing the predictive runs. With the coordinating subcommittee monitoring all phases of the study effort and providing guidance and resolution of the sensitive issues, as I'm sure you're not surprised. There are some. A number of major steps have been completed.

A significant step in the study has been the

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compilation and the verification of a data base providing detailed reservoir information on approximately 2500 reservoirs. This activity involved extensive checking, in many cases, modification, and addition to the existing DOE data base by fild operators and by industry personnel working on the study.

The net result is a far better data base, we think, than previously available. We did make a decision to analyze in detail reservoirs with at least 50 million barrels of oil in place or more and eliminated those below. Now, it didn't greatly reduce the number of reservoirs to be studied, but it has had only a minor impact on the amount of oil examined. Even at that cutoff level, the reservoirs being analyzed cover over 300 billion barrels, or about 67% of the estimated total oil originally in place in the United States.

Estimates of enhanced oil recovery will be based on two cases. The first is an implemented technology case which will include that oil obtainable with existing field-tested technology; and the second is the advanced technology case which will include that oil obtainable with improved technology that appears to be feasible over the approximate 30-year time frame of the study. Specific screening criteria have been developed by the three process task groups to separate the data base into subsets applicable to each process for both technology cases.

Each of the three process task groups has extensively

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validated and calibrated and modified the models for use in predicting process and also economic performance. Some of these models are based on ones originally prepared for the DOE while others were developed specifically for this study. And their intended use is for screening and gross estimations only. And although they lack the sophistication and the precision of models used for individual project evaluation, these are by no means simple models and the task groups believe that they are adequate for estimating enhanced recovery potential under the specified technical and economic assumptions.

Initial predictive runs for the implemented technology case have been made for surfactant, alkaline, polymer, carbon dioxide miscible, and steam flood, as well as in situ combustion. The process task groups are currently reviewing these runs and making final adjustments to the models. The process task groups will then repeat this entire effort for the advanced technology case. The preliminary -- these preliminary results that we have seen indicate that the enhanced oil recovery among the various individual processes will likely vary considerably from those back in 1976.

Procedures have been defined for assigning reservoirs to the appropriate process, compositing the results of the predictive run and developing the rate-versus-time projections for oil recovery. Appropriate expenditure and other process-specific constraints will be imposed for each technology case

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to create a real time simulation. In addition, sensitivity cases will be run for variations in price, minimum rates of return, tax rate, and other parameters. At present, data base reservoirs are assigned to each process and the compositing procedure is under way.

As I noted in May, the coordinating subcommittee is also addressing environmental concerns in greater depth than we did before. And to do this, selected members from each task group were assigned to work with Hal Scott of the Florida Audubon Society, who is a member of the subcommittee. And this group has visited typical installations for all major enhanced oil recovery processes and a separate appendix to specifically address environmental issues is currently being written for inclusion in the final report.

And this report will also deal more directly with the implications of research, with the addition of a separate appendix on that subject.

Each process task group has developed input for this section, providing descriptions of research developments since 1976 and further research requirements associated with the advanced technology case. And compilation of this appendix is also under way.

Significant progress has been made on writing these and other parts of the report and not dependent on calculations or results of the process models. Draft sections are being

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reviewed and refined and will be combined in the near future with the analytical results into the final report.

As is often the case in studies of this nature, some phases of the study effort have required more time and more money to complete than we originally anticipated and particularly the work involved to update the data base and to modify and improve the various models. It is our judgment that if we didn't have that data base really as good as we can make it, then the report would not be as good. So, we have taken the additional time to do that and we feel that the benefits will be there for having taken the additional time.

In addition, the improved process models and their validation provides a means of obtaining reliable rate and recovery data.

I told you at the last Council meeting that the committee, subcommittee planned to complete its work by mid-December; however, the increased level of activity and the increased complexity that I mentioned has put us somewhat behind and we now expect to submit a draft report in late February.

And after committee review, then I expect a final report will be submitted to the Council for review at the spring meeting. The commitment and the expertise of the study participants has been outstanding and in my opinion that expertise will be reflected in a final report that will be far

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better than anything we've had before.

And, Mr. Chairman, that completes my report.

THE CHAIRMAN: Thank you, Ralph. You and the committee's excellent work in this immense task, as I mentioned earlier, it is a progress report; and, therefore, it does not require any action, but I'm sure Ralph would be glad to answer any questions from committee members, from Council members.

(No response.)

