The original documents are located in Box 4, folder: "Testimony, September 13, 1976, Joint Economic Committee" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

STATEMENT OF FRANK G. ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

BEFORE THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

THE ENERGY OUTLOOK FOR

THE NORTHERN TIER STATES

SEPTEMBER 13, 1976

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, THANK YOU FOR THE OPPORTUNITY TO APPEAR TODAY AND DISCUSS THE ENERGY OUTLOOK OVER THE NEXT SEVERAL YEARS FOR THE NORTHERN TIER STATES. I INTEND TO COVER A WIDE RANGE OF TOPICS WHICH I KNOW ARE OF INTEREST TO THE COMMITTEE. THESE INCLUDE THE OIL AND GAS SITUATION FOR THIS WINTER; OUR EVALUATION OF THE NORTHERN TIER SITUATION BOTH SHORT-TERM AND LONG-TERM; AND THE CURRENT STATUS OF CANADIAN/U.S. CRUDE OIL EXCHANGES.

THE NORTHERN TIER DEPENDS ON NATURAL GAS FOR 27 PERCENT OF ITS ENERGY REQUIREMENTS WITH PETROLEUM PROVIDING 39 PERCENT, COAL PROVIDING 17 PERCENT, HYDRO 15 PERCENT, AND NUCLEAR 2 PERCENT. ANY ACTION AFFECTING THE AVAILABILITY OF NATURAL GAS IMPACTS ON THE DEMAND FOR PETROLEUM. THIS COUNTRY'S NATURAL GAS SUPPLIES HAVE BEEN DECLINING IN RECENT YEARS AND OIL EXPORTS FROM CANADA ARE BEING REDUCED. THESE TWO FACTORS WILL OBVIOUSLY ADVERSELY AFFECT THE NORTHERN TIER AND PROVIDE SOME IMMEDIATE CAUSE FOR CONCERN. HOWEVER,

WE BELIEVE THAT THERE IS STILL TIME FOR INDUSTRY TO IMPLEMENT NEW ENERGY SUPPLY ALTERNATIVES BEFORE THE SUPPLY OF GAS AND OIL TO THE NORTHERN TIER IS SEVERELY DISRUPTED.

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LAST OCTOBER JOHN HILL, MY DEPUTY, ADDRESSED THIS COMMITTEE ON THE ENERGY PROBLEMS CONFRONTING THE NORTHERN TIER STATES (WASHINGTON, MONTANA, NORTH DAKOTA, MINNESOTA, MICHIGAN, AND WISCONSIN) AND PARTICULARLY THE STATE OF

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WITH REGARD TO THIS WINTER'S ENERGY SUPPLY, IT IS ANTICIPATED THAT DUE TO INCREASED DEMAND AND CURTAILED CRUDE OIL SUPPLIES FROM CANADA, IT IS EXPECTED THAT THIS WINTER THERE WILL BE A 29 PERCENT INCREASE FROM THE 1975/76 PRODUCT INSHIPMENTS TO THE NORTHERN TIER STATES. HOWEVER, IF A SEVERE WINTER OCCURS, ADDITIONAL PRODUCT COULD BE NEEDED. SPARE PRODUCT PIPELINE CAPACITY IS SUFFICIENT FROM OTHER AREAS INTO THE NORTHERN TIER STATES TO ACCOMMODATE THESE INCREASES. MIDWEST REFINERIES CURRENTLY SUPPLYING THESE AREAS HAVE THE CAPACITY TO HANDLE THIS INCREASE. IT IS NOT ANTICIPATED THAT THERE WILL BE ANY SIGNIFICANT PETROLEUM PRODUCT SHORTAGES IN THE NORTHERN TIER STATES.

ALTHOUGH THERE WAS SOME CONCERN LAST YEAR ABOUT PROPANE, FOR THIS COMING WINTER IT APPEARS THAT THERE WILL BE ADEQUATE SUPPLIES OF PROPANE. THE NATIONAL ENERGY BOARD OF CANADA PROJECTS 28,525,000 BARRELS OF PROPANE WILL BE APPROVED FOR EXPORT TO THE UNITED STATES FROM APRIL 1976

THROUGH MARCH 1977. VIRTUALLY ALL THIS PROPANE IS USED IN THE NORTHERN TIER STATES. RECENTLY THERE HAS BEEN A TEMPORARY AND LIMITED SURPLUS OF CANADIAN PROPANE AND, AS A RESULT, THE U.S. HAS BEEN ASKED TO INCREASE ITS IMPORTS. IT IS EXPECTED THAT WE WILL BEGIN THE 1976-77 HEATING SEASON WITH SUBSTANTIAL PROPANE INVENTORIES WHICH, TOGETHER WITH DOMESTIC PRODUCTION AND IMPORTS, ARE EXPECTED TO BE MORE THAN ADEQUATE TO MEET TRADITIONAL REQUIREMENTS THROUGHOUT THE UNITED STATES AND SPECIFICALLY IN THE NORTHERN TIER.

