**The original documents are located in Box 10, folder: “Speech - March 2, 1976 - Kansas Independent Oil and Gas Association” of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.**

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REMARKS PREPARED FOR DELIVERY BY
THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
THE FEDERAL ENERGY ADMINISTRATION, BEFORE THE

KANSAS INDEPENDENT OIL AND GAS ASSOCIATION
CENTURY II CONVENTION CENTER, WICHITA, KANSAS
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Thank you, Governor Bennett, for your kind introduction.

This state and this audience have provided more than a fair share of the nation's energy needs. So it is a special pleasure for me to be speaking here in Kansas, particularly to this group.

Being in the oil business in Kansas has never been a matter of drilling a hole and then opening a bank account. The oil that has come from the fields of Kansas since the first well was drilled in 1889 has never come easy. It has been forced out of the ground -- mostly from stripper wells by small businessmen -- such as yourselves.

I know, too, that production in this state peaked in 1956 and began declining. It didn't stop declining for 20 years until -- as Fred Shelton pointed out in Washington recently -- stripper well oil was exempted from the first version of the Emergency Petroleum Allocation Act.

As you all know, that exemption was eliminated in the Energy Policy and Conservation Act. That -- along with a number of other provisions of the bill -- caused heated opposition, and created doubts and fears in the industry as to its very future. In fact, it provided me with my most popular question of the past couple of months -- namely, why did the President sign it?

I'd like to deal with that question, briefly, and only briefly, since I think it is more important for me to devote the bulk of my time with you here to a discussion of the industry's future, rather than dwelling on explanations for the actions of the past.

It was precisely a concern for the future that led the President to sign the EPCA. Certainly the bill was flawed, and many of the flaws were centered in the oil pricing section. But, by and large, the bill provides a starting point for the development of the National Energy Policy that the President articulated in his first State of the Union Message in January 1975.

The bill contained four of the President's thirteen original proposals, and, together with other legislation already passed, reduces our vulnerability to foreign oil cutoffs by 2 1/2 to three million barrels per day.

The bill authorizes a strategic petroleum reserve so we can withstand a prolonged embargo; standby emergency rationing and conservation powers to use in such an event; and a number of conservation measures that will preserve scarce oil and gas, while reducing our dependence on foreign oil.

But aside from the tangible effects on our national security -- measurable in millions of barrels of oil per day -- the bill has another -- equally important -- effect. It moderates the crippling uncertainties that have afflicted the oil industry -- and also mutes acrimonious debate over oil prices which could have resulted in truly punitive legislation.

Think about where we were a year ago. The Administration was advocating immediate decontrol, and Congress was responding with talk of import quotas, or even rationing, which would certainly have required an indefinite extension of price controls -- possibly in a much more restrictive form.

Granted, we did not get immediate decontrol. But what we did get in the EPCA was a further acknowledgement from Congress that the free market, rather than continued government controls, is the best regulator of the oil industry. And Congress has now established a definite date on which government controls on the oil industry will expire. The significance of that pledge should not be underestimated.

That brings us to the present, and our discussion of our future together for the 39 months left in the EPCA decontrol plan.

You've already had the worst of the EPCA -- the price rollback to $7.66. In our rulemaking on that, we tried to establish a pattern for the way we'll administer the crude oil price control program over the next 39 months. In deciding how to set the composite price, we placed a premium on maximum incentives for maintaining production, and for new oil exploration and production.

The same holds true in our second rulemaking, which we are proposing this week, and which governs how prices will rise over the life of the program. Again, the focus will be on providing a clear, steady direction for oil prices, so that you will know where you stand, and what you can count on to make the kind of investment decisions you need to make.

We're proposing to apply both the GNP deflator and the 3 percent production incentive -- which will be forthcoming next year -- in even monthly increments. We're also laying out the schedule in advance for the entire program, so that you will be able to estimate what your revenues will be over the next three years.

I wish I could say that the 10 percent yearly price rise allowed by the bill to offset inflation and stimulate production will be sufficient to take care of everyone's needs. Unfortunately, a 10 percent rise is a very small pie, and a lot of slices have to come out of it.

In order to provide the kind of prices we're going to need to pay for the exploration and development of new fields, the use of expensive enhanced recovery techniques, and to prevent the most marginal operations -- including stripper wells -- from shutting down prematurely, it now appears that we will have to ask Congress for more latitude in the pricing structure.



We think they now understand better that the oil left in this country is harder to find and more costly to produce. But we're not kidding ourselves that it is going to be an easy process. We will have to know exactly how much we'll need and exactly where to apply it. The distinction has to be carefully made that we're asking for incentives, not giveaways.

We hope to send our plan to the Congress on May 1. Naturally, we will hold public hearings on it and evaluate comments. That's where we will need your help. If there is one thing that regulating the oil industry has taught us at FEA, it is that the right answers are hard to come by. So I would urge you all to evaluate our proposal carefully. Tell us where you think we're wrong, and where you think we're right.

Of course, the whole industry needs incentives, but one area of particular concern is stripper production. It's 12 percent of our domestic oil production -- a critical 12 percent. And, as you know, stripper operations are the most economically vulnerable. Their operators generally can't afford to subsidize a losing operation for very long.

We're very much aware that the removal of the stripper well exemption has probably cost us some production already. But I can assure you that the issue of adequate incentives for stripper wells will figure prominently in our proposal to Congress, and I think that we've already amply demonstrated our concern in the way we've written our earlier regulations.



We do, of course, know of the legislation sponsored by Senator Pearson of Kansas to get the stripper well exemption reinstated. We support his efforts, and hope that they bear fruit.

So far, I have confined my remarks to the oil industry, but as we all know, it cannot carry the entire burden of the nation's energy needs. As oil grows increasingly scarce, other energy sources will have to take up the slack.

Even the passage of the EPCA still leaves us importing over six million barrels per day in the near term. We cannot, should not and need not tolerate a deficit of that magnitude. We need a sustained, integrated long-term effort to maximize production from all sources and eliminate wasteful use if we are to reduce our dependence on foreign producers.

Moreover, to make the most of our oil supplies, we need to make use of our vast but under-utilized supplies of coal; we need to see to it that nuclear power is allowed to realize its tremendous, but currently jeopardized potential; and we need to accelerate exploration for new reserves of natural gas.

The problems afflicting each of those energy sources are different. We have tremendous coal reserves, but we must overcome environmental constraints before we can mine and burn it; cost and safety concerns threaten our nuclear program; and the continuing artificially low price imposed on natural gas has reduced its availability.

While the problems are different, the threat is the same: if each source does not provide its share of domestically-produced energy, we must look for it on the world market, and give up a measure of political and economic autonomy in return for every barrel we import.

The EPCA has provided a beginning -- a halting one, perhaps, but a beginning nonetheless. Now it is up to all of us to work together to use that beginning to work toward the only acceptable end: energy independence for the United States.

Thank you.

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