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STATEMENT OF FRANK G. ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

BEFORE A

JOINT MEETING OF THE

INTERIOR COMMITTEE

ARMED SERVICES COMMITTEE

UNITED STATES SENATE

MARCH 11, 1975

ON

S. 594 AND S. 677



MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO APPEAR AGAIN BEFORE YOU TODAY TO DISCUSS PENDING LEGISLATION THAT WOULD CREATE A NATIONAL STRATEGIC PETROLEUM RESERVE AND PROVIDE FOR THE EXPLORATION AND DEVELOPMENT OF THE NAVAL PETROLEUM RESERVES. BOTH TITLE II OF S. 594, THE ADMINISTRATION'S ENERGY INDEPENDENCE ACT OF 1975, AND S. 677 WOULD PROVIDE FOR A CIVILIAN NATIONAL STRATEGIC PETROLEUM RESERVE. I WOULD LIKE TO STATE AT THE OUTSET THAT WHILE THE ADMINISTRATION IS IN GENERAL AGREEMENT WITH THE BROAD PURPOSES OF S. 677, WE HAVE SERIOUS DIFFICULTIES WITH SOME OF ITS SPECIFIC PROVISIONS.

HOWEVER, BEFORE CONSIDERING STRATEGIC RESERVE LEGISLATION,

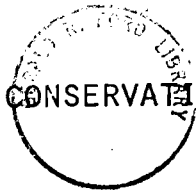
I THINK IT IS NECESSARY TO BEAR IN MIND ITS RELATIONSHIP TO



THE COMPREHENSIVE PROGRAM SUBMITTED BY THE PRESIDENT TO THE  
CONGRESS IN HIS STATE OF THE UNION MESSAGE.

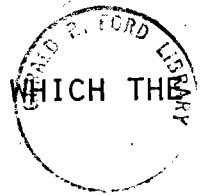
I'M SURE THAT WE ALL AGREE THAT THE PRESENT ENERGY  
SITUATION REQUIRES BROAD, DECISIVE AND PROMPT GOVERNMENT  
ACTION TO PREVENT CONTINUED EROSION OF OUR ECONOMIC VITALITY  
AND NATIONAL SECURITY. THE CHALLENGE WE JOINTLY FACE IS TO  
IMPLEMENT PROMPTLY A COORDINATED NATIONAL ENERGY POLICY  
WHICH RESTORES OUR ENERGY INDEPENDENCE.

A MAJOR GOAL OF THE PRESIDENT'S PROGRAM WOULD ELIMINATE  
BY 1985 THIS COUNTRY'S VULNERABILITY TO ECONOMIC DISRUPTION  
SHOULD FOREIGN SUPPLIES OF PETROLEUM BE INTERRUPTED. THE  
PRESIDENT'S MID-TERM PROGRAM INCLUDES TOUGH CONSERVATION AND  
SUPPLY EXPANSION MEASURES. TO CUT DEMAND, HE HAS PROPOSED



MANDATORY APPLIANCE AND AUTO EFFICIENCY LABELING, AND  
LOW-INCOME CONSERVATION ASSISTANCE PROGRAM. TO INCREASE SUPPLY,  
THE PRESIDENT PROPOSED DEREGULATION OF NEW NATURAL GAS,  
INCREASED OFFSHORE OIL AND GAS DEVELOPMENT, AMENDMENTS TO  
THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT, FACILITY  
SITING REGULATIONS, ASSISTANCE TO ELECTRIC UTILITIES, AND A  
SYNTHETIC FUELS PROGRAM.

