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THE WHITE HOUSE

PRESS CONFERENCE
OF
JACK L. BOWERS
ASSISTANT SECRETARY OF THE NAVY

INTERNATIONAL HOTEL

1:04 P.M. PDT

MR. NESSEN: The briefing today will be given by Assistant Secretary Jack L. Bowers. He is the Assistant Secretary of the Navy for Installations and Logistics.

You should all have in your hands a fact sheet on Elk Hills, and I would like to ask that you make one correction on the fact sheet.

On the first page, the fourth line from the bottom, there is a figure that is $68.5 million. Would you please change that to $117 million.

Assistant Secretary Bowers?

MR. BOWERS: Good afternoon.

The issue of Elk Hills is particularly pertinent today because the Naval petroleum reserves are a key element in the bill that the President sent to Congress, the Energy Independence Act of 1975.

The Naval petroleum reserves, as the fact sheet will show you, were established between 1912 and the early 1920's and during most of that time -- and by an act of 1920 -- have been under the managership of the Navy and saved for national defense.

During the Arab embargo, the Secretary of the Navy wrote a determination that Elk Hills should be open for one year in order to provide petroleum because there was such a shortage we could not get it on the open market.

We employed the Defense Production Act, and were able to solve that problem partially. However, the bill did start a new wave of interest and endeavor to make the petroleum reserves a more viable element in our energy picture.

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Though the bill was not passed to open Elk Hills at that time, the Congress did provide about $60 million, and we started a much more aggressive program of exploration and development.

In 1975, the Congress added about $69 million, and I would like to contrast these numbers to a normal operating level for the petroleum reserves of $6 million to $8 million, which has essentially been a care-keeping status.

With the new monies we are, in the ongoing EOB budget, planning larger amounts and for 1976 are requesting $117 million. These monies have accelerated the activity at Elk Hills NPR-No. 1 -- Naval Petroleum Reserve No. 1 -- and at NPR No. 4 in Alaska.

In Elk Hills we have drilled about 42 wells and have added about one to two hundred million proven reserves to the already established one billion barrels of oil in reserve.

We also will, by June of this year, have completed 3500 line-miles of seismic exploration in Alaska, and we are drilling our first two exploratory wells up there before June of this year.

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Now, in Elk Hills, we have rigs operating so that we have about 8 wells per month being drilled. A year from now, we will have accelerated to about 20 wells per month.

With this backdrop, the Energy Independence Act has suggested that the Naval petroleum reserves can now be used in a more viable purpose instead of using them as a shut-in production source of establishing a national strategic petroleum reserve where we store the oil probably in salt domes or other underground storage, and by this means increase the rate of delivery should we need them in emergency.

For example, Elk Hills today has a production capacity of 160,000 barrels per day. The military today use about 550,000, so you can see that it is not a large percentage of what we need on a daily basis, and in time of a major war, we might need 1.8 million barrels per day.

Now, if we take this oil out of the ground and put it into a strategic reserve, we would expect to be able to get it out more quickly. But we also recognize that in addition to the national defense military use, that a storage for civilian use would be very important because support of the military is just as important in time of war. Therefore, the President's bill in Title II calls for a strategic reserve for the civilian economy of 1 billion barrels, and in Title I for the military of 300 million barrels.

Obviously, that is anticipating a great deal more oil from Alaska. I told you we have 1 billion barrels increasing to 1.2 in Elk Hills. While not proven, we believe that in Alaska -- and this, as you know, is near the Prudhoe Bay area -- we may have anywhere from 10 billion to 30 billion barrels. That is the reason we are pursuing that development so rapidly.

That source of oil would, in the future then, also be backed up by oil shale reserves where we probably have about 16 billion barrels, although today, as you know, that is much more expensive to recover.

So, the total of the President's bill, the Energy Independence Act, will allow immediate production from Elk Hills, take the money derived from initial sale and put it in a special fund.

That money will be used to further explore and develop all of the Naval petroleum reserves and to begin the establishment of the strategic reserve.

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Now, that is the picture. It has been provided to Congress. The Senate has had a hearing on the bill. Senator Jackson and Senator Cannon had joint hearings with two committees, and the House Armed Services Committee will hear the bill in early April.

The Congress has also two other general approaches before it. Mr. Melcher, in the Congress, has proposed a bill which is rather simple and advocates transfer of the Naval petroleum reserves to the Department of Interior. It does not provide the detail or the meshing with the future of strategic reserve, for example, and for that reason, the Administration distinctly favors the bill that we have placed before Congress.

All of these will be heard and placed in the hands of Congress within the next 30 to 60 days.

Now, with that, I would be very happy to answer any questions.

Q Mr. Secretary, what company, or companies, handle the drilling and the transmission of the oil, and that kind of thing?

MR. BOWERS: As far as Elk Hills is concerned -- and there I am going to concentrate primarily -- I forgot to acquaint you with the fact which you probably already know, that the reserve is actually the joint property of the United States government, and of Standard Oil Company.

They own about 20 percent of the oil and we own 80 percent, but we have entered into a unit plan contract so that there is only one set of operations and each will share in that ratio when development and production proceeds.

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Separate from that unit plan contract, the Navy has -- on a competitive basis -- hired a manager characteristically through the years, and it turns out that Standard Oil has been doing that job for us, too, for a five-year period and another five-year period would have been completed in June of 1976.

However, recently they have asked to withdraw from that role, and we are currently turning out a request for proposals. That management job for us in the reserve does the physical management of getting the work done. They then hire rigs and independent operators that provide us with the capability for drilling, and they also purchase the materials and call in construction companies to build roads, pipelines and the like.

Q Is Standard of California then the oil company that has a predominant managerial interest in that Elk Hills reserve?