ON AUGUST 2ND, THE FEDERAL ENERGY ADMINISTRATION SUBMITTED A REPORT TO CONGRESS ON <u>CRUDE OIL SUPPLY ALTERNATIVES FOR THE NORTHERN TIER STATES</u>. THE PURPOSE OF THIS STUDY WAS TO ASSESS THE FEASIBILITY, COST AND ENVIRONMENTAL ASPECTS OF ALTERNATIVE PETROLEUM SOURCES AND TRANSPORTATION SYSTEMS FOR THE NORTHERN TIER STATES AND TO RECOMMEND STEPS FEDERAL

AND STATE GOVERNMENTS AND PRIVATE INDUSTRY CAN TAKE TO ASSURE UNINTERRUPTED OIL DELIVERY TO THIS REGION. THE STUDY WAS PREPARED BY FEA IN CLOSE COOPERATION WITH REPRESENTATIVES OF THE SIX CONCERNED STATES AND WITH THE DEPARTMENTS OF INTERIOR AND TRANSPORTATION, EPA, AND THE NATIONAL OCEANOGRAPHIC AND ATMOSPHERIC ADMINISTRATION.

THE REPORT OUTLINES LONG-TERM SUPPLY ALTERNATIVES TO THE NORTHERN TIER, BASICALLY FOR THE POST 1979 TIME FRAME. THIS REPORT WAS SUPPORTED BY VOLUMES I AND II OF A STUDY CONDUCTED UNDER A CONTRACT AWARDED TO BONNER AND MOORE ASSOCIATES, INC., CONSULTING ENGINEERS. MY STAFF EXTRACTED INFORMATION FROM THESE STUDIES AND CONDUCTED ADDITIONAL ANALYSES TO IDENTIFY THE AREAS WHICH COULD BE IMPACTED BY THE VARIOUS PROPOSALS. BECAUSE OF THE BROAD RANGE OF OPTIONS UNDER CONSIDERATION, IT WAS NOT POSSIBLE TO DETERMINE THE FULL IMPACT IN EACH AREA. THE STUDY REPRESENTS A TREMENDOUS AMOUNT OF VALUABLE INFORMATION WHICH WE ARE ABLE TO USE AS

A BASIS FOR FURTHER ANALYSES.

FEA IS PRESENTLY PREPARING A SECOND REPORT FOR SUBMISSION TO CONGRESS WHICH WILL ANALYZE THE POTENTIAL SUPPLY GAP THAT COULD EXIST BETWEEN 1977 AND THE IMPLEMENTATION OF LONG-TERM SOLUTIONS, SOMETIME AFTER 1979 AND WHICH WILL SHOW WHAT SUPPLY OPTIONS MAY BE AVAILABLE. THE SECOND REPORT WILL BE BASED IN PART UPON VOLUME III OF THE BONNER AND MOORE STUDY. BECAUSE THIS VOLUME DEALS WITH THE ACTUAL SHORT-TERM PLANS OF VARIOUS COMPANIES, IT IS LESS SPECULATIVE THAN THE LONG-TERM STUDY. OUR KNOWLEDGE ABOUT THE NORTHERN TIER SITUATION HAS EXPANDED CONSIDERABLY BY THE INFORMATION CONTAINED IN THIS STUDY.

I WOULD LIKE TO BRIEFLY DISCUSS WHAT FEA HAS IDENTIFIED WITH REGARD TO POTENTIAL LONG-RANGE SOLUTIONS FOR THE NORTHERN TIER.

OUR ASSESSMENT CONSIDERED 12 DIFFERENT LONG-TERM SUPPLY ALTERNATIVES. THE FOLLOWING FIVE PROPOSALS HAVE BEEN FOUND TO BE ECONOMICALLY FEASIBLE:

1. TRANS-PROVINCIAL PROPOSAL, WHICH INCLUDES A DEEPWATER PORT AND TERMINAL IN BRITISH COLUMBIA AND A PIPELINE TO CONNECT WITH THE INTER-PROVINCIAL PIPELINE.

2. NORTHERN TIER PIPELINE, WHICH INCLUDES A DEEPWATER PORT AT PORT ANGELES, WASHINGTON, AND A PIPELINE ACROSS THE NORTHERN TIER STATES.

3. THE SOHIO-PLUS ALTERNATIVE WHICH INCLUDES, (1) A TERMINAL IN LONG BEACH, CALIFORNIA, AND A PIPELINE TO MIDLAND, TEXAS,

(2) THE WILLIAMS PIPELINE EXPANSION FROM TULSA TO MINNEAPOLIS, AND (3) A NEW PIPELINE TO SUPPLY MONTANA AND NORTH DAKOTA.

4. THE LOOP ALTERNATIVE, WHICH INCLUDES A DEEPWATER OFFSHORE PORT OFF LOUISIANA AND WOULD PROVIDE CRUDE OIL THROUGH THE CAPLINE SYSTEM TO THE GREAT LAKES REGION.

5. THE SEADOCK PROPOSAL, WHICH WOULD PROVIDE CRUDE OIL FROM THE HOUSTON AREA TO TULSA AND CHICAGO AREAS.

THE LAST TWO PROPOSALS, LOOP AND SEADOCK, APPEAR ECONOMICALLY FEASIBLE, INDEPENDENT OF NORTHERN TIER NEEDS. HOWEVER, THEY WOULD NOT SUPPLY CRUDE OIL DIRECTLY TO THE NORTHERN TIER REFINERS.

THE RELATIVELY LENGTHY TIME REQUIRED FOR COMPLETION OF EACH OF THESE LONG-TERM SOLUTION OPTIONS MEANS THEY ARE INADEQUATE TO RELIEVE THE SHORT-TERM IMPACTS RESULTING FROM THE CANADIAN EXPORT REDUCTION.

