

The original documents are located in Box 42, folder “1976/04/05 HR49 Naval Petroleum Reserves Production Act of 1976 (2)” of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald R. Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

Exact duplicates within this folder were not digitized.

94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPT. No. 94-
1st Session } { 81 PART I

AUTHORIZING THE SECRETARY OF THE INTERIOR TO ESTABLISH ON CERTAIN PUBLIC LANDS OF THE U.S. NATIONAL PETROLEUM RESERVES THE DEVELOPMENT OF WHICH NEEDS TO BE REGULATED IN A MANNER CONSISTENT WITH THE TOTAL ENERGY NEEDS OF THE NATION AND FOR OTHER PURPOSES

MARCH 18, 1975.—Ordered to be printed

Mr. HALEY, from the Committee on Interior and Insular Affairs, submitted the following

REPORT

[To accompany H.R. 49]

The Committee on Interior and Insular Affairs, to whom was referred the bill (H.R. 49) To authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

The amendment is as follows:

Page 1, beginning on line 3, strike out all after the enacting clause and insert in lieu thereof the following:

That in order to develop petroleum reserves of the United States which need to be regulated in a manner to meet the total energy needs of the Nation, including but not limited to national defense, the Secretary of the Interior is authorized to establish national petroleum reserves on any reserved or unreserved public lands of the United States (except lands in the National Park System, the National Wildlife Refuge System, the Wild and Scenic Rivers System, the National Wilderness Preservation System, areas now under review for inclusion in the Wilderness System in accordance with provisions of the Wilderness Act of 1964, and lands in Alaska other than those in Naval Petroleum Reserve #4).

Sec. 2. No national petroleum reserve that includes all or part of an existing naval petroleum reserve shall be established without prior consultation with the Secretary of Defense, and when so established, the portion of such naval reserve included shall be deemed to be excluded from the naval petroleum reserve.

Upon the inclusion in a national petroleum reserve of any land which is in a naval petroleum reserve on the date of enactment of this act, any equipment, facilities, or other property of the Department of the Navy used in operations on the land so included and any records, maps, exhibits, or other informational data held by the Secretary of the Navy in connection with the land so included shall be transferred from the Secretary of the Navy to the Secretary of the Interior who shall thereafter be authorized to use them to carry out the purposes of this Act.



The Secretary of the Interior shall assume the responsibilities and functions of the Secretary of the Navy under any contract which now exists with respect to activities on a naval petroleum reserve to which the United States is a party.

SEC. 3. (a) The oil and gas in the national petroleum reserves in the contiguous forty-eight states established pursuant to this section may be developed under terms and conditions prescribed by the Secretary of the Interior. The Secretary of the Interior shall use competitive bidding procedures with prior public notice of not less than 30 days of the terms and conditions for any contract, lease, or operating agreement for development and production of oil and gas from a national petroleum reserve. Such terms and conditions and also plans for the development of each area of the national petroleum reserves shall be published in the Federal Register, but shall not become effective until sixty days after final notice has been published and submitted to the Congress (not counting days on which either the House of Representatives or the Senate is not in session for three consecutive days or more) and then only if neither the House of Representatives nor the Senate adopts a resolution of disapproval. Each proposed Plan of development and each amendment thereof shall explain in detail the method of development and production proposed, shall provide for disposal and transportation of the oil consistent with the public interest, and shall give full and equal opportunity for development or acquisition of, or exchange for, the oil and gas by qualified persons including major and independent producers or refiners alike. Each proposed plan of development by the Secretary shall also explain the relative needs for developing the oil and gas resources in order to meet the total energy needs of the Nation, compared with the need for prohibiting such development in order to further some other public interest.

(b) Any oil or gas produced from such petroleum reserves, except such oil or gas which is either exchanged in similar quantities for convenience or increased efficiency of transportation with persons or the government of an adjacent foreign state, or which is temporarily exported for convenience or increased efficiency of transportation across ports of an adjacent foreign state and reenters the United States, shall be subject to all of the limitations and licensing requirements of the Export Administration Act of 1969 (Act of Dec. 30, 1969; 83 Stat. 841) and, in addition, before any oil or gas subject to this section may be exported under the limitations and licensing requirement and penalty and enforcement provisions of the Export Administration Act of 1969 the President must make and publish an express finding that such exports will not diminish the total quantity or quantity of oil and gas available to the United States and are in the national interest and are in accord with the Export Administration Act of 1969.

(c) The Secretary of the Interior is authorized to enter into contracts for the sale of oil and gas which is produced from the National Petroleum Reserves and which is owned by the United States. Such contracts shall be issued by competitive bidding; they shall be for periods of not more than one-year's duration, and in amounts which, in the opinion of the Secretary, shall not exceed those which can be effectively handled by the purchasers.

(d) The Secretary of the Interior is hereby authorized and directed to explore for oil and gas on Naval Petroleum Reserve No. 4 and he shall report annually to Congress on his plan for exploration of such Reserve: *Provided*, That no development leading to production shall be undertaken unless authorized by Congress.

(e) Any pipeline which carries oil or gas produced from the national petroleum reserves shall be subject to the common carrier provisions of Section 28 (r) of the Mineral Leasing Act of 1920, (41 Stat. 449), as amended (30 U.S.C. Section 185), regardless of whether the pipeline crosses public lands.

PURPOSE

H.R. 49 proposes to authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes.

EXPLANATION AND NEED

The bill seeks to accomplish three things:

First, to authorize the Secretary of the Interior to establish national petroleum reserves on the public lands.

Second, to authorize the Secretary to prepare plans for development and production of oil and gas on such reserves in the lower forty-eight states, subject to Congressional acceptance of any production plan.

Third, to direct the Secretary to explore for oil and gas on the 22 million-acre Naval Petroleum Reserve No. 4 in Alaska, and to report his findings annually to Congress. However, the bill expressly prohibits the Secretary from allowing any leasing, development, or production from this Alaskan reserve until further action by Congress.

Potential Oil and Gas Production on Public Lands

H.R. 49 proposes that public lands heretofore set aside as Naval Petroleum Reserves may be reviewed by the Secretary of the Interior. After consultation with the Secretary of Defense he is authorized to establish national petroleum reserves, which may include all or part of a Naval Petroleum Reserve. Subsequently the Secretary of the Interior is authorized to propose to Congress a plan for the development and production of any area within a national petroleum reserve. Such proposed plans would take effect 60 days after publication in the Federal Register unless rejected by either body of Congress.

The potential 300,000 barrels per day of production from Elk Hills could replace a like amount of imported crude oil. At current prices this would reduce our balance of payments deficit by about \$1.3 billion and return to the U.S. Treasury approximately \$1.0 billion per year.

Committee Jurisdiction

Jurisdiction over public lands in the House of Representatives is the responsibility of the Committee on Interior and Insular Affairs. H.R. 49 deals with establishing national petroleum reserves on any reserved or unreserved public lands, with certain specified exceptions. These exceptions are lands in the National Park System, National Wildlife Refuge System, Wild and Scenic Rivers System, Wilderness Preservation System and lands under review for inclusion in the Wilderness System, and lands in Alaska except those in Naval Petroleum Reserve No. 4.

Naval Petroleum Reserves are public lands set aside by Executive Order and used for a specific purpose. Their development and production for their oil potential is covered by statute (10 U.S.C. 7421, *et seq.*). Under the House Rules, this statute puts them under the jurisdiction of the House Committee on Armed Services.

Any production of oil and gas for other than national defense purposes from a Naval Petroleum Reserve requires an act of Congress because current law limits production from these reserves to national defense needs. This has been interpreted to mean a declaration of war. H.R. 49, by authorizing a naval petroleum reserve to be included in a

national petroleum reserve, would lift these restrictions on production and would permit the reserves to be developed in order to meet the total energy needs of the nation, including but not limited to national defense.

Similar bills, i.e., H.R. 11840 and H.R. 16800, were introduced in the 93d Congress. After extensive hearings held by the Subcommittee on Public Lands, the substance of H.R. 11840 was approved by the Subcommittee as part of the broader Public Land Policy and Management Act, H.R. 16800. However, no final Committee action was taken on this legislation in the 93d Congress.

The Committee is aware of the jurisdictional overlapping of H.R. 49 insofar as the Naval Petroleum Reserves is concerned. A letter from the Honorable Melvin Price, Chairman of the Armed Services Committee, on this question is included as a part of this report, together with the response of the Chairman of this Committee. This Committee believes that the urgent national need for immediate action to produce more domestic oil and natural gas weighs heavily against any further delay through duplicating this Committee's hearings and consideration. Debate on amendments or a substitute for H.R. 49, offered on the House Floor, could give the House an opportunity to decide on a policy for establishment and development of national petroleum reserves on the public lands. If this is done without further delay, domestic petroleum production could be increased by 160,000 barrels per day in less than six months, and 300,000 barrels within a year according to administration officials.

The Committee respectfully notes that the House Armed Services Committee's Investigating Subcommittee held hearings on Elk Hills on October 17 and 18, 1973, during the 93d Congress. They recommended that the reserve only be put in readiness for military use. This Committee is not insensitive to the views and prerogatives of the Committee on Armed Services; however, the Members strongly urge immediate consideration of H.R. 49 by the House. It is in this format that H.R. 49 as well as the position of the Armed Services Committee together with the President's recommendations in his Energy Independence Act of 1975, can be fully and adequately debated and considered.

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, D.C., March 3, 1975.

(Letter from Chairman of Committee on Armed Services to Chairman of Committee on Interior and Insular Affairs)

HON. JAMES A. HALEY,
Chairman, Committee on Interior and Insular Affairs, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I have learned that H.R. 49, a bill to authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves, has been favorably reported by the Subcommittee on Public Lands of your Committee. That bill would authorize the Secretary of the Interior to include within the national petroleum reserves the existing Naval Petroleum Reserves.

As you know, House Rule X, Clause 1(c) (4), grants this Committee jurisdiction over the conservation, development and use of Naval Petroleum Reserves. That jurisdiction was reaffirmed as recently as last October, when the House adopted H. Res. 988. In view of the exclusive jurisdiction of this Committee, I respectfully submit that the action taken by the Subcommittee on Public Lands clearly exceeded its jurisdiction and that of the Interior Committee. Accordingly, I request that the Interior Committee specifically exclude the Naval Petroleum Reserves from the provisions of the bill when it is presented for Committee action. I would also appreciate it if you would call this matter to the attention of the membership of your Committee by having this letter read when H.R. 49 comes before the Committee.

In the event that the Interior Committee approves the bill without specifically excepting the Naval Petroleum Reserves from its provisions, I request that this letter be made a part of the Interior Committee report on the bill.

Sincerely,

MELVIN PRICE,
Chairman.

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., March 7, 1975.

(Letter from Chairman of Committee on Interior and Insular Affairs to Chairman of Committee on Armed Services)

HON. MELVIN PRICE,
Chairman, House Committee on Armed Services, Room 2120, Rayburn Building, Washington, D.C.

DEAR MR. CHAIRMAN: H.R. 49, the bill to which you refer in your letter of March 3, has been scheduled for consideration by the Full Committee at our next regular meeting, Wednesday, March 12, at which time I assume the members will be aware of your position since you provided them with copies of your letter to me.

As to propriety of considering this legislation, we can only operate under the assumption that we have jurisdiction over a matter that has been referred to us by the Speaker. The bill of course provides that no petroleum reserve that includes an existing Naval Petroleum Reserve can be established without prior consultation with the Secretary of Defense.

At such time as any report on this bill is drafted, your request that your letter be made a part of that report will of course be considered.

Sincerely,

JAMES A. HALEY,
Chairman.

Historical Need for Naval Petroleum Reserves Has Changed

In the first quarter of this century four Naval Petroleum Reserves were created from public lands to assure that, in time of war, the Navy's ships would have adequate petroleum supplies. Naval Petro-

leum Reserve No. 1 at Elk Hills (established in September 1912); Naval Petroleum Reserve No. 2 (established in December 1915) at Buena Vista are both in California. Naval Petroleum Reserve No. 3 (established in December 1912) is Teapot Dome in Wyoming. Naval Petroleum Reserve No. 4 consisting of 22 million acres located on the north slope of the Brooks Range in Alaska was established in February 1923. Of the first three reserves, only Elk Hills, with 1.5 billion barrels, has any appreciable reserve.

The Defense Production Act of 1950, as amended, adequately protects the nation's defense needs. Under the terms of that Act, the President is authorized to assign priorities to any defense-related contracts or orders, including all fuels. The nation's entire supply of fuel could be immediately reserved and held for military use if necessary the minute the President establishes such a priority. Therefore, a reserve controlled by the Navy, but limited to use only during time of war, has lost the significance it once had.

Each of the three reserves in the lower forty-eight states is adjacent to other producing areas. Due to past and present production Buena Vista has been virtually depleted, with a reserve of only 51 million barrels remaining. Reserves in Teapot Dome are estimated to be only 50 million barrels. The relative insignificance of the amount of oil remaining in these two reserves make them reserves for the Navy in name only.

The case at Elk Hills is different. It can be put into production within sixty days. Production of 160,000 barrels per day could be obtained in less than six months and the reserve is capable of production of 300,000 barrels per day within one year. The Committee notes that this amount represents approximately 40 percent of the President's goal of reducing U.S. dependence on foreign crude imports by 800,000 barrels per day within one year. The total reserve is estimated to be 1.5 billion barrels of oil and over 1.2 trillion cubic feet of natural gas.

Drainage From the Elk Hills Reserve

Navy and Interior officials, private geologists and petroleum engineers, alike, all agreed in testimony that drainage from a partially developed petroleum field is difficult and sometimes impossible to prevent. Navy, in 1974, and again in February of this year, testified there was some drainage from Elk Hills. In this regard, two actions are now being litigated between the Navy and private oil companies to prevent further drainage through production from wells outside of the boundaries of the reserve.

To prevent such drainage, the Navy must either enjoin the production of oil on the adjoining lands outside of the reserve, or attempt to "jawbone" agreements with private interests to slow down production from, or vacate, active wells, or drill offset wells within the reserve and commence their own production. H.R. 49 would permit a production plan subject to Congressional approval. Such a plan would not only permit production within the reserve but would also free up production from wells on adjoining lands outside the reserve now enjoined by court action, thus ending the current litigation. This would mean an additional production of 20,000 barrels per day of oil by private companies on private lands now foreclosed by court order.

Joint U.S. and Standard Oil of California Ownership of Elk Hills Reserve Oil and Gas

The Elk Hills reserve is in joint ownership and, as a result of this, a unit plan contract between the Navy and the Standard Oil Company of California allocates 79 percent of the ownership to the Federal government and 21 percent to Standard. Since production ceased following World War II, standby maintenance has been provided for the existing wells through an operating agreement between the two parties which designates Standard as the operator of the field. However, the terms of the operating agreement permit its cancellation by either party. On February 14 of this year, Standard notified the Navy that it was exercising its right of cancellation.

Whether the Navy or another Federal agency manages Elk Hills, any new operating agreement must be negotiated with another company. Navy has testified that the unit plan contract and the operating agreement with Standard are equitable. The unit plan contract would remain in effect under any plan of production.

Known reserves of gas in Elk Hills exceed 1.2 trillion cubic feet which would become available for sale as oil production proceeded. There appears to be little need to stress the existing natural gas shortage in the Nation.

Protection of the Public Interest and Assuring Opportunity for Independent Oil Refiners to Have Equitable Access to Oil Produced on a National Petroleum Reserve

H.R. 49 provides that any plan of production proposed by the Secretary of the Interior from a national petroleum reserve in the lower forty-eight states can become effective only after being published in the Federal Register and submitted to Congress for 60 days during which time either body of Congress may veto it by adopting a resolution of disapproval. Any plan of production proposed by the Secretary can develop and produce such reserves either through a Federal agency, or by contracting or leasing with a private company on the basis of competitive bidding only.

The need for variation in any proposed production plans is evident because of the variations in conditions and circumstances of the petroleum reserves and supplies. As was pointed out previously, a reserve such as Teapot Dome has little oil left, requiring secondary treatment to recover the remaining oil, while Elk Hills permits primary production in several proven zones.

In any production plan, H.R. 49 requires that the small independent oil refiners, or purchasers of natural gas, have equitable opportunity to buy the product in amounts suitable to their needs, through purchase contracts limited to a year's duration. It also provides that any pipeline carrying oil or gas produced from a national petroleum reserve must be operated as a common carrier, thus assuring accessibility of the pipeline to the small independent companies. These protections are intended to guarantee small independent companies a viable opportunity to participate in the benefits of production from such national petroleum reserves.

Oil or gas produced from a national petroleum reserve cannot be exported under H.R. 49, except under the limitations and licensing

requirements of the Export Administration Act of 1969 and, in addition, unless the President makes a finding that such sale to a foreign country is in the national interest.

Potential of Naval Petroleum Reserve No. 4 in Alaska

The Committee finds that early exploration for oil and gas in Naval Petroleum Reserve No. 4 is essential. H.R. 49 directs the Secretary to undertake such exploration. However, production is out of the question for a number of years due to a lack of transportation. There are other matters to be considered before Congress makes a final judgment on the production of oil and gas contained in this reserve. These lands may have substantial values, including recreation, wildlife and other mineral deposits, in addition to any oil and gas.

Current oil development in Alaska is principally in the Prudhoe Bay area. That field involves leases issued by the State of Alaska to private oil companies and will pay royalties to the owners of the land. There could well be other fields found as extensions to the Prudhoe Bay field or in other areas of Alaska which could be developed under existing law and regulations and would return substantial revenues to the Federal government as well as to the State and the natives.

Exploration by the Navy within Naval Petroleum Reserve No. 4 is presently proceeding at a snail's pace. Navy has only two exploratory wells on this year's schedule, although they have programmed 24 more over the next 7 years at an estimated cost of \$382 million. Little is known of the potential oil or gas reserves in Naval Petroleum Reserve No. 4. Estimates range as high as 20-30 billion barrels of oil, but the Committee recognizes that these are little more than preliminary estimates until additional exploration has been accomplished.

Transportation facilities for oil or gas from this reserve will not be possible for at least five years and probably longer. The Trans-Alaskan Pipeline will begin operation in mid-1977, but any connection to it or expansion of it by looping to carry more than the oil produced in the Prudhoe Bay field is a major construction effort that would require another two to four years beyond 1977. A pipeline to carry natural gas from the North Slope of Alaska would require even more time.

It is vital to the national interest to assess the amount and location of potential oil and gas available in this 22 million acre reserve. There is the possibility of finding other minerals and there are wildlife and many other values on this large tract of public land that will have to be considered. For example, an area on the western side of the reserve is an historic and current calving ground of the Arctic caribou herd. The northeastern coastal plain area is considered to be the best waterfowl nesting area on the North Slope. Finally, lands in and adjacent to the Brooks Range are highly scenic. These areas should all receive consideration in any plans for development. In the Committee's opinion, the Secretary of the Interior is best qualified to make judgments regarding these other values.

The Department of the Interior administers more than 300 million acres of public land in Alaska. Some of this land is yet to be selected by the Natives and the State as permitted in the Alaskan Native Claims Settlement Act and the Alaska Statehood Act. Much of the

other public land in Alaska may be designated as wilderness, wild and scenic river, wildlife refuge, national park or national forest lands.

The Committee believes Congress must determine policy for this vast area of our largest State, and it believes also that the Department of the Interior should be guided by new law concerning public land policy. Certainly, the Navy should not retain exclusive jurisdiction over 22 million acres of Alaska public lands in the guise of an essentially unexplored petroleum reserve.

H.R. 49 would direct a more sensible and logical approach to the consideration of all of the public lands by integrating the management of Naval Petroleum Reserve No. 4 into the Department of the Interior. That Department could then determine the oil and gas potential on this reserve, together with its other values. Congress should determine all the relative values, including continuation of all or parts of it as a national petroleum reserve.

Meanwhile, production from proven reserves in the lower forty-eight States could proceed subject to Congressional review of the production plans.

BUDGET ACT COMPLIANCE

Under the provision of Rule X, clause 3 (b), and clause 1 (e) (3) (c), and sections 308(a) and 403 of the Congressional Budget Act of 1974, the Committee recognizes that some costs will be incurred as a result of the enactment of H.R. 49 (see Current and Five Subsequent Fiscal Year Cost Estimate), but it notes that the income will far exceed the costs.

CURRENT AND FIVE SUBSEQUENT FISCAL YEAR COST ESTIMATE

Pursuant to Rule XIII, Clause 7, of the Rules of the House of Representatives, the Committee estimates the cost to be incurred by the Federal Government during the current and the five subsequent fiscal years as a result of the enactment of this legislation would be as follows:

This bill would mean production of oil and gas from national petroleum reserves within the contiguous 48 states subject to a plan developed by the Secretary of Interior which would come before Congress for 60 days and be subject to a veto by either body. The Committee estimates that outlays for developing plans by the Secretary would not exceed \$2 million per year.

The bill also directs the Secretary of the Interior to explore for oil and gas on Naval Petroleum Reserve No. 4 in Alaska and report annually to Congress on his findings but does not allow any production. The Committee estimates that the Secretary of the Interior will expend nothing during the current fiscal year for exploration of this area, but up to \$50 million may be spent in each of the succeeding five fiscal years. However, it must be pointed out that these costs could vary considerably depending on the Secretary's findings as presented in his annual report to the Congress and on the determination by Congress of the Secretary's actual needs for exploration in Naval Petroleum Reserve No. 4. Even without enactment of H.R. 49, Navy estimates exploration costs of \$382 million over the next seven years. Cost estimates for H.R. 49 substantially replace Navy's projected costs.

U.S. receipts from sale of oil and gas produced from National Petroleum Reserves would most likely offset these expenditures many times over.

OVERSIGHT STATEMENT

Pursuant to Rule X, clause 2(b)(1), the Subcommittee on Public Lands conducted oversight related hearings during its hearings on H.R. 49. While the Subcommittee did not find that existing laws were implemented in a manner inconsistent with the intent of Congress at the time they were enacted, it did conclude that conditions and circumstances had so changed that new legislation was necessary and desirable. Based on this conclusion, the Subcommittee recommended and the Committee on Interior and Insular Affairs agreed (by a vote of 32 to 0) that the national interest demanded the development of new policy with respect to Federal oil and gas reserves.

No recommendations were submitted to the Committee pursuant to Rule X, clause 2(b)(2).

COMMITTEE CONSIDERATION

In the 93d Congress hearings were held on H.R. 11840 and related measures on December 18, 20, 21, 1973; on January 17, 22, 25, 28, 29, 1974; on February 4, 5, 28, 1974; and on March 14, 15, 1974—a total of 13 Committee Hearings.

In the 94th Congress the Subcommittee on Public Lands met to hear and consider H.R. 49 on February 6, 21 and 28, 1975. After discussing the matter on February 28 the Subcommittee revised the legislation and reported it favorably to the Full Committee on Interior and Insular Affairs. On March 13, 1975, the Committee on Interior and Insular Affairs ordered the measure favorably reported, as amended, to the House by a vote of 32 to 0.

DEPARTMENTAL REPORT

While no formal report was received from the Department of the Interior or the Department of Defense on H.R. 49, testimony was taken by the Subcommittee on Public Lands from both Executive Departments. Generally, the Administration spokesmen testified that their Energy Independence Act of 1975, a more general measure, is recommended. That legislation contains a provision similar to H.R. 49 which aims towards the ultimate development of the Naval oil reserves by the Navy Department. H.R. 49 modifies that approach by allowing the Secretary of the Interior to establish National Petroleum Reserves, including Naval Petroleum Reserves under certain circumstances, and to utilize the expertise available to him to explore and develop those reserves under the terms of the legislation.

While the Administration spokesmen indicated a preference for the proposal, as transmitted, it was clearly understood by the Members of the Committee that the Administration strongly recommends action by the Congress to assure the immediate production of the Elk Hills area. If the Congress concludes that a solution different from the one transmitted is more appropriate, the Administration is not expected to reject it on a jurisdictional basis.

AUTHORIZING THE SECRETARY OF THE INTERIOR TO ESTABLISH ON CERTAIN PUBLIC LANDS OF THE UNITED STATES NATIONAL PETROLEUM RESERVES THE DEVELOPMENT OF WHICH NEEDS TO BE REGULATED IN A MANNER CONSISTENT WITH THE TOTAL ENERGY OF THE NATION, AND FOR OTHER PURPOSES

APRIL 18, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. HÉBERT, from the Committee on Armed Services, submitted the following

REPORT

[To accompany H.R. 49]

The Committee on Armed Services, to whom was referred the bill (H.R. 49) sequentially, following its consideration and report to the House by the Committee on Interior and Insular Affairs (Rept. No. 94-81, Part I), which bill would authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

AMENDMENTS TO THE AMENDMENT OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS TO H.R. 49

Page 3, between lines 14 and 15, insert the following: "TITLE I".

Page 3, line 15, strike out "That in" and insert "SEC. 101. In".

Page 3, line 21, insert "the Naval Petroleum Reserves," immediately before "the National Park System."

Page 4 line 1, insert a period immediately after "Alaska".

Page 4, strike out line 2.

Page 4, strike out line 3 and all that follows down through line 22.

Page 4, line 23, strike out "Sec. 3." and insert "SEC. 102."

Page 7, lines 5 and 6, strike out "on Naval Petroleum Reserve Numbered 4".

Page 7, line 7, strike out "of such reserve".