IF THE LEGISLATION REQUIRED TO CARRY OUT ALL OF THE  
PRESIDENT'S PROGRAM IS ENACTED, BY THE END OF THE NEXT  
DECADE OUR PETROLEUM IMPORTS SHOULD AMOUNT ONLY TO 3 TO 5  
MILLION BARRELS PER DAY. SHOULD THOSE IMPORTS BE CURTAILED,  
THE CIVILIAN STRATEGIC PETROLEUM RESERVE PROGRAM WHICH THE  
PRESIDENT HAS REQUESTED WOULD PROVIDE 3 MILLION BARRELS OF



OIL PER DAY FOR A PERIOD OF ONE YEAR. THE REMAINDER WOULD BE DEALT WITH THROUGH IMPOSITION OF VARIOUS STANDBY CONSERVATION AND ALLOCATION MEASURES THAT WE DISCUSSED WITH THIS COMMITTEE LAST MONTH.

DESPITE THE BASIC SIMILARITY IN CONCEPT, HOWEVER, WE BELIEVE THAT S. 677 DOES NOT ADDRESS IMPORTANT POLICY, PROGRAM AND IMPLEMENTATION CONSIDERATIONS CONTAINED IN THE ADMINISTRATION'S BILL. FIRST, TITLE II IS MORE REALISTIC IN THAT IT DOES NOT ATTEMPT TO SET FORTH DETAILED, STRINGENT REQUIREMENTS FOR IMPLEMENTING A RESERVE PROGRAM, BUT REQUIRES THAT A COMPREHENSIVE PLAN BE SUBMITTED TO THE CONGRESS WITHIN ONE YEAR OF ENACTMENT. SUCH A PLAN WOULD INCLUDE A COMPREHENSIVE ENVIRONMENTAL ASSESSMENT, AN ANALYSIS OF ALTERNATIVE TYPES OF



STORAGE FACILITIES AND THEIR LOCATIONS, WHAT THE STOCKPILE SHOULD CONSIST OF AND HOW LARGE IT SHOULD BE, OWNERSHIP OF BOTH THE FACILITIES AND THE STOCKPILE, COSTS AND A DETAILED PROGRAM SCHEDULE FOR THE DEVELOPMENT OF SUCH A SYSTEM.

LET ME BE ABSOLUTELY CLEAR ABOUT ONE THING. THE PRESIDENT IS ASKING FOR SPECIFIC AUTHORITY TO IMPLEMENT A STRATEGIC RESERVE PROGRAM. HE DOES NOT INTEND THAT THIS PLAN BE A STUDY OF THE ADVISABILITY OF SUCH A PROGRAM. THE DEVELOPMENT OF THE COMPREHENSIVE PLAN WILL NOT DELAY IMPLEMENTATION OF THE PROGRAM, BUT WILL ENABLE US TO PROCEED AT A FASTER PACE BECAUSE IT WILL BE WORKABLE. FURTHERMORE, TITLE II WOULD GIVE THE PRESIDENT AUTHORITY TO BEGIN DEVELOPING STORAGE FACILITIES AND STORING PETROLEUM AS SOON



AS FEASIBLE. THESE ARE ALREADY CONSIDERATIONS BEING ANALYZED BY FEA.

UPON REFLECTION, I THINK YOU WILL AGREE THAT WE SHOULD NOT HAMPER THE IMPLEMENTATION OF A STRATEGIC RESERVE PROGRAM WITH LEGISLATIVE CONSTRAINTS WHICH WOULD PERHAPS BE UNWORKABLE OR EXTREMELY EXPENSIVE, ESPECIALLY WHEN THE SAME END COULD BE ACHIEVED THROUGH CONSULTATION WITH CONGRESS ON THE OVERALL PROGRAM PLAN. FOR EXAMPLE, S. 677 SPECIFIES FOUR SEPARATE RESERVES WITHIN THE ENERGY STRATEGIC RESERVE SYSTEM: NATIONAL RESERVE, AND INDUSTRY RESERVE, A UTILITY RESERVE AND A COAL RESERVE. WITHOUT GETTING INTO SPECIFICS, I BELIEVE THAT THERE ARE SERIOUS QUESTIONS CONCERNING THE VALIDITY OF SEPARATE UTILITY RESERVES, GIVEN THE EXTRA





