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INTRODUCTORY STATEMENT OF THE HONORABLE FRANK G. ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION, BEFORE
THE HOUSE INTERSTATE AND FOREIGN COMMERCE COMMITTEE,
SUBCOMMITTEE ON ENERGY AND POWER
TUESDAY, MARCH 16, 1976

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today in support of the extension of the Federal Energy Administration and to review with you the current status of the Administration's National Energy Program. Since the 1973-1974 embargo, we have sharpened our understanding of the dilemma which confronts us, but we still have a long way to go before solving all energy problems.

The newly enacted Energy Policy and Conservation Act (EPCA) is a step in the right direction, but as the President said when he signed the bill, it does not provide all the essential measures the Nation needs to achieve energy independence as quickly as he would like. He further indicated that the single most important energy objective for the United States today is to resolve our internal differences and put ourselves on the road toward energy independence. The legislation is by no means perfect.

There were three main reasons why the President signed this bill:

1. It will enable the country to meet a significant portion of the mid-term goals for energy independence which were laid out in his State of the Union Message last year.
2. The major provisions of the new bill, properly implemented, will permit gradual phasing out of controls on domestic oil over the next 40 months, and in practical terms.
3. It is the most constructive bill which the Administration and Congress were likely to work out at this time.

Before discussing the EPCA, I believe it would be useful to briefly review how our energy program has evolved over the past two years. Then I would like to discuss the implications of EPCA and also other legislation currently pending in Congress and finally, give you an outline of the functional organization of the Federal Energy Administration.

1. Prior FEA Functions

The crisis nature of the energy situation during the 1973-1974 embargo delayed early development of a comprehensive national energy program. In the period immediately following the embargo, our energy management programs were primarily regulatory in nature, overseeing the distribution and pricing of limited energy supplies throughout the Nation.

To reduce our dependence on foreign oil sources, we utilized the authorities of the ESECA to order the conversion of utilities from oil and natural gas to coal power sources where environmentally safe. We initiated an evaluation of Federal and State regulations to identify bureaucratic bottlenecks hindering efficient electrical power generation. Because of the long lead times necessary to construct and bring into operation new utility plants, FEA has concentrated considerable attention on this sector. Many of these studies contributed to the pool of information gathered by the ERC Task Force on Power Plant Acceleration with FEA taking the Lead.

Finally, because of the potential severity of natural gas shortfalls for the winter of 1975-1976, the Energy Resources Council established within FEA a task force to thoroughly analyze the situation and to recommend various legislative and administrative initiatives to meet the problem.

II. Future FEA Functions

A. The Role of EPCA

As noted previously, the recently enacted Energy Policy and Conservation Act (EPCA) will now determine much of the program activities and future direction of the Federal Energy Administration. The EPCA establishes national policies on oil price and allocation controls, conservation measures, supply initiatives, and emergency authorities such as contingency planning for protection against another embargo. Specific provisions of the Act include:

1. Standby authorities enabling the President to implement, rationing and mandatory conservation plans to meet our domestic needs and international energy commitments during a future supply interruption.
2. The creation of a Strategic Petroleum Reserve to offset the impact of a supply cut-off.
3. Provision for loan guarantees to develop new underground coal mines.
4. Ceiling prices on domestic oil, while providing for incentives to stimulate certain types of oil production.
5. Conservation of energy through voluntary and mandatory programs applicable to industry, the States and the Federal government.
6. Energy efficiency standards for automobiles, and energy efficiency targets for appliances and other consumer products.

7. Expansion of the ESECA coal conversion program to reduce our demand for natural gas and petroleum products.

By combining the 40-month pricing schedule, conservation and resource development provisions and the existing programmatic scenarios of the Project Independence Evaluation System, we will be able to quantify those energy requirements that still stand between the Nation and its goal of independence by 1985. Using the EPCA as our program base, we will work with the State governments and private sectors to continue to develop and expand programs to bring us closer to success.

At this moment, our greatest emphasis must be on the aggressive implementation and management of the programs mandated by the EPCA. The Act provides a variety of mechanisms to accomplish its objectives. For example, there is a mandatory requirement for reporting by the private sector on industrial conservation achievements. Technical experts within the Federal government will prepare energy efficiency test procedures in order to label appliances so that consumers will have an objective basis for comparison. Individual States have the responsibility for administering those conservation programs best handled at that level.

This decentralization of effort will allow each objective to be accomplished with the best available technical information and financial resources.

In the coming year, we will give special priority to the Strategic Reserve Program (including plans to develop Naval Petroleum Reserve No. 4 in Alaska), expanding the conversion of utility generators burning oil or gas to coal, and developing the Coal Loan Guarantee Program. We will continue to give attention to specific regional problems, such as the Northern Tier States as they experience the reduction in Canadian fuel supplies.

Our two years of experience in pricing and allocation regulations will help in managing the price control formula for the remainder of the period. In accordance with clear legislative direction, all proposed pricing regulations will be analyzed for administrative feasibility, effects on crude oil production and for regional, social and economic impacts before issuance. We will also take every precaution to insure that our regulations are consistent with the continued economic recovery of the Nation.