Page 7, after line 15, insert the following:

TITLE II

SEC. 201. (a) Chapter 641 of title 10, United States Code, is amended as follows—

(1) Immediately before section 7421 insert the following new section:

“§ 7420. Definitions

“(a) In this chapter—

“(1) ‘National defense’ includes the needs of, and the planning and preparedness to meet, essential defense industrial and military emergency energy requirements relative to the national safety, welfare, and economy, particularly resulting from foreign military or economic actions.

“(2) ‘Naval Petroleum and Oil Shale Reserves’ means the naval petroleum and oil shale reserves established by this chapter, including naval petroleum reserve numbered 1 (Elk Hills), located in Kern County, California, established by Executive Order of the President on September 2, 1912; naval petroleum reserve numbered 2 (Buena Vista), located in Kern County, California, established by Executive Order of the President on December 13, 1912; naval petroleum reserve numbered 3 (Teapot Dome), located in Wyoming, established by Executive Order of the President on April 30, 1915; naval petroleum reserve numbered 4, Alaska, on the north slope of the Brooks Range, established by Executive Order of the President of February 27, 1923; oil shale reserve numbered 1, located in Colorado established by Executive Order of the President of December 6, 1916, as amended by Executive Order of June 12, 1919; oil shale reserve numbered 2, located in Utah, established by Executive Order of the President of December 6, 1916; and oil shale reserve numbered 3, located in Colorado, established by Executive Order of the President of September 27, 1924.

“(3) ‘Petroleum’ includes crude oil, associated gases, natural gasoline and other related hydrocarbons, oil shale, and the products of any of such resources.

“(4) ‘Secretary’ means the Secretary of the Navy.”

(2) Section 7421(a) is amended—

(A) by striking out “for naval purposes” and inserting in lieu thereof “for use of the armed forces”; and

(B) by striking out “section 7438 hereof” and inserting in lieu thereof “this chapter”.

(3) Section 7422 is amended by adding at the end thereof the following new subsection:

“(d)(1) In order to place certain naval petroleum reserves in a proven state of readiness to produce petroleum, the Secretary is authorized—

“(A) to explore, develop, operate and produce petroleum, from naval petroleum reserves numbered 1, 2 and 3 at a rate consistent with sound oilfield engineering practices up to 200,000 barrels per day for a period not to exceed three years commencing 90 days after enactment of this legislation; and

“(B) to construct or procure pipelines and associated facilities for transporting oil, associated liquids and gases, from naval petroleum reserves numbered 1, 2, and 3 to the points where such production will be refined or shipped.

Such pipelines at naval petroleum reserve numbered 1 shall have a combined delivery capability of not less than 350,000 barrels per day, and shall be fully operable by three years after the date of enactment of this subsection.

“(2) The production authorization set forth in paragraph (1)

(A) of this subsection is conditioned upon the Secretary reaching an agreement with the private owner to continue operation of naval petroleum reserve numbered 1 under a unitized plan contract which adequately protects the public interest.

“(3) The production of petroleum authorized under this subsection is not subject to the provisions of subsection (b)(2) of this section relating to Presidential approval or Congressional authorization.”

(4) Section 7423 is amended by inserting “(a)” immediately before “The Secretary”; and by adding at the end thereof the following new subsection:

“(b) During the three-year period of production authorized by subsection (d) of section 7422 (during which three-year period the consultation requirements of section 7431(3) are waived), the Secretary shall submit annual reports to the Armed Services Committees of the Senate and the House of Representatives detailing—

“(1) the status of the exploration and development program at each of the naval petroleum reserves;

“(2) the production which has been achieved at each of the naval petroleum reserves pursuant to that authorization, including the disposition of such production and the proceeds realized therefrom;

“(3) the status of the pipeline construction and procurement authorized by such subsection (d);

“(4) any need for modification of the production levels authorized by such subsection (d), including any recommendation for continuing production beyond the three-year period provided in such subsection; and

“(5) the plans for further exploration, development and production at naval petroleum reserve numbered 4.”

(5) Section 7430(b) is amended to read as follows:

“(b) Notwithstanding any other provision of law, each sale of the United States share of petroleum, gas, other hydrocarbons, oil shale, or products therefrom, shall be made by the Secretary at public sale to the highest qualified bidder at such time, in such amounts, and after such advertising as the Secretary considers proper and without regard to Federal, State, or local regulations controlling sales or allocation of petroleum products.”

(6) Section 7430 is further amended by adding at the end thereof the following new subsection:

“(c) Any disposition of the United States share of the production authorized by section 7422(d) shall be conducted in such a manner as to insure that an amount of petroleum products equal in value to the

crude oil and associated gases and liquids supplied from the naval petroleum reserves shall be made available, exclusively to the armed forces of the United States. Any disposition of that production shall be so arranged as to give full and equal opportunity for acquisition of the petroleum and associated products by all interested companies, including major and independent oil refineries alike."

(7) Section 7432 is amended to read as follows:

"§ 7432. Naval Petroleum and Oil Shale Reserves Special Fund

"(a) There is hereby established on the books of the Treasury Department a special fund designated the 'Naval Petroleum and Oil Shale Reserves Special Fund'. There shall be credited to such fund—

"(1) all proceeds realized under this chapter from the disposition of the United States share of petroleum or refined products, oil and gas products, including royalty products;

"(2) the net proceeds, if any, realized from sales or exchanges within the Department of Defense of refined petroleum products accruing to the benefit of any component of that Department as the result of any such sales or exchanges; and

"(3) such additional sums as have been, or may be, appropriated for the maintenance, operation, exploration, development and production of the naval petroleum and oil shale reserves.

"(b) Funds available in the Naval Petroleum and Oil Shale Reserve Special Fund shall be available for expenditure in such sums as are specified in annual congressional appropriations acts for the expenses of—

"(1) exploration, prospecting, conservation, development, use, operation and production of the Naval Petroleum and Oil Shale Reserves as authorized by this chapter;

"(2) production, including preparation for production as authorized by this act, or as may hereafter be authorized; and

"(3) the construction and operation of facilities both within and outside the naval petroleum and oil shale reserves incident to the production and the delivery of crude petroleum and derivatives, including pipelines and shipping terminals.

"(c) The budget estimates for annual appropriations from the Naval Petroleum and Oil Shale Reserve Special Fund shall be prepared by the Office of Naval Petroleum and Oil Shale Reserves and shall be presented by the President independently of the budget of the Department of the Navy and the Department of Defense.

"(d) Contracts obligating only such funds as are appropriated and made available annually may be entered into by the Secretary for periods of not more than five years renewable for a like term."

(8) Section 7433(b) is amended by adding immediately before the period at the end thereof the following: "and credited to the Naval Petroleum and Oil Shale Reserve Special Fund".

(b) The analysis of such chapter 641 is amended—

(1) by inserting immediately before

"7421. Jurisdiction and control."

the following:

"7420. Definitions.;" and

(2) by striking out

"7432. Expenditures: appropriations available."

and inserting in lieu thereof the following:

"7432. Naval Petroleum and Oil Shale Reserve Special Fund."

Sec. 202. (a) The Secretary of the Navy shall establish a study group which shall investigate the feasibility of creating a National Strategic Petroleum Reserve (Military) (hereinafter in this section referred to as the "Reserve"). Any such Reserve should include petroleum stored at strategic locations, or available for delivery to such locations, and include facilities for storage, transportation or processing thereof. In computing the amount of petroleum to be stored in such Reserve, the Peacetime Operating Stocks and Prepositioned War Reserve Stocks of the Department of Defense shall not be included. Such Reserve should be in addition to any National Strategic Petroleum Reserve (Civilian) which may be otherwise provided for.

(b) The investigation required under subsection (a) shall include, but need not be limited to, determinations with respect to the size, scope, objectives, and all cost factors associated with the establishment, of the Reserve. In arriving at its findings and recommendations, the study group shall consult with, and seek, the position of the Joint Chiefs of Staff relative to the overall posture of the Reserve.

(c) Not later than one year after the date of the enactment of this Act, the Secretary of the Navy shall report to the Congress the findings and recommendations of the study group.

EXPLANATION OF AMENDMENTS

The amendments proposed by the Committee on Armed Services amend the amendment recommended by the Committee on Interior and Insular Affairs to H.R. 49.

The amendments proposed by the Committee on Armed Services accomplish two main objectives:

(1) The language proposed by the Interior and Insular Affairs Committee amendment would be left intact except that the Naval Petroleum Reserves would be treated in a separate title of the Armed Services Committee amendment. This change honors the jurisdiction of the Interior and Insular Affairs Committee over all public lands other than the Naval Petroleum Reserves which, by statute and the Rules of the House of Representatives, are within the sole legislative jurisdiction of the Committee on Armed Services, and

(2) A new Title II would provide very specific conditions under which the Naval Petroleum Reserves would be explored, developed, and produced in the national interest.

Briefly, the new title would—

Allow production from the Naval Petroleum Reserves at not to exceed 200,000 barrels per day, for a period of three years;

Sell or exchange the oil produced for the exclusive use of the armed forces;

Put the proceeds of such sale in a Special Fund to be used for further exploration, development and production of the Reserves, including pipeline construction and other facilities;

Establish a group to study the feasibility of creating a National Strategic Petroleum Reserve (military); and

Require that proceeds of the Special Fund be subject to the regular Congressional appropriations process.

In addition to the foregoing general changes, the Committee added a technical amendment to section 201(a)(6) of its proposed Title II to provide that production of the Naval Petroleum Reserves would be made available *exclusively* to the Armed Forces of the United States.

Details concerning the proposed objectives and implementation of the amendments are addressed further on in this report.

PURPOSE

The purpose of H.R. 49 as stated in the report on the bill by the Committee on Interior and Insular Affairs (94-81, Part I) is "to authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes."

However, the thrust of the language in that report and the testimony of two of the bills' sponsors before the Armed Services Committee make it evident that the real purpose of H.R. 49 is to break through the protection afforded Naval Petroleum Reserves 1 and 3 under the law and open them for commercial exploitation with little apparent regard for national security considerations.

The amendments to H.R. 49 as proposed by the Committee on Armed Services would correct this problem as detailed in this report.

SEQUENTIAL REFERRAL

H.R. 49 was introduced on January 14, 1975 and originally referred only to the Interior and Insular Affairs Committee. A reading of the bill indicates that its apparent purpose is to remove the Naval Petroleum Reserves from the control of the Secretary of the Navy, where they are held for national defense purposes, and place the reserves under the control of the Secretary of the Interior where Petroleum Reserves 1, 2, and 3 can be produced primarily for commercial sale. Nonetheless, the bill, because of the manner in which it was written, was not referred to the House Armed Services Committee, which has exclusive legislative jurisdiction over the Naval Petroleum Reserves, under the provisions of House Rule X, clause 1(c).

Accordingly, the Chairman of the House Armed Services Committee took two actions. On March 3, 1975 a letter was addressed to the Honorable Carl Albert, Speaker of the House of Representatives, pointing out the exclusive jurisdiction of the House Armed Services Committee over the Naval Petroleum Reserves and requesting that H.R. 49 be referred also to this Committee for consideration of matters relating to the Naval Petroleum Reserves.

In a second action, also on March 3, 1975, the Chairman of the House Armed Services Committee addressed a letter to the Chairman of the Committee on Interior and Insular Affairs pointing out the jurisdictional issue and requested that the Interior Committee specifically exclude the Naval Petroleum Reserves from the provisions of H.R. 49. That request was not honored.

The Committee on Interior and Insular Affairs reported H.R. 49 on March 18, 1975 and its report is identified as "House Report 94-81, Part I." Also, on March 18, 1975 the Speaker, in accordance with the

revised House rules, and the request of the Chairman of the Armed Services Committee, referred H.R. 49 sequentially to the House Armed Services Committee for a period ending no later than April 19, 1975.

It is also pertinent to note in this regard that following the President's State of the Union Message on January 15, 1975, in which he asked for production of Elk Hills Naval Petroleum Reserve in amounts up to 300,000 barrels per day, H.R. 2633 and H.R. 2650 were introduced on February 4, 1975 as the President's Energy Independence Act of 1975. Title I of those identical bills applied to the Naval Petroleum Reserves. Title I of those bills was referred to the Committee on Armed Services, with other titles to the Committee on Interstate and Foreign Commerce, Committee on Ways and Means and Committee on Banking, Currency and Housing. It is significant that no part of these bills was referred to the Committee on Interior and Insular Affairs.

BACKGROUND

The Establishment and Location of the Reserves

There are four naval petroleum reserves: No. 1, Elk Hills; No. 2, Buena Vista Hills, in Kern County, Calif.; No. 3, Teapot Dome, Wyo.; No. 4, on the North Slope in Alaska, immediately to the west of the Prudhoe Bay commercial oil field. All of those reserves were established between 1912 and 1923.

In addition, there are three naval oil shale reserves: Nos. 1 and 3 in Colorado; No. 2 in Utah, established in 1916 and 1924.

Those oil shale reserves are undeveloped. The only current activity at any of those reserves is in providing shale for use in an experimental retort process of Paraho Development Corp.

Approximately 20 percent of Naval Petroleum Reserve No. 1 at Elk Hills is owned by Standard Oil Co. of California. It has been operated under a unit plan contract since 1944, which has kept the field largely shut-in.

There are over 1 billion barrels in proven reserves in this field, and 1.2 billion thousand cubic feet of gas reserve. There are more than 1,000 wells in existence on NPR No. 1. It has a current production capability of 160,000 barrels per day, which could be expanded by further development of the field to 400,000 barrels per day.

Since June 1974, 42 new wells have been drilled at Elk Hills. They have proved an additional 100 million barrels of reserve. In 1974 the U.S. income from this reserve was \$2.5 million.

NPR No. 2 is located at Buena Vista Hills, Calif. Two-thirds of this reserve is privately owned and one-third is U.S. owned. There are more than 20 million barrels proven reserve remaining at Buena Vista Hills. It is fully developed and producing. The United States presently derives 647 barrels per day in royalty oil at NPR No. 2. In 1974 U.S. income from this reserve was \$1.5 million.

NPR No. 3 is located at Teapot Dome, Wyo. It is wholly-owned by the United States. It has a proven reserve of 42.5 million barrels. There are 150 wells on the reserve. It has a present production capability of 2,000 barrels per day. The 1974 income of the United States from Teapot Dome production was \$1.1 million.

NPR No. 4 is located on the North Slope in Alaska. It is wholly owned by the United States. It is largely unexplored and almost com-

pletely undeveloped. The reserve is estimated at between 10 billion and 33 billion barrels. However, only 100 million barrels of reserves have been proven. The rest, of course, must be proven in subsequent exploration.

The exploration program in fiscal year 1975 consists of 3,500 miles of seismic exploration and two exploratory wells. One gas well has been completed, and is capable of producing 500,000 cubic feet of gas per day. The second exploration well was started on March 17 of this year.

Existing Law

Chapter 641, title 10, United States Code, deals with Naval Petroleum Reserves. Section 7422 grants the Secretary of the Navy exclusive jurisdiction and control of the reserves and directs him to explore, prospect, conserve, develop, use and operate those reserves.

The production of the reserves is limited to that which is necessary for protection, conservation, testing and maintenance. For any production beyond that, the Secretary of the Navy must find that it is needed for national defense, that finding must be approved by the President and the production must be authorized by joint resolution of Congress.

Recent Committee Oversight Actions

During October 1973 the Investigating Subcommittee conducted hearings following a public statement by President Nixon that Naval Petroleum Reserve No. 1 at Elk Hills should be opened up to meet the fuel needs of the west coast. In its report on November 13, 1973, the Subcommittee indicated that an energy crisis was upon the Nation and that the statutory restriction on the use of the Naval Petroleum Reserves should not be amended.

During the period January through May 1974 a Special Subcommittee on Department of Defense Energy Resources and Requirements, chaired by Congressman Otis G. Pike (D-NY) held extensive hearings on the overall defense energy question, with particular reference to the Naval Petroleum Reserves. In its principal findings the Subcommittee held that production of Elk Hills Petroleum Reserve beyond the statutory limits was not warranted at that time and that the exploration and development of Reserves 1 and 4 at Elk Hills and Alaska must be completed as rapidly as time and resources permit. That report showed particular concern over the inadequate response to fulfilling defense petroleum needs when the Defense Production Act of 1950 was invoked during the 1973 fuel crisis.

READINESS AND DELIVERABILITY

Elk Hills (Reserve No. 1)

Two figures have been popularly used in discussing the oil to be delivered from Elk Hills—160,000 barrels per day and 300,000 barrels per day. The facts are that with *present* facilities the maximum amount of deliverable oil is 30,000 barrels per day, which is a constraint resulting from the fact that only one pipeline exists to carry the oil off

the Reserve, and that is owned by the operating partner, Standard of California.

Testimony indicates that three tie-ins to existing privately owned lines off the Reserve could be completed in a 60- to 90-day period at a cost of about \$1.1 million, and would result in increased capacity to 130,000 barrels per day. An additional \$1 million would be required to demothball the necessary wells. However, that figure would remain *constant* for a period of about 30 months at which time the completion of a fourth tieline and pumping facility would increase capacity to 155,000 barrels per day—a figure which represents total pipeline space capacity. That figure, coincidentally, would also require additional gas pipelines and processing capability, with a total additional cost of \$5 million.

Thus, the *earliest* that Elk Hills could reach a capacity of 155,000 barrels per day would be close to 30 months after authority is granted. Any capacity beyond that figure would require *additional* pipeline facilities to the coast. The Navy is currently negotiating for a 20-inch line now in place which would meet a marine terminal at Port Hue-neme. Because of necessary additional connections, that line would require a three-year lead time which could be stretched due to expected critical environmental impact problems.

Although some of the pipeline owners might be interested in making these tie-ins at their own expense with the belief that their costs could be recouped over several years of use of the lines, none are willing to undertake these costs for a limited open-up of the field. Believing that it would be in the best interests of national defense for the Navy to have the capability of transport petroleum off the Reserve, the Committee amendments would authorize the Navy to make these tie-ins and also to acquire and/or construct a line to a marine terminal to transport a large quantity of petroleum. This could free the Navy from the constraints imposed by privately owned pipelines.

It is important to note that production of the field during the interim period now through fiscal year 1979 will reduce the maximum capability of the field.

Buena Vista (Reserve No. 2)

As noted earlier in this report, almost two-thirds of this field is privately owned, and the field has been in production since the 1920's, with the Navy producing its portion in order to prevent losing its oil to adjacent owners. The Navy receives about 647 barrels of oil per day in royalty oil from Buena Vista.

Teapot Dome (Reserve No. 3)

There are no refinery or pipeline constraints at Teapot. Whatever crude cannot be handled in local refineries can be piped out to refineries with considerable excess capacity. The real problems involve lead time on equipment necessary to increase production.

The field is currently being developed under a five-year program at a cost of \$54 million. Under that plan peak production would come at the end of the second year, producing some 18,000 to 20,000 barrels per day.

CONCEPTS

H.R. 49, as Amended by the Committee on Interior and Insular Affairs

That bill would authorize the Secretary of Interior, replacing the Secretary of the Navy as the custodian of the Naval Petroleum Reserves, to establish national petroleum reserves, including all existing Naval Petroleum Reserves.

The Secretary of the Interior could develop Naval Petroleum Reserves 1, 2 and 3 and use competitive bidding to enter into leases, contracts, or operating agreements for development and production. Any such arrangements would be submitted to Congress and would become effective in 60 days if neither the House nor Senate adopted a resolution of disapproval.

There would be equal opportunity for development, acquisition and exchange of oil and gas by qualified persons, including major and independent producers and refineries alike.

The Secretary of the Interior would be authorized to enter into contracts to sell the oil and gas produced under competitive bidding arrangements.

The Secretary of the Interior would be authorized and directed to explore Petroleum Reserve No. 4, but the development leading to production would be prohibited unless authorized by Congress.

All pipelines carrying production from the reserves would be subject to the common carrier provision of the Mineral Leasing Act.

It should be noted that there are *no* restrictions on production and *no* provisions for maintaining a defense petroleum reserve or strategic petroleum reserve.

The Interior Committee concluded that conditions and circumstances have so changed since the establishment of the Naval Petroleum Reserves that new legislation is necessary and desirable. In that context, the Interior Committee stated that the Defense Production Act of 1950 adequately provides for the Nation's defense needs. In so finding, the Interior Committee stated that the Nation's entire supply of fuel could be immediately reserved and held for military use.

The experience of the Department of Defense in the 1973 fuel crisis found the decisions made in the Executive Branch under the Defense Production Act to fall far short of expectations. (See report of Special Subcommittee on Department of Defense Energy Resources and Development referenced above.)

Further, Subcommittee testimony reveals that domestic crude oil capacity at the present time is in the vicinity of 9½ million barrels of oil per day. That results in a dependency on foreign sources of upwards to 7½ million barrels per day. With an embargo or interdiction of foreign supplies during any national emergency or war, in which military needs could be safely pegged at 1.6 million barrels per day, any invocation of the Defense Production Act under such circumstances would likely create a catastrophe for the economy. In effect, the country would be asked to operate on something less than one-half its current daily consumption of 17 million barrels of oil.

Suggestions have been made that the Defense Production Act should be amended as it is not workable. In fact, the fault does not lie with

the language of the Defense Production Act. The fault lies with the improbability of producing or acquiring oil in sufficient quantities to satisfy *all* emergency requirements, regardless of how the law is worded.

A drainage from the reserves is cited by the Interior Committee as an additional reason for producing the reserves. While drainage has been a problem at both Elk Hills and Teapot Dome, it is nothing unique to those reserves or to oil production in general, and the Navy has been able to combat the drainage by offset production or enjoining actions.

Finally, we find no arrangements for setting up a special fund to insure that the proceeds from the sale of petroleum are funneled back to the Naval Petroleum Reserves for exploration and development—particularly for Reserve No. 4 in Alaska.

H.R. 2633, the President's Energy Independence Act of 1975

The basic concept embodied in this proposal would continue the Naval Petroleum Reserves in the custody of the Secretary of the Navy but would place the basic decision making process in the hands of the President. In that bill national security would take on a broad definition, to include essential civilian and military emergency energy requirements.

The proposal would provide for the establishment of National Strategic Petroleum Reserves in unidentified facilities at unidentified locations, to include a civilian reserve of 1 billion barrels of oil and a military reserve of 300 million barrels of oil.

The President could produce the Naval Petroleum Reserves to supply the strategic petroleum reserve, to generate funds for deposit in a National Strategic Petroleum Reserve Special Fund, and to replenish military peacetime operating stocks and prepositioned war reserve stocks.

Moneys from the special fund could be used to explore, develop and produce the Naval Petroleum Reserves, but the proposal would place *no limit* on the production of the reserves.

The bill would allow the use of private capital in exploring and developing Petroleum Reserve No. 4 in Alaska.

Twenty percent of the petroleum available in Reserve No. 4, or such amount as the President may determine to be necessary for national security, would be utilized for the National Strategic Petroleum Reserve. The remainder would go to the public economy.

The authority would be granted to develop the reserves on and off the reservation.

ARMED SERVICES COMMITTEE PROPOSAL—A SPECIFIC BLUEPRINT

The Problems

The current Armed Services Committee hearings on H.R. 2633, H.R. 2650 and H.R. 49, as amended by the Interior and Insular Affairs Committee, as well as the inquiry by our Special Subcommittee on Department of Defense Energy Resources and Requirements in early 1974 (House Armed Services Committee Document No. 93-48), made it crystal clear that our national security *requires* the assurance that

our armed forces have enough fuel to supply their needs in time of national emergency or war. Thus, it is necessary to insure, insofar as is possible, that in tampering with the petroleum reserves for production, the reserves are completely protected from depletion before any alternate oil sources in them may be established. As one Committee member so aptly put it, "Our ships burn oil, not dollars." The Joint Chiefs of Staff joined in that determination until most recently, when they, not too surprisingly, fell in line with their Commander-in-Chief to support his Energy Independence Act of 1975, which Committee testimony reveals was not referred to the Chiefs for consideration until after it was in final draft form.

In some quarters, great reliance has been placed on the *potential* of Petroleum Reserve No. 4. But its potential is unproven, and the *proven* reserves at Elk Hills should remain available for emergency use, while at the same time, the field should be brought to a complete state of readiness to provide the required quick reaction time in fulfilling its mission.

Also, current plans regarding proposals for strategic storage of oil are so inadequate as to require considerable study and detailed planning. The Committee could find little hard evidence as to where they will be located, how much they will cost, how the crude oil will be transported to refineries, or exactly how long it will take to construct them.

As indicated earlier in this report, the Naval Petroleum Reserve at Elk Hills is operated under a unit plan contract with Standard Oil of California, which has kept the field largely shut-in. This agreement resulted from Standard Oil owning approximately 20 percent of Naval Petroleum Reserve No. 1. The unit plan was authorized by enabling legislation on June 17, 1974 (10 USC 7422(b), 7426), which confined production to that needed for national defense purposes. The problem that arose was whether producing Elk Hills would result in a possible breach of contract. While Standard Oil witnesses indicated that any production at Elk Hills would be unrealistic under other than a unit plan, the problem was of serious concern to the Committee.

Finally, the Committee recognizes that there is a need to find additional sources of domestic crude oil supply at the earliest possible time to reduce the growing domestic demand for foreign oil.

The Blueprint

To satisfy the problems raised by proposals to produce the Naval Petroleum Reserves, the Armed Services Committee amendments would accomplish the following:

Provide production of the Petroleum Reserves for a period not to exceed three years, at a rate not to exceed 200,000 barrels per day.

Such oil produced will be sold or exchanged for the exclusive use of the military services.

Provide for a Naval Petroleum and Oil Shale Reserves Special Fund, into which will flow the proceeds of such sales, and any separate monies appropriated for the Naval Petroleum Reserves.