FINANCIAL REQUIREMENTS SUCH A PROGRAM WOULD PUT UPON OUR  
ALREADY OVERBURDENED UTILITY INDUSTRY, UTILITIES WOULD ALSO  
BE AFFECTED UNEQUALLY, DEPENDING ON THEIR CURRENT RESERVES.  
LIKEWISE, OUR MAIN PROBLEM IN THE COAL INDUSTRY IS NOT REALLY  
ADEQUATE RESERVES FOR AN EMERGENCY, BUT ONE OF INCREASING  
COAL PRODUCTION AND DEMAND FOR COAL. SINCE IT WAS THE  
ADMINISTRATION'S INTENTION, AND WE HAD ASSUMED THAT OF THE  
SPONSORS OF S. 677, TO PROTECT AGAINST IMPORT DISRUPTIONS  
RATHER THAN DOMESTIC INTERRUPTIONS OF PRODUCTION, AND FURTHER  
CONSIDERING THE IMPRACTICALITY OF COAL STORAGE OF SUCH A  
MAGNITUDE, AS ENVISIONED BY S. 677, THE ADMINISTRATION IS  
OPPOSED TO COAL STOCKPILING.



EACH OF THESE SEPARATE SYSTEMS HAS MANDATED LEVELS WHICH VARY DEPENDING UPON FLOATING BASE PERIODS AND EACH HAS A SPECIFIED TIMEFRAME WITHIN WHICH THEY MUST BE COMPLETED. WE BELIEVE SUCH RIGID REQUIREMENTS ARE UNWORKABLE. FOR EXAMPLE, THERE MAY NOT BE SUFFICIENT STEEL TANKAGE TO SUPPORT THE LARGE SCALE INDUSTRY STORAGE RESERVE OUTLINED IN S. 677. FURTHER, PRELIMINARY STUDIES INDICATE THAT IT MAY NOT BE POSSIBLE TO PREPARE AND FILL UNDERGROUND STORAGE FACILITIES (SALT DOMES AND MINES) WITHIN THE FIVE YEAR TIMEFRAME SPECIFIED. THE STRICT TIMING REQUIREMENTS OF S. 677 WOULD ALSO NOT ENABLE THE GOVERNMENT TO TAKE ADVANTAGE OF PRICE FLUCTUATION IN THE FOREIGN OIL MARKET.

THE ADMINISTRATION'S BILL WOULD AUTHORIZE STORAGE OF UP



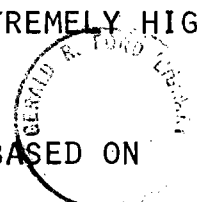
TO ONE BILLION BARRELS OF CRUDE OIL OR PETROLEUM PRODUCTS -  
SUFFICIENT TO WITHSTAND A TOTAL INTERRUPTION OF THREE MILLION  
BARRELS OF IMPORTS FOR ONE YEAR, OR APPROXIMATELY DOUBLE THE  
LEVEL SPECIFIED IN S. 677. WE BELIEVE THAT THE FINAL  
STORAGE LEVEL SHOULD BE BASED ON THE RESULTS OF A COMPREHENSIVE  
STUDY OF OUR NEEDS IN THE 1980s. FOR EXAMPLE, IF CONGRESS  
DOES NOT GIVE THE PRESIDENT NECESSARY LEGISLATION TO IMPLEMENT  
HIS OVERALL ENERGY PROGRAM, IMPORTS WOULD BE GREATLY INCREASED  
BY 1985 AND A 90-DAY SUPPLY AS PROPOSED IN S. 677 WOULD BE  
INADEQUATE. IN ANY CASE, WE BELIEVE THAT ANY RESERVE LEVEL  
SHOULD BE FIRMLY ESTABLISHED AND NOT ALLOWED TO VARY FROM  
MONTH TO MONTH DEPENDING ON THE BASE PERIODS. THE LATTER  
WOULD PRESENT SERIOUS PROBLEMS IN PLANNING AND ADMINISTERING



ANY STRATEGIC RESERVE PROGRAM.