THE CHAIRMAN: We thank you and appreciate your continuing effort in this important and worthwhile task.

Now, as you see, both the enhanced oil recovery project and the inventory and storage project will be coming up for final reports in the spring. With this in mind, we tried to pick a date at this time so if you mark your calendars at this juncture, at least, May 10th will be the probable date, the tentative date for the spring meeting. This will be confirmed to you by Marshal and his group right after the first of the year; is that correct?

Now, we come to administrative matters, and the first and very important one is regarding -- it was briefly mentioned the Secretary's request for additional studies. The Agenda Committee met on this yesterday and discussed this. And we'd like a report, please, from Mr. A.V. Jones. A.V.?

Thank you for coming, Mr. Secretary.

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(Applause.)

MR. JONES: Thank you, Mr. Chairman.

Ladies and gentlemen, Mr. Hodel stated this morning he has requested the National Petroleum Council advice and recommendation on two subjects: the Strategic Petroleum Reserve and the world oil tanker outlook.

Copies of these request letters dated November the 7th, 1983 are in your packets that you received this morning. And additional copies of these request letters will be available outside the room at the end of the meeting.

The letter on the Strategic Petroleum Reserve requests the Council to specifically address types of crude oil in the storage in the Strategic Petroleum Reserve, taking into account the latest and perspective U.S. refining capabilities and sources of supplies.

Industry capabilities to transport oil from the Strategic Petroleum Reserve storage sites to refineries and other aspects of the Government/industry relationship wherein the Council believes changes in the current plans for Strategic Petroleum Reserve distribution and composition should be warranted.

The letter on the world tanker outlook requests the Council to address the long-term availability and movement patterns of tankers world-wide. Trends and tanker size, flag and contractual provisions and other factors that may effect

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tanker availability during emergencies in the 1984-1990 time period such as bunker fuel oil availability, environmental considerations and Federal laws and regulations.

Pursuant to the Section 71 of the Articles of Organization of the Council these requests were referred to the Agenda Committee for consideration as to whether the requests were proper and advisable for the Council to undertake. In consideration of these requests, the committee made the following observations.

The Council issued several reports during the 1973-1975 period that recommended some of the key features that were implemented in the Strategic Petroleum Reserve program. Questions have been raised relating to the physical capabilities of and the distribution procedures for the Strategic Petroleum Reserve stocks. Concerns have also been raised over availability of tankers for emergency petroleum movements, particularly Jones Act tankers for the distribution of Strategic Petroleum Reserve stocks to appropriate facilities.

The Council voiced some general concerns in its 1981 emergency petroleum report. If the Council accepts these requests a single committee should be established to respond to both letters due to the inter-relationship between the topics.

Mr. Chairman, the Agenda Committee finds these requests proper and advisable for the Council consideration and

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recommends that the Council agree to undertake a study of the Strategic Petroleum Reserve and the world tanker outlook.

This is the report of the Agenda Committee and I move that it be adopted by the membership of the National Petroleum Council.

THE CHAIRMAN: Thank you for the motion.

VOICE: Second.

THE CHAIRMAN: We have a second. Is there any discussion of undertaking this study?

(No response.)

THE CHAIRMAN: There being none, those in favor of undertaking it, please signify by saying, "aye".

(Whereupon, a chorus of ayes were voiced.)

THE CHAIRMAN: And opposed?

(No response.)

THE CHAIRMAN: Thank you, A.V.

Those who are willing to be a part of this study, I would appreciate your coming forward after the meeting and so signifying to either Marshal Nichols or to me.

The next item on the agenda is the report of the Finance Committee. The Chairman of the Finance Committee, John Phillips was here to chair the committee yesterday. We had a meeting and, unfortunately, he had to depart; but a Mr. John Hall will give his report. John.

MR. HALL: Mr. Chairman, members of the Council,

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the Finance Committee met yesterday to review the financial status of the Council. At our meeting, we reviewed expenditures and receipts for the first 10 months of the calendar year 1983 and looked at projections for the remainder of the year.

At this time, I'm pleased to report to you that the financial condition of the Council is sound.

We also discussed our budget for the calendar year 1984 and are recommending a calendar year 1984 budget in the amount of $1,945,000 for your approval.

This budget includes $1,670,000 of new funds to complete the two studies you have heard progress reports on this morning and to respond to the two new requests from the Secretary.

This budget also includes $275,000 to complete the rennovation and maintenance work at the Council offices that was approved in the calendar year 1983 budget, but due to many delays beyond our control it was not expended in 1983 and is now included in the 1984 budget.