The Special Fund (which would be subject to the Congressional appropriations process) would be used for the exploration, development, conservation and production of the reserves and the construction of facilities, both *on* and *outside* the reserves, including

pipeline and shipping terminals. The target for pipeline capacity at Elk Hills is set at 350,000 barrels per day.

Provide for the establishment of a study group to inquire into the feasibility of, locations, size and cost of creating a National Strategic Petroleum Reserve (military), and report at the end of one year following enactment of the legislation.

Require the Secretary to report to the Congress annually detailing the status of exploration and development, production achieved, status of pipeline construction and procurement of equipment, any recommendations for continued production beyond the three-year period and plans for further exploration, development and production at Petroleum Reserve No. 4.

Provide for production authorization of Elk Hills to be conditioned upon the Secretary of the Navy reaching an agreement with the private owner to continue operation of Elk Hills under a unitized planned contract, which adequately protects the public interest.

The Committee is of the opinion that its amendments to H.R. 49 present definitive authority for proceeding to produce the Naval Petroleum Reserves. Also, the Committee hearings and deliberations contain clear guidance as to where the program is going, what it seeks to accomplish, and where there will be terminations to allow for re-examination of the principles involved, in the context of the problems existing at that time. For example, when the Alaska pipeline now under construction commences delivery of its capacity of two million barrels of oil per day to the west coast in about three years, the requirements for any continued production of the Naval Petroleum Reserves will be in need of fresh review.

DEPARTMENTAL POSITIONS

Since H.R. 49 was referred sequentially to the House Armed Services Committee under the new House rules after being reported by the Committee on Interior and Insular Affairs, with a reporting date of April 19, 1975, formal, written Departmental positions addressed to this Committee could not be obtained in a timely fashion. Accordingly, the positions reported herein are derived from the testimony of Departmental witnesses during the course of Subcommittee hearings.

Department of Interior

Honorable Jack W. Carlson, Assistant Secretary of the Interior for Energy and Minerals:

Mr. Carlson stated repeatedly that the Department supports the President's program laid out in the Energy Independence Act of 1975 (H.R. 2633), but would not make a direct statement supporting or disapproving H.R. 49. Carlson did state:

In several important respects the Act proposed by the President differs from H.R. 49.

With regard to the question of who may better operate Elk Hills, Secretary Carlson stated:

... On NPR No. 1 there is more special knowledge content associated with that and would give the Navy more of an advantage in managing properly there as opposed to NPR No. 4...

On the same subject the Secretary stated:

We proposed the President's program. The President's program has the Navy doing the program . . . The Administration's position is to support the President's approach, which is the Navy approach.

In answer to a question as to whether the President supports enactment of H.R. 49 the Secretary stated:

The President supports his own legislation.

And again with regard to H.R. 49:

We would like to see some improvements to it . . .

Finally, the Secretary stated:

Gentlemen, H.R. 49 is not our bill . . . This is not our preferred way to go.

Department of Defense

Honorable Jack L. Bowers, Assistant Secretary of the Navy (Installations and Logistics):

In contrast to the Energy Independence Act it is felt that H.R. 49 is distinctly lacking in necessary detailed plans . . . In addition, there is no urgency for exploration in NPR No. 4. To summarize, . . . there is no plan in H.R. 49 for strategic petroleum reserves.

Vice Admiral T. R. Weschler, Director for Logistics, Joint Chiefs of staff:

H.R. 49, it appears, would not further the essential task of bringing the reserves to an adequate state of readiness any sooner than existing plans. In fact, it may hinder progress . . .

When asked the question, with adequate funding, are you fully confident that the Navy could develop Elk Hills as expeditiously and well as any other agency in the Nation, the Admiral replied:

Yes, sir. I see no reason why not.

Rear Admiral C. Monroe Hart, Director for Energy, Office of Assistant Secretary of Defense (Installations and Logistics):

H.R. 49 makes no provision for emergency supply augmentation. The Department of Defense does not support enactment of H.R. 49.

The Admiral supported the principles embodied in Titles I and II of the President's Energy Independence Act of 1975.

Vice Admiral Harry D. Train II, Director of the Joint Staff, Joint Chiefs of Staff:

"The Naval Petroleum Reserves belong to the Nation and can be used or preserved for whatever purpose the people desire, as the Congress directs, through appropriately enacted legislation. As such, the provisions of H.R. 49 are of direct and immediate concern. H.R. 49 does not provide for retention of any reserves, does not expedite exploration and development of NPR No. 4, and does not directly insure an in-

creased deliverability of POL in an emergency. In effect, H.R. 49 removes the petroleum reserves from their national defense role and, as such, would adversely impact on the ability of the U.S. Armed Forces to deter war and to defeat aggression if deterrence fails.

Federal Energy Administration

Honorable Frank G. Zarb, Administrator:

When asked the question, are you opposed to H.R. 49, Mr. Zarb stated:

In its current form, yes, sir.

In essence, Mr. Zarb strongly favored the concept of the President's Energy Independence Act of 1975.

Department of Justice

Honorable Keith Clearwaters, Assistant Attorney General, Anti-trust Division:

H.R. 49 would thus appear to provide for a broad and ill-defined power to establish what are called national petroleum reserves on almost all public lands throughout the United States. But, as the Interior Committee report makes clear, these broad powers are specifically aimed at existing naval petroleum reserves, not other lands. The bill would substitute the Interior Department for the traditional administration of the Navy and contemplates an opening of the reserves, except NPR No. 4 to full production by outside parties. In Alaska, power to proceed beyond exploration is barred without further Congressional authorization.

As for the competitive safeguards, we prefer those which were carefully devised by the Administration in consultation with the Department of Justice to deal with specific problems in a comprehensive plan of development. The standards provided in H.R. 49 appear to be less precisely drawn and could provide serious problems in interpretation and administration. Based upon the foregoing, we favor the administration bill over H.R. 49.

COMMITTEE POSITION

Hearings were held on H.R. 49 on March 24, 24 and 26 and April 9, 1975. On April 15, 1975, the Committee on Armed Services ordered the bills, with amendments, favorably reported to the House by a vote of 28 to 3.

FISCAL DATA

A start-up funding of \$10.3 million would be required for FY 75. Thereafter, proceeds from the sale of oil from NPR's 1, 2 and 3 would provide funds for all expenses and create a surplus of approximately \$640 million at the end of Fiscal Year 1979. Tabulated below are the estimated expenses and income for the three year limit of this legislation. The Committee estimates agree with the estimates provided by the Department of the Navy.

ESTIMATED EXPENDITURES AND INCOME—H.R. 5919 AND/OR TITLE II OF H.R. 49

[In thousands of dollars]

	Fiscal year—				Total
	1975	1976	1977	1978	
ESTIMATED EXPENSES					
NPR 1—Elk Hills:					
Demo/balling existing facilities.....	1,000				1,000
Pipeline tie-in to Arco, Seaco, Tosco.....	2,100				2,100
Build and/or acquire P. to Point Huememe.....	500	25,000	20,000	5,000	51,500
Build HP gas line to North Coles levee.....	1,000				1,000
Production (lifting) costs at 25¢/bbl.....	12,000	13,000	14,500	14,500	39,500
Development drilling (100 wells per year).....	6,500	8,400	7,500	7,500	22,400
Production (lifting) costs at 50¢/bbl.....	94,800	105,700	93,900	65,100	359,500
Development drilling (829 wells).....					1,000
Mothballing facilities.....					1,000
Total.....	5,700	142,300	147,100	120,900	483,100
NPR 2—Buena Vista: No expenses incurred; income from royalty.....					
NPR 3—Teapot Dome:					
Well work-over (clean out).....	1,500	600	650	650	1,500
Exploration drilling (22 wells total).....	10,000	10,000	10,000	10,000	40,000
Development drilling (100 wells per year).....	5,000	1,000	750	600	7,350
Oil and gas processing facilities.....	100	832	1,202	1,572	4,206
Production (lifting) costs at 50¢/bbl.....					500
Mothballing facilities.....					500
Total.....	5,100	14,232	12,552	12,822	56,956
NPR 4—North Slope, Alaska:					
Seismic survey (10,000 line miles).....	24,500	18,600	9,300	5,100	57,500
Exploration drilling (26 wells).....	30,200	50,800	38,500	43,600	163,100
Total.....	54,700	69,400	47,800	48,700	220,600
Strategic storage study.....					
Naval Petroleum and Oil Shale Res. Administration.....	1,000	8,000	8,000	8,000	1,000
Total expenses.....	11,800	219,232	237,052	189,522	32,000
ESTIMATED INCOME					
(Crude oil value of \$10/bbl)					
NPR 1.....	345,600	424,130	424,130	30,000	1,223,860
NPR 2.....	300	2,070	1,870	1,690	7,460
NPR 3.....	1,200	26,300	78,000	58,900	204,000
Total income.....	1,500	373,970	504,000	484,720	1,435,320
Net income.....	(10,300)	154,738	266,948	295,198	641,664

CHANGES IN EXISTING LAW

In compliance with the Rules of the House of Representatives, there is herewith printed in parallel columns the text of provisions of existing law which would be repealed or amended by the various provisions of the bill as reported.

EXISTING LAW	
CHAPTER 641.—NAVAL PETROLEUM RESERVES	
Sec.	
7421.	Jurisdiction and control.
7422.	Administration.
7423.	Periodic re-examination of production requirements.
7424.	Protection of oil reserves; contracts for conservation.
7425.	Acquisition by condemnation and purchase.
7426.	Cooperative or unit plans affecting naval petroleum reserve numbered 1.
7427.	Cooperative or unit plans in the naval petroleum reserves.
7428.	Agreement and leases: provision for change.
7429.	Re-lease of certain lands: lessee's preferential right.
7430.	Disposition of products.
7431.	Requirements as to consultation and approval.
7432.	Expenditures: appropriations chargeable.
7433.	Disposition of royalties.
7434.	Quarterly reports to Armed Services Committees.
7435.	Foreign interest.
7436.	Regulations.
7437.	Violations by lessee.
7438.	Exclusion of naval oil-shale reserves.

THE BILL AS REPORTED	
(b)	The analysis of such chapter 641 is amended—
(1)	by inserting immediately before
"7421.	Jurisdiction and control."
	the following:
"7420.	Definitions.;"
	and
(2)	by striking out
"7432.	Expenditures: appropriations available."
	and inserting in lieu thereof the following:
"7432.	Naval petroleum and oil shale reserve special fund."
(1)	Immediately before section 7421 insert the following new section:
"§ 7420.	Definitions
"(a)	In this chapter—
"(1)	'national defense' includes the needs of, and the planning and preparedness to meet, essential defense industrial and military emergency energy requirements relative to the national safety, welfare, and economy, particularly resulting from foreign military or economic actions;

INFLATION IMPACT STATEMENT

The enactment of this legislation should have a positive affect on the economy in that a supply of up to 200,000 barrels a day will be flowing to the armed forces of the United States, relieving the civilian economy of supplying that amount, and, in turn, hopefully reducing foreign oil imports by a like amount, with consequent favorable effect on the balance-of-payments. In addition, the proceeds of the oil to the military would go into a special fund to support further exploration, development and production in the Naval Petroleum Reserves over the three-year period, thus, relieving the Treasury of that burden, except for the starting up cost of \$10,300,000 as outlined above under fiscal data. In view of the above, the Committee does not consider that the financial aspects of these amendments contain an inflation factor.

OVERSIGHT FINDINGS

The Committee supports a continuing need for Naval Petroleum Reserve oversight responsibilities to rest exclusively in the House Armed Services Committee, as provided in the House rules.

"(2) 'naval petroleum and oil shale reserves' means the naval petroleum and oil shale reserves established by this chapter, including Naval Petroleum Reserve Numbered 1 (Elk Hills), located in Kern County, California, established by Executive order of the President on September 2, 1912; Naval Petroleum Reserve Numbered 2 (Buena Vista), located in Kern County, California, established by Executive order of the President on December 13, 1912; Naval Petroleum Reserve Numbered 3 (Teapot Dome), located in Wyoming, established by Executive order of the President on April 30, 1915; Naval Petroleum Reserve Numbered 4, Alaska, on the north slope of the Brooks Range, established by Executive order of the President of February 27, 1923; Oil Shale Reserve Numbered 1, located in Colorado, established by Executive order of the President of December 6, 1916, as amended by Executive order of June 12, 1919; Oil Shale Reserve Numbered 2, located in Utah, established by Executive order of the President of December 6, 1916; and Oil Shale Reserve Numbered 3, located in Colorado, established by Executive order of the President of September 27, 1924;

"(3) 'petroleum' includes crude oil, associated gases, natural gasoline, and other realted hydrocarbons, oil shale, and the products of any of such resources; and

"(4) 'Secretary' means the Secretary of the Navy."

18

§ 7421. Jurisdiction and control

(a) The Secretary of the Navy shall take possession of all properties inside the naval petroleum and oil shale reserves that are or may become subject to the control of and use by the United States for naval purposes, except as otherwise provided in section 7438 hereof.

(b) The Secretary has exclusive jurisdiction and control over those lands inside naval petroleum reserves numbered 1 and 2 that are covered by leases granted under sections 181-184, 185-188, 189-194, 201, 202-209, 211-214 223, 224-226, 226d, 226e, 227-229a, 241, 251, and 261-263 of title 30, and shall administer those leases. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(1), 76 Stat. 904.

§ 7422. Administration

(a) Except as otherwise provided in section 7438 hereof, the Secretary of the Navy, directly or by contract, lease, or otherwise, shall explore, prospect, conserve, develop, use, and operate the naval petroleum and oil shale reserves in his discretion, subject to approval by the President.

(b) The naval petroleum and oil shale reserves and lands outside naval petroleum reserve numbered 1 covered by contracts under section 7426 of this title, shall be used and operated for—

(1) the protection, conservation, maintenance, and testing of those reserves; or

(2) the production of petroleum, gas, oil shale and products thereof whenever and to the extent that the Secretary, with the approval of the President, finds that it is needed for national defense and the production is authorized by a joint resolution of Congress.

Section 7421(a) is amended—

(A) by striking out "for naval purposes" and inserting in lieu thereof "for use of the Armed Forces"; and

(B) by striking out "section 7438 hereof" and inserting in lieu thereof "this chapter".

19

(c) The Secretary of the Navy may under subsection (a) develop the South Barrow gas field, naval petroleum reserve numbered 4, to supply gas to installations of the Department of Defense and other agencies of the United States located at or near Point Barrow, Alaska, the native village of Barrow, and other communities and installations at or near Point Barrow, Alaska. As amended Aug. 24, 1962, Pub. L. 87-599, § 1, 76 Stat. 401; Oct. 11, 1962, Pub. L. 87-796, § 1(2), 76 Stat. 904.

Section 7422 is amended by adding at the end thereof the following new subsection:

“(d) (1) In order to place certain naval petroleum reserves in a proven state of readiness to produce petroleum, the Secretary is authorized—

“(A) to explore, develop, operate, and produce petroleum, from Naval Petroleum Reserves Numbered 1, 2, and 3 at a rate consistent with sound oilfield engineering practices up to two hundred thousand barrels per day for a period not to exceed three years commencing ninety days after enactment of this legislation; and

“(B) to construct or procure pipelines and associated facilities for transporting oil, associated liquids, and gases, from Naval Petroleum Reserves Numbered 1, 2, and 3 to the points where such production will be refined or shipped.

20

Such pipelines at Naval Petroleum Reserve Numbered 1 shall have a combined delivery capability of not less than three hundred and fifty thousand barrels per day, and shall be fully operable by three years after the date of enactment of this subsection.

§ 7423. Periodic re-examination of production requirements

The Secretary of the Navy shall from time to time re-examine the need for the production of petroleum or products from oil shale for national defense when that production is authorized under section 7422 of this title. If he finds that the authorized quantity is no longer needed, he shall reduce production to the amount currently needed for national defense. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(3), 76 Stat. 904.

“(2) The production authorization set forth in paragraph (1) (A) of this subsection is conditioned upon the Secretary reaching an agreement with the private owner to continue operation of Naval Petroleum Reserve Numbered 1 under a unitized plan contract which adequately protects the public interest.

“(3) The production of petroleum authorized under this subsection is not subject to the provisions of subsection (b) (2) of this section relating to Presidential approval or congressional authorization.”.

Section 7423 is amended by inserting “(a)” immediately before “The Secretary”; and by adding at the end thereof the following new subsection:

“(b) During the three-year period of production authorized by subsection (d) of section 7422 (during which three-year period the consultation requirements of section 7431(3) are waived), the Secretary shall submit annual reports to the Armed Services Committees of the Senate and the House of Representatives detailing—

“(1) the status of the exploration and development program at each of the naval petroleum reserves;

“(2) the production which has been achieved at each of the naval petroleum reserves pursuant to that authorization, including the disposition of such production and the proceeds realized therefrom;

“(3) the status of the pipeline construction and procurement authorized by such subsection (d);

21

“(4) any need for modification of the production levels authorized by such subsection (d), including any recommendation for continuing production beyond the three-year period provided in such subsection; and

“(5) the plans for further exploration, development and production at Naval Petroleum Reserve Numbered 4.”

§ 7430. Disposition of products

(a) The Secretary of the Navy in administering the naval petroleum and oil shale reserves under this chapter shall use, store, sell, or exchange for other petroleum or refined products, the oil and gas products, including the royalty products, oil shale and products therefrom produced, from lands in the naval petroleum and oil shale reserves, including gas products from lands in the South Barrow gas field of naval petroleum reserve numbered 4, and lands outside petroleum reserve numbered 1 covered by joint, unit, or other cooperative plans for the benefit of the United States.

(b) Each sale of petroleum, gas, other hydrocarbons, oil shale, or products therefrom, under this section shall be made by the Secretary at public sale to the highest qualified bidder at such time, in such amounts, and after such advertising as the Secretary considers proper. As amended Aug. 24, 1962, Pub. L. 87-599, § 2, 76 Stat. 401; Oct. 11, 1962, Pub. L. 87-796, § 1(6), 76 Stat. 905.

(5) Section 7430(b) is amended to read as follows:

“(b) Notwithstanding any other provision of law, each sale of the United States share of petroleum, gas, other hydrocarbons, oil shale, or products therefrom, shall be made by the Secretary at public sale to the highest qualified bidder at such time, in such amounts, and after such advertising as the Secretary considers proper and without regard to Federal, State, or local regulations controlling sales or allocation of petroleum products.”

(6) Section 7430 is further amended by adding at the end thereof the following new subsection:

“(c) Any disposition of the United States share of the production authorized by section 7422(d) shall be conducted in such a manner as to insure that an amount of petroleum products equal in value to the crude oil and associated gases and liquids supplied from the naval petroleum reserves shall be made available exclusively to the armed forces of the United States. Any disposition of that production shall be so arranged as to give full and equal opportunity for acquisition of the petroleum and associated products by all interested companies, including major and independent oil refineries alike.”

Section 7432 is amended to read as follows:

§ 7432. Expenditures: appropriations chargeable

(a) Expenses incurred by the Secretary of the Navy with respect to the naval petroleum and oil shale reserves shall be paid from appropriations made available for the purposes specified in this chapter.

“§ 7432. Naval petroleum and oil shale reserves special fund

“(a) There is hereby established on the books of the Treasury Department a special fund designated the ‘naval petroleum and oil share reserves special fund’. There shall be credited to such fund—

“(1) all proceeds realized under this chapter from the disposition of the United States share of petroleum or refined products, oil and gas products, including royalty products;

“(2) the net proceeds, if any, realized from sales or exchanges within the Department of Defense of refined petroleum products accruing to the benefit of any component of that Department as the result of any such sales or exchanges; and

(b) Expenditures necessary to carry out this chapter shall be made under the direction of the President, who shall submit estimates for these expenditures as prescribed by law. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(8), 76 Stat. 905.

“(3) such additional sums as have been, or may be, appropriated for the maintenance, operation, exploration, development, and production of the naval petroleum and oil share reserves.

“(b) Funds available in the naval petroleum and oil shale reserve special fund shall be available for expenditure in such sums as are specified in annual congressional appropriations Acts for the expenses of—

“(1) exploration, prospecting, conservation, development, use, operation, and production of the naval petroleum and oil shale reserves as authorized by this chapter;

“(2) production, including preparation for production as authorized by this Act, or as may hereafter be authorized; and

“(3) the construction and operation of facilities both within and outside the naval petroleum and oil shale reserves incident to the production and the delivery of crude petroleum and derivatives, including pipelines and shipping terminals.

“(c) The budget estimates for annual appropriations from the naval petroleum and oil shale reserve special fund shall be prepared by the Office of Naval Petroleum and Oil Shale Reserves and shall be presented by the President independently of the budget of the Department of the Navy and the Department of Defense.

24

“(d) Contracts obligating only such funds as are appropriated and made available annually may be entered into by the Secretary for periods of not more than five years renewable for a like term.”.

§ 7433. Disposition of royalties

(a) Any oil, gas, gasoline or other substance accruing to the United States as royalty from any lease under this chapter shall be delivered to the United States, or shall be paid for in money, as the Secretary of the Navy elects.

(b) All money accruing to the United States from lands in the naval petroleum and oil shale reserves shall be covered into the Treasury. As amended Oct. 11, 1962, Pub.L. 87-796, § 1(9), 76 Stat. 905.

Section 7433(b) is amended by adding immediately before the period at the end thereof the following: “and credited to the naval petroleum and oil shale reserve special fund”.

(a) The Secretary of the Navy shall establish a study group which shall investigate the feasibility of creating a national strategic petroleum reserve (military) (hereinafter in this section referred to as the “reserve”). Any such reserve should include petroleum stored at strategic locations, or available for delivery to such locations, and include facilities for storage, transportation, or processing thereof. In computing the amount of petroleum to be stored in such reserve, the peacetime operating stocks and prepositioned war reserve stocks of the Department of Defense shall not be included. Such reserve should be in addition to any national strategic petroleum reserve (civilian) which may be otherwise provided for.

25

(b) The investigation required under subsection (a) shall include, but need not be limited to, determinations with respect to the size, scope, objectives, and all cost factors associated with the establishment of the reserve. In arriving at its findings and recommendations, the study group shall consult with, and seek, the position of the Joint Chiefs of Staff relative to the overall posture of the reserve.

(c) Not later than one year after the date of the enactment of this Act, the Secretary of the Navy shall report to the Congress the findings and recommendations of the study group.

SUMMARY

Background and Purpose

H.R. 49 was originally referred to the Committee on Interior and Insular Affairs since it proposed to establish National Petroleum Reserves to satisfy the petroleum needs of the Nation. However, a close examination of the bill, as amended by the Interior and Insular Affairs Committee, clearly indicated that its main purpose was to open up the Naval Petroleum Reserve at Elk Hills for commercial production and nullify existing statutory protection of the reserves for defense purposes. Accordingly, since the Naval Petroleum Reserves fall within the exclusive jurisdiction of the House Armed Services Committee, and after a request for consideration of H.R. 49 in this Committee, the Speaker referred the bill sequentially to the Committee, as provided for in the new House rules, with a reporting deadline of April 19, 1975.

House Armed Services Committee Amendments

In the Committee amendments, the language proposed by the Interior and Insular Affairs Committee would be left intact except that the Naval Petroleum Reserves would be treated in a separate title, which would result in honoring the jurisdiction of the Interior and Insular Affairs Committee over all public lands other than the Naval Petroleum Reserves, which by statute and the rules of the House, are within the sole legislative jurisdiction of the Armed Services Committee. The new title, contained in the Armed Services Committee amendment, would provide specific conditions under which the Naval Petroleum Reserves would be explored, developed and produced. The most significant provisions would require a production limit of 200,000 barrels per day for a period not to exceed three years and the oil would be sold exclusively to the Department of Defense, with the proceeds placed in a special fund to be used for further exploration, development and production of the Naval Petroleum Reserves. There would be a study regarding the establishment of a National Strategic Petroleum Reserve (military).

Fiscal Data

A start-up funding of \$10,300,000 would be required in FY 75. Thereafter, proceeds from the sale of the petroleum produced would cover costs and create a surplus which would amount to \$640 million at the end of FY 79.

Departmental Position

The Department of Defense opposes the legislation as it was referred to this Committee, but has not taken a position on the amendments. The Department of Defense favors H.R. 2633, the Energy Independence Act of 1975, which is the Administration bill.

Committee Position

The Committee on Armed Services on April 15, 1975 favorably reported the bill, with amendments, by a vote of 28 to 3.

AUTHORIZING THE SECRETARY OF THE INTERIOR TO ESTABLISH ON CERTAIN PUBLIC LANDS OF THE U.S. NATIONAL PETROLEUM RESERVES THE DEVELOPMENT OF WHICH NEEDS TO BE REGULATED IN A MANNER CONSISTENT WITH THE TOTAL ENERGY NEEDS OF THE NATION AND FOR OTHER PURPOSES

APRIL 22, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed.

Mr. HALEY, from the Committee on Interior and Insular Affairs, submitted the following

SUPPLEMENTAL REPORT TO PART 1

[To accompany H.R. 49]

The Committee on Interior and Insular Affairs, to whom was referred the bill (H.R. 49) to authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes, having reported favorably thereon, with an amendment, submits the following supplemental information:

PURPOSE

The purpose of this supplementary report is to provide the House with information additional to that contained in the original report of the Committee on Interior and Insular Affairs on H.R. 49 (House Report 94-81, Part 1) with respect to the inflationary impact statement required by the House Rules.