LIKewise, THE PREMATURE SETTING OF ANTICIPATED LEVELS OF PETROLEUM PRODUCT STORAGE IS UNWISE. THE FINAL LEVEL OF PRODUCT STORAGE SHOULD AWAIT THE RESULTS OF A COMPREHENSIVE STUDY WHICH REVIEWS THE COST OF PRODUCT VERSUS CRUDE STORAGE, THE AVAILABILITY OF FACILITIES FOR PRODUCT STORAGE (STEEL TANKAGE IS IN SHORT SUPPLY AND COULD BE DIFFICULT TO OBTAIN IN THE FUTURE), THE ABILITY OF DOMESTIC REFINERIES TO MEET THE DEMAND FOR PRODUCTS DURING AN EMERGENCY, AND SO FORTH.

THE PRESIDENT SHOULD HAVE THE DISCRETION TO CHOOSE THE LEAST EXPENSIVE AND THE MOST EFFECTIVE METHOD OF PROVIDING STRATEGIC STORAGE. FOR EXAMPLE, S. 677 SETS EXTREMELY HIGH LEVELS OF PETROLEUM PRODUCT STORAGE, WHICH ARE BASED ON



AVERAGE IMPORT LEVELS. IF WE HAVE THE REFINERY CAPACITY TO MEET OUR REQUIREMENTS DURING AN EMERGENCY, IT WOULD SEEM WE SHOULD STORE CRUDE OIL AT A MUCH CHEAPER COST.

FURTHER, S. 677 CALLS FOR A VERY SMALL GOVERNMENT-OWNED RESERVE (CRUDE OIL EQUIVALENT TO ABOUT 22 DAYS OF IMPORTS) AND A LARGE AMOUNT OF PRIVATELY OWNED FINANCED INDUSTRY STORAGE OF CRUDE AND PETROLEUM PRODUCTS (A 90 DAY SUPPLY TO BE ACCUMULATED BY IMPORTERS). THE COSTS OF IMPLEMENTING SUCH A LARGE PROGRAM WITHIN A VERY SHORT PERIOD OF TIME WOULD BE VERY EXPENSIVE, WOULD AFFECT DIFFERENT PARTS OF THE COUNTRY UNEQUALLY AND WOULD PROBABLY NECESSITATE ANOTHER COST EQUALIZATION PROGRAM AND CONTINUED GOVERNMENT REGULATIONS.

TITLE II OF THE ADMINISTRATION'S BILL CALLS FOR PRIVATE STORAGE,



BUT WOULD AWAIT THE RESULTS OF A COMPREHENSIVE ANALYSIS BEFORE SPECIFYING WHAT AND HOW MUCH WOULD BE STORED, AS WELL AS WHO SHOULD BEAR THE COST.

AGAIN, LET ME STRESS ONE POINT - WE DO NOT AT THIS TIME HAVE THE DEFINITIVE ANSWERS TO ALL THESE QUESTIONS AND THAT IS WHY WE PROPOSE A COMPREHENSIVE PLANNING STUDY WHICH WILL BE PRESENTED TO CONGRESS. WE STRONGLY BELIEVE THAT THE APPROACH TAKEN IN S. 677 OF MANDATING THE LEVEL OF STORAGE, WHAT WILL BE STORED AND THE TIME TO COMPLETE THE PROGRAM DOES NOT MEET THE NEEDS OF THE ACTION AND COULD BE A VERY EXPENSIVE (AND PERHAPS UNWORKABLE) METHOD OF PROVIDING THE PROTECTION WE ALL AGREE IS NECESSARY.