THE IMPLEMENTATION OF ANY LONG-TERM SOLUTION TO THE NORTHERN TIER STATES CRUDE OIL SUPPLY PROBLEM PROBABLY WILL NOT BE OPERATIONAL UNTIL AT LEAST LATE 1979. AS I HAVE PREVIOUSLY INDICATED WE ARE CONTINUING TO ANALYZE THE PROBLEMS TO BE ENCOUNTERED BETWEEN NOW AND THE IMPLEMENTATION OF A PERMANENT LONG-TERM SOLUTION.

THE FACT THAT THERE ARE FOUR DISTINCT SUPPLY AND MARKETING AREAS IN THE NORTHERN TIER STATES MAKES IT IMPOSSIBLE TO ANALYZE THEM AS A SINGLE ENTITY. THE

SIX-STATE NORTHERN TIER AREA IS LOGICALLY DIVIDED BY SUPPLY ROUTES INTO FOUR DISTINCT SUPPLY AND MARKETING AREAS. THESE AREAS ARE:

(1) SOUTHERN MICHIGAN;

(2) MINNESOTA, WISCONSIN, NORTHERN MICHIGAN, AND EASTERN NORTHERN DAKOTA;

(3) MONTANA, WESTERN NORTH DAKOTA, AND EASTERN WASHINGTON;

(4) WESTERN WASHINGTON.

BEFORE DISCUSSING SOME OF THE SPECIFICS THAT HAVE BEEN IDENTIFIED FOR THE SHORT-TERM, I WOULD LIKE TO POINT OUT THAT ECONOMIC UNCERTAINTIES ARE CURRENTLY INHIBITING INVESTMENT IN POSSIBLE REFINING AND PIPELINE ALTERNATIVES. AMONG THESE UNCERTAINTIES ARE POSSIBLE GOVERNMENTAL ACTIONS CONCERNING DIVESTITURE, PRICE CONTROLS, AND THE QUESTION AS TO WHEN A LONG-TERM ALTERNATIVE SUCH AS THE NORTHERN TIER OR TRANS-PROVINCIAL PIPELINE WILL BE IN PLACE.

FEA'S PRELIMINARY ANALYSES INDICATE THAT THE MARKET AREAS OF SOUTHERN MICHIGAN AND WESTERN WASHINGTON SHOULD HAVE SUFFICIENT PETROLEUM SUPPLY TO MEET DEMAND. THE MARKETING AREA INCLUDING MINNESOTA AND WISCONSIN SHOULD MAKE IT TO 1980 WITHOUT SIGNIFICANT PETROLEUM SHORTAGES, PRIMARILY BECAUSE OF THE WILLIAMS BROTHERS PIPELINE EXPANSION. IN THE MARKET AREA INCLUDING MONTANA, WE ARE SOMEWHAT CONCERNED ABOUT THE UNAVAILABILITY OF ADDITIONAL INDIGENOUS ACCEPTABLE CRUDE OIL AND LACK OF SPARE PRODUCT PIPELINE CAPACITY. HOWEVER, WE BELIEVE THAT IT WILL BE TWO OR THREE YEARS BEFORE PROBLEMS MIGHT DEVELOP. ANTICIPATING A POSSIBLE SHORTFALL THIS FAR IN ADVANCE ENABLES INDUSTRY TO TAKE ACTIONS TO DEVELOP ALTERNATE SUPPLIES. THUS, IT IS PROBABLE THAT ANY SHORTFALL CAN BE AVERTED.

THE PROPOSED EXPANSION OF THE WILLIAMS BROTHERS -- PIPELINE SYSTEM WOULD HAVE A SIGNIFICANT AFFECT ON CRUDE

OIL AVAILABILITY IN THE NORTHERN TIER. IT WILL MAKE POSSIBLE THE REALLOCATION OF APPROXIMATELY 55 MB/CD IN 1978 TO OTHER NORTHERN TIER AREAS, SUCH AS MONTANA AND WISCONSIN. IF THIS PIPELINE IS NOT UTILIZED OR IS NOT EXPANDED TO AT LEAST 135 MB/CD, THEN SHORTAGES OF PETROLEUM SUPPLIES COULD RESULT BY EARLY 1979.

WE WILL SUBMIT MORE PRECISE INFORMATION TO CONGRESS AFTER OUR SHORT-TERM ANALYSIS IS COMPLETED. IT SHOULD BE COMPLETED BY OCTOBER.

CRUDE OIL EXCHANGES WITH CANADA ARE PERHAPS THE MOST PROMISING MEANS OF ALLEVIATING THE SHORT-TERM PETROLEUM SUPPLY SHORTAGE IN THE NORTHERN TIER. LAST YEAR THE TWO COUNTRIES AGREED THAT COMMERCIAL EXCHANGES BETWEEN CANADIAN AND U.S. COMPANIES IF CONSISTENT WITH BROAD ENERGY POLICY GUIDELINES, SHOULD NOT BE PRECLUDED BY PRESENT LEGAL, ADMINISTRATIVE OR FISCAL REGULATIONS IN EITHER COUNTRY.