COMMENTS IN ORIGINAL REPORT RELATING TO INFLATION IMPACT

Rule XI, clause 2(1) (4) requires a "detailed analytical statement as to whether the enactment of such bill * * * may have an inflationary impact on prices and costs in the operation of the national economy." The report (House Report 94-81, Part 1) filed by this Committee contains the following statements:

The potential 300,000 barrels per day of production from Elk Hills could replace a like amount of imported crude oil. At current prices this would reduce our balance of payments



deficit by about \$1.3 billion and return to the U.S. Treasury approximately \$1 billion per year. (page 3)

H.R. 49, by authorizing a naval petroleum reserve to be included in a national petroleum reserve, would lift these restrictions on production and would permit the reserves to be developed in order to meet the total energy needs of the nation, including but not limited to national defense. (page 3)

Production [at Elk Hills] of 160,000 barrels per day could be obtained in less than six months and the reserve is capable of production of 300,000 barrels per day within one year. The Committee notes that this amount represents approximately 40 percent of the President's goal of reducing U.S. dependence on foreign crude imports by 800,000 barrels per day within one year. The total reserve is estimated to be 1.5 billion barrels of oil and over 1.2 trillion cubic feet of natural gas. (page 6)

Since section 3 of H.R. 49 requires the Secretary of the Interior to develop plans for each area under his jurisdiction, explaining in detail the method of development and production proposed, it was recognized that any accurate estimate of its inflationary impact could not be ascertained until the plans are presented to the Congress (which, incidentally, under the bill, would not become effective for 60 days so that the Congress will have an opportunity to review and perhaps disapprove each plan). H.R. 49 provides the authority for the Secretary to establish national petroleum reserves and to prepare plans for their development and production. At that time the Congress will have the necessary information to make a reasonably accurate assessment of the actual inflationary impact.

PARAMETERS OF POTENTIAL ECONOMIC IMPACT

If H.R. 49 as recommended by the Committee on Interior and Insular Affairs is enacted, production of oil and gas in some areas could commence promptly. Production at Naval Petroleum Reserve No. 1 could reach 160,000 barrels per day within 6 months and that reserve is capable of producing 300,000 barrels per day within 1 year. In addition, this reserve contains 1.2 trillion cubic feet of natural gas.

Add to this the privately owned share (20 percent of the total) of the Elk Hills Reserve and the potential of producing another 2,650 barrels of oil from Naval Petroleum Reserves No. 2 and No. 3 and 20,000 barrels per day by private companies on private land now foreclosed by court order, and it is readily recognizable that such production, if permitted, could have a substantial effect on the available domestic supply. Several very beneficial effects would result—

it would lessen—though not eliminate—our reliance on foreign sources of supply of oil;

it would have the very favorable effect of reducing the balance of payments by nearly \$1.5 billion;

it would produce non-tax revenues for the U.S. Treasury totaling \$1.0 billion per year or more; thus helping greatly in these times of budgetary deficits.

All of these things will, of course, have a favorable effect on the economy and should be counter inflationary. The adverse impact of these oil imports in the American economy is universally recognized. Nothing has had a worse effect on inflation than spiraling petroleum prices—transportation costs are up for virtually all forms of American enterprise from the operation of basic farm machinery and delivery vans to international airlines; utility costs for everything from manufacturing operations to the illumination of government offices have skyrocketed; and the workingman's costs for essential day-to-day commuting and simple recreational desires have sometimes become prohibitive. Limiting production of known domestic oil supplies to 200,000 barrels per day for 3 years, as has been suggested by some, may have some limited benefit for the economy, but it stands to reason that greater long-term benefits will result from a more enduring program like that proposed in H.R. 49. Not only must production commence promptly, but the Secretary of the Interior, who has responsibility for managing the Nation's natural resources, should make every effort to explore and develop new domestic sources of supply wherever possible, including exploration of Naval Petroleum Reserve No. 4 in Alaska. Such a task should not be assigned to the Secretary of the Navy whose basic function it is to manage the naval forces and not to manage the Nation's natural resources.

CONCLUSION

In contrast with some proposals, ultimately the enactment of H.R. 49 as recommended by the Committee on Interior and Insular Affairs should have a deflationary impact on prices and costs in the operation of the national economy, should result in a substantial reduction in the balance of payments, and should produce significant revenues for the Federal Treasury.



FULLY EXPLORE, FULLY DEVELOP, AND PRODUCE THE NAVAL PETROLEUM RESERVES WITH THE REVENUE DERIVED THEREFROM TO BE PLACED IN A SPECIAL FUND FOR SUCH EXPLORATION, DEVELOPMENT, AND PRODUCTION, FOR PRODUCTION TO BE APPLIED TO THE PETROLEUM NEEDS OF THE DEPARTMENT OF DEFENSE AND FOR THE ESTABLISHMENT OF A STUDY GROUP TO INVESTIGATE THE FEASIBILITY OF CREATING A NATIONAL STRATEGIC PETROLEUM (MILITARY), AND FOR OTHER PURPOSES

APRIL 18, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. HÉBERT, from the Committee on Armed Services,
submitted the following

REPORT

[To accompany H.R. 5919]

The Committee on Armed Services, to whom was referred the bill (H.R. 5919) to fully explore, fully develop, and produce the naval petroleum reserves with the revenue derived therefrom to be placed in a special fund for such exploration, development, and production, for production to be applied to the petroleum needs of the Department of Defense and for the establishment of a study group to investigate the feasibility of creating a National Strategic Petroleum Reserve (military), and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

On page 6, line 14, after the word "available" add the word "exclusively".

EXPLANATION OF THE AMENDMENT

This technical amendment was adopted by the Committee during its hearings on the bill to insure that all of the oil produced under the provisions of H.R. 5919 would be purchased by the armed forces of the United States only.

PURPOSE

H.R. 4919 proposes to fully explore, fully develop, and produce the Naval Petroleum Reserves with the revenue derived therefrom to be placed in a special fund for such exploration, development, and pro-

duction, and for production to be applied to the petroleum needs of the Department of Defense and for the establishment of a study group to investigate the feasibility of creating a National Strategic Petroleum Reserve (military), and for other purposes.

THE CLEAN BILL

The legislation was originally referred to the House Armed Services Committee as Title I of H.R. 2633 and H.R. 2650, the President's Energy Independence Act of 1975, which has reference to the Naval Petroleum Reserves. At the same time, additional titles of that bill were referred to the Committee on Interstate and Foreign Commerce, Committee on Ways and Means and Committee on Banking, Currency and Housing. A clean bill, H.R. 5919, was introduced for the consideration of the Full Committee due to differences with the Departmental proposal.

During its deliberations, the Committee also had before it H.R. 49, as amended by the Interior and Insular Affairs Committee, which was referred sequentially to the House Armed Services Committee. That bill would create national petroleum reserves, to include the Naval Petroleum Reserves.

BACKGROUND

THE ESTABLISHMENT AND LOCATION OF THE RESERVES

There are four naval petroleum reserves: No. 1, Elk Hills; No. 2, Buena Vista Hills, in Kern County, Calif.; No. 3, Teapot Dome, Wyo.; No. 4, on the North Slope in Alaska, immediately to the west of the Prudhoe Bay commercial oil field. All of those reserves were established between 1912 and 1923.

In addition, there are three naval oil shale reserves: Nos. 1 and 3 in Colorado; No. 2 in Utah, established in 1916 and 1924.

Those oil shale reserves are undeveloped. The only current activity at any of those reserves is in providing shale for use in an experimental retort process of Paraho Development Corp.

Approximately 20 percent of Naval Petroleum Reserve No. 1 at Elk Hills is owned by Standard Oil Co. of California. It has been operated under a unit plan contract since 1944, which has kept the field largely shut-in.

There are over 1 billion barrels in proven reserves in this field, and 1.2 billion thousand cubic feet of gas reserve. There are more than 1,000 wells in existence on NPR No. 1. It has a current production capability of 160,000 barrels per day, which could be expanded by further development of the field to 400,000 barrels per day.

Since June 1974, 42 new wells have been drilled at Elk Hills. They have proved an additional 100 million barrels of reserve. In 1974 the U.S. income from this reserve was \$2.5 million.

NPR No. 2 is located at Buena Vista Hills, Calif. Two-thirds of this reserve is privately owned and one-third is U.S. owned. There are more than 20 million barrels proven reserve remaining at Buena Vista Hills. It is fully developed and producing. The United States presently de-

rives 647 barrels per day in royalty oil at NPR No. 2. In 1974 U.S. income from this reserve was \$1.5 million.

NPR No. 3 is located at Teapot Dome, Wyo. It is wholly-owned by the United States. It has a proven reserve of 42.5 million barrels. There are 150 wells on the reserve. It has a present production capability of 2,000 barrels per day. The 1974 income of the United States from Teapot Dome production was \$1.1 million.

NPR No. 4 is located on the North Slope in Alaska. It is wholly-owned by the United States. It is largely unexplored and almost completely undeveloped. The reserve is estimated at between 10 billion and 33 billion barrels. However, only 100 million barrels of reserves have been proven. The rest, of course, must be proven in subsequent exploration.

The exploration program in fiscal year 1975 consists of 3,500 miles of seismic exploration and two exploratory wells. One gas well has been completed, and is capable of producing 500,000 cubic feet of gas per day. The second exploration well was started on March 17 of this year.

EXISTING LAW

Chapter 641, title 10, United States Code, deals with Naval Petroleum Reserves. Section 7422 grants the Secretary of the Navy exclusive jurisdiction and control of the reserves and directs him to explore, prospect, conserve, develop, use and operate those reserves.

The production of the reserves is limited to that which is necessary for protection, conservation, testing and maintenance. For any production beyond that, the Secretary of the Navy must find that it is needed for national defense, that finding must be approved by the President and the production must be authorized by joint resolution of Congress.

RECENT COMMITTEE OVERSIGHT ACTIONS

During October 1973, the Investigating Subcommittee conducted hearings following a public statement by President Nixon that Naval Petroleum Reserve No. 1 at Elk Hills should be opened up to meet the fuel needs of the west coast. In its report on November 13, 1973, the Subcommittee indicated that an energy crisis was upon the Nation and that the statutory restriction on the use of the Naval Petroleum Reserves should not be amended.

During the period January through May 1974, a Special Subcommittee on Department of Defense Energy Resources and Requirements, chaired by Congressman Otis G. Pike (D-NY), held extensive hearings on the overall defense energy question, with particular reference to the Naval Petroleum Reserves. In its principal findings the Subcommittee held that production of Elk Hills Petroleum Reserve beyond the statutory limits was not warranted at that time and that the exploration and development of Reserves 1 and 4 at Elk Hills and Alaska must be completed as rapidly as time and resources permit. That report showed particular concern over the inadequate response to fulfilling defense petroleum needs when the Defense Production Act of 1950 was invoked during the 1973 fuel crisis.

READINESS AND DELIVERABILITY

ELK HILLS (RESERVE NO. 1)

Two figures have been popularly used in discussing the oil to be delivered from Elk Hills—160,000 barrels per day and 300,000 barrels per day. The facts are that with *present* facilities the maximum amount of deliverable oil is 30,000 barrels per day, which is a constraint resulting from the fact that only one pipeline exists to carry the oil off the Reserve, and that is owned by the operating partner, Standard of California.

Testimony indicates that three tie-ins to existing privately owned lines off the Reserve could be completed in a 60- to 90-day period at a cost of about \$1.1 million, and would result in increased capacity to 130,000 barrels per day. An additional \$1 million would be required to demothball the necessary wells. However, that figure would remain *constant* for a period of about 30 months at which time the completion of a fourth tie-line and pumping facility would increase capacity to 155,000 barrels per day—a figure which represents total pipeline spare capacity. That figure, coincidentally, would also require additional gas pipelines and processing capability, with a total additional cost of \$5 million.

Thus, the *earliest* that Elk Hills could reach a capacity of 155,000 barrels per day would be close to 30 months after authority is granted. Any capacity beyond that figure would require *additional* pipeline facilities to the coast. The Navy is currently negotiating for a 20-inch line now in place which would meet a marine terminal at Port Hueneme. Because of necessary additional connections, that line would require a three-year lead time which could be stretched due to expected critical environmental impact problems.

Although some of the pipeline owners might be interested in making these tie-ins at their own expense with the belief that their costs could be recouped over several years of use of the lines, none are willing to undertake these costs for a limited open-up of the field. Believing that it would be in the best interests of national defense for the Navy to have the capability to transport petroleum off the Reserve, the Committee Bill would authorize the Navy to make these tie-ins and also to acquire and/or construct a line to a marine terminal to transport a large quantity of petroleum. This could free the Navy from the constraints imposed by privately owned pipelines.

It is important to note that production of the field during the interim period now through fiscal year 1979 will reduce the maximum capability of the field.

BUENA VISTA (RESERVE NO. 2)

As noted earlier in this report, almost two-thirds of this field is privately owned, and the field has been in production since the 1920's, with the Navy producing its portion in order to prevent losing its oil to adjacent owners. The Navy receives about 647 barrels of oil per day in royalty oil from Buena Vista.

TEAPOT DOME (RESERVE NO. 3)

There are no refinery or pipeline constraints at Teapot. Whatever crude cannot be handled in local refineries can be piped out to refineries with considerable excess capacity. The real problems involve lead time on equipment necessary to increase production.

The field is currently being developed under a five-year program at a cost of \$54 million. Under that plan peak production would come at the end of the second year, producing some 18,000 to 20,000 barrels per day.

THE CONCEPT

H.R. 2633, THE PRESIDENT'S ENERGY INDEPENDENCE ACT OF 1975

The basic concept embodied in this proposal would continue the Naval Petroleum Reserves in the custody of the Secretary of the Navy but would place the basic decision making process in the hands of the President. In that bill national security would take on a broad definition, to include essential civilian and military emergency energy requirements.

The proposal would provide for the establishment of National Strategic Petroleum Reserves in unidentified facilities at unidentified locations, to include a civilian reserve of 1 billion barrels of oil and a military reserve of 300 million barrels of oil.

The President could produce the Naval Petroleum Reserves to supply the strategic petroleum reserve, to generate funds for deposit in a National Strategic Petroleum Reserve Special Fund, and to replenish military peacetime operating stocks and prepositioned war reserve stocks.

Monies from the special fund could be used to explore, develop and produce the Naval Petroleum Reserves, but the proposal would place *no limit* on the production of the reserves.

The bill would allow the use of private capital in exploring and developing Petroleum Reserve No. 4 in Alaska.

Twenty percent of the petroleum available in Reserve No. 4, or such amount as the President may determine to be necessary for national security, would be utilized for the National Strategic Petroleum Reserve. The remainder would go to the public economy.

The authority would be granted to develop the reserves on and off the reservation.

ARMED SERVICES COMMITTEE PROPOSAL—A SPECIFIC BLUEPRINT

THE PROBLEMS

The current Armed Services Committee hearings on H.R. 2633, H.R. 2650 and H.R. 49, as amended by the Interior and Insular Affairs Committee, as well as the inquiry by our Special Subcommittee on Department of Defense Energy Resources and Requirements in early 1974 (House Armed Services Committee Document No. 93-48), made it crystal clear that our national security *requires* the assurance that our armed forces have enough fuel to supply their needs in time of

national emergency or war. Thus, it is necessary to insure, insofar as is possible, that in tampering with the petroleum reserves for production, the reserves are completely protected from depletion before any alternate oil sources in them may be established. As one Committee member so aptly put it, "Our ships burn oil, not dollars." The Joint Chiefs of Staff jointed in that determination until most recently, when they, not too surprisingly, fell in line with their Commander-in-Chief to support his Energy Independence Act of 1975, which Committee testimony reveals was not referred to the Chiefs for consideration until after it was in final draft form.

In some quarters, great reliance has been placed on the *potential* of Petroleum Reserve No. 4. But its potential is unproven, and the *proven* reserves at Elk Hills should remain available for emergency use, while at the same time, the field should be brought to a complete state of readiness to provide the required quick reaction time in fulfilling its mission.

Also, current plans regarding proposals for strategic storage of oil are so inadequate as to require considerable study and detailed planning. The Committee could find little hard evidence as to where they will be located; how much they will cost, how the crude oil will be transported to refineries, or exactly how long it will take to construct them.

As indicated earlier in this report, the Naval Petroleum Reserve at Elk Hills is operated under a unit plan contract with Standard Oil of California, which has kept the field largely shut-in. This agreement resulted from Standard Oil owning approximately 20 percent of Naval Petroleum Reserve No. 1. The unit plan was authorized by enabling legislation on June 17, 1974 (10 USC 7422(b), 7426), which confined production to that needed for national defense purposes. The problem that arose was whether producing Elk Hills would result in a possible breach of contract. While Standard Oil witnesses indicated that any production at Elk Hills would be unrealistic under other than a unit plan, the problem was of serious concern to the Committee.

Finally, the Committee recognizes that there is a need to find additional sources of domestic crude oil supply at the earliest possible time to reduce the growing domestic demand for foreign oil.

THE BLUEPRINT

To satisfy the problems raised by proposals to produce the Naval Petroleum Reserves, H.R. 5919 would accomplish the following:

Provide production of the Petroleum Reserves for a period not to exceed three years, at a rate not to exceed 200,000 barrels per day.

Such oil produced will be sold or exchanged for the exclusive use of the military services.

Provide for a Naval Petroleum and Oil Shale Reserves Special Fund, into which will flow the proceeds of such sales, and any separate monies appropriated for the Naval Petroleum Reserves.

The Special Fund (which would be subject to the Congressional appropriations process) would be used for the exploration, development, conservation and production of the reserves and the construction of facilities, both *on* and *outside* the reserves, including

pipeline and shipping terminals. The target for pipeline capacity at Elk Hills is set at 350,000 barrels per day.

Provide for the establishment of a study group to inquire into the feasibility of, locations, size and cost of creating a National Strategic Petroleum Reserve (military), and report at the end of one year following enactment of the legislation.

Require the Secretary to report to the Congress annually detailing the status of exploration and development, production achieved, status of pipeline construction and procurement of equipment, any recommendations for continued production beyond the three-year period and plans for further exploration, development and production at Petroleum Reserve No. 4.

Provide for production authorization of Elk Hills to be conditioned upon the Secretary of the Navy reaching an agreement with the private owner to continue operation of Elk Hills under a unitized plan contract, which adequately protects the public interest.

The Committee is of the opinion that H.R. 5919 presents definitive authority for proceeding to produce the Naval Petroleum Reserves. Also, the Committee hearings and deliberations contain clear guidance as to where the program is going, what it seeks to accomplish, and where there will be terminations to allow for reexamination of the principles involved, in the context of the problems existing at that time. For example, when the Alaska pipeline now under construction commences delivery of its capacity of two million barrels of oil per day to the west coast in about three years, the requirements for any continued production of the Naval Petroleum Reserves will be in need of fresh review.

DEPARTMENTAL POSITIONS

The Executive Department comments concerning recommendations for the enactment of H.R. 2633 and H.R. 2650 are contained in the President's letter of January 30, 1975 reproduced below. Also, the following representatives of the Executive Branch testified before the Investigations Subcommittee supporting the provisions of the President's Energy Independence Act of 1975:

Department of Interior—Honorable Jack W. Carlson, Assistant Secretary of the Interior for Energy and Minerals.

Department of Defense—Honorable Jack L. Bowers, Assistant Secretary of the Navy (Installations and Logistics); Vice Admiral T. R. Weschler, Director for Logistics, Joint Chiefs of Staff; Rear Admiral C. Monroe Hart, Director for Energy, Office of Assistant Secretary of Defense (Installations and Logistics); and Vice Admiral Harry D. Train II, Director of the Joint Staff, Joint Chiefs of Staff.

Federal Energy Administration—Honorable Frank G. Zarb, Administrator.

Department of Justice—Honorable Keith Clearwaters, Assistant Attorney General, Antitrust Division.

Since H.R. 5919 was introduced as a clean bill, specific Departmental comments on that measure are not available. However, it is interesting to note that Vice Admiral T. R. Weschler, representing the Joint Chiefs of Staff, in his original testimony on March 25, 1975, ap-

peared to favor some general restriction on the production of the Naval Petroleum Reserve at Elk Hills until such time as more definitive information on the proven reserve at Petroleum Reserve No. 4 in Alaska is available. However, later testimony from the Director of the Joint Staff, Joint Chiefs of Staff, favored the enactment of the Energy Independence Act, evidently, since it represents the position of the Commander-in-Chief.

THE WHITE HOUSE,
Washington, January 30, 1975.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

DEAR MR. SPEAKER: In my State of the Union address earlier this month, I outlined the dimensions of our interrelated economic and energy problems and proposed comprehensive and far-reaching measures for their solution.

The measures I described included both Executive and Congressional actions. Because further delay is intolerable, I have already taken administrative action to deal with our energy problems, including issuance of a proclamation to impose increased fees on imported oil. The Secretary of the Treasury has already presented my detailed energy tax proposals to the House Ways and Means Committee.

I am enclosing a proposed omnibus energy bill the Energy Independence Act of 1975—which, along with the tax proposals already presented, will provide the combined authorities that are necessary if we are to deal seriously and effectively with the Nation's pressing energy problems.

We have delayed too long in taking decisive actions to reduce our dependence on foreign energy sources and to eliminate our vulnerability to energy disruptions such as we experienced last winter—or worse.

In the near term, enactment of the proposed legislation along with certain Administrative actions would reduce oil imports by one million barrels per day by the end of this year, and two million barrels per day by the end of 1977. Over the mid-term (1975–1985), enactment of the proposed legislation will insure that domestic supplies of energy are substantially increased, that the growth in energy demand is reduced substantially and that we develop effective protection from future energy embargoes or energy emergencies. In the long term, my proposals will allow our Nation to once again supply a significant share of the energy needs of the free world.

The legislative program I have proposed will:

- (1) encourage early development of our oil, natural gas and coal resources;
- (2) help speed the siting and construction of nuclear and other energy facilities;
- (3) reduce energy consumption by mandating thermal standards for new homes and commercial buildings and assisting persons with low incomes in winterizing their homes;
- (4) encourage investment in the development of new domestic energy resources;
- (5) establish a strategic petroleum reserve to guard against future import disruptions; and
- (6) authorize certain standby authorities to cope with potential embargoes or energy emergencies.

A more detailed summary of my legislative proposals is enclosed. My tax proposals already presented by the Secretary of the Treasury would:

- (1) place an excise tax of \$2 per barrel on all domestic crude oil and an import fee of \$2 on all imported crude oil and petroleum products to help reduce the demand for oil, promote domestic refining and encourage the development of new sources of energy;
- (2) impose a tax on all domestic crude oil in order to capture windfall profits;
- (3) place an excise tax on natural gas equivalent to the \$2 tax on oil to reduce natural gas demand;
- (4) provide additional tax credits for public utilities to provide equal tax treatment with other industries and promote the construction of needed electric generating facilities;
- (5) provide tax credits for homeowners who install additional insulation to reduce energy consumption;
- (6) return to the economy the revenue from energy conservation taxes to offset higher energy costs, particularly for low and middle income citizens and to help restore jobs and production.

The 13 titles of this bill, coupled with appropriate tax measures, are essential to the eventual attainment of our common goal of energy independence. Prompt action on all these measures is essential.

I cannot stress too much the sense of urgency I feel about these proposals and the need for their swift consideration by the Congress as a basis for the earliest possible enactment into law. Without these measures, we face a future of shortages and dependency which the Nation cannot tolerate and the American people will not accept.

Sincerely,

GERALD R. FORD.

SUMMARY OF PROPOSED LEGISLATION TO INCREASE DOMESTIC ENERGY SUPPLY AND AVAILABILITY

Title I of the Energy Independence Act of 1975 would authorize the production of petroleum from the Naval Petroleum Reserves to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the military or used to fill a National Strategic Petroleum Reserve. Revenues generated from the sale of oil produced from the Naval Petroleum Reserves would be used to finance the further exploration, development and production of the Reserves, including NPR #4 in Alaska, as well as to create the National Strategic Petroleum Reserve. At least 20%, or such other amount as determined by the President, of the oil eventually produced from NPR #4 would be earmarked for military needs and for the National Strategic Petroleum Reserve and the remainder made available to the domestic economy. Although the oil reserves contained in NPR #4 are largely unexplored and significant production is not expected before 1982, it is anticipated that NPR #4 will provide a minimum of 2 million barrels of oil per day by 1985. *Title I* would also grant the Department of the Navy authority to acquire, construct, fill and maintain a military strategic petroleum reserve of 300 million barrels as part of the National Strategic Petroleum Reserve.

COMMITTEE POSITION

The Committee on Armed Services, by a vote of 28 to 3, favorably reported H.R. 5919, as amended.

FISCAL DATA

A start-up funding of \$10.3 million would be required for FY 75. Thereafter, proceeds from the sale of oil from NPR's 1, 2 and 3 would provide funds for all expenses and create a surplus of approximately \$640 million at the end of Fiscal Year 1979. Tabulated below are the estimated expenses and income for the three year limit of this legislation. The Committee estimates agree with the estimates provided by the Department of the Navy.