Finally, to insure that the Nation will not find itself again vulnerable to foreign petroleum supply disruptions, the FEA is responsible for developing a revitalized contingency planning program. The EPCA specifically requires the submission to Congress of contingency plans for rationing and mandatory conservation strategies for use during an emergency. Depending upon the timing and length of an interruption, plans must be both economically and socially feasible for actual implementation at all points in time. Our Project Independence analyses will prove invaluable in this area.

During this early phase, Congress supported these initial efforts through the passage of interim legislation which included the Emergency Petroleum Allocation Act, the Federal Energy Administration Act, and the Energy Supply and Environmental Coordination Act. Although each of these laws addressed a specific energy program requirement, none by itself, nor the combination of them all, provided a comprehensive approach to the energy problem. At that time, both Congress and the Administration recognized the crucial need to develop an in-depth understanding of the domestic and international energy situation before we could develop an effective national program to limit future energy vulnerability. First, we had to establish a comprehensive information data base composed of the supply, demand, production and import statistics that would form the foundation for techniques to forecast our energy future. Using econometric models, FEA developed the Project Independence Report in 1974 that explained the impacts of different policy strategies on the future energy situation.

Using the analyses of the Project Independence Report, an overall energy management program was developed by the Administration and submitted to the Congress in January, 1975, as the "Energy Independence Act of 1975." The program included thirteen specific initiatives for either conserving energy or increasing our domestic resources.

In the past year, during which these proposals were being considered by Congressional committees and the details of the comprehensive legislative package clarified, the Federal Energy Administration operated under its enabling legislation. Although we continued the important fuel pricing and allocation programs, we placed major emphasis on reaching solutions to our energy problem. FEA's role in development of a national energy policy was reinforced through the President's Energy Resources Council (ERC), the development of economic and inflationary impact analyses of all Federal program proposals with energy implications, and the evaluation of numerous pieces of proposed energy legislation. With an ever-expanding national energy awareness, the FEA was requested to provide technical information to Congressional committees, State and local governments, industry, and various concerned professional and civic groups throughout the country.

To support our International Energy Program commitments, FEA provided program support and representation at meetings of the International Energy Agency and separate international energy and economic conferences.

In the energy conservation area, FEA vigorously pursued programs to provide conservation information to the public, to demonstrate residential conservation techniques, to show commercial and industrial energy users how they could reduce operating costs through energy saving actions, and to inform citizens about the comparative efficiency of new cars and how to use existing transportation resources more efficiently by carpooling and vanpooling.

The EPCA has given the Federal Energy Administration, other Federal agencies, State governments and the private sector a clear mandate and requirement for energy program action in 1976 and the coming years. FEA has a clear responsibility to provide effective leadership in the implementation of these programs. Our Fiscal Year 1977 budget request, when amended, will reflect our emphasis on effective implementation of this legislation.

B. Future Initiatives

As the economy continues to move into recovery, the demand for energy resources will continue to grow. We cannot afford to let this new demand be supplied by foreign markets. Therefore, we will continue to ask Congress to support additional energy supply and conservation legislation which will enable the United States to put a lid on energy resource imports while the economy grows. The EPCA only incorporates four of the original titles contained in the President's Omnibus Energy Bill. I would like to briefly address those areas for which we will be requesting action.

The fall and winter seasons this year have been mild enough to mitigate widely predicted shortages of natural gas. Even so, the fact remains that we will consume more natural gas this year than we will discover. In the long term, the price of natural gas must reflect its true worth as a fuel, taking into account its scarcity and the demand for it. The removal of Federal price controls in the interstate market for natural gas will be a high priority objective for the coming year in order to stimulate both exploration and production of that depleting resource.

To change our mix of energy sources away from oil, the United States will have no choice but to make greater use of its most abundant resource - coal. In the next ten years, the limiting factors for coal use will not be its availability, but demand. One reason that coal lost its share of the fuels market in the last 15 years was the passage of legislation requiring the reduction of air pollutants, especially of the sulfur dioxide produced by burning coal. This requires large capital expenditures by coal users to meet air quality standards. To allow increased utilization of coal, the Administration will continue to work for a modification of our present laws and regulations, especially certain Clean Air Act Amendments.

The primary demand for coal comes from the electric utility industry. The continued provision of adequate generating capacity is a high priority subject for FEA investigation. This is doubly true because generating plants can often use either domestically available coal or nuclear fuels instead of oil, and because electricity can be used in homes and businesses to displace the end use of imported petroleum products. We will continue to work toward electric utility rate structure reforms to encourage a more efficient use of plant capacity.

The Federal government continues to urge passage of legislation authorizing production of the Naval Petroleum Reserves. Revenues from the sale or exchange of oil from the Reserves are necessary for continued exploration and development of the Reserves, and for the financing of the Strategic Petroleum Reserve Program.

The Federal government will also seek to expedite the construction of energy production facilities by projecting the regional needs for such facilities and seeking out land areas that would be suitable for such construction. Legislation has been proposed which will allow the Federal government to join with the States to streamline planning and regulatory action for future facilities.