MR. BOWERS: Of course, they have an interest because of their part ownership, but as far as the managership, that, as I say, has been under contract to us and that is going to come to an end.

Q Is it true that Standard of California owes the Navy about $50 million for past activities there in which they took out oil and have not paid for it?

MR. BOWERS: The contract provides for the shut-in of this production so that Standard, of course, cannot directly benefit. However, the contract also provides that they can produce enough oil each year to pay for the taxes which are levied so that they have essentially a zero cash flow situation.

In addition, when we collectively spend monies for facilities and so on, we actually foot the bill, but we maintain an account such that when the field is produced, Standard will then pay us back those monies so the answer is yes, they owe us $55 million as provided for in the contract, and when the field is opened, that will be the first application of their 20 percent of the oil, to pay that back.

Q Mr. Bowers, can you tell us physically what the President is going to see when he goes to Elk Hills tomorrow.

MR. BOWERS: He will see some of the current producing fields. Of course, whereas we are not producing at full rate, we are producing about 3,000 barrels per day out of the wells, so he will see one of those.

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He will also see several of the evidences of the accelerated exploration and development effort that we have been proceding with -- pipelines, new wells, roads and the like.

Q Mr. Secretary, in the President's bill, would private oil companies eventually get to extract and distribute some of that Navy oil?

MR. BOWERS: Would who?

Q Would private oil companies get to do that?

MR. BOWERS: What will happen is that we will have a new manager by that time. We will produce the field, and then we will sell that oil at auction.

We will probably analyze the capabilities of the refineries in the State of California, and maintain a position such that the independent refinersies have a full and equal opportunity to compete. If we need to, we can use the small business set-asideprovisions and, on that basis, would anticipate that a variety of oil companies will participate in buying that oil.

Actually, what we are going to do is exchange it for refined products to be used by the Armed Forces in the most likely situation. In effect, they would be, when we do that, turning loose oil to the public economy that the military services normally use.

Q Mr. Secretary, what are the plans for off-shore production of natural gas?

MR. BOWERS: We have not had a specific plan on that. We have generally refrained from production in accordance with the current law. I think that that will probably become a secondary issue.

We do need a great deal of the gas to re-inject into the field to maintain the pressure and I am not sure what additional gas would be available.

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Q Mr. Secretary, it has been charged by some in Congress, as I am sure you are aware, that Standard Oil Company's predominant position in Elk Hills, the fact it controls 20 percent of the land in the area, and the pipelines, and the distribution system in the area, gives it a very heavy advantage if and when the President's bill is passed and the oil is turned over to private companies. How do you answer that charge?

MR. BOWERS: First of all, I just mentioned a moment ago, we will, by using the Small Business Act, set aside an appropriate percentage of the oil for the independents and as far as Standard is concerned, it has been mentioned that they have the only pipeline into the reserve.

Now, while this is true -- and this is about a capability of 25,000 barrels per day -- they can only build up to another 25,000 or 50,000 barrels per day total, and other companies, Arco, Shell, Union TOSCO, all have pipelines nearby and we will see to it that we tie into those. So, there is going to be a variety of companies.

Standard will, of course, have full access to their 20 percent of the oil. But I feel that we are going to be able to make this a fair and even competition so that no company has an unfair advantage.

Q What will the price of this oil be?

MR. BOWERS: I believe that this will be in the hands of the FEA. They have given us an initial route that it will be new oil, but it will be sold at public auction.

Q Mr. Secretary, there has been some comment on Standard's operation outside the Elk Hills preserve and the government moved to shut down their production, which they felt was tapping the reserves.

If we open up the reserves to production, will they be allowed to produce full bore on their holdings alongside?

MR. BOWERS: Perhaps I should review the history of that. They own property immediately adjacent to the northern side of the reserve and in April, or the summer of 1973, they notified us that they were starting to produce.

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We protested, feeling that there was probably a connection to the pool of oil within the reserve. They denied that this was the case and proceeded with production.

Thereupon, we drilled wells until we had good engineering proof that there was a connection. We went to the court and we obtained a temporary restraining order. The judge has properly admonished the parties to abide by the unit plan contract which calls for bringing that kind of a joint field into the reserve.

Therefore, we are negotiating with Standard right now to bring that into the reserve and make it a part of the reserve so that would be covered in the unit plan contract, the way we are approaching it right now, the same as all the rest of the oil.

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Q But there are two sides to the negotiation. If Standard does not agree to enter into that type of term wouldn't they be free to produce their field?

MR. NELSEN: The Navy has a unilateral right to make the final determination. Of course, the courts could overturn that. So, their only appeal is to the courts. They cannot do this on their own volition.

Q Mr. Secretary, you did not mention the price of new oil, but I assume it would be around $10 a barrel. How much does it cost to produce this oil?

MR. BOWERS: You know that often has been asked and, of course, it is a tough question to answer. The actual cost of lifting the oil out of the ground is probably only about 25 cents a barrel, but if you take into account the investment of all the wells, the equipment, the pipelines and so on, it comes to some otherkind kind of a number that I am not prepared to tell you.

I just don't know. So, just dependent on how you do your accounting and how much of that you amortize into the cost, you can get varying numbers. It is the same as any other oil field, however.

Q But how is it classified as new oil if the wells in fact have been drilled a long time ago when it was cheaper to drill a well and they are now going to get new oil?

MR. BOWERS: Of course, we have a thousand wells that had been drilled in that circumstance, and we are drilling at least probably 1000 more during the next five years. I am not an expert in that field. It is a FEA responsibility. They made the judgment.

THE PRESS: Thank you very much, Mr. Bowers.

END (AT 1:25 P.M. PDT)