LAST OCTOBER WE TOLD THIS COMMITTEE WE WERE ANALYZING THE POSSIBILITIES FOR THE EXCHANGE OF OIL BETWEEN CANADIAN AND U.S. REFINERS WITHIN THE FRAMEWORK OF EXISTING POLICIES AFFECTING THEM AND THAT WE HAD AGREED WITH THE CANADIAN GOVERNMENT THAT THE RESPECTIVE GOVERNMENTS WOULD NOT BE PARTIES TO EXCHANGES, BUT WOULD MAINTAIN A FAVORABLE ENVIRONMENT WITHIN WHICH EXCHANGES COULD TAKE PLACE.

AS OF SEPTEMBER 1, 1976, FEA HAS PROCESSED SEVEN EXCHANGE REQUESTS. TO FACILITATE SIX OF THESE EXCHANGES, FEA HAS ISSUED IMPORT LICENSES FOR A TOTAL OF 47 MBD. FEA HAS RECOMMENDED THAT THE DEPARTMENT OF COMMERCE ISSUE CORRESPONDING EXPORT LICENSES. WE UNDERSTAND THAT THREE EXPORT LICENSES TOTALLING 10 MBD HAVE BEEN ISSUED.

ALTHOUGH THE GOVERNMENT OF CANADA HAS STATED THAT OIL SWAPS WILL CONTINUE TO BE IN ADDITION TO THE CANADIAN EXPORTABLE SURPLUS, THIS IS NOT AN INDICATION THAT SWAPS CAN BE USED

INDEFINITELY IN LIEU OF BUILDING A TRANSPORTATION SYSTEM TO PROVIDE CRUDE OIL TO THESE REFINERS.

SINCE 1973 THE CANADIAN OIL CURTAILMENT HAS RESULTED IN A DROP IN OIL IMPORTS TO THE U.S. OF ABOUT 700 MBD. MEETING THIS GAP HAS CAUSED A SIZEABLE INCREASE IN DOMESTIC PIPELINE UTILIZATION FROM THE GULF COAST TO REPLENISH THE LOST CANADIAN CRUDE OIL. IN SPITE OF INCREASES IN CAPACITY, MANY OF THE U.S. PIPELINE SYSTEMS ARE PUSHING MAXIMUM CAPACITY AND IN SOME INSTANCES HAVE HAD TO PRORATE. FOR EXAMPLE THE TEXOMA PIPELINE WHICH CARRIES CRUDE OIL FROM THE GULF OF MEXICO TO CUSHING, OKLAHOMA, HAD SPARE CAPACITY IN JUNE, AND IN AUGUST WAS PRORATING AT 69 PERCENT. THERE SIMPLY IS NOT SUFFICIENT UNUSED CAPACITY FROM THE GULF OF MEXICO TO MEET ALL OF THE POTENTIAL EXCHANGES USING ONLY THE LAKEHEAD/INTER-PROVINCIAL PIPELINE ROUTE.

THE FEDERAL GOVERNMENT IS SEEKING WAYS TO EXPAND THE PARAMETERS FOR EXCHANGES WITH CANADA. AT A MEETING SCHEDULED FOR EARLY OCTOBER, WE WILL AGAIN PURSUE THE

POSSIBILITY OF USING OFFSHORE RATHER THAN U.S. DOMESTIC CRUDE FOR EXCHANGES.

THE CANADIAN GOVERNMENT IS LIKELY TO SEEK ASSURANCE OF A LONG-TERM SOLUTION TO THE PROBLEM OF SUPPLY FOR THE NORTHERN TIER REFINERS. WE PLAN TO DEMONSTRATE THAT WE HAVE MADE A REAL EFFORT TO USE DOMESTIC OIL, AND TO OUTLINE THE CONSTRAINTS POSED BY OUR CURRENT PIPELINE SYSTEM.

I APPRECIATE THE IMPORTANT ROLE WHICH THE INDIVIDUAL STATES PLAY IN ENERGY QUESTIONS. NO IMPORTANT ENERGY PROBLEM CAN OR SHOULD BE SOLVED WITHOUT THE DIRECT INVOLVEMENT OF STATE REPRESENTATIVES. THE NORTHERN TIER SITUATION REQUIRES THAT FEA AND OTHER FEDERAL AGENCIES WORK CONTINUOUSLY WITH STATE AND LOCAL OFFICIALS TO DEVELOP THE FRAMEWORK WITHIN WHICH CRITICAL STATE AND NATIONAL OBJECTIVES CAN BE ADDRESSED.

THE FEDERAL ENERGY ADMINISTRATION IS ENCOURAGED BY THE VARIOUS PRIVATE INDUSTRY PROPOSALS FOR TRANSPORTATION SYSTEMS TO PROVIDE ALTERNATE PETROLEUM SUPPLIES TO THE NORTHERN TIER

AREA. IN LIGHT OF THE SERIOUS SUPPLY PROBLEM WHICH IS EXPECTED TO OCCUR IN THE NORTHERN TIER STATES, FEA FEELS THAT IT IS IMPERATIVE THAT PROMPT ACTION BE TAKEN BY THE PARTICIPANTS TO RESOLVE THE PROBLEM.

WHETHER OR NOT THE SHORT-TERM PROBLEM IS SUBSTANTIAL AND GOVERNMENTAL INVOLVEMENT IS NECESSARY OR APPROPRIATE CANNOT BE DETERMINED UNTIL THE SHORT-TERM REPORT IS COMPLETED.