The Committee also discussed recommended contributions for calendar year 1984-1985. Due to the uncertainty of the scope and the timetable of the new studies, we are recommending that we defer consideration of calendar year 1984-1985 recommended contributions until our spring 1984 meeting at which time we will have a better feel of our need for cash requirements.

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Thank you, Mr. Chairman, and I move that the report from the Finance Committee be adopted by the Council.

THE CHAIRMAN: Thank you, John.

Do I have a second?

Voice: Second.

THE CHAIRMAN: Thank you.

Are there any questions or comments regarding the Finance Committee report?

(No response.)

THE CHAIRMAN: Being none, those in favor of adopting please signify by saying "aye".

(Whereupon, a chorus of ayes were voiced.)

THE CHAIRMAN: Those opposed, "Nay".

(No response.)

THE CHAIRMAN: Thank you very much, John.

We now have a memorial tribute to Melvin H. Gertz, known to all of us as Bud Gertz; and Dr. Robert West -- if you would come forward, please, Bob, to make the report.

MR. WEST: Mr. Chairman, Council members. The members of the National Petroleum Council were deeply saddened by the sudden death of their distinguished colleague, Melvin H. Gertz, in a private airplane crash on October 20, 1983, near Morgan Cith, Louisiana.

Bud, as he was known to his many friends, began his career in the oil industry in 1944 on the staff of Humble Oil

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and Refining Company in Bay Town, Texas. In 1947, he and Dr. Robert L. Pervin formed the Petroleum and Petroleum Chemical Engineering Consulting Business of Pervin & Gertz, Inc.

Bud became president of Pervin & Gertz in 1957 and was made chairman of the board in 1972. In 1968, Bud Gertz helped found Guam Oil & Refining Company and served as its chairman and chief executive officer until its sale in 1982. At that time, and with the formation of a subsequent company, Boundary Oil Company, in December 1982, which engages in oil exploration, drilling and production in Oklahoma, Texas and Louisiana, Bud assumed the job of Boundary Chairman and Chief Executive Officer.

An active alumnus of the University of Texas at Austin, Bud Gertz was honored as a distinguished engineering graduate in 1969 and served as chairman of the University's Engineering Foundation Advisory Council.

Bud Gertz was a patron of the arts in Dallas and was active in many civic organizations. Bud had served the National Petroleum Council as a dedicated member since 1974. He was an active participant on several study committees, including the current committee on petroleum inventories and storage capacity. Also, he was a member of the Council's nominating committee.

Therefore, with sincere admiration for his

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achievements and contributions to the industry and to this Council and with a sense of great loss, be it resolved on this 10th day of November 1983, that the deepest sympathy of the members of the National Petroleum Council be extended to his widow, Elizabeth, and to the family of Melvin H. Gertz.

It is further resolved that this resolution be entered upon the permanent records of the Council and that an appropriate copy thereof be delivered to his family as a rememberance of the Council's esteem and deep appreciation.

Mr. Chairman, I move the adoption of this resolution.

VOICE: Second.

THE CHAIRMAN: Thank you, Bob.

I suggest we signify adoption of this resolution by standing for a moment of final reflection and prayer.

(Whereupon, a moment of silence was observed.)

THE CHAIRMAN: And as we come to the conclusion, before we have any motion for adjournment, is there any new business that any Council member would like to bring before the Council at this time?

(No response.)

THE CHAIRMAN: Any old business?

(No response.)

THE CHAIRMAN: Are there any non-Council members who would like to ask a question or speak?

(No response.)

dmp

THE CHAIRMAN: If not, before we have a motion for adjournment, I would like to request that Messrs. Bailey and Burtis stay here and see if there be any comments or questions to them on these reports from the press or others.

Can I have a motion for adjournment?

VOICE: I make the motion.

THE CHAIRMAN: Second?

VOICE: Second.

THE CHAIRMAN: All in favor?

(Whereupon, a chorus of ayes were voiced.)

(Whereupon, at 11:12 a.m., the meeting was adjourned.)

REPORTER'S CERTIFICATE

This is to certify that the attached proceedings before U.S. Department of Energy

in the matter of:

National Petroleum Council
Washington, D.C.
November 10, 1983

were held as herein appears and that this is the original transcript thereof for the file of the Department or Commission.

Edwin F Bowman
Official Reporter

DATE: November 15, 1983