ESTIMATED EXPENDITURES AND INCOME—H.R. 5919 AND/OR TITLE II OF H.R. 49

[In thousands of dollars]

	Fiscal year—					Total
	1975	1976	1977	1978	1979	
ESTIMATED EXPENSES						
NPR 1—Elk Hills:						
Demothballing existing facilities.....	1,000					1,000
Pipeline tie-in to Arco, Socal, Tosco.....	1,100					1,100
Pipeline tie-in to Union.....	2,100					2,100
Build and/or acquire PL to Port Hueneme.....	500	25,000	20,000	5,000	1,000	51,500
Build HP gasline to North Coles levee.....	1,000	4,000				5,000
Production (lifting) costs at 25¢/bbl.....		12,000	13,000	14,500		39,500
Exploration drilling (50 wells).....		6,500	8,400	7,500		22,400
Development drilling (829 wells).....		94,800	105,700	93,900	65,100	359,500
Mothballing facilities.....					1,000	1,000
Total.....	5,700	142,300	147,100	120,900	67,100	483,100
NPR 2—Buena Vista: No expenses incurred; income from royalty.						
NPR 3—Teapot Dome:						
Well work-over (clean out).....		1,500				1,500
Exploration drilling (22 wells total).....		900	600	650	650	2,800
Development drilling (100 wells per year).....		10,000	10,000	10,000	10,000	40,000
Oil and gas processing facilities.....	5,000	1,000	750	600	600	7,950
Production (lifting) costs at 50¢/bbl.....	100	832	1,202	1,572	500	4,206
Mothballing facilities.....					500	500
Total.....	5,100	14,232	12,552	12,822	12,250	56,956
NPR 4—North Slope, Alaska:						
Seismic survey (10,000 line miles).....		24,500	19,600	9,300	5,100	57,500
Exploration drilling (26 wells).....		30,200	50,800	38,500	43,600	163,100
Total.....		54,700	69,400	47,800	48,700	220,600
Strategic storage study.....	1,000					1,000
Naval Petroleum and Oil Shale Res. Administration.....		8,000	8,000	8,000	8,000	32,000
Total expenses.....	11,800	219,232	237,052	189,522	136,050	793,656
ESTIMATED INCOME						
(Crude oil value of \$10/bbl)						
NPR 1.....		345,600	424,130	424,130	30,000	1,223,860
NPR 2.....	300	2,070	1,870	1,680	1,530	7,450
NPR 3.....	1,200	26,300	78,000	58,900	39,600	204,000
Total income.....	1,500	373,970	504,000	484,720	71,130	1,435,320
Net income.....	(10,300)	154,738	266,948	295,198	(64,920)	641,664

Fiscal year 1977 includes a 3-mo. transition period to adjust to a new fiscal year commencing Oct. 1, 1977.

INFLATION IMPACT STATEMENT

The enactment of this legislation should have a positive effect on the economy in that a supply of up to 200,000 barrels a day will be flowing to the armed forces of the United States, relieving the civilian economy of supplying that amount, and, in turn, hopefully reducing foreign oil imports by a like amount, with consequent favorable effect on the balance-of-payments. In addition, the proceeds of the oil to the military would go into a special fund to support further exploration, development and production in the Naval Petroleum Reserves over the three-year period, thus, relieving the Treasury of that burden, except for the starting up cost of \$10,300,000 as outlined above under fiscal data. In view of the above, the Committee does not consider that the financial aspects of this bill contain an inflation factor.

OVERSIGHT FINDINGS

The Committee indicated a continuing need for Naval Petroleum Reserve oversight responsibilities to rest exclusively in the House Armed Services Committee as stated in the provisions of Rule X of the House rules.

CHANGES IN EXISTING LAW

In compliance with the Rules of the House of Representatives, there is herewith printed in parallel columns the text of provisions of existing law which would be repealed or amended by the various provisions of the bill as reported.

EXISTING LAW

THE BILL AS REPORTED

CHAPTER 641.—NAVAL PETROLEUM RESERVES

The analysis of such chapter 641 is amended—

- SEC.
7421. Jurisdiction and control.
7422. Administration.
7423. Periodic re-examination of production requirements.
7424. Protection of oil reserves; contracts for conservation.
7425. Acquisition by condemnation and purchase.
7426. Cooperative or unit plans affecting naval petroleum reserve numbered 1.
7427. Cooperative or unit plans in the naval petroleum reserves.
7428. Agreement and leases: provision for change.
7429. Re-lease of certain lands: lessee's preferential right.
7430. Disposition of products.
7431. Requirements as to consultation and approval.
7432. Expenditures: appropriations chargeable.
7433. Disposition of royalties.
7434. Quarterly reports to Armed Services Committees.
7435. Foreign interest.
7436. Regulations.
7437. Violations by lessee.
7438. Exclusion of naval oil-shale reserves.

(1) by inserting immediately before
"7421. Jurisdiction and control."
the following:
"7420. Definitions.";
and
(2) by striking out
"7432. Expenditures: appropriations available."
and inserting in lieu thereof the following:
"7432. Naval petroleum and oil shale reserve special fund."

12

(1) Immediately before section 7421 insert the following new section:

“§ 7420. Definitions

“(a) In this chapter—

“(1) ‘national defense’ includes the needs of, and the planning and preparedness to meet, essential defense industrial and military emergency energy requirements relative to the national safety, welfare, and economy, particularly resulting from foreign military or economic actions;

“(2) ‘naval petroleum and oil shale reserves’ means the naval petroleum and oil shale reserves established by this chapter, including Naval Petroleum Reserve Numbered 1 (Elk Hills), located in Kern County, California, established by Executive order of the President on September 2, 1912; Naval Petroleum Reserve Numbered 2 (Buena Vista), located in Kern County, California, established by Executive order of the President on December 13, 1912; Naval Petroleum Reserve Numbered 3 (Teapot Dome), located in Wyoming, established by Executive order of the President on April 30, 1915; Naval Petroleum Reserve Numbered 4, Alaska, on the north slope of the Brooks Range, established by Executive order of the Presi-

13

dent of February 27, 1923; Oil Shale Reserve Numbered 1, located in Colorado, established by Executive order of the President of December 6, 1916, as amended by Executive order of June 12, 1919; Oil Shale Reserve Numbered 2, located in Utah, established by Executive order of the President of December 6, 1916; and Oil Shale Reserve Numbered 3, located in Colorado, established by Executive order of the President of September 27, 1924;

“(3) ‘petroleum’ includes crude oil, associated gases, natural gasoline, and other related hydrocarbons, oil shale, and the products of any of such resources; and

“(4) ‘Secretary’ means the Secretary of the Navy.”

Section 7421 (a) is amended—

(A) by striking out “for naval purposes” and inserting in lieu thereof “for use of the Armed Forces”; and

(B) by striking out “section 7438 hereof” and inserting in lieu thereof “this chapter”.

§ 7421. Jurisdiction and control

(a) The Secretary of the Navy shall take possession of all properties, inside the naval petroleum and oil shale reserves that are or may become subject to the control of and use by the United States for naval purposes, except as otherwise provided in section 7438 hereof.

(b) The Secretary has exclusive jurisdiction and control over those lands inside naval petroleum reserves numbered 1 and 2 that are covered by leases granted under sections 181-184, 185-188, 189-194, 201, 202-209, 211-214, 223, 224-226, 226d, 226e, 227-229a, 241, 251, and 261-263 of title 30, and shall administer those leases. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(1), 76 Stat. 904.

§ 7422. Administration

(a) Except as otherwise provided in section 7438 hereof, the Secretary of the Navy, directly or by contract, lease, or otherwise, shall explore, prospect, conserve, develop, use, and operate the naval petroleum and oil shale reserves in his discretion, subject to approval by the President.

(b) The naval petroleum and oil shale reserves and lands outside naval petroleum reserve numbered 1 covered by contracts under section 7426 of this title, shall be used and operated for—

(1) the protection, conservation, maintenance, and testing of those reserves; or

(2) the production of petroleum, gas, oil shale and products thereof whenever and to the extent that the Secretary, with the approval of the President, finds that it is needed for national defense and the production is authorized by a joint resolution of Congress.

(c) The Secretary of the Navy may under subsection (a) develop the South Barrow gas field, naval petroleum reserve numbered 4, to supply gas to installations of the Department of Defense and other agencies of the United States located at or near Point Barrow, Alaska, the native village of Barrow, and other communities and installations at or near Point Barrow, Alaska. As amended Aug. 24, 1962, Pub. L. 87-599, § 1, 76 Stat. 401; Oct. 11, 1962, Pub. L. 87-796, § 1(2), 76 Stat. 904.

Section 7422 is amended by adding at the end thereof the following new subsection:

“(d)(1) In order to place certain naval petroleum reserves in a proven state of readiness to produce petroleum, the Secretary is authorized—

“(A) to explore, develop, operate, and produce petroleum, from Naval Petroleum Reserves Numbered 1, 2, and 3 at a rate consistent with sound oilfield engineering practices up to two hundred thousand barrels per day for a period not to exceed three years commencing ninety days after enactment of this legislation; and

“(B) to construct or procure pipelines and associated facilities for transporting oil, associated liquids, and gases, from Naval Petroleum Reserves Numbered 1, 2, and 3 to the points where such production will be refined or shipped.

Such pipelines at Naval Petroleum Reserve Numbered 1 shall have a combined delivery capability of not less than three hundred and fifty thousand barrels per day, and shall be fully operable by three years after the date of enactment of this subsection.

“(2) The production authorization set forth in paragraph (1)(A) of this subsection is conditioned upon the Secretary reaching an agreement with the private owner to continue operation of Naval Petroleum Reserve Numbered 1 under a unitized plan contract which adequately protects the public interest.

§ 7423. Periodic re-examination of production requirements

The Secretary of the Navy shall from time to time re-examine the need for the production of petroleum or products from oil shale for national defense when that production is authorized under section 7422 of this title. If he finds that the authorized quantity is no longer needed, he shall reduce production to the amount currently needed for national defense. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(3), 76 Stat. 904.

"(3) The production of petroleum authorized under this subsection is not subject to the provisions of subsection (b) (2) of this section relating to Presidential approval or congressional authorization."

Section 7423 is amended by inserting "(a)" immediately before "The Secretary"; and by adding at the end thereof the following new subsection:

"(b) During the three-year period of production authorized by subsection (d) of section 7422 (during which three-year period the consultation requirements of section 7431(3) are waived), the Secretary shall submit annual reports to the Armed Services Committees of the Senate and the House of Representatives detailing—

"(1) the status of the exploration and development program at each of the naval petroleum reserves;

"(2) the production which has been achieved at each of the naval petroleum reserves pursuant to that authorization, including the disposition of such production and the proceeds realized therefrom;

"(3) the status of the pipeline construction and procurement authorized by such subsection (d);

"(4) any need for modification of the production levels authorized by such subsection (d), including any recommendation for continuing production beyond the three-year period provided in such subsection; and

"(5) the plans for further exploration, development and production at Naval Petroleum Reserve Numbered 4."

16

§ 7430. Disposition of products

(a) The Secretary of the Navy in administering the naval petroleum and oil shale reserves under this chapter shall use, store, sell, or exchange for other petroleum or refined products, the oil and gas products, including royalty products, oil shale and products therefrom produced, from lands in the naval petroleum and oil shale reserves, including gas products from lands in the South Barrow gas field of naval petroleum reserve numbered 4, and lands outside petroleum reserve numbered 1 covered by joint, unit, or other cooperative plans for the benefit of the United States.

(b) Each sale of petroleum, gas, other hydrocarbons, oil shale, or products therefrom, under this section shall be made by the Secretary at public sale to the highest qualified bidder at such time, in such amounts, and after such advertising as the Secretary considers proper. As amended Aug. 24, 1962, Pub. L. 87-599, § 2, 76 Stat. 401; Oct. 11, 1962, Pub. L. 87-796, § 1(6), 76 Stat. 905.

(5) Section 7430(b) is amended to read as follows:

"(b) Notwithstanding any other provision of law, each sale of the United States share of petroleum, gas, other hydrocarbons, oil shale, or products therefrom, shall be made by the Secretary at public sale to the highest qualified bidder at such time, in such amounts, and after such advertising as the Secretary considers proper and without regard to Federal, State, or local regulations controlling sales or allocation of petroleum products."

(6) Section 7430 is further amended by adding at the end thereof the following new subsection:

"(c) Any disposition of the United States share of the production authorized by section 7422(d) shall be conducted in such a manner as to insure that an amount of petroleum products equal in value to the crude oil and associated gases and liquids supplied from the naval petroleum reserves shall be made available exclusively to the armed forces of the United States. Any disposition of that production shall be so arranged as to give full and equal opportunity for acquisition of the petroleum and associated products by all interested companies, including major and independent oil refineries alike."

17

§ 7432. Expenditures: appropriations chargeable

(a) Expenses incurred by the Secretary of the Navy with respect to the naval petroleum and oil shale reserves shall be paid from appropriations made available for the purposes specified in this chapter.

(b) Expenditures necessary to carry out this chapter shall be made under the direction of the President, who shall submit estimates for these expenditures as prescribed by law. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(8), 76 Stat. 905.

Section 7432 is amended to read as follows:

“§ 7432. Naval petroleum and oil shale reserves special fund

“(a) There is hereby established on the books of the Treasury Department a special fund designated the ‘naval petroleum and oil shale reserves special fund’. There shall be credited to such fund—

“(1) all proceeds realized under this chapter from the disposition of the United States share of petroleum or refined products, oil and gas products, including royalty products;

“(2) the net proceeds, if any, realized from sales or exchanges within the Department of Defense of refined petroleum products accruing to the benefits of any component of that Department as the result of any such sales or exchanges; and

“(3) such additional sums as have been, or may be, appropriated for the maintenance, operation, exploration, development, and production of the naval petroleum and oil shale reserves.

“(b) Funds available in the naval petroleum and oil shale reserve special fund shall be available for expenditure in such sums as are specified in annual congressional appropriations Act for the expenses of—

“(1) exploration, prospecting, conservation, development, use, operation, and production of the naval petroleum and oil shale reserves as authorized by this chapter;

“(2) production, including preparation for production as authorized by this Act, or as may hereafter be authorized; and

“(3) the construction and operation of facilities both within and outside the naval petroleum and oil shale reserves incident to the production and the delivery of crude petroleum and derivatives, including pipelines and shipping terminals.

“(c) The budget estimates for annual appropriations from the naval petroleum and oil shale reserve special fund shall be prepared by the Office of Naval Petroleum and Oil Shale Reserves and shall be presented by the President independently of the budget of the Department of the Navy and the Department of Defense.

“(d) Contracts obligating only such funds as are appropriated and made available annually may be entered into by the Secretary for periods of not more than five years renewable for a like term.”

§ 7433. Disposition of royalties

(a) Any oil, gas, gasoline or other substance accruing to the United States as royalty from any lease under this chapter shall be delivered to the United States, or shall be paid for in money, as the Secretary of the Navy elects.

(b) All money accruing to the United States from lands in the naval petroleum and oil shale reserves shall be covered into the Treasury. As amended Oct. 11, 1962, Pub. L. 87-796, § 1(9), 76 Stat. 905.

Section 7433(b) is amended by adding immediately before the period at the end thereof the following: "and credited to the naval petroleum and oil reserve special fund".

(a) The Secretary of the Navy shall establish a study group which shall investigate the feasibility of creating a national strategic petroleum reserve (military) (hereinafter in this section referred to as the "reserve"). Any such reserve should include petroleum stored at strategic locations, or available for delivery to such locations, and include facilities for storage, transportation, or processing thereof. In computing the amount of petroleum to be stored in such reserve, the peacetime operating stocks and prepositioned war reserve stocks of the Department of Defense shall not be included. Such reserve should be in addition to any national strategic petroleum reserve (civilian) which may be otherwise provided for.

(b) The investigation required under subsection (a) shall include, but need not be limited to, determinations with respect to the size, scope, objectives, and all cost factors associated with the establishment of the reserve. In arriving at its findings and recommendations, the study group shall consult with, and seek, the position of the Joint Chiefs of Staff relative to the overall posture of the reserve.

(c) Not later than one year after the date of the enactment of this Act, the Secretary of the Navy shall report to the Congress the findings and recommendations of the study group.

SUMMARY

BACKGROUND AND PURPOSE

The legislation was originally referred to the House Armed Services Committee as Title I of H.R. 2633 and H.R. 2650, the President's Energy Independence Act of 1975, which has reference to the Naval Petroleum Reserves. H.R. 5919 is a clean bill reflecting the Armed Services Committee changes in the Administration's proposals.

The most significant provisions of H.R. 5919 would require a production limit of 200,000 barrels per day for a period not to exceed three years in the Naval Petroleum Reserves and the oil would be sold exclusively to the Department of Defense, with the proceeds placed in a special fund to be used for further exploration, development and production of the Naval Petroleum Reserves. Use of the fund would be subject to the appropriations process. There would be a study regarding the establishment of a National Strategic Petroleum Reserve (military).

FISCAL DATA

A start-up funding of \$10,300,000 would be required in FY 75. Thereafter, proceeds from the sale of the petroleum produced would cover costs and create a surplus which would amount to \$640 million at the end of FY 79.

DEPARTMENTAL POSITION

The Department of Defense favors H.R. 2633 and H.R. 2650, the Energy Independence Act of 1975, which are duplicate Administration bills.

COMMITTEE POSITION

The Committee on Armed Services on April 15, 1975 favorably reported the bill as amended in Committee by a vote of 28 to 3.

○

DEVELOPMENT OF CERTAIN NATIONAL PETROLEUM RESERVES

MARCH 23, 1976.—Ordered to be printed

Mr. MELCHER, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 49]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 49) to authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

That this Act may be cited as the "Naval Petroleum Reserves Production Act of 1976".

TITLE I—NATIONAL PETROLEUM RESERVE IN ALASKA

DEFINITION

Sec. 101. As used in this title, the term "petroleum" includes crude oil, gases (including natural gas), natural gasoline, and other related hydrocarbons, oil shale, and the products of any of such resources.

DESIGNATION OF THE NATIONAL PETROLEUM RESERVE IN ALASKA

Sec. 102. The area known as Naval Petroleum Reserve Numbered 4, Alaska, established by Executive order of the President, dated February 27, 1923, except for tract Numbered 1 as described in Public Land Order 2344, dated April 24, 1961, shall be transferred to and administered by the Secretary of the Interior in accordance with the provisions of this Act. Effective on the date of transfer all lands within



such area shall be redesignated as the "National Petroleum Reserve in Alaska" (hereinafter in this title referred to as the "reserve"). Subject to valid existing rights, all lands within the exterior boundaries of such reserve are hereby reserved and withdrawn from all forms of entry and disposition under the public land laws, including the mining and mineral leasing laws, and all other Acts; but the Secretary is authorized to (1) make dispositions of mineral materials pursuant to the Act of July 31, 1947 (61 Stat. 681), as amended (30 U.S.C. 601), for appropriate use by Alaska Natives, (2) make such dispositions of mineral materials and grant such rights-of-way, licenses, and permits as may be necessary to carry out his responsibilities under this Act, and (3) convey the surface of lands properly selected on or before December 18, 1975, by Native village corporations pursuant to the Alaska Native Claims Settlement Act. All other provisions of law heretofore enacted and actions heretofore taken reserving such lands as a Naval Petroleum Reserve shall remain in full force and effect to the extent not inconsistent with this Act.

TRANSFER OF JURISDICTION

SEC. 103. (a) Jurisdiction over the reserve shall be transferred by the Secretary of the Navy to the Secretary of the Interior on June 1, 1977.

(b) With respect to any activities related to the protection of environmental, fish and wildlife, and historical or scenic values, the Secretary of the Interior shall assume all responsibilities as of the date of the enactment of this title. As soon as possible, but not later than the effective date of transfer, the Secretary of the Interior may promulgate such rules and regulations as he deems necessary and appropriate for the protection of such values within the reserve.

(c) The Secretary of the Interior shall, upon the effective date of the transfer of the reserve, assume the responsibilities and functions of the Secretary of the Navy under any contracts which may be in effect with respect to activities within the reserve.

(d) On the date of transfer of jurisdiction of the reserve, all equipment, facilities, and other property of the Department of the Navy used in connection with the operation of the reserve, including all records, maps, exhibits, and other informational data held by the Secretary of the Navy in connection with the reserve, shall be transferred without reimbursement from the Secretary of the Navy to the Secretary of the Interior who shall thereafter be authorized to use them to carry out the provisions of this title.

(e) On the date of transfer of jurisdiction of the reserve, the Secretary of the Navy shall transfer to the Secretary of the Interior all unexpended funds previously appropriated for use in connection with the reserve and all civilian personnel ceilings assigned by the Secretary of the Navy to the management and operation of the reserve as of January 1, 1976.

ADMINISTRATION OF THE RESERVE

SEC. 104. (a) Except as provided in subsection (e) of this section, production of petroleum from the reserve is prohibited and no development leading to production of petroleum from the reserve shall be undertaken until authorized by an Act of Congress.

(b) Any exploration within the Utukok River, the Teshekpuk Lake areas, and other areas designated by the Secretary of the Interior containing any significant subsistence, recreational, fish and wildlife, or historical or scenic value, shall be conducted in a manner which will assure the maximum protection of such surface values to the extent consistent with the requirements of this Act for the exploration of the reserve.

(c) The Secretary of the Navy shall continue the ongoing petroleum exploration program within the reserve until the date of the transfer of jurisdiction specified in section 103(a). Prior to the date of such transfer of jurisdiction the Secretary of the Navy shall—

(1) cooperate fully with the Secretary of the Interior providing him access to such facilities and such information as he may request to facilitate the transfer of jurisdiction;

(2) provide to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives copies of any reports, plans, or contracts pertaining to the reserve that are required to be submitted to the Committees on Armed Services of the Senate and the House of Representatives; and

(3) cooperate and consult with the Secretary of the Interior before executing any new contract or amendment to any existing contract pertaining to the reserve and allow him a reasonable opportunity to comment on such contract or amendment, as the case may be.

(d) The Secretary of the Interior shall commence further petroleum exploration of the reserve as of the date of transfer of jurisdiction specified in section 103(a). In conducting this exploration effort, the Secretary of the Interior—

(1) is authorized to enter into contracts for the exploration of the reserve, except that no such contract may be entered into until at least thirty days after the Secretary of the Interior has provided the Attorney General with a copy of the proposed contract and such other information as may be appropriate to determine legal sufficiency and possible violations under, or inconsistencies with, the antitrust laws. If, within such thirty day period, the Attorney General advises the Secretary of the Interior that any such contract would unduly restrict competition or be inconsistent with the antitrust laws, then the Secretary of the Interior may not execute that contract;

(2) shall submit to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives any new plans or substantial amendments to ongoing plans for the exploration of the reserve. All such plans or amendments submitted to such committees pursuant to this section shall contain a report by the Attorney General of the United States with respect to the anticipated effects of such plans or amendments on competition. Such plans or amendments shall not be implemented until sixty days after they have been submitted to such committees; and

(3) shall report annually to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives on the progress of, and future plans for, exploration of the reserve.

(e) Until the reserve is transferred to the jurisdiction of the Secretary of the Interior, the Secretary of the Navy is authorized to develop

and continue operation of the South Barrow gas field, or such other fields as may be necessary, to supply gas at reasonable and equitable rates to the native village of Barrow, and other communities and installations at or near Point Barrow, Alaska, and to installations of the Department of Defense and other agencies of the United States located at or near Point Barrow, Alaska. After such transfer, the Secretary of the Interior shall take such actions as may be necessary to continue such service to such village, communities, installations, and agencies at reasonable and equitable rates.

STUDY OF THE RESERVE

SEC. 105. (a) Section 164 of the Energy Policy and Conservation Act (89 Stat. 871, 889), is hereby amended by deleting in the first sentence "to the Congress" and by inserting in lieu thereof "to the Committees on Interior and Insular Affairs of the Senate and House of Representatives".

(b) (1) The President shall direct such Executive departments and/or agencies as he may deem appropriate to conduct a study, in consultation with representatives of the State of Alaska, to determine the best overall procedures to be used in the development, production, transportation, and distribution of petroleum resources in the reserve. Such study shall include, but shall not be limited to, a consideration of—

(A) the alternative procedures for accomplishing the development, production, transportation, and distribution of the petroleum resources from the reserve, and

(B) the economic and environmental consequences of such alternative procedures.

(2) The President shall make semiannual progress reports on the implementation of this subsection to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives beginning not later than six months after the date of the enactment of this Act and shall, not later than one year after the transfer of jurisdiction of the reserve, and annually thereafter, report any findings or conclusions developed as a result of such study together with appropriate supporting data and such recommendations as he deems desirable. The study shall be completed and submitted to such committees, together with recommended procedures and any proposed legislation necessary to implement such procedures not later than January 1, 1980.

(c) (1) The Secretary of the Interior shall establish a task force to conduct a study to determine the values of, and best uses for, the lands contained in the reserve, taking into consideration (A) the natives who live or depend upon such lands, (B) the scenic, historical, recreational, fish and wildlife, and wilderness values, (C) mineral potential, and (D) other values of such lands.

(2) Such task force shall be composed of representatives from the government of Alaska, the Arctic slope native community, and such offices and bureaus of the Department of the Interior as the Secretary of the Interior deems appropriate, including, but not limited to, the Bureau of Land Management, the United States Fish and Wildlife Service, the United States Geological Survey, and the Bureau of Mines.

(3) The Secretary of the Interior shall submit a report, together with the concurring or dissenting views, if any, of any non-Federal representatives of the task force, of the results of such study to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives within three years after the date of enactment of this title and shall include in such report his recommendations with respect to the value, best use, and appropriate designation of the lands referred to in paragraph (1).

ANTITRUST PROVISIONS

SEC. 106. Unless otherwise provided by Act of Congress, whenever development leading to production of petroleum is authorized, the provisions of subsections (g), (h), and (i) of section 7430 of title 10, United States Code, shall be deemed applicable to the Secretary of the Interior with respect to rules and regulations, plans of development and amendments thereto, and contracts and operating agreements. All plans and proposals submitted to the Congress under this title or pursuant to legislation authorizing development leading to production shall contain a report by the Attorney General of the United States on the anticipated effects upon competition of such plans and proposals.