A LONG-TERM SOLUTION FOR PROVIDING A SUPPLY OF PETROLEUM TO THE NORTHERN TIER STATES APPEARS TO BE POSSIBLE. INDUSTRY HAS INDICATED A WILLINGNESS TO COMMIT CAPITAL TO THE VARIOUS ALTERNATIVES NOW BEING CONSIDERED. CONSEQUENTLY, THE FEA DOES NOT SEE A NEED AT THIS TIME FOR GOVERNMENTAL ROLE TO EFFECT LONG-TERM SOLUTION EXCEPT TO ENCOURAGE PROMPT ACTION BY FEDERAL, STATE AND LOCAL OFFICIALS RESPONSIBLE FOR PERMITTING ACTIVITIES.

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ON APRIL 1, 1976, THE FEDERAL ENERGY ADMINISTRATION IMPLEMENTED THE MANDATORY CANADIAN CRUDE OIL ALLOCATION PROGRAM. ALLOCATIONS TO NORTHERN TIER REFINERS ARE BASED UPON AN EVALUATION OF THEIR DEMONSTRABLE RELIANCE ON CANADIAN CRUDE AND ON THEIR ACCESS TO ALTERNATIVE CRUDE OIL DISTRIBUTION SYSTEMS. TWO SIX-MONTH ALLOCATION PERIODS HAVE DISTRIBUTED THE REDUCED CANADIAN CRUDE EXPORTS EQUITABLY AMONG THE REFINERS WHO RELY ON CANADIAN CRUDE OIL. IN ADDITION, THE FEA IS CONTINUING TO MEET WITH THE NATIONAL ENERGY BOARD OF CANADA TO EXAMINE THE MEANS OF ALLEVIATING THE EFFECTS OF THE ANTICIPATED DECLINE IN CANADIAN CRUDE OIL EXPORTS AVAILABLE FOR THE NORTHERN TIER REFINERIES.

WITH REGARD TO THIS WINTER'S ENERGY SUPPLY, IT IS ANTICIPATED THAT DUE TO INCREASED DEMAND AND CURTAILED CRUDE OIL SUPPLIES FROM CANADA, IT IS EXPECTED THAT THIS WINTER THERE WILL BE A 29 PERCENT INCREASE FROM THE 1975/76 PRODUCT INSHIPMENTS TO THE NORTHERN TIER STATES. HOWEVER, IF A SEVERE WINTER OCCURS, ADDITIONAL PRODUCT COULD BE NEEDED. SPARE PRODUCT PIPELINE CAPACITY IS SUFFICIENT FROM OTHER AREAS INTO THE NORTHERN TIER STATES TO ACCOMMODATE THESE INCREASES. MIDWEST REFINERIES CURRENTLY SUPPLYING THESE AREAS HAVE THE CAPACITY TO HANDLE THIS INCREASE. IT IS NOT ANTICIPATED THAT THERE WILL BE ANY SIGNIFICANT PETROLEUM PRODUCT SHORTAGES IN THE NORTHERN TIER STATES.

ALTHOUGH THERE WAS SOME CONCERN LAST YEAR ABOUT PROPANE, FOR THIS COMING WINTER IT APPEARS THAT THERE WILL BE ADEQUATE SUPPLIES OF PROPANE. THE NATIONAL ENERGY BOARD OF CANADA PROJECTS 28,525,000 BARRELS OF PROPANE WILL BE APPROVED FOR EXPORT TO THE UNITED STATES FROM APRIL 1976

THROUGH MARCH 1977. VIRTUALLY ALL THIS PROPANE IS USED IN THE NORTHERN TIER STATES. RECENTLY THERE HAS BEEN A TEMPORARY AND LIMITED SURPLUS OF CANADIAN PROPANE AND, AS A RESULT, THE U.S. HAS BEEN ASKED TO INCREASE ITS IMPORTS. IT IS EXPECTED THAT WE WILL BEGIN THE 1976-77 HEATING SEASON WITH SUBSTANTIAL PROPANE INVENTORIES WHICH, TOGETHER WITH DOMESTIC PRODUCTION AND IMPORTS, ARE EXPECTED TO BE MORE THAN ADEQUATE TO MEET TRADITIONAL REQUIREMENTS THROUGHOUT THE UNITED STATES AND SPECIFICALLY IN THE NORTHERN TIER.

ON AUGUST 2ND, THE FEDERAL ENERGY ADMINISTRATION SUBMITTED A REPORT TO CONGRESS ON <u>CRUDE OIL SUPPLY ALTERNATIVES FOR THE NORTHERN TIER STATES</u>. THE PURPOSE OF THIS STUDY WAS TO ASSESS THE FEASIBILITY, COST AND ENVIRONMENTAL ASPECTS OF ALTERNATIVE PETROLEUM SOURCES AND TRANSPORTATION SYSTEMS FOR THE NORTHERN TIER STATES AND TO RECOMMEND STEPS FEDERAL

AND STATE GOVERNMENTS AND PRIVATE INDUSTRY CAN TAKE TO ASSURE UNINTERRUPTED OIL DELIVERY TO THIS REGION. THE STUDY WAS PREPARED BY FEA IN CLOSE COOPERATION WITH REPRESENTATIVES OF THE SIX CONCERNED STATES AND WITH THE DEPARTMENTS OF INTERIOR AND TRANSPORTATION, EPA, AND THE NATIONAL OCEANOGRAPHIC AND ATMOSPHERIC ADMINISTRATION.