SECONDLY, I BELIEVE THAT IT IS PREMATURE AT THIS TIME



TO DESIGNATE WHAT AGENCY OF THE FEDERAL GOVERNMENT SHOULD ADMINISTER THE STRATEGIC STORAGE PROGRAM. S. 677 SPECIFIED THAT THE FEDERAL ENERGY ADMINISTRATION SHOULD HAVE THIS AUTHORITY. WHILE I AGREE THAT FEA SHOULD TAKE THE LEAD WITHIN THE FEDERAL GOVERNMENT OF UNDERTAKING THE COMPREHENSIVE PLANNING STUDY CALLED FOR IN THE ADMINISTRATION'S BILL, I THINK THAT ANY DECISION REGARDING WHO SHOULD ADMINISTER THE PROGRAM SHOULD AWAIT THE RESULTS OF THAT STUDY. AS YOU KNOW, TITLE I OF THE OMNIBUS ENERGY BILL AUTHORIZES THE DEVELOPMENT AND PRODUCTION OF THE NPR-1, THE ELK HILLS NAVAL RESERVES IN CALIFORNIA, AND ESTABLISHES A MILITARY STRATEGIC PETROLEUM RESERVE OF 300 MILLION BARRELS. THE PROCEEDS OF THE ELK HILLS PRODUCTION WILL GO INTO A SPECIAL FUND WHICH WILL



BE USED TO EXPLORE AND PRODUCE NPR-4 ON THE NORTH SLOPE OF ALASKA, AS WELL AS TO FUND BOTH THE CIVILIAN AND MILITARY RESERVE SYSTEMS. IT MAY EVEN BE POSSIBLE TO ACTUALLY TRANSFER ELK HILLS OIL TO GOVERNMENT-OWNED STORAGE FACILITIES, ALTHOUGH THIS WILL HAVE TO AWAIT THE RESULTS OF THE COMPREHENSIVE PLANNING STUDY OUTLINED IN TITLE II.

SINCE TITLES I & II OF THE ADMINISTRATION'S BILL ARE CLOSELY INTERRELATED, THE PRESIDENT NEEDS THE FLEXIBILITY AND AUTHORITY TO DETERMINE HOW BEST TO IMPLEMENT THE PROGRAM.

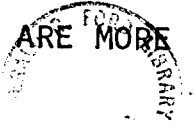
THUS, WE BELIEVE IT IS PREMATURE TO DESIGNATE WHICH AGENCY SHOULD BE RESPONSIBLE FOR ADMINISTERING THE PROGRAM. IN ANY CASE, IT IS ESSENTIAL THAT BOTH THE CIVILIAN AND MILITARY STRATEGIC RESERVES SYSTEMS BE COMPLETELY INTEGRATED. TO





THAT END, THE DEPARTMENT OF DEFENSE WILL BE INVOLVED IN THE PLANNING OF THE CIVILIAN SYSTEM AND THOSE FEDERAL AGENCIES RESPONSIBLE FOR PLANNING THE CIVILIAN SYSTEM WILL BE INVOLVED IN THE PLANNING OF THE MILITARY SYSTEM.

THIRD, WE BELIEVE THAT ANY AUTHORITY TO USE THE RESERVES SHOULD BE FULLY INTEGRATED WITH OUR REQUIREMENTS UNDER THE INTERNATIONAL EMERGENCY AGREEMENT. IN THIS RESPECT, S. 677 ONLY ALLOWS USE OF THE RESERVES WHEN IMPORTS FALL 10 PERCENT, WHILE THE IEP REQUIRES THAT MEMBER COUNTRIES ENGAGE IN DEMAND RESTRAINT MEASURES ( OR ALTERNATIVELY USE THEIR RESERVES) WHEN IMPORTS ARE REDUCED BY 7 PERCENT. WE BELIEVE THAT THE AUTHORITIES CONTAINED IN THE ADMINISTRATION'S BILL ARE MORE REALISTIC IN THAT THEY WOULD ALLOW USE OF THE RESERVES WHEN WE



ARE REQUIRED TO IMPLEMENT THE IEP.