AUTHORIZATION FOR APPROPRIATIONS

SEC. 107. (a) There are authorized to be appropriated to the Department of the Interior such sums as may be necessary to carry out the provisions of this title.

(b) If the Secretary of the Interior determines that there is an immediate and substantial increase in the need for municipal services and facilities in communities located on or near the reserve as a direct result of the exploration and study activities authorized by this title and that an unfair and excessive financial burden will be incurred by such communities as a result of the increased need for such services and facilities, then he is authorized to assist such communities in meeting the costs of providing increased municipal services and facilities. The Secretary of the Interior shall carry out the provisions of this section through existing Federal programs and he shall consult with the heads of the departments or agencies of the Federal Government concerned with the type of services and facilities for which financial assistance is being made available.

TITLE II—NAVAL PETROLEUM RESERVES

SEC. 201. Chapter 641 of title 10, United States Code, is amended as follows:

(1) Immediately before section 7421 insert the following new section:

"§ 7420. Definitions

"(a) In this chapter—

"(1) 'national defense' includes the needs of, and the planning and preparedness to meet, essential defense, industrial, and military emergency energy requirements relative to the national safety, welfare, and economy, particularly resulting from foreign military or economic actions;

"(2) 'naval petroleum reserves' means the naval petroleum and oil shale reserves established by this chapter, including Naval Petroleum Reserve Numbered 1 (Elk Hills), located in Kern County, California, established by Executive order of the President, dated September 2, 1912; Naval Petroleum Reserve Numbered 2 (Buena Vista), located in Kern County, California, established by Executive order of the President, dated December 13, 1912; Naval Petroleum Reserve Numbered 3 (Teapot Dome), located in Wyoming, established by Executive order of the President, dated April 30, 1915; Naval Petroleum Reserve Numbered 4, Alaska, established by Executive order of the President, dated February 27, 1923 (until redesignated as the National Petroleum Reserve in Alaska under the jurisdiction of the Secretary of the Interior as provided in the Naval Petroleum Reserves Production Act of 1976); Oil Shale Reserve Numbered 1, located in Colorado, established by Executive order of the President, dated December 6, 1916, as amended by Executive order dated June 12, 1919; Oil Shale Reserve Numbered 2, located in Utah, established by Executive order of the President, dated December 6, 1916; and Oil Shale Reserve Numbered 3, located in Colorado, established by Executive order of the President, dated September 27, 1924;

"(3) 'petroleum' includes crude oil, gases (including natural gas), natural gasoline, and other related hydrocarbons, oil shale, and the products of any of such resources;

"(4) 'Secretary' means the Secretary of the Navy

"(5) 'small refiner' means an owner of a refinery or refineries (including refineries not in operation) who qualifies as a small business refiner under the rules and regulations of the Small Business Administration; and

"(6) 'maximum efficient rate' means the maximum sustainable daily oil or gas rate from a reservoir which will permit economic development and depletion of that reservoir without detriment to the ultimate recovery."

(2) Section 7421 (a) is amended—

(A) by striking out "of the Navy";

(B) by striking out "and oil shale";

(C) by striking out "for naval purposes" and inserting in lieu thereof "for national defense purposes"; and

(D) by striking out "section 7438 hereof" and inserting in lieu thereof "this chapter".

(3) The text of section 7422 is amended to read as follows:

"(a) The Secretary, directly or by contract, lease, or otherwise, shall explore, prospect, conserve, develop, use, and operate the naval petroleum reserves in his discretion, subject to the provisions of subsection (c) and the other provisions of this chapter; except that no petroleum leases shall be granted at Naval Petroleum Reserves Numbered 1 and 3.

"(b) Except as otherwise provided in this chapter, particularly subsection (c) of this section, the naval petroleum reserves shall be used and operated for—

"(1) the protection, conservation, maintenance, and testing of those reserves; or

"(2) the production of petroleum whenever and to the extent that the Secretary, with the approval of the President, finds that

such production is needed for national defense purposes and the production is authorized by a joint resolution of Congress.

"(c) (1) In administering Naval Petroleum Reserves Numbered 1, 2, and 3, the Secretary is authorized and directed—

"(A) to further explore, develop, and operate such reserves;

"(B) commencing within ninety days after the date of enactment of the Naval Petroleum Reserves Production Act of 1976, to produce such reserves at the maximum efficient rate consistent with sound engineering practices for a period not to exceed six years after the date of enactment of such Act;

"(C) during such production period or any extension thereof to sell or otherwise dispose of the United States share of such petroleum produced from such reserves as hereinafter provided; and

"(D) to construct, acquire, or contract for the use of storage and shipping facilities on and off the reserves and pipelines and associated facilities on and off the reserves for transporting petroleum from such reserves to the points where the production from such reserves will be refined or shipped.

Any pipeline in the vicinity of a naval petroleum reserve not otherwise operated as a common carrier may be acquired by the Secretary by condemnation, if necessary, if the owner thereof refuses to accept, convey, and transport without discrimination and at reasonable rates any petroleum produced at such reserve. With the approval of the Secretary, rights-of-way for new pipelines and associated facilities may be acquired by the exercise of the right of eminent domain in the appropriate United States district court. Such rights-of-way may be acquired in the manner set forth in the Act of February 26, 1931, chapter 307 (46 Stat. 1421; 40 U.S.C. 258(a)), and the prospective holder of the right-of-way is 'the authority empowered by law to acquire the lands' within the meaning of that Act. Such new pipelines shall accept, convey, and transport without discrimination and at reasonable rates any petroleum produced at such reserves as a common carrier. Pipelines and associated facilities constructed at or procured for Naval Petroleum Reserve Numbered 1 pursuant to this subsection shall have adequate capacity to accommodate not less than three hundred fifty thousand barrels of oil per day and shall be fully operable as soon as possible, but not later than three years after the date of enactment of the Naval Petroleum Reserves Production Act of 1976.

"(2) At the conclusion of the six-year production period authorized by paragraph (1) (B) of this subsection the President may extend the period of production in the case of any naval petroleum reserve for additional periods of not to exceed three years each—

"(A) after the President requires an investigation to be made, in the case of each extension, to determine the necessity for continued production from such naval petroleum reserve;

"(B) after the President submits to the Congress, at least one hundred eighty days prior to the expiration of the current production period prescribed by this section, or any extension thereof, a copy of the report made to him on such investigation together with a certification by him that continued production from such naval petroleum reserve is in the national interest; and

“(C) if neither House of Congress within ninety days after receipt of such report and certification adopts a resolution disapproving further production from such naval petroleum reserve.

“(3) The production authorization set forth in paragraph (1) (B) of this subsection, in the case of Naval Petroleum Reserve Numbered 1, is conditioned upon the private owner of any lands or interests therein within such reserve agreeing with the Secretary to continue operations of such reserve under a unitized plan contract which adequately protects the public interest; however, if such agreement is not reached within ninety days after the date of enactment of the Naval Petroleum Reserves Production Act of 1976 the Secretary is authorized to exercise the authority for condemnation conferred by section 7425 of this chapter.”

(4) The first sentence of section 7423 is amended by deleting “of the Navy” and “or products”.

(5) Section 7424 is amended—

(A) by deleting “of the Navy” in the text of subsection (a) preceding clause (1);

(B) by deleting “and oil shale” in subsection (a) (1) in the text preceding subclause (A); and

(C) by deleting “in the ground” in clause (1) (A) of subsection (a).

(6) Section 7425 is amended by deleting “of the Navy”.

(7) Section 7426 (a) is amended by striking out “the Secretary of the Navy” and inserting in lieu thereof “Subject to the provisions of section 7422 (c), the Secretary”.

(8) The first and second sentences of section 7427 are amended by striking out “of the Navy”.

(9) Section 7428 is amended by striking out “within the naval petroleum and oil shale reserves shall contain a provision authorizing the Secretary of the Navy” and inserting in lieu thereof “within Naval Petroleum Reserve Numbered 2 and the oil shale reserves shall contain a provision authorizing the Secretary”.

(10) The first sentence of section 7429 is amended by deleting “of the Navy”.

(11) The text of section 7430 is amended to read as follows:

“(a) In administering the naval petroleum reserves under this chapter, the Secretary shall use, store, or sell the petroleum produced from the naval petroleum reserves and lands covered by joint, unit, or other cooperative plans.

“(b) Notwithstanding any other provision of law, each sale of the United States share of petroleum shall be made by the Secretary at public sale to the highest qualified bidder, for periods of not more than one year, at such time, in such amounts, and after such advertising as the Secretary considers proper and without regard to Federal, State, or local regulations controlling sales or allocation of petroleum products.

“(c) In no event shall the Secretary permit the award of any contract which would result in any person obtaining control, directly or indirectly, over more than 20 per centum of the estimated annual United States share of petroleum produced from Naval Petroleum Reserve Numbered 1.

“(d) Each proposal for sale under this title shall provide that the terms of every sale of the United States share of petroleum from the naval petroleum reserves shall be so structured as to give full and equal opportunity for the acquisition of petroleum by all interested persons, including major and independent oil producers and refiners alike. When the Secretary, in consultation with the Secretary of the Interior, determines that the public interests will be served by the sale of petroleum to small refiners not having their own adequate sources of supply of petroleum, the Secretary is authorized and directed to set aside a portion of the United States share of petroleum produced for sale to such refiners under the provisions of this section for processing or use in such refineries, except that—

“(1) none of the production sold to small refiners may be resold in kind;

“(2) production must be sold at a cost of not less than the prevailing local market price of comparable petroleum;

“(3) the set-aside portion may not exceed 25 per centum of the estimated annual United States share of the total production from all producing naval petroleum reserves; and

“(4) notwithstanding the provisions of subsection (b) of this section, the Secretary may, at his discretion if he deems it to be in the public interest, prorate such petroleum among such refiners for sale, without competition, at not less than the prevailing local market price of comparable petroleum.

“(e) Any petroleum produced from the naval petroleum reserves, except such petroleum which is either exchanged in similar quantities for convenience or increased efficiency of transportation with persons or the government of an adjacent foreign state, or which is temporarily exported for convenience or increased efficiency of transportation across parts of an adjacent foreign state and reenters the United States, shall be subject to all of the limitations and licensing requirements of the Export Administration Act of 1969 (83 Stat. 841) and, in addition, before any petroleum subject to this section may be exported under the limitations and licensing requirement and penalty and enforcement provisions of the Export Administration Act of 1969, the President must make and publish an express finding that such exports will not diminish the total quality or quantity of petroleum available to the United States and that such exports are in the national interest and are in accord with the Export Administration Act of 1969.

“(f) During the period of production or any extension thereof authorized by section 7422 (c), the consultation and approval requirements of section 7431 (a) (3) are waived.

“(g) (1) Prior to the promulgation of any rules and regulations, plans of development and amendments thereto, and in the entering and making of contracts and operating agreements relating to the development, production, or sale of petroleum in or from the reserves, the Secretary shall consult with and give due consideration to the views of the Attorney General of the United States with respect to matters which may affect competition.

“(2) No contract or operating agreement may be made, issued, or executed under this chapter until at least thirty days after the Sec-

retary notifies the Attorney General of the proposed contract or operating agreement. Such notification shall contain such information as the Attorney General may require in order to advise the Secretary as to whether such contract or operating agreement may create or maintain a situation inconsistent with the antitrust laws. If, within such thirty day period, the Attorney General advises the Secretary that a contract or operating agreement may create or maintain a situation inconsistent with the antitrust laws, then the Secretary may not make, issue, or execute that contract or operating agreement.

"(h) Nothing in this chapter shall be deemed to confer on any person immunity from civil or criminal liability, or to create defenses to actions, under the antitrust laws.

"(i) As used in this section, the term 'antitrust laws' means—

"(1) the Act entitled 'An Act to protect trade and commerce against unlawful restraints and monopolies', approved July 2, 1890 (15 U.S.C. 1 et seq.), as amended;

"(2) the Act entitled 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes', approved October 15, 1914 (15 U.S.C. 12 et seq.), as amended;

"(3) the Federal Trade Commission Act (15 U.S.C. 41 et seq.), as amended;

"(4) sections 73 and 74 of the Act entitled 'An Act to reduce taxation, to provide revenue for the Government, and for other purposes', approved August 27, 1894 (15 U.S.C. 8 and 9), as amended; or

"(5) sections 2, 3, and 4 of the Act of June 19, 1936, chapter 592 (15 U.S.C. 13a, 13b, and 21a).

"(j) Any pipeline which accepts, conveys, or transports any petroleum produced from Naval Petroleum Reserves Numbered 1 or Numbered 3 shall accept, convey, and transport without discrimination and at reasonable rates any such petroleum as a common carrier insofar as petroleum from such reserves is concerned. Every contract entered into by the Secretary for the sale of any petroleum owned by the United States which is produced from such reserves shall contain provisions implementing the requirements of the preceding sentence if the contractor owns a controlling interest in any pipeline or any company operating any pipeline, or is the operator of any pipeline, which carries any petroleum produced from such naval petroleum reserves. The Secretary may promulgate rules and regulations for the purpose of carrying out the provisions of this section and he, or the Secretary of the Interior where the authority extends to him, may declare forfeit any contract, operating agreement, right-of-way, permit, or easement held by any person violating any such rule or regulation. This section shall not apply to any natural gas common carrier pipeline operated by any person subject to regulation under the Natural Gas Act or any public utility subject to regulation by a State or municipal regulatory agency having jurisdiction to regulate the rates and charges for the sale of natural gas to consumers within the State or municipality.

"(k) The President may, at his discretion, direct that all or any part of the United States share of petroleum produced from the naval petroleum reserves be placed in strategic storage facilities as authorized

by sections 151 through 166 of the Energy Policy and Conservation Act or that all or any part of such share be exchanged for petroleum of equal value for the purpose of placing such petroleum in such strategic storage facilities."

(12) Section 7431 is amended—

(A) by inserting "(a)" immediately before "The Committees";

(B) by striking out "or oil shale" in clauses (1) and (2);

(C) by striking out "and oil shale" in clauses (2) and (3);

(D) by striking out "oil and gas (other than royalty oil and gas), oil shale, and products therefrom" in clause (3) and inserting in lieu thereof "petroleum (other than royalty oil and gas)"; and

(E) by adding at the end thereof the following new subsections:

"(b) (1) During the period of production authorized by section 7422(c), the Secretary shall submit to the Committees on Armed Services of the Senate and the House of Representatives any new plans or substantial amendments to ongoing plans for the exploration, development, and production of the naval petroleum reserves.

"(2) All plans or substantial amendments submitted to the Congress pursuant to this section shall contain a report by the Attorney General of the United States with respect to the anticipated effects of such plans or amendments on competition. Such plans or amendments shall not be implemented until sixty days after such plans or amendments have been submitted to such committees.

"(c) During the period of production authorized by section 7422(c), the Secretary shall submit annual reports as of the first day of the fiscal year to the Committees on Armed Services of the Senate and the House of Representatives, and such committees shall cause such reports to be printed as a Senate or House document, as appropriate. The Secretary shall include in such reports, with respect to each naval petroleum reserve, an explanation in detail of the following:

"(1) the status of the exploration, development, and production programs;

"(2) the production that has been achieved, including the disposition of such production and the proceeds realized therefrom;

"(3) the status of pipeline construction and procurement and problems related to the availability of transportation facilities;

"(4) a summary of future plans for exploration, development, production, disposal, and transportation of the production from the naval petroleum reserves; and

"(5) such other information regarding the reserve as the Secretary deems appropriate."

(13) Section 7432 is amended to read as follows:

§ 7432. Naval petroleum reserves special account

"(a) There is hereby established on the books of the Treasury Department a special account designated as the 'naval petroleum reserves special account'. There shall be credited to such account—

"(1) all proceeds realized under this chapter from the disposition of the United States share of petroleum;

"(2) the net proceeds, if any, realized from sales or exchanges within the Department of Defense of refined petroleum products

accruing to the benefit of any component of that department as the result of any such sales or exchanges;

"(3) such additional sums as may be appropriated for the maintenance, operation, exploration, development, and production of the naval petroleum reserves;

"(4) such royalties as may accrue under the provisions of section 7433; and

"(5) any other revenues resulting from the operation of the naval petroleum reserves.

"(b) Funds available in the naval petroleum reserve special account shall be available for expenditure in such sums as are specified in annual appropriations Acts for the expenses of—

"(1) exploration, prospecting, conservation, development, use, operation, and production of the naval petroleum reserves as authorized by this chapter;

"(2) production (including preparation for production) as authorized by this chapter, or as may hereafter be authorized;

"(3) the construction and operation of facilities both within and outside the naval petroleum reserves incident to the production and the delivery of petroleum, including pipelines and shipping terminals;

"(4) the procurement of petroleum for, and the construction and operation of facilities associated with, the Strategic Petroleum Reserve authorized by sections 151 through 166 of the Energy Policy and Conservation Act; and

"(5) the exploration and study of the National Petroleum Reserve in Alaska as authorized in title I of the Naval Petroleum Reserves Production Act of 1976.

"(c) The budget estimates for annual appropriations from the naval petroleum reserves special account shall be prepared by the Secretary and shall be presented to the Congress by the President independently of the budget of the Department of the Navy and the Department of Defense.

"(d) Contracts under this chapter providing for the obligation of funds may be entered into by the Secretary for a period of five years, renewable, at the option of the Secretary, for an additional five-year period; however, such contracts may obligate funds only to the extent that such funds are made available in annual appropriations."

(14) Section 7433 (a) is amended by striking out "of the Navy".

(15) Section 7433 (b) is amended by striking out "and oil shale".

(16) Section 7434 is amended by striking out "and oil shale".

(17) Section 7435 (b) is amended by striking out "of the Navy".

(18) Section 7436 (a) is amended by deleting "of the Navy, subject to approval of the President,".

(19) Section 7438 is amended by striking out "Secretary of the Interior" wherever it occurs and inserting therefor "Administrator of the Energy Research and Development Administration"; and by striking out "of the Navy" wherever it occurs.

(20) The table of sections at the beginning of such chapter is amended—

(A) by inserting immediately before

"7421. Jurisdiction and control."

the following:

"7420. Definitions."

(B) by striking out:

"7432. Expenditures; appropriations chargeable."

and inserting in lieu thereof the following:

"7432. Naval petroleum reserve special account."

And the Senate agree to the same.

JOHN MELCHER,
HAROLD T. JOHNSON,
PHILLIP BURTON,
HAROLD RUNNELS,
GEORGE MILLER,
MELVIN PRICE,
CHARLES BENNETT,
JOE SKUBITZ,
SAM STEIGER,
WILLIAM L. DICKINSON,
F. EDWARD HÉBERT,
JOHN F. SEIBERLING,
DON YOUNG,

Managers on the Part of the House.

HOWARD W. CANNON,
JOHN C. STENNIS,
STUART SYMINGTON,
SAM NUNN,
GARY HART,
HENRY M. JACKSON,
LEE METCALF,
FLOYD K. HASKELL,
STROM THURMOND,
WILLIAM L. SCOTT,
ROBERT TAFT,
CLIFFORD P. HANSEN,
DEWEY F. BARTLETT,

Managers on the Part of the Senate.

JOINT STATEMENT OF THE COMMITTEE OF CONFERENCE

INTRODUCTION

The Committee of Conference on the bill (H.R. 49) which involves the establishment of a National Petroleum Reserve in Alaska under the jurisdiction of the Secretary of the Interior and the production of petroleum from the naval petroleum reserves by the Secretary of Navy, met seven times to resolve the differences between the House bill and the Senate amendment. In addition, many hours of informal negotiations were involved in reaching agreement on the text of the legislation explained below. This revised text is in the form of a complete substitute for the two different versions approved by the House and Senate.

COMPARISON OF MAJOR ISSUES AND FINAL RECOMMENDATION

The differences between H.R. 49 as passed by the House and as amended by the Senate are so great as to make a side-by-side comparison impractical. The two versions of the bill sought to achieve somewhat different objectives through different agencies. However, both bills sought to solve a long-existing issue of great national importance, *viz.* how the petroleum resources owned by the United States government in the public lands reserved for the four naval petroleum reserves can best serve the public interest.

OBJECTIVE

The House version of H.R. 49 authorized the Secretary of the Interior to establish a system of national petroleum reserves on the reserved and unreserved public lands of the United States (with certain stated exemptions). Under the House bill, lands in the naval petroleum reserves could be included in this new system after consultation with the Secretary of Defense and thereby be excluded from the naval petroleum reserves. In the forty-eight contiguous States development and production of petroleum in the new national petroleum reserves was to be undertaken by the Secretary of the Interior either directly or through competitive bidding procedures.

The Senate amendment, on the other hand, authorized production from these Naval Petroleum Reserves 1, 2, and 3 under the jurisdiction of the Navy for a period of five years with the objectives of (1) assuring the readiness of the reserves to produce in the future and (2) using the proceeds from the sale of the petroleum produced to permit complete development of the reserves and to partially offset the costs associated with a strategic energy reserve system designed to store an immediately available quantity of petroleum for emergency use. During the period of production authorized in the Senate

bill, the House objective of increasing domestic petroleum production would be realized.

In reaching a compromise the Committee of Conference agreed to leave jurisdiction for Naval Petroleum Reserves 1, 2 and 3 with the Secretary of Navy, and to require him to take steps to bring these reserves into immediate production. Under the compromise, petroleum at the three reserves is to be produced at the maximum efficient rate for a period of six years, with provisions for an indefinite number of extensions for periods of three years each under specified circumstances.

NAVAL PETROLEUM RESERVE NO. 4

The House version of H.R. 49 would have established a national petroleum reserve encompassing Naval Petroleum Reserve No. 4; thus abolishing it as a naval reserve. It also required the Secretary of the Interior to continue exploration of the reserve and report progress annually to Congress, but it required further Congressional authorization before any development leading to production could be undertaken. In addition, a study was to be made by the Secretary of the feasibility of developing delivery systems with respect to any oil and gas which may be produced and a task force was to be established to review all of the resource values of the lands and report its recommendations to the Congress.

The Senate amendment would have retained jurisdiction over this area in the Secretary of Navy. It contemplated the continuation of the current exploration program by the Secretary of Navy and provided that the Federal Energy Administration would conduct a 180-day study regarding alternatives available for the exploration, development, and production of NPR #4. The study by the Administrator of the Federal Energy Administration was later incorporated into the Energy Policy and Conservation Act (Public Law 94-163).

The Committee of Conference agreed that all of the lands in NPR #4 should be transferred to the Secretary of the Interior, except for the surface of lands necessary for the Naval Arctic Research Laboratory near Point Barrow, Alaska. Unlike the immediate transfer implicit in the House version however, the Committee recommends that the transfer take place on June 1, 1977, after the two affected agencies have had a winter season to work together in the field to insure the smooth transfer of jurisdiction and to minimize the lost time in the ongoing exploration program. The Committee agreed to language to establish a task force, under the direction of the Secretary of the Interior consisting of representatives of Alaska, the Alaska Natives, the Bureau of Land Management, the U.S. Fish and Wildlife Service, the U.S. Geological Survey, the Bureau of Mines, and such other agencies as the Secretary may deem appropriate, to review the overall resource values in the area. A second study provision agreed upon requires consideration in depth of alternatives for the development, production, transportation and distribution of petroleum in the reserve under the direction of the President, in consultation with the representatives of the State of Alaska. The 180-day FEA study, authorized by Public Law 94-163, which is now underway, is to be completed and will be transmitted directly to the Committees on Interior and Insular Affairs of the House and Senate.

COMPETITIVE SALES AND SMALL REFINERS

In H.R. 49 as approved by the House, the Secretary of the Interior was directed to use competitive bidding procedures in the sale of any petroleum from the reserves. In addition, he was to structure such sales in a manner which would allow all companies—majors and independents alike—to offer viable bids. Particularly, with respect to petroleum produced at Elk Hills, the House version limited the total amount which any person or company could directly or indirectly control to not more than 20 percent of the production from that field in any one year.

The Senate amendment required the United States share of the petroleum to be sold by the Secretary of Navy to the highest qualified bidder at such time and in such amounts as the Secretary of Navy considered proper and it also required such sales to be structured so as to allow all interested companies to have a full and equal opportunity to acquire the petroleum and required it to be offered in blocks small enough to allow small refiners to bid on the oil tendered. It specifically provided that such sales might be made without regard to Federal, State or local regulations controlling sales or allocation of petroleum products.

The Committee of Conference recommends that all sales of petroleum by the Secretary of Navy be made at such time and in such amounts as he deems proper to the highest qualified bidder for periods of not more than one year. It also requires that each sale be structured to give full and equal opportunity to all companies. Furthermore, it prohibits the sale of more than 20 percent of the estimated Federal share of petroleum produced from Elk Hills to any buyer in a single year. To promote competition and to assist small refiners not having adequate sources of supply of petroleum, the Secretary is authorized to set aside up to 25 percent of the estimated Federal share of production from the reserves for sale to such refiners or, in his discretion, to prorate such petroleum to such refiners for sale at not less than the prevailing local market price.

ANTITRUST PROVISIONS

With respect to provisions involving possible restraints on competition, the House-approved bill required the Secretary of the Interior to consult with the Attorney General at each stage in the formulation of plans and rules or regulations, and at each stage in the entering into of contracts or operating arrangements. In addition, all plans submitted to the Congress were to contain a report by the Attorney General on the anticipated effects of these upon competition. Furthermore, the Secretary was to be prohibited from entering into any contract until the Attorney General was given an opportunity for review to determine if the contract would create or maintain a situation inconsistent with the antitrust laws. If the Attorney General were to find it inconsistent with the antitrust laws or incompatible with the public interest, then the Secretary's recourse was to be through public hearings and a separate finding.