THE REPORT OUTLINES LONG-TERM SUPPLY ALTERNATIVES TO THE NORTHERN TIER, BASICALLY FOR THE POST 1979 TIME FRAME. THIS REPORT WAS SUPPORTED BY VOLUMES I AND II OF A STUDY CONDUCTED UNDER A CONTRACT AWARDED TO BONNER AND MOORE ASSOCIATES, INC., CONSULTING ENGINEERS. MY STAFF EXTRACTED INFORMATION FROM THESE STUDIES AND CONDUCTED ADDITIONAL ANALYSES TO IDENTIFY THE AREAS WHICH COULD BE IMPACTED BY THE VARIOUS PROPOSALS. BECAUSE OF THE BROAD RANGE OF OPTIONS UNDER CONSIDERATION, IT WAS NOT POSSIBLE TO DETERMINE THE FULL IMPACT IN EACH AREA. THE STUDY REPRESENTS A TREMENDOUS AMOUNT OF VALUABLE INFORMATION WHICH WE ARE ABLE TO USE AS

A BASIS FOR FURTHER ANALYSES.

FEA IS PRESENTLY PREPARING A SECOND REPORT FOR SUBMISSION TO CONGRESS WHICH WILL ANALYZE THE POTENTIAL SUPPLY GAP THAT COULD EXIST BETWEEN 1977 AND THE IMPLEMENTATION OF LONG-TERM SOLUTIONS, SOMETIME AFTER 1979 AND WHICH WILL SHOW WHAT SUPPLY OPTIONS MAY BE AVAILABLE. THE SECOND REPORT WILL BE BASED IN PART UPON VOLUME III OF THE BONNER AND MOORE STUDY. BECAUSE THIS VOLUME DEALS WITH THE ACTUAL SHORT-TERM PLANS OF VARIOUS COMPANIES, IT IS LESS SPECULATIVE THAN THE LONG-TERM STUDY. OUR KNOWLEDGE ABOUT THE NORTHERN TIER SITUATION HAS EXPANDED CONSIDERABLY BY THE INFORMATION CONTAINED IN THIS STUDY.

I WOULD LIKE TO BRIEFLY DISCUSS WHAT FEA HAS IDENTIFIED WITH REGARD TO POTENTIAL LONG-RANGE SOLUTIONS FOR THE NORTHERN TIER.

OUR ASSESSMENT CONSIDERED 12 DIFFERENT LONG-TERM SUPPLY ALTERNATIVES. THE FOLLOWING FIVE PROPOSALS HAVE BEEN FOUND TO BE ECONOMICALLY FEASIBLE:

1. TRANS-PROVINCIAL PROPOSAL, WHICH INCLUDES A DEEPWATER PORT AND TERMINAL IN BRITISH COLUMBIA AND A PIPELINE TO CONNECT WITH THE INTER-PROVINCIAL PIPELINE.

2. NORTHERN TIER PIPELINE, WHICH INCLUDES A DEEPWATER PORT AT PORT ANGELES, WASHINGTON, AND A PIPELINE ACROSS THE NORTHERN TIER STATES.

3. THE SOHIO-PLUS ALTERNATIVE WHICH INCLUDES, (1) A TERMINAL IN LONG BEACH, CALIFORNIA, AND A PIPELINE TO MIDLAND, TEXAS,

(2) THE WILLIAMS PIPELINE EXPANSION FROM TULSA TO MINNEAPOLIS, AND (3) A NEW PIPELINE TO SUPPLY MONTANA AND NORTH DAKOTA.

4. THE LOOP ALTERNATIVE, WHICH INCLUDES A DEEPWATER OFFSHORE PORT OFF LOUISIANA AND WOULD PROVIDE CRUDE OIL THROUGH THE CAPLINE SYSTEM TO THE GREAT LAKES REGION.

5. THE SEADOCK PROPOSAL, WHICH WOULD PROVIDE CRUDE OIL FROM THE HOUSTON AREA TO TULSA AND CHICAGO AREAS.

THE LAST TWO PROPOSALS, LOOP AND SEADOCK, APPEAR ECONOMICALLY FEASIBLE, INDEPENDENT OF NORTHERN TIER NEEDS. HOWEVER, THEY WOULD NOT SUPPLY CRUDE OIL DIRECTLY TO THE NORTHERN TIER REFINERS.

THE RELATIVELY LENGTHY TIME REQUIRED FOR COMPLETION OF EACH OF THESE LONG-TERM SOLUTION OPTIONS MEANS THEY ARE INADEQUATE TO RELIEVE THE SHORT-TERM IMPACTS RESULTING FROM THE CANADIAN EXPORT REDUCTION.

THE IMPLEMENTATION OF ANY LONG-TERM SOLUTION TO THE NORTHERN TIER STATES CRUDE OIL SUPPLY PROBLEM PROBABLY WILL NOT BE OPERATIONAL UNTIL AT LEAST LATE 1979. AS I HAVE PREVIOUSLY INDICATED WE ARE CONTINUING TO ANALYZE THE PROBLEMS TO BE ENCOUNTERED BETWEEN NOW AND THE IMPLEMENTATION OF A PERMANENT LONG-TERM SOLUTION.

