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THE WHITE HOUSE
WASHINGTON

Frank Job

Shouldn't we get
House of Senate Committee
Chairman of ranking Minority
down?

Should we include
Herbert as well as Price,
the Chairman?
What do Jack Mark & Mark
think?



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

OFFICE OF THE ADMINISTRATOR

January 18, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *Fk*
SUBJECT: NAVAL PETROLEUM RESERVES

Attached at Tab A is a summary of the points agreed to with the Department of Defense regarding Naval Petroleum Reserves 1 and 4.

Attached at Tab B are talking points for your use in the event you decide to discuss the matter with the Chairmen of the Armed Services Committees.

Attachments

TAB A

PETROLEUM RESERVES ADMINISTRATION POSITION

National Strategic Petroleum Reserve (NSPR)

- . Legislative authority will be sought to plan, construct, fill as appropriate, and maintain a National Strategic Petroleum Reserve. Government receipts from NPR-1 and NPR-4 will finance this effort through a Special Fund in the Treasury under the President's control.
- . NSPR will include 1 billion bbls for domestic/civilian use and 300 million bbls for military use.
- . The Reserve, which will take 4-6 years to complete, could be used only in case of an embargo or similar emergency, or a military emergency.
- . Development and utilization of the Reserve will be under the control of the President.

NPR-1, Elk Hills, California

- . Exploration and Development
 - Proceed with current, 5-year, Navy program involving 76 exploratory wells and 829 development wells at cost of \$447 million.
- . Production (Navy control)
 - 160,000 barrels per day (b/d) as soon as possible in Fiscal Year 1975.
 - 250,000 b/d or more as development progresses.
 - Government share of production is approximately 80% under existing contract.
- . Disposition of Government Share of Production
 - Store in NSPR
 - Store in Military Mobilization Tanks
 - Sell at auction or exchange for refined petroleum products used by DOD.
- . Use of Sales Revenues
 - Deposit in Special Fund in Treasury from which the President may authorize expenditures for the following purposes:
 - (1) Exploration, Development, Maintenance and Production of present Naval Petroleum Reserves.
 - (2) Finance construction, filling, and maintenance of the National Strategic Petroleum Reserve. (Reserve is petroleum and products stored in salt domes and possibly tanks.)
 - (3) Other military energy requirements.

. Unit Plan Contract with Standard Oil of California (SOCAL)

- Seek agreement with SOCAL to establish new unit plan contract in keeping with above plan and avoid loss of \$55M (current balance owed U.S. under current contract normally payable when reserve is produced for national defense) as well as potential loss of Government oil from speedup of SOCAL production from its own property; or failing to reach such agreement.
- Seek legislation that would protect the Government from losses.

NPR-4 Alaska

. Exploration, Development and Production

- Proceed with current Navy program, but seek broad legislative authority to explore, develop, and produce as rapidly as possible through a program managed by Defense/Navy.
- The President to be given broad authority to determine optimum approach for pursuing the program, including but not limited to exploration, development and production. After the new authorities are obtained, the President would direct the approach so determined according to criteria established in law (e.g., early production in significant volume, adequate return to the Government, sufficient rate of return to investors in exploration, development and production efforts).
- Production rate of 2 million b/d or more by 1985 or sooner is ultimate objective.
- Government share of production is estimated to be 15 to 20%, but will depend upon the choice of optimum approach by the President. All of the remainder will be sold in commercial market.

. Disposition of Government Share of Production

- Store in NSPR.
- Sell at auction or exchange for refined petroleum products used by DOD.

. Use of Sales Revenues

- Proceeds from sale of Government share of production deposited in Special Fund and used as indicated under NPR-1 above. President is authorized to transfer from Special Fund to the Treasury as miscellaneous receipts any of these proceeds in excess of those required for the purposes indicated under NPR-1.
- All other receipts deposited in Treasury as miscellaneous receipts.
- No share of Government receipts would go to State of Alaska.

TAB B

POINTS FOR DISCUSSION WITH COMMITTEE CHAIRMEN

- . I will soon be submitting legislation to establish a National Strategic Petroleum Reserve.
- . Under my plan, a portion of the oil in Naval Petroleum Reserves 1 and 4 will be used to build a 1.3 billion barrel emergency storage program: 300 million barrels to be dedicated for the military, and 1 billion barrels for the domestic economy in case of a future embargo.
- . In addition, a portion of the Government share of production from these Naval Reserves will be sold at auction or exchanged for refined products used by DOD. Sales revenues from the Government share of production will then be deposited in a Special Fund at Treasury under my control.
- . I would point out that under this plan the 1.3 billion barrels in storage will be far more useable for our national defense than the Naval Reserves are in their present form.
- . We are not asking the military to give up control of its reserves. DOD and the Navy will remain responsible for carrying out this program which will significantly reduce our vulnerability to future coercion.

THE WHITE HOUSE

WASHINGTON

February 3, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK ZARB
FROM: JERRY H. JONES
SUBJECT: Naval Petroleum Reserves

Your memorandum to the President of January 18 on the above subject has been reviewed and the following notation was made:

-- Shouldn't we get House and Senate Committee Chairmen and ranking Minority down? Should we include Hebert as well as Price, the Chairman? What do Jack Marsh and Max think?

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld
Jack Marsh
Max Friedersdorf
Mike Duval
Warren Rustand