While the Senate amendment contained no comparable provisions, the Committee of Conference agreed that antitrust protections would

be desirable; consequently, the Committee has included antitrust provisions in both titles of the legislation. With respect to production from Naval Petroleum Reserves 12 and 13, before the Secretary of the Navy may promulgate any rules and regulations, finalize any plans of development, or execute any contracts for the development, production, or sale of petroleum from the reserves, he must consult with the Attorney General and give due consideration to his advice on matters which may affect competition. The Secretary is also prohibited from making any contract until thirty days after he has notified the Attorney General of his intention. If the Attorney General advises that the contract may create a situation inconsistent with the antitrust laws then the Secretary is precluded from executing it. Furthermore, the Secretary is required to include in all plans submitted to the Congress, a report by the Attorney General with respect to the anticipated effects of such plans on competition.

With respect to the National Petroleum Reserve in Alaska (formerly Naval Petroleum Reserve No. 4), the Secretary of Interior is authorized to enter into contracts for the exploration of the reserve, but at least thirty days before executing such contracts, he must submit them to the Attorney General for review to determine whether or not they are consistent with the antitrust laws. If within thirty days the Attorney General determines that they are not consistent, then the Secretary is precluded from proceeding to finalize the contract. If development leading to production is authorized at the reserve, then, unless Congress provides otherwise, the antitrust policies applicable to production of the naval petroleum reserves are to be applied to production from the National Petroleum Reserve in Alaska.

COMMON CARRIER PROVISIONS

Both the House bill and Senate amendment contained provisions dealing with the operation of pipelines from the naval petroleum reserves. As enacted by the House, any pipeline carrying petroleum from the national petroleum reserves was to be operated and maintained as a common carrier and the Secretary of the Interior was to have the authority to make necessary rules and regulations to carry out this provision. Any violation of such rules and regulations could result in the Secretary voiding any contract, operating agreement, right-of-way, permit or easement granted by him. In addition, the Secretary was authorized to acquire or construct pipelines in the vicinity of any national petroleum reserve in order to assure the transportation of petroleum from such reserves to refinery points or to points connecting with common carrier pipelines.

The Senate amendment was comparable, except that it dealt only with the naval petroleum reserves in California and, in line with its approach to the bill, instead of placing the authority in the Secretary of the Interior, it placed the responsibility with the Secretary of the Navy. To assure the transportation of the petroleum produced from Naval Petroleum Reserves 1, 2 and 3, it authorized the Secretary to construct or procure pipelines and associated facilities, and such facilities at Elk Hills were to be capable of transporting not less than 350,000 barrels of oil per day within three years after the enactment of the legislation.

In reconciling these differences, the Committee of Conference took note of the fact that some, and perhaps most, of the present pipelines which would be involved under this legislation are already common carriers under the terms of the Mineral Leasing Act of 1920. But the recommended language attempts to deal with all of the foreseeable possibilities:

First, any pipeline which accepts or transports any petroleum from Naval Petroleum Reserves 1 or 3 must accept and transport petroleum from these reserves as a common carrier;

Second, any purchaser of petroleum from such reserves must agree, by contract, to transport any petroleum from these reserves as a common carrier if he owns a controlling interest in a pipeline, or if he owns a controlling interest in a company which operates a pipeline, or if he is the operator of any pipeline carrying petroleum produced from these reserves;

Third, if adequate transportation facilities are not otherwise available, the Secretary of Navy may construct or acquire them or contract for the use of them;

Fourth, if a pipeline in the vicinity refuses to transport petroleum from these reserves as a common carrier, then the Secretary may acquire such pipeline (by condemnation, if necessary); and

Fifth, if new pipelines are constructed on rights-of-way acquired by the government, then these pipelines are to be common carrier pipelines.

The Committee of Conference accepted the Senate approach with respect to pipeline facilities for production from Elk Hills which requires the Secretary to have available adequate capacity to accommodate not less than 350,000 barrels per day within three years after the date of enactment of this legislation. In addition the recommended language authorizes the Secretary to promulgate such rules and regulations as may be necessary to carry out the provisions of section 7430, title 10 United States Code, and to take appropriate action in the event of violation thereof.

STRATEGIC STORAGE AND NAVAL PETROLEUM RESERVES SPECIAL ACCOUNT

The Senate amendment provided that the President could direct that all or part of the Federal share of petroleum produced from the naval petroleum reserves could be placed in a strategic storage facility. In addition, it authorized the establishment of a special account in the Treasury to which all revenues from the sale of petroleum and proceeds from other activities associated with the naval petroleum reserves were to be credited. From this account, funds were to be appropriated for activities at the reserves, construction of necessary pipelines or other facilities, and procurement of petroleum for the national strategic energy reserve system.

In comparison the House language established a special fund in the Treasury to receive the proceeds realized under the legislation from the sale of oil and gas from the national petroleum reserves. Monies in the fund were to be appropriated for the purchase of petroleum for storage in the national strategic petroleum reserve, when authorized by law, and for the development and production of Naval Petroleum Reserves 1, 2, and 3.

The Senate amendment also contained the complete authority establishing a strategic reserve system. Since approval of H.R. 49, by the House and Senate, the Energy Policy and Conservation Act, providing for the establishment of a strategic reserve, has been enacted into law. In recognition of this fact, the Committee of Conference approved a modified approach which authorizes the President to place *all* or *any* part of the petroleum produced from the naval petroleum reserves in the authorized strategic storage facilities or exchange it for petroleum of equal value to be so stored.

It was agreed that there should be established a special account in the Treasury consisting of revenues derived from the disposition of petroleum from the naval petroleum reserves, the proceeds from internal sales of petroleum within the Department of Defense, appropriations made by Congress for such reserves and any royalties or other revenues derived from the operation of such reserves. This special account is not to be the exclusive source of funds for the conduct of activities authorized by this Act, but monies credited to it are to be available as offsetting receipts to reduce outlay requirements for (1) the Secretary of the Navy in connection with expenses incident to the operation of the naval petroleum reserves, (2) the Secretary of the Interior in connection with exploration and study costs associated with the National Petroleum Reserve in Alaska, and (3) the Administrator of the Federal Energy Administration in connection with the procurement of petroleum for, and construction and operation of facilities associated with, the Strategic Petroleum Reserve. The conferees were aware that anticipated receipts would not offset the outlay requirements of all three of the agencies eligible to utilize the funds, and the President, in all likelihood, will find it necessary to apportion the available monies between the three agencies. The conferees expect the Budget Committees to consider all of these funds under the "Natural resources, environment, and energy functional" category.

CONGRESSIONAL OVERSIGHT

Both versions of H.R. 49 provided for oversight responsibilities to be vested either in the Interior and Insular Affairs Committees (under the House language) or in the Armed Services Committees (under the Senate language). The Committee of Conference agreed that continued Congressional oversight over all aspects of the implementation of this legislation would be important. Since Naval Petroleum Reserve No. 4 in Alaska is to be transferred to the Interior Department, the Committee is recommending that all contracts, plans, reports, etc. involving this area be referred directly to the Committees on Interior and Insular Affairs. Similarly, since the other reserves are to remain under the administrative jurisdiction of the Secretary of the Navy, all such contracts, plans, reports, etc. dealing with them will be directed to the Committees on Armed Services.

SECTION BY SECTION ANALYSIS

TITLE I—NATIONAL PETROLEUM RESERVE IN ALASKA

SEC. 101 defines the term "petroleum" to include crude oil, gases of all kinds (natural gas, hydrogen, carbon dioxide, helium and any

others), natural gasoline, and related hydrocarbons (tar sands, asphalt, propane, butane, etc.), oil shale and the products of such resources.

Sec. 102 provides that, except for surface of the lands in Tract 1 as described in Public Land Order 2344 which are being used for the Naval Arctic Research Laboratory, all of the public lands whether previously reserved or unreserved within the exterior boundaries of Naval Petroleum Reserve No. 4 as established by Executive Order 3797A of February 27, 1923, will be transferred to the administrative jurisdiction of the Secretary of the Interior from the Secretary of the Navy, but Federal agencies conducting authorized activities not inconsistent with the Act may be permitted to continue such activities to the extent they do not interfere with the administration of the land by the Secretary. All lands within this new "National Petroleum Reserve in Alaska" are statutorily withdrawn from all forms of entry and disposition under the public land laws and mining and mineral leasing laws. It is the specific intent of this provision that all lands be explicitly excluded from the provisions of the Mineral Leasing Act of 1920.

The intent of this section is to insure that all of the lands within the exterior boundaries of the reserve remain withdrawn from all uses inconsistent with the purposes of this legislation. The statutory withdrawal includes *all* lands within the boundaries of the 1923 Executive Order in order to override the unexpected interpretation of that order by the United States Court of Appeals for the Ninth Circuit in *Arnold v. Morton*. Express recognition is given to certain existing uses, e.g., the continued operation of the South Barrow gas field. Inasmuch as the Alaska Native Claims Settlement Act authorized native village corporations to select certain Federally owned land in Alaska, including the right to apply for surface rights within the Naval Petroleum Reserve until December 18, 1975, this legislation authorizes the Secretary to convey such surface interests if the selections were made on or before that date, but in no event does the legislation authorize the disposition of the subsurface mineral estate within the national petroleum reserve to any person or group, except for mineral materials (e.g., sand, gravel, and crushed stone, which for the purpose of this legislation are considered to be a part of the subsurface mineral estate) which the Secretary may permit to be used for maintenance or development of local services by native communities or for use in connection with activities associated with administration of the reserve under this Act.

SEC. 103 provides that jurisdiction over Naval Petroleum Reserve No. 4 shall be transferred to the Secretary of the Interior on June 1, 1977, at which time it shall be redesignated as the National Petroleum Reserve in Alaska. Responsibility for the protection of the natural, fish and wildlife, scenic and historical values of the area is vested in the Secretary of the Interior immediately upon enactment of this Act so that any activities which are or might be detrimental to such values will be carefully controlled. When complete jurisdiction over the reserve is transferred on June 1, 1977, the Secretary of the Interior will assume all rights and obligations incurred under contracts executed by the Secretary of the Navy with respect to activities in the reserve.

To make this transfer of jurisdiction orderly, the legislation requires that all equipment, facilities, and property associated with explora-

tion of the reserve be transferred by the Secretary of the Navy, without reimbursement, to the Secretary of the Interior and provides that any unexpended funds previously appropriated for use in connection with the reserve be transferred to the Secretary of the Interior for use in connection with the reserve as intended by the Congress when such appropriations were made. In this connection the legislation also transfers the civilian personnel ceilings assigned to the management and operation of the reserve to the Interior Department. It is not expected that non-civilian Navy personnel will transfer to the Department of the Interior, but it is intended that the number of positions allocated to the management and operation of the reserve will continue at approximately the same level after the transfer takes place so that activities at the reserve will continue at least at their current level.

Sec. 104 makes it absolutely clear that only exploration is authorized at the National Petroleum Reserve in Alaska. After the studies are completed and transmitted to the Congress, as required by the legislation, then the Congress will determine how future development and production will take place. Until authorized by the Congress, there will be no production of petroleum from this reserve, except for a limited quantity from the South Barrow gas field which is essential to the Native village of Barrow and other communities and installations near Point Barrow.

The legislation makes it clear that the Secretary may designate certain areas—including specifically the Utukok River area and the Teshekpuk Lake area—where special precautions may be necessary to control activities which would disrupt the surface values or disturb the associated fish and wildlife habitat values and related subsistence requirements of the Alaska Natives.

It is the intention of this provision to immediately authorize the Secretary to require that the exploration activities within these designated areas be conducted in a manner designed to minimize adverse impacts on the values which these areas contain. While "maximum protection of such surface values" is not a prohibition of exploration-related activities within such areas, it is intended that such exploration operations will be conducted in a manner which will minimize the adverse impact on the environment.

To this end, the Secretary is expected to take into consideration the needs of resident and migratory wildlife and to schedule exploration activities in a manner which, and at such seasons as, will cause the least adverse influence on fish and wildlife. In scheduling exploration activities in such an area the Secretary should take steps to minimize any adverse effects on native subsistence requirements and associated fish and wildlife values. Specifically, he should conduct exploration activities in these areas during times of the year when the caribou calving season and the nesting and molting seasons of the birds can be avoided.

While this provision suggests that certain areas should receive special consideration, the Members of the Committee of Conference do not mean to imply that the Secretary should ignore the environmental ramifications of exploration activities in other areas. On the contrary, it is expected that the Secretary will take every precaution to avoid unnecessary surface damage and to minimize ecological disturbances throughout the reserve.

Until the actual transfer of the reserve to the Department of the Interior, the legislation requires the Secretary of the Navy to continue the ongoing exploration program within the reserve. In other words, the Members of the Committee of Conference agreed that since the Secretary of the Navy is to continue administration of this reserve until June 1, 1977, he should move forward on the exploration program which for fiscal year 1977 envisions the drilling of five exploratory wells and the completion of approximately 3,000 miles of seismic surveys.

There is every reason to believe that he will be able to cooperate with the Secretary of the Interior in carrying forward the exploration program and the Members of the Committee of Conference expect them to work together for the full season prior to the transfer so that a continuity of operations without lost time will be assured.

Since the Secretary of the Interior is required to assume responsibility for the conduct of operations under contracts negotiated by the Secretary of the Navy, after June 1, 1977, it is expected that all new contracts or amendments to existing contracts after enactment of this legislation will be closely coordinated between the two Secretaries. The Committee of Conference did not give the Secretary of the Interior a veto power over such contracts or changes, because it is generally understood that no new contracts are anticipated in the foreseeable future and because it is recognized that in the interests of good management, the Secretaries would establish a responsible and reasonable working relationship which will protect the public interest in the activities within the reserve.

Once the transfer is effected, the legislation authorizes the Secretary of the Interior to enter into contracts which he deems necessary to carry out the exploration activities contemplated. Such contracts are to be reviewed by the Attorney General for their legal sufficiency and consistency with the antitrust laws. The Secretary is precluded from entering any contract which the Attorney General determines would unduly restrict competition or be inconsistent with the antitrust laws. For the purposes of adequate oversight over such proposed actions, the Secretary is required to transmit all plans, or substantial amendments to plans, to the Committees on Interior and Insular Affairs of the House of Representatives and Senate and to report annually to such Committees on the progress of, and future plans for, exploration of the reserve.

Public Law 93-153, which modernized the law relating to rights-of-way over Federal lands and authorized the Trans-Alaska oil pipelines, included a specific requirement (section 403) that the Secretary of the Interior take affirmative action to assure that no person would, on the grounds of race, creed, color, national origin, or sex be excluded from activities carried out under authority of Title II of that Act. The Committee of Conference expects both the Secretary of the Interior and the Secretary of Navy to follow the principles set out in section 403 of P.L. 93-153 in implementing H.R. 49.

The legislation specifically authorizes the Secretary of the Navy to develop and continue the operation of the South Barrow gas field in order to supply gas at reasonable and equitable rates to the nearby villages and facilities near Point Barrow. Once the transfer of the reserve is effected, the Secretary of the Interior is authorized to take all

necessary actions to continue such service, including the development of additional fields, if necessary. The Secretary is not expected to amortize the investment in this field, on the contrary he is expected to set the rates for this service at a level which is reasonable from the point of view of the Federal Government and equitable from the point of view of the users.

The equitable rate should take into consideration the special conditions which exist in this area. The Committee recognizes that this is an isolated area in an Arctic environment where the source and supply of energy is critically important. Certainly, the village of Barrow should never be charged a rate exceeding the rate charged other users. On the contrary, the Secretary should take into consideration the average disposable income of the residents of the village and other factors in determining what the "equitable rate" might be and could, in fact, determine that a rate lower than the rate for other users should be charged on the basis of equity.

Sec. 105 deals with the study of the reserve. First, it provides that the study authorized by the Energy Policy and Conservation Act of December 22, 1975, will be completed and transmitted to the Committees on Interior and Insular Affairs. This study should be useful in identifying promising alternatives for more detailed consideration in the study called for by section 105(b). In addition, the President through appropriate executive departments or agencies and in consultation with the State of Alaska shall make a detailed study of the petroleum resources in the reserve to determine the best procedures for the development, production, transportation and distribution of such petroleum resources. In developing this study the President is to consider alternative procedures for the development and production of the reserve and the economic and environmental consequences of each. Periodic reports on the implementation of this study provision and annual reports of his findings and conclusions will be transmitted to the Committees on Interior and Insular Affairs of the House of Representatives and the Senate. The study is to be completed no later than January 1, 1980.

In addition the legislation provides for the creation of a task force to conduct a study to determine the values of, and best uses for, the lands within the reserve. This study differs from the President's study discussed above in that it is a comprehensive review of all resource values, other than petroleum, which the lands within the reserve contain. In addition to considering the importance of this area to the natives who depend upon this area for subsistence, this task force is directed to consider the natural, scenic, wildlife, and wilderness values which it contains as well as the potential for minerals, other than petroleum, and other values. The task force is to include representation of various interested Federal agencies, a representative of the State of Alaska and a representative of the Arctic Native Slope Community, the latter to be selected jointly by the affected native corporation, borough and villages. It will be the responsibility of the Secretary to prepare and submit the report of the task force, together with his recommendations, to the Committees on Interior and Insular Affairs within three years after enactment of H.R. 49, but it shall contain the concurring or dissenting views of any non-Federal representative who submits his views in writing to the Secretary within 30 days after

the Secretary announces his intention to forward the report as required by the legislation. It is not intended that either study authorized by this Act should preclude any action by either Secretary which this legislation otherwise authorizes.

SEC. 106 provides that if the Congress enacts legislation authorizing development leading to production, then the Secretary shall consult with the Attorney General in formulating regulations, developing plans, and on all contracts or operating agreements relating to development, production or sale of petroleum from the reserve to be sure that they are consistent with the antitrust laws. While this provision would become applicable if the Congress authorizes production at the reserve, this section is not intended to delay or interfere in any way with the exploration program or to preclude any geologic, geophysical, seismic or other activity necessary to carry out the purposes of this Act.

SEC. 107 authorizes the appropriation of such sums as may be necessary to carry out the provisions of this title and provides that, under certain circumstances, the Secretary may aid affected communities experiencing substantially increased needs for municipal services and facilities as the direct result of the exploration and study activities authorized by the legislation. Before implementing this provision, the Secretary is required to consult with the other Federal departments or agencies to determine what financial aid is otherwise available.

TITLE II—PRODUCTION OF NAVAL PETROLEUM RESERVES

SEC. 201 is a series of amendments to chapter 641 of title 10 of the United States Code—i.e. the chapter dealing with the naval petroleum reserves.

Amendment 1 adds a new section to the chapter defining the following terms:

“National defense” includes not only military emergencies, but also economic emergencies such as the one which occurred during the Arab embargo of 1973.

“Naval Petroleum Reserves” are defined to include the four existing petroleum reserves and the three oil shale reserves, but Naval Petroleum Reserve No. 4 in Alaska is included in this definition only until it is transferred to the Secretary of the Interior on June 1, 1977, when it is to be redesignated as the National Petroleum Reserve in Alaska in accordance with the provisions of title I of the Act.

The term “petroleum” is defined exactly the same way as in title I.

“Maximum efficient rate” implies that production shall be conducted in a manner which will assure the most efficient development to maximize ultimate recovery of petroleum from the reservoir. The Members of the Committee of Conference recognize that the Secretary of Navy retains, under the unit plan contract at NPR #1, the full and absolute power to determine the rate of development, as well as the volume and rate of production consistent with the objectives of this Act and do not intend to alter or limit this power by the use of the term “economic development” in this definition.

To eliminate any possible confusion over the term “small refiner”, the legislation incorporates, by reference, the standards applied by

the Small Business Administration in qualifying a refinery as a small business refiner.

Amendment 2 makes some technical changes in the chapter and provides that the naval petroleum reserves are to be used for defense purposes, except as otherwise provided by the terms of this legislation.

Amendment 3 completely revises section 7422 and requires the Secretary to produce the petroleum in Naval Petroleum Reserves 1, 2 and 3. He is authorized either to produce such petroleum or to have it produced under a contractual arrangement. Petroleum leases are a permissible arrangement only at Naval Petroleum Reserve No. 2 (Buena Vista), where such leases presently exist.

Generally, in the past the naval petroleum reserves have been used and operated only to the extent that such production was found necessary by the Secretary, with the approval of the President, and then only when authorized by a joint resolution of the Congress. But the change incorporated in this amendment *directs* the Secretary to promptly commence the production of petroleum from these reserves at the maximum efficient rate and to continue such production for a period of six years. During this period, the Secretary is to sell or otherwise dispose of the United States share of production.

The Secretary is authorized and directed to construct, acquire or contract for the use of storage or shipping facilities. The Secretary is expected to exhaust every possibility of utilizing private facilities or of encouraging private enterprise to construct facilities before he undertakes construction or condemnation of any facilities outside the reserves. If necessary, the Secretary may condemn any pipeline not operated as a common carrier if the owner refuses to carry, without discrimination and at a reasonable rate, any petroleum produced at such reserve. In addition, if new pipelines are necessary, rights-of-way may be acquired by the use of condemnation under Federal statutory authority, but such pipelines must be operated as common carriers. At Naval Petroleum Reserve No. 1 (Elk Hills) pipelines and associated facilities capable of carrying 350,000 barrels of oil per day are required to be available not later than three years after the date of enactment of this legislation. This provision was included in the Act in order to assure the availability of adequate facilities to promptly transport petroleum from Elk Hills and maintain production at the maximum efficient rate of production for the field.

As already noted, production of petroleum at the naval petroleum reserves is to commence 90 days after the enactment of this legislation. After six years of production, the reserves will again be shut-in unless the President takes steps to extend the operations. To accomplish this, he must first assess the current and prospective need for petroleum and determine the necessity for continued production, then he must submit to the Congress the report of this assessment together with a certification that he has determined that continued production is in the national interest. Following receipt of the report, unless either the Senate or House of Representatives expressly disapproves further production, it will be extended for three years. Additional extensions of three years each can be accomplished by following the same procedures.

There is no intention to negate the provisions of the existing unit plan contract at Elk Hills and the language specifically provides for

the continuation of operations under that contract if the owner of the private interest agrees. It is intended that there will be a formalized agreement to this effect within 90 days after the enactment of the legislation. Failure to reach such an agreement could result in the acquisition of the outstanding private holdings if the Secretary deems such action necessary in order to protect the public interest.

Amendment 4 merely makes some technical changes to make section 7423 conform to changes being made in Chapter 641.

Amendment 5 also makes some technical changes in the Chapter, but it contains one significant substantive revision. Under existing law, the Secretary of the Navy is required to consolidate and protect Federal oil lands by contracting with private owners and lessees of lands within or adjacent to naval petroleum reserves to conserve oil and gas "in the ground." As recommended by the Committee of Conference, the Secretary may continue to contract with such private parties for the wisest conservation and development of the petroleum in the reserves, but he is not required to keep it in the ground. In fact, the intention of the provisions of the legislation is to assure the development of petroleum in the reserves at the maximum efficient rate for the six-year period of production authorized or any extension.

Amendment 6 makes a technical change in section 7425 to conform to the definitions contained in the legislation.

Amendment 7 makes it clear that the Secretary may make contracts for joint, unit or cooperative plans for exploration, prospecting, conservation, development, use or operation within the Elk Hills reserve, but in making such contracts he is required to pursue the objective of this legislation, *viz.* to develop Elk Hills so that production will achieve the maximum efficient rate at the earliest possible time.

Amendment 8 conforms existing law to the changes made in the definitions section of this legislation.

Amendment 9 makes it clear that in the future petroleum leasing procedures shall be appropriate only within Naval Petroleum Reserve No. 2 (Buena Vista).

Amendment 10 makes a technical change to conform to the definitions section of this legislation.

Amendment 11 deals with some of the most critical issues of the proposed legislation. Specifically it deals with the following matters related to the production of petroleum from the naval petroleum reserves:

1. *Storage of Petroleum*

The Secretary is directed to "use, store, or sell" the petroleum produced at the reserves. In agreeing to this provision, the conferees recognized that some use of some of the products of the reserves might be required in connection with operation and production activities. For example, gas produced from the reserves could be used for power generation or reinjection, but this authority does not extend beyond the authority to use these products in connection with activities directly related to production of the naval petroleum reserves. Except as authorized for strategic storage in subsection (k), it is intended that the storage authorized is limited to storage incident to the sale of petroleum and should not exceed more than is necessary to handle normal fluctuations in marketing volumes. Under subsection (k), the Presi-

dent may arrange, either directly or through exchange, to store all or any part of the petroleum produced at the reserves in the strategic storage facilities authorized by Public Law 94-163.

2. *Sale of Petroleum*

All sales of petroleum by the Secretary are to be made at public sale to the highest qualified bidder after appropriate public notice. Such sales contracts shall be for periods of one year or less and are required to be structured in such a manner as to give all companies—majors and independents alike—a "full and equal opportunity for the acquisition of petroleum" from the reserves. In no event, may more than 20 percent of the Federal share of production of petroleum from Elk Hills be acquired by a single purchaser (i.e. any person as defined in Title I of the United States Code). By providing that sales may be made by the Secretary "without regard to Federal, State or local regulations controlling sales or allocation of petroleum products", it is intended that the sales of petroleum from the reserves will continue to be at the highest bid price regardless of the current or previous distinction between "old" and "new" oil and would not be subject to Federal laws establishing ceiling or composite prices for first sales of domestic crude oil.