THE FACT THAT THERE ARE FOUR DISTINCT SUPPLY AND MARKETING AREAS IN THE NORTHERN TIER STATES MAKES IT IMPOSSIBLE TO ANALYZE THEM AS A SINGLE ENTITY. THE

SIX-STATE NORTHERN TIER AREA IS LOGICALLY DIVIDED BY SUPPLY ROUTES INTO FOUR DISTINCT SUPPLY AND MARKETING AREAS. THESE AREAS ARE:

(1) SOUTHERN MICHIGAN;

(2) MINNESOTA, WISCONSIN, NORTHERN MICHIGAN, AND EASTERN NORTHERN DAKOTA;

(3) MONTANA, WESTERN NORTH DAKOTA, AND EASTERN WASHINGTON;

(4) WESTERN WASHINGTON.

BEFORE DISCUSSING SOME OF THE SPECIFICS THAT HAVE BEEN IDENTIFIED FOR THE SHORT-TERM, I WOULD LIKE TO POINT OUT THAT ECONOMIC UNCERTAINTIES ARE CURRENTLY INHIBITING INVESTMENT IN POSSIBLE REFINING AND PIPELINE ALTERNATIVES. AMONG THESE UNCERTAINTIES ARE POSSIBLE GOVERNMENTAL ACTIONS CONCERNING DIVESTITURE, PRICE CONTROLS, AND THE QUESTION AS TO WHEN A LONG-TERM ALTERNATIVE SUCH AS THE NORTHERN TIER OR TRANS-PROVINCIAL PIPELINE WILL BE IN PLACE.

FEA'S PRELIMINARY ANALYSES INDICATE THAT THE MARKET AREAS OF SOUTHERN MICHIGAN AND WESTERN WASHINGTON SHOULD HAVE SUFFICIENT PETROLEUM SUPPLY TO MEET DEMAND. THE MARKETING AREA INCLUDING MINNESOTA AND WISCONSIN SHOULD MAKE IT TO 1980 WITHOUT SIGNIFICANT PETROLEUM SHORTAGES, PRIMARILY BECAUSE OF THE WILLIAMS BROTHERS PIPELINE EXPANSION. IN THE MARKET AREA INCLUDING MONTANA, WE ARE SOMEWHAT CONCERNED ABOUT THE UNAVAILABILITY OF ADDITIONAL INDIGENOUS ACCEPTABLE CRUDE OIL AND LACK OF SPARE PRODUCT PIPELINE CAPACITY. HOWEVER, WE BELIEVE THAT IT WILL BE TWO OR THREE YEARS BEFORE PROBLEMS MIGHT DEVELOP. ANTICIPATING A POSSIBLE SHORTFALL THIS FAR IN ADVANCE ENABLES INDUSTRY TO TAKE ACTIONS TO DEVELOP ALTERNATE SUPPLIES. THUS, IT IS PROBABLE THAT ANY SHORTFALL CAN BE AVERTED.

THE PROPOSED EXPANSION OF THE WILLIAMS BROTHERS -- PIPELINE SYSTEM WOULD HAVE A SIGNIFICANT AFFECT ON CRUDE

OIL AVAILABILITY IN THE NORTHERN TIER. IT WILL MAKE POSSIBLE THE REALLOCATION OF APPROXIMATELY 55 MB/CD IN 1978 TO OTHER NORTHERN TIER AREAS, SUCH AS MONTANA AND WISCONSIN. IF THIS PIPELINE IS NOT UTILIZED OR IS NOT EXPANDED TO AT LEAST 135 MB/CD, THEN SHORTAGES OF PETROLEUM SUPPLIES COULD RESULT BY EARLY 1979.

WE WILL SUBMIT MORE PRECISE INFORMATION TO CONGRESS AFTER OUR SHORT-TERM ANALYSIS IS COMPLETED. IT SHOULD BE COMPLETED BY OCTOBER.

CRUDE OIL EXCHANGES WITH CANADA ARE PERHAPS THE MOST PROMISING MEANS OF ALLEVIATING THE SHORT-TERM PETROLEUM SUPPLY SHORTAGE IN THE NORTHERN TIER. LAST YEAR THE TWO COUNTRIES AGREED THAT COMMERCIAL EXCHANGES BETWEEN CANADIAN AND U.S. COMPANIES IF CONSISTENT WITH BROAD ENERGY POLICY GUIDELINES, SHOULD NOT BE PRECLUDED BY PRESENT LEGAL, ADMINISTRATIVE OR FISCAL REGULATIONS IN EITHER COUNTRY.

LAST OCTOBER WE TOLD THIS COMMITTEE WE WERE ANALYZING THE POSSIBILITIES FOR THE EXCHANGE OF OIL BETWEEN CANADIAN AND U.S. REFINERS WITHIN THE FRAMEWORK OF EXISTING POLICIES AFFECTING THEM AND THAT WE HAD AGREED WITH THE CANADIAN GOVERNMENT THAT THE RESPECTIVE GOVERNMENTS WOULD NOT BE PARTIES TO EXCHANGES, BUT WOULD MAINTAIN A FAVORABLE ENVIRONMENT WITHIN WHICH EXCHANGES COULD TAKE PLACE.