Nuclear energy has many advantages for electrical generation. Unfortunately, some regulatory actions by the local, State and Federal governments cause excessive delays in bringing nuclear plants on line. FEA is actively considering the merits of a comprehensive system by which all identical regulatory procedures may be handled at one time. This will reduce the lead times for licensing and the final costs of construction which are inflated by lengthy delays.

The Administration will continue to seek some new initiatives in the conservation field. First, in conjunction with other appropriate government agencies, standards will be sought for the thermal efficiency of all new buildings. This action will produce energy payoffs on an expanding basis from now to the turn of the century. In conjunction with this program, funds will be sought to aid the poor and elderly to insulate their homes.

In sum, programs are needed which will encourage private industry to use more of the fuels which we have domestically available. Incentives will be needed to induce the capital investments which will produce and save energy. The Administration will push for these incentives in the coming year.

III. Functional Organization of the Federal Energy Administration

The Federal Energy Administration is composed of seven budget activities. A brief description of each of these activities follows:

1. Executive Direction and Administration:

Executive Direction and Administration includes the responsibilities of the Administrator as well as the supporting services necessary to the proper execution of the Administrator's responsibilities. The Administrator, under responsibilities set forth in Public Law 93-275 of May 7, 1974, advises the President and the Congress with respect to the establishment of a comprehensive National Energy Policy and, in coordination with the Secretary of State, the integration of domestic and foreign policies relating to energy resource management. The

Administrator further provides the leadership for energy programs mandated by the President and the Congress.

The supporting services necessary to the proper execution of the Administrator's responsibilities include legal, financial, personnel, organization management and procurement functions, as well as public affairs, congressional affairs, and maintaining relationships with the States on energy matters.

2. Energy Policy and Analysis:

The Office of Policy and Analysis is responsible for all policy and analysis and coordination of energy related legislation and programs which will culminate in a national plan to meet the energy needs of the Nation. To achieve this objective, the office's primary activity is the review, coordination and evaluation of energy policy and legislation by providing statistical and analytical studies and systems on which to base the formulation of energy policy by providing quantitative analysis of various policy alternatives and assessing the economic and social impacts of those alternatives. This activity, therefore, is responsible for developing a family of econometric models to perform impact analysis, analyzing long-term energy supply and demand and producing short-term and long-range energy forecasts. To support these efforts, this activity also includes all data collection, processing, and ADP systems design for Policy and Analysis as well as for all of FEA. It also serves as the national energy data clearinghouse for FEA, other State and Federal government agencies, for Congress and the general public.

3. Energy Regulatory Programs:

The Energy Regulatory activity is responsible for; the execution of those audit and enforcement activities required to assure compliance with any existing regulations, as well as the regulations in force from February, 1973, through December 15, 1975, in accordance with the mandate of the Emergency Petroleum Allocation Act, the provision of a standby force to perform regulation development and operational readiness responsibilities in accordance with the mandate of the FEAA. Finally, this activity provides a continuous contingency planning capability to review, develop and up-date National Energy Contingency plans.

4. Energy Conservation and Environment:

The Office of Energy Conservation and Environment was established to (1) reduce the energy demand growth rate in the United States; (2) develop and oversee the implementation of voluntary and mandatory energy conservation programs that promote the efficient use of energy; and (3) ensure environmental concerns are balanced with national energy goals.

5. Energy Resource Development:

The Energy Resource Development activity is responsible for developing and implementing national programs and projects to increase production and utilization of energy from present domestic sources and to facilitate the development of new domestic energy sources.

The activities within Energy Resource Development (ERD) include the development of plans, programs, and projects to expand domestic production of every currently available fuel source including oil, natural gas, coal, oil shale, nuclear, solar, geothermal, and others. ERD is responsible for developing energy sources and facilities. The organization is also responsible for preparing programs which serve to mitigate the adverse effects of and remove any impediments imposed by Federal, State, and local regulations in the expansion of energy supply. ERD also evaluates the impact of present and prospective energy supply alternatives, technologies, resource requirements, programs and actions.

6. International Energy Affairs:

The Office of International Energy Affairs (IEA) deals with general policy review and coordination of all FEA international activities, National Security Council matters, international agreements, multinational energy negotiations, transportation of energy from abroad, and liaison with defense and nuclear energy agencies. This includes the development of policy options for oil sharing, mandatory conservation, emergency supply, and encouraging multinational energy programs, and development and evaluation of United States export-import foreign policy and vice versa.

7. Strategic Petroleum Reserve:

The objective of this program is to increase our national security by providing insurance for our military and economy from any interruptions of oil imports that are caused by military action or a political embargo. The development of storage facilities for a crude petroleum and product reserves and the filling of these facilities are the primary goals of the program.

Conclusion

As you may know, we have submitted revised budget requests to the Office of Management and Budget on the personnel and dollar amounts associated with EPCA. The final determination on these numbers will be forthcoming and will be furnished to the Committee when available.

Mr. Chairman, this concludes my prepared remarks and I shall be happy to respond to any questions you or the Committee Members may have.