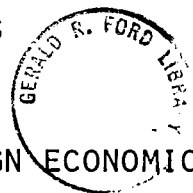
FINALLY, WE BELIEVE THAT THE PROTOTYPE STORAGE PROGRAM CALLED FOR IN S. 677 IS UNNECESSARY AND COULD GREATLY DELAY THE IMPLEMENTATION OF THE ESTABLISHMENT OF THE STRATEGIC PETROLEUM RESERVE SYSTEM. OUR INITIAL ANALYSIS INDICATES THAT IN ORDER TO IMPLEMENT A PROGRAM OF THE SIZE WE ARE CONTEMPLATING, IT WILL BE ESSENTIAL TO CONSTRUCT LARGE UNDERGROUND FACILITIES FOR THE STORAGE OF CRUDE OIL. SUCH FACILITIES WOULD EITHER BE LOCATED IN SALT DOMES OR MINES. THERE IS LITTLE QUESTION OF THE FEASIBILITY OF EITHER TYPE OF STORAGE. SALT DOME STORAGE OR LARGE AMOUNTS OF CRUDE OIL IS CURRENTLY BEING DONE IN FRANCE. EVEN IN THE UNITED STATES LARGE AMOUNTS OF PETROLEUM PRODUCTS ARE CURRENTLY BEING



STORED IN SALT DOMES. THEREFORE, WE BELIEVE THAT TO AWAIT THE RESULTS OF A PROTOTYPE PROGRAM WOULD BE EXPENSIVE, WOULD PROVE LITTLE AND WOULD UNNECESSARILY DELAY THE IMPLEMENTATION OF THE ENTIRE STRATEGIC STORAGE PROGRAM.

IT IS CLEAR THAT ANY STRATEGIC RESERVE LEGISLATION MUST BE CONSIDERED IN THE CONTEXT OF THE ENTIRETY OF THE PRESIDENT'S PROGRAM, AND ITS EFFECTIVENESS WILL DEPEND IN LARGE MEASURE ON THE IMPLEMENTATION OF THE BALANCE OF THE PROGRAM.

BOTH S. 594 AND S. 677 RECOGNIZE THE IMPORTANCE OF A STRATEGIC PETROLEUM RESERVE SYSTEM WITH AN OVERALL ENERGY PROGRAM FOR THE NATION. SUCH A SYSTEM WOULD MINIMIZE THE IMPACT OF INTERRUPTIONS OF PETROLEUM IMPORTS, THUS SIGNIFICANTLY REDUCING OUR VULNERABILITY TO FOREIGN ECONOMIC



FORCES. IT WOULD ALSO DOVETAIL WITH OUR OBLIGATIONS UNDER THE INTERNATIONAL EMERGENCY PROGRAM (IEP), WHICH SPECIFICALLY ALLOWS THE USE OF RESERVES IN EXCESS OF MINIMUM LEVELS (CURRENTLY 60 DAYS) INSTEAD OF RESTRAINING CONSUMPTION DURING EMERGENCY SITUATIONS. BOTH BILLS AUTHORIZE THE PURCHASE AND CONSTRUCTION OF STORAGE AND RELATED FACILITIES BY THE FEDERAL GOVERNMENT, THE ALLOCATION OF MATERIALS NECESSARY TO IMPLEMENT THE SYSTEM, CONDEMNATION PROCEEDINGS, AND THE ESTABLISHMENT OF ALLOCATION PROCEDURES AND PRICE LEVELS FOR THE USE OF THE RESERVES.

WE ARE IN BASIC AGREEMENT OF THE NEED FOR A STRATEGIC PETROLEUM RESERVE PROGRAM. I AND MY STAFF ARE WILLING TO WORK WITH MEMBERS OF BOTH COMMITTEES TO OBTAIN A WORKABLE STRATEGIC PETROLEUM RESERVE PROGRAM WHICH WILL PROVIDE THE COUNTRY WITH THE PROTECTION WE ALL AGREE IS NECESSARY.