AS OF SEPTEMBER 1, 1976, FEA HAS PROCESSED SEVEN EXCHANGE REQUESTS. TO FACILITATE SIX OF THESE EXCHANGES, FEA HAS ISSUED IMPORT LICENSES FOR A TOTAL OF 47 MBD. FEA HAS RECOMMENDED THAT THE DEPARTMENT OF COMMERCE ISSUE CORRESPONDING EXPORT LICENSES. WE UNDERSTAND THAT THREE EXPORT LICENSES TOTALLING 10 MBD HAVE BEEN ISSUED.

ALTHOUGH THE GOVERNMENT OF CANADA HAS STATED THAT OIL SWAPS WILL CONTINUE TO BE IN ADDITION TO THE CANADIAN EXPORTABLE SURPLUS, THIS IS NOT AN INDICATION THAT SWAPS CAN BE USED

INDEFINITELY IN LIEU OF BUILDING A TRANSPORTATION SYSTEM TO PROVIDE CRUDE OIL TO THESE REFINERS.

SINCE 1973 THE CANADIAN OIL CURTAILMENT HAS RESULTED IN A DROP IN OIL IMPORTS TO THE U.S. OF ABOUT 700 MBD. MEETING THIS GAP HAS CAUSED A SIZEABLE INCREASE IN DOMESTIC PIPELINE UTILIZATION FROM THE GULF COAST TO REPLENISH THE LOST CANADIAN CRUDE OIL. IN SPITE OF INCREASES IN CAPACITY, MANY OF THE U.S. PIPELINE SYSTEMS ARE PUSHING MAXIMUM CAPACITY AND IN SOME INSTANCES HAVE HAD TO PRORATE. FOR EXAMPLE THE TEXOMA PIPELINE WHICH CARRIES CRUDE OIL FROM THE GULF OF MEXICO TO CUSHING, OKLAHOMA, HAD SPARE CAPACITY IN JUNE, AND IN AUGUST WAS PRORATING AT 69 PERCENT. THERE SIMPLY IS NOT SUFFICIENT UNUSED CAPACITY FROM THE GULF OF MEXICO TO MEET ALL OF THE POTENTIAL EXCHANGES USING ONLY THE LAKEHEAD/INTER-PROVINCIAL PIPELINE ROUTE.

THE FEDERAL GOVERNMENT IS SEEKING WAYS TO EXPAND THE PARAMETERS FOR EXCHANGES WITH CANADA. AT A MEETING SCHEDULED FOR EARLY OCTOBER, WE WILL AGAIN PURSUE THE

POSSIBILITY OF USING OFFSHORE RATHER THAN U.S. DOMESTIC CRUDE FOR EXCHANGES.

THE CANADIAN GOVERNMENT IS LIKELY TO SEEK ASSURANCE OF A LONG-TERM SOLUTION TO THE PROBLEM OF SUPPLY FOR THE NORTHERN TIER REFINERS. WE PLAN TO DEMONSTRATE THAT WE HAVE MADE A REAL EFFORT TO USE DOMESTIC OIL, AND TO OUTLINE THE CONSTRAINTS POSED BY OUR CURRENT PIPELINE SYSTEM.

I APPRECIATE THE IMPORTANT ROLE WHICH THE INDIVIDUAL STATES PLAY IN ENERGY QUESTIONS. NO IMPORTANT ENERGY PROBLEM CAN OR SHOULD BE SOLVED WITHOUT THE DIRECT INVOLVEMENT OF STATE REPRESENTATIVES. THE NORTHERN TIER SITUATION REQUIRES THAT FEA AND OTHER FEDERAL AGENCIES WORK CONTINUOUSLY WITH STATE AND LOCAL OFFICIALS TO DEVELOP THE FRAMEWORK WITHIN WHICH CRITICAL STATE AND NATIONAL OBJECTIVES CAN BE ADDRESSED.

THE FEDERAL ENERGY ADMINISTRATION IS ENCOURAGED BY THE VARIOUS PRIVATE INDUSTRY PROPOSALS FOR TRANSPORTATION SYSTEMS TO PROVIDE ALTERNATE PETROLEUM SUPPLIES TO THE NORTHERN TIER

AREA. IN LIGHT OF THE SERIOUS SUPPLY PROBLEM WHICH IS EXPECTED TO OCCUR IN THE NORTHERN TIER STATES, FEA FEELS THAT IT IS IMPERATIVE THAT PROMPT ACTION BE TAKEN BY THE PARTICIPANTS TO RESOLVE THE PROBLEM.

WHETHER OR NOT THE SHORT-TERM PROBLEM IS SUBSTANTIAL AND GOVERNMENTAL INVOLVEMENT IS NECESSARY OR APPROPRIATE CANNOT BE DETERMINED UNTIL THE SHORT-TERM REPORT IS COMPLETED.

A LONG-TERM SOLUTION FOR PROVIDING A SUPPLY OF PETROLEUM TO THE NORTHERN TIER STATES APPEARS TO BE POSSIBLE. INDUSTRY HAS INDICATED A WILLINGNESS TO COMMIT CAPITAL TO THE VARIOUS ALTERNATIVES NOW BEING CONSIDERED. CONSEQUENTLY, THE FEA DOES NOT SEE A NEED AT THIS TIME FOR GOVERNMENTAL ROLE TO EFFECT LONG-TERM SOLUTION EXCEPT TO ENCOURAGE PROMPT ACTION BY FEDERAL, STATE AND LOCAL OFFICIALS RESPONSIBLE FOR PERMITTING ACTIVITIES.