The Committee recognized that in effecting sales to ensure the limitations of no more than 20 percent to one person and in considering a small business set aside the Secretary will have to estimate his production for the following year and package his contracts accordingly. The Secretary is not expected or required to terminate contracts if he finds that actual production varies substantially from his estimates, but he will have to account for such variation in his reports to Congress and adjust appropriately for future sales.

3. *Small Refineries*

As mentioned above, the Secretary is required to structure bids in such amounts as to allow all potential qualified purchasers to bid on the Federal petroleum to be sold. In addition the Secretary, after consulting with the Secretary of the Interior, may find it in the public interest to set aside up to 25 percent of the estimated Federal production from the reserves for small refiners not having an adequate source of supply of petroleum of their own. In making such a set-aside, the Secretary may prorate such petroleum among small refiners, without competitive bids, but such petroleum must then be sold at the prevailing local market price for comparable petroleum. The legislation specifies that the Secretary, in making any sales under the set-aside provision, must require the processing or use of the petroleum in such small refineries and must prohibit the small refiners from re-selling the petroleum prior to processing it.

4. *Antitrust Provisions*

Before finalizing any rules and regulations, plans of development, contracts or operating agreements relating to the development, production, or sale of petroleum, the Secretary is required to consult with, and consider the views of, the Attorney General. In agreeing to this provision, the Committee of Conference recognized that such consultation will be effective only if the Secretary, in good faith, seeks the advice and counsel of the Attorney General when he is in the early stages of such proceedings so that he may have the benefit of his views

on matters which might affect competition before finalizing the policies and provisions of such regulations or contracts. In any event, the legislation requires all contracts and operating agreements to be forwarded at least thirty days before their execution, together with such additional information as he may require, to the Attorney General. If, within the thirty days period, the Attorney General advises the Secretary that such contract or agreement may create or maintain a situation inconsistent with the antitrust laws, then the Secretary is precluded from executing the contract or operating agreement. In the absence of such an adverse finding by the Attorney General within thirty days, the Secretary may proceed to finalize the agreements.

5. Common Carrier Provision

In order to assure the transportation of the petroleum produced from Naval Petroleum Reserves Numbered 1 and 3 (i.e. Elk Hills and Teapot Dome), the Committee of Conference agreed to a revised common carrier provision which provides:

(1) that if pipelines are used to carry any petroleum from these reserves, they must accept such petroleum produced from them without discrimination and at reasonable rates;

(2) that every contract for the sale of any Federal petroleum must require the purchaser, if he is the owner of a controlling interest in any pipeline, the owner of a controlling interest in any company operating a pipeline, or the operator of a pipeline which carries petroleum from such reserves, to transport petroleum from such reserves without discrimination and at reasonable rates as a common carrier.

These provisions are not intended to make such pipelines "traditional" common carriers as provided under other laws nor should they be construed to require the transportation of any petroleum regardless of the source. Instead, the intent of the provision is to require only the transportation of petroleum from the specified reserves whenever the pipeline involved is not otherwise operated as a common carrier, and then only when the pipeline carries some production from the reserves or is controlled by some person (person, association, corporation, joint venture, or other business organization) who has contracted with the Secretary of Navy for the purchase of petroleum produced from such reserves.

To aid in the enforcement of this provision, the Secretary of the Navy is authorized to make rules and regulations to carry out the provisions of the section. Whenever any person violates any such rule or regulation, the Secretary may take appropriate action to cancel any contract, operating agreement, right-of-way, etc. which he may have issued. Furthermore, he may request that the Secretary of the Interior, acting on behalf of the United States, to void any contract, right-of-way, permit, or easement which he may have issued to such person in accordance with authority granted to him insofar as it applies to these reserves. The purpose of this enforcement procedure is to assure compliance with the rules and regulations which the Secretary of the Navy is expected to issue.

6. Exportation of Petroleum

Except for petroleum which may be exchanged in similar quantities with persons or the government of an adjacent foreign state or which

is temporarily exported for convenience or increased transportation efficiency across international boundaries, petroleum from the naval petroleum reserves may be exported from the United States *only* in compliance with the Export Administration Act of 1969 *and then only* if the President makes and publishes an express finding that such exports will not adversely affect the supply of petroleum for the United States, that such exports are in the national interest, and they are in compliance with the Export Administration Act of 1969.

7. Consultation Requirements

For the duration of the production period—i.e. the initial 6 years and any additional 3 year extensions—the requirement that the President must approve and the Committees on Armed Services must be consulted on contracts for the sale of products is waived.

Amendment 12 involves the consultation requirements mentioned immediately above. As long as production continues at any or all of the reserves under section 7422(c) of title 10 of the United States Code, the legislation provides for special reporting procedures for new plans or substantial amendments to existing plans relating to exploration, development, production, disposal and transportation. If, on the other hand, it is determined, either by the President or by Congressional action, that continued production of these reserves is not necessary, then after the fields have been shut in, production and sale of petroleum may be reinstated only after compliance with the approval and consultation requirements of section 7422. The other transactions specified would be subject to these same requirements after production is once discontinued.

While production is underway, the Committees on Armed Services of the House and Senate will maintain careful scrutiny over plans for the exploration, development and production program. These plans are required to contain a report by the Attorney General as to their anticipated effects upon competition and are not to be implemented until 60 days after being submitted to the Committees. The provision requires the same of "substantial amendments" which are left to the discretion of the Secretary to determine; however, as a guideline, any plan that is amended to change the execution time by a year or more or any plan which experiences a 25 percent or more change in funding is considered, by the conferees, as involving a substantial amendment.

In addition while the reserves are being produced, annual reports are to be submitted to the Committees detailing the status of the program, the production level and its disposition, and future plans for the reserves.

Amendment 13 establishes a special account in the Treasury into which all proceeds from the disposition of petroleum from the naval petroleum reserves will be deposited. From this "naval petroleum reserves special account" funds will be appropriated, as needed, by the Congress for continued activities at the naval petroleum reserves, for construction and operation of facilities incident to production and the delivery of such petroleum to shipping terminals, for the procurement of petroleum and facilities needed for the National Strategic Petroleum Reserve, and for the exploration and study of the National Petroleum Reserve in Alaska authorized by this Act. Budget estimates involving this account are to be submitted as an independent entry in the President's Budget.

Amendments 14, 15, 16, 17, 18 and 20 make technical changes in the chapter to conform with other provisions in this legislation.

Amendment 19 updates section 7438 by substituting the Administrator of the Energy Research and Development Administration for the Secretary of the Interior as the chief administrator of the Rifle, Colorado, oil shale research facility—an administrative change that has already taken place.

JOHN MELCHER,
HAROLD T. JOHNSON,
PHILLIP BURTON,
HAROLD RUNNELS,
GEORGE MILLER,
MELVIN PRICE,
CHARLES BENNETT,
JOE SKUBITZ,
SAM STEIGER,
WILLIAM L. DICKINSON,
F. EDWARD HÉBERT,
JOHN F. SEIBERLING,
DON YOUNG,

Managers on the Part of the House.

HOWARD W. CANNON,
JOHN C. STENNIS,
STUART SYMINGTON,
SAM NUNN,
GARY HART,
HENRY M. JACKSON,
LEE METCALF,
FLOYD K. HASKELL,
STROM THURMOND,
WILLIAM L. SCOTT,
ROBERT TAFT,
CLIFFORD P. HANSEN,
DEWEY F. BARTLETT,

Managers on the Part of the Senate.





Ninety-fourth Congress of the United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Monday, the nineteenth day of January,
one thousand nine hundred and seventy-six*

An Act

To authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Naval Petroleum Reserves Production Act of 1976".

TITLE I—NATIONAL PETROLEUM RESERVE IN ALASKA

DEFINITION

SEC. 101. As used in this title, the term "petroleum" includes crude oil, gases (including natural gas), natural gasoline, and other related hydrocarbons, oil shale, and the products of any of such resources.

DESIGNATION OF THE NATIONAL PETROLEUM RESERVE IN ALASKA

SEC. 102. The area known as Naval Petroleum Reserve Numbered 4, Alaska, established by Executive order of the President, dated February 27, 1923, except for tract Numbered 1 as described in Public Land Order 2344, dated April 24, 1961, shall be transferred to and administered by the Secretary of the Interior in accordance with the provisions of this Act. Effective on the date of transfer all lands within such area shall be redesignated as the "National Petroleum Reserve in Alaska" (hereinafter in this title referred to as the "reserve"). Subject to valid existing rights, all lands within the exterior boundaries of such reserve are hereby reserved and withdrawn from all forms of entry and disposition under the public land laws, including the mining and mineral leasing laws, and all other Acts; but the Secretary is authorized to (1) make dispositions of mineral materials pursuant to the Act of July 31, 1947 (61 Stat. 681), as amended (30 U.S.C. 601), for appropriate use by Alaska Natives, (2) make such dispositions of mineral materials and grant such rights-of-way, licenses, and permits as may be necessary to carry out his responsibilities under this Act, and (3) convey the surface of lands properly selected on or before December 18, 1975, by Native village corporations pursuant to the Alaska Native Claims Settlement Act. All other provisions of law heretofore enacted and actions heretofore taken reserving such lands as a Naval Petroleum Reserve shall remain in full force and effect to the extent not inconsistent with this Act.

TRANSFER OF JURISDICTION

SEC. 103. (a) Jurisdiction over the reserve shall be transferred by the Secretary of the Navy to the Secretary of the Interior on June 1, 1977.

(b) With respect to any activities related to the protection of environmental, fish and wildlife, and historical or scenic values, the Secretary of the Interior shall assume all responsibilities as of the date

of the enactment of this title. As soon as possible, but not later than the effective date of transfer, the Secretary of the Interior may promulgate such rules and regulations as he deems necessary and appropriate for the protection of such values within the reserve.

(c) The Secretary of the Interior shall, upon the effective date of the transfer of the reserve, assume the responsibilities and functions of the Secretary of the Navy under any contracts which may be in effect with respect to activities within the reserve.

(d) On the date of transfer of jurisdiction of the reserve, all equipment, facilities, and other property of the Department of the Navy used in connection with the operation of the reserve, including all records, maps, exhibits, and other informational data held by the Secretary of the Navy in connection with the reserve, shall be transferred without reimbursement from the Secretary of the Navy to the Secretary of the Interior who shall thereafter be authorized to use them to carry out the provisions of this title.

(e) On the date of transfer of jurisdiction of the reserve, the Secretary of the Navy shall transfer to the Secretary of the Interior all unexpended funds previously appropriated for use in connection with the reserve and all civilian personnel ceilings assigned by the Secretary of the Navy to the management and operation of the reserve as of January 1, 1976.

ADMINISTRATION OF THE RESERVE

SEC. 104. (a) Except as provided in subsection (e) of this section, production of petroleum from the reserve is prohibited and no development leading to production of petroleum from the reserve shall be undertaken until authorized by an Act of Congress.

(b) Any exploration within the Utukok River, the Teshekpuk Lake areas, and other areas designated by the Secretary of the Interior containing any significant subsistence, recreational, fish and wildlife, or historical or scenic value, shall be conducted in a manner which will assure the maximum protection of such surface values to the extent consistent with the requirements of this Act for the exploration of the reserve.

(c) The Secretary of the Navy shall continue the ongoing petroleum exploration program within the reserve until the date of the transfer of jurisdiction specified in section 103(a). Prior to the date of such transfer of jurisdiction the Secretary of the Navy shall—

(1) cooperate fully with the Secretary of the Interior providing him access to such facilities and such information as he may request to facilitate the transfer of jurisdiction;

(2) provide to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives copies of any reports, plans, or contracts pertaining to the reserve that are required to be submitted to the Committees on Armed Services of the Senate and the House of Representatives; and

(3) cooperate and consult with the Secretary of the Interior before executing any new contract or amendment to any existing contract pertaining to the reserve and allow him a reasonable opportunity to comment on such contract or amendment, as the case may be.

(d) The Secretary of the Interior shall commence further petroleum exploration of the reserve as of the date of transfer of jurisdiction specified in section 103(a). In conducting this exploration effort, the Secretary of the Interior—

(1) is authorized to enter into contracts for the exploration of the reserve, except that no such contract may be entered into until

at least thirty days after the Secretary of the Interior has provided the Attorney General with a copy of the proposed contract and such other information as may be appropriate to determine legal sufficiency and possible violations under, or inconsistencies with, the antitrust laws. If, within such thirty day period, the Attorney General advises the Secretary of the Interior that any such contract would unduly restrict competition or be inconsistent with the antitrust laws, then the Secretary of the Interior may not execute that contract;

(2) shall submit to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives any new plans or substantial amendments to ongoing plans for the exploration of the reserve. All such plans or amendments submitted to such committees pursuant to this section shall contain a report by the Attorney General of the United States with respect to the anticipated effects of such plans or amendments on competition. Such plans or amendments shall not be implemented until sixty days after they have been submitted to such committees; and

(3) shall report annually to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives on the progress of, and future plans for, exploration of the reserve.

(e) Until the reserve is transferred to the jurisdiction of the Secretary of the Interior, the Secretary of the Navy is authorized to develop and continue operation of the South Barrow gas field, or such other fields as may be necessary, to supply gas at reasonable and equitable rates to the native village of Barrow, and other communities and installations at or near Point Barrow, Alaska, and to installations of the Department of Defense and other agencies of the United States located at or near Point Barrow, Alaska. After such transfer, the Secretary of the Interior shall take such actions as may be necessary to continue such service to such village, communities, installations, and agencies at reasonable and equitable rates.

STUDY OF THE RESERVE

SEC. 105. (a) Section 164 of the Energy Policy and Conservation Act (89 Stat. 871, 889), is hereby amended by deleting in the first sentence "to the Congress" and by inserting in lieu thereof "to the Committees on Interior and Insular Affairs of the Senate and House of Representatives".

(b) (1) The President shall direct such Executive departments and/or agencies as he may deem appropriate to conduct a study, in consultation with representatives of the State of Alaska, to determine the best overall procedures to be used in the development, production, transportation, and distribution of petroleum resources in the reserve. Such study shall include, but shall not be limited to, a consideration of—

(A) the alternative procedures for accomplishing the development, production, transportation, and distribution of the petroleum resources from the reserve, and

(B) the economic and environmental consequences of such alternative procedures.

(2) The President shall make semiannual progress reports on the implementation of this subsection to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives beginning not later than six months after the date of the enactment of this Act and shall, not later than one year after the transfer of jurisdiction of the reserve, and annually thereafter, report any findings or

conclusions developed as a result of such study together with appropriate supporting data and such recommendations as he deems desirable. The study shall be completed and submitted to such committees, together with recommended procedures and any proposed legislation necessary to implement such procedures not later than January 1, 1980.

(c) (1) The Secretary of the Interior shall establish a task force to conduct a study to determine the values of, and best uses for, the lands contained in the reserve, taking into consideration (A) the natives who live or depend upon such lands, (B) the scenic, historical, recreational, fish and wildlife, and wilderness values, (C) mineral potential, and (D) other values of such lands.

(2) Such task force shall be composed of representatives from the government of Alaska, the Arctic slope native community, and such offices and bureaus of the Department of the Interior as the Secretary of the Interior deems appropriate, including, but not limited to, the Bureau of Land Management, the United States Fish and Wildlife Service, the United States Geological Survey, and the Bureau of Mines.

(3) The Secretary of the Interior shall submit a report, together with the concurring or dissenting views, if any, of any non-Federal representatives of the task force, of the results of such study to the Committees on Interior and Insular Affairs of the Senate and the House of Representatives within three years after the date of enactment of this title and shall include in such report his recommendations with respect to the value, best use, and appropriate designation of the lands referred to in paragraph (1).

ANTITRUST PROVISIONS

SEC. 106. Unless otherwise provided by Act of Congress, whenever development leading to production of petroleum is authorized, the provisions of subsections (g), (h), and (i) of section 7430 of title 10, United States Code, shall be deemed applicable to the Secretary of the Interior with respect to rules and regulations, plans of development and amendments thereto, and contracts and operating agreements. All plans and proposals submitted to the Congress under this title or pursuant to legislation authorizing development leading to production shall contain a report by the Attorney General of the United States on the anticipated effects upon competition of such plans and proposals.

AUTHORIZATION FOR APPROPRIATIONS

SEC. 107. (a) There are authorized to be appropriated to the Department of the Interior such sums as may be necessary to carry out the provisions of this title.

(b) If the Secretary of the Interior determines that there is an immediate and substantial increase in the need for municipal services and facilities in communities located on or near the reserve as a direct result of the exploration and study activities authorized by this title and that an unfair and excessive financial burden will be incurred by such communities as a result of the increased need for such services and facilities, then he is authorized to assist such communities in meeting the costs of providing increased municipal services and facilities. The Secretary of the Interior shall carry out the provisions of this section through existing Federal programs and he shall consult with the heads of the departments or agencies of the Federal Government concerned with the type of services and facilities for which financial assistance is being made available.

TITLE II—NAVAL PETROLEUM RESERVES

SEC. 201. Chapter 641 of title 10, United States Code, is amended as follows:

(1) Immediately before section 7421 insert the following new section:

“§ 7420. Definitions

“(a) In this chapter—

“(1) ‘national defense’ includes the needs of, and the planning and preparedness to meet, essential defense, industrial, and military emergency energy requirements relative to the national safety, welfare, and economy, particularly resulting from foreign military or economic actions;

“(2) ‘naval petroleum reserves’ means the naval petroleum and oil shale reserves established by this chapter, including Naval Petroleum Reserve Numbered 1 (Elk Hills), located in Kern County, California, established by Executive order of the President, dated September 2, 1912; Naval Petroleum Reserve Numbered 2 (Buena Vista), located in Kern County, California, established by Executive order of the President, dated December 13, 1912; Naval Petroleum Reserve Numbered 3 (Teapot Dome), located in Wyoming, established by Executive order of the President, dated April 30, 1915; Naval Petroleum Reserve Numbered 4, Alaska, established by Executive order of the President, dated February 27, 1923 (until redesignated as the National Petroleum Reserve in Alaska under the jurisdiction of the Secretary of the Interior as provided in the Naval Petroleum Reserves Production Act of 1976); Oil Shale Reserve Numbered 1, located in Colorado, established by Executive order of the President, dated December 6, 1916, as amended by Executive order dated June 12, 1919; Oil Shale Reserve Numbered 2, located in Utah, established by Executive order of the President, dated December 6, 1916; and Oil Shale Reserve Numbered 3, located in Colorado, established by Executive order of the President, dated September 27, 1924;

“(3) ‘petroleum’ includes crude oil, gases (including natural gas), natural gasoline, and other related hydrocarbons, oil shale, and the products of any of such resources;

“(4) ‘Secretary’ means the Secretary of the Navy;

“(5) ‘small refiner’ means an owner of a refinery or refineries (including refineries not in operation) who qualifies as a small business refiner under the rules and regulations of the Small Business Administration; and

“(6) ‘maximum efficient rate’ means the maximum sustainable daily oil or gas rate from a reservoir which will permit economic development and depletion of that reservoir without detriment to the ultimate recovery.”

(2) Section 7421 (a) is amended—

(A) by striking out “of the Navy”;

(B) by striking out “and oil shale”;

(C) by striking out “for naval purposes” and inserting in lieu thereof “for national defense purposes”; and

(D) by striking out “section 7438 hereof” and inserting in lieu thereof “this chapter”.

(3) The text of section 7422 is amended to read as follows:

“(a) The Secretary, directly or by contract, lease, or otherwise, shall explore, prospect, conserve, develop, use, and operate the naval petroleum reserves in his discretion, subject to the provisions of subsection

(c) and the other provisions of this chapter; except that no petroleum leases shall be granted at Naval Petroleum Reserves Numbered 1 and 3.

“(b) Except as otherwise provided in this chapter, particularly subsection (c) of this section, the naval petroleum reserves shall be used and operated for—

“(1) the protection, conservation, maintenance, and testing of those reserves; or

“(2) the production of petroleum whenever and to the extent that the Secretary, with the approval of the President, finds that such production is needed for national defense purposes and the production is authorized by a joint resolution of Congress.

“(c) (1) In administering Naval Petroleum Reserves Numbered 1, 2, and 3, the Secretary is authorized and directed—

“(A) to further explore, develop, and operate such reserves;

“(B) commencing within ninety days after the date of enactment of the Naval Petroleum Reserves Production Act of 1976, to produce such reserves at the maximum efficient rate consistent with sound engineering practices for a period not to exceed six years after the date of enactment of such Act;

“(C) during such production period or any extension thereof to sell or otherwise dispose of the United States share of such petroleum produced from such reserves as hereinafter provided; and

“(D) to construct, acquire, or contract for the use of storage and shipping facilities on and off the reserves and pipelines and associated facilities on and off the reserves for transporting petroleum from such reserves to the points where the production from such reserves will be refined or shipped.

Any pipeline in the vicinity of a naval petroleum reserve not otherwise operated as a common carrier may be acquired by the Secretary by condemnation, if necessary, if the owner thereof refuses to accept, convey, and transport without discrimination and at reasonable rates any petroleum produced at such reserve. With the approval of the Secretary, rights-of-way for new pipelines and associated facilities may be acquired by the exercise of the right of eminent domain in the appropriate United States district court. Such rights-of-way may be acquired in the manner set forth in the Act of February 26, 1931, chapter 307 (46 Stat. 1421; 40 U.S.C. 258(a)), and the prospective holder of the right-of-way is ‘the authority empowered by law to acquire the lands’ within the meaning of that Act. Such new pipelines shall accept, convey, and transport without discrimination and at reasonable rates any petroleum produced at such reserves as a common carrier. Pipelines and associated facilities constructed at or procured for Naval Petroleum Reserve Numbered 1 pursuant to this subsection shall have adequate capacity to accommodate not less than three hundred fifty thousand barrels of oil per day and shall be fully operable as soon as possible, but not later than three years after the date of enactment of the Naval Petroleum Reserves Production Act of 1976.

“(2) At the conclusion of the six-year production period authorized by paragraph (1) (B) of this subsection the President may extend the period of production in the case of any naval petroleum reserve for additional periods of not to exceed three years each—

“(A) after the President requires an investigation to be made, in the case of each extension, to determine the necessity for continued production from such naval petroleum reserve;

“(B) after the President submits to the Congress, at least one hundred eighty days prior to the expiration of the current production period prescribed by this section, or any extension thereof,

a copy of the report made to him on such investigation together with a certification by him that continued production from such naval petroleum reserve is in the national interest; and

“(C) if neither House of Congress within ninety days after receipt of such report and certification adopts a resolution disapproving further production from such naval petroleum reserve.

“(3) The production authorization set forth in paragraph (1) (B) of this subsection, in the case of Naval Petroleum Reserve Numbered 1, is conditioned upon the private owner of any lands or interests therein within such reserve agreeing with the Secretary to continue operations of such reserve under a unitized plan contract which adequately protects the public interest; however, if such agreement is not reached within ninety days after the date of enactment of the Naval Petroleum Reserves Production Act of 1976 the Secretary is authorized to exercise the authority for condemnation conferred by section 7425 of this chapter.”.

(4) The first sentence of section 7423 is amended by deleting “of the Navy” and “or products”.

(5) Section 7424 is amended—

(A) by deleting “of the Navy” in the text of subsection (a) preceding clause (1);

(B) by deleting “and oil shale” in subsection (a) (1) in the text preceding subclause (A); and

(C) by deleting “in the ground” in clause (1) (A) of subsection (a).

(6) Section 7425 is amended by deleting “of the Navy”.

(7) Section 7426(a) is amended by striking out “the Secretary of the Navy” and inserting in lieu thereof “Subject to the provisions of section 7422(c), the Secretary”.

(8) The first and second sentences of section 7427 are amended by striking out “of the Navy”.

(9) Section 7428 is amended by striking out “within the naval petroleum and oil shale reserves shall contain a provision authorizing the Secretary of the Navy” and inserting in lieu thereof “within Naval Petroleum Reserve Numbered 2 and the oil shale reserves shall contain a provision authorizing the Secretary”.

(10) The first sentence of section 7429 is amended by deleting “of the Navy”.

(11) The text of section 7430 is amended to read as follows:

“(a) In administering the naval petroleum reserves under this chapter, the Secretary shall use, store, or sell the petroleum produced from the naval petroleum reserves and lands covered by joint, unit, or other cooperative plans.

“(b) Notwithstanding any other provision of law, each sale of the United States share of petroleum shall be made by the Secretary at public sale to the highest qualified bidder, for periods of not more than one year, at such time, in such amounts, and after such advertising as the Secretary considers proper and without regard to Federal, State, or local regulations controlling sales or allocation of petroleum products.

“(c) In no event shall the Secretary permit the award of any contract which would result in any person obtaining control, directly or indirectly, over more than 20 per centum of the estimated annual United States share of petroleum produced from Naval Petroleum Reserve Numbered 1.

“(d) Each proposal for sale under this title shall provide that the terms of every sale of the United States share of petroleum from the naval petroleum reserves shall be so structured as to give full and

equal opportunity for the acquisition of petroleum by all interested persons, including major and independent oil producers and refiners alike. When the Secretary, in consultation with the Secretary of the Interior, determines that the public interests will be served by the sale of petroleum to small refiners not having their own adequate sources of supply of petroleum, the Secretary is authorized and directed to set aside a portion of the United States share of petroleum produced for sale to such refiners under the provisions of this section for processing or use in such refineries, except that—

“(1) none of the production sold to small refiners may be resold in kind;

“(2) production must be sold at a cost of not less than the prevailing local market price of comparable petroleum;

“(3) the set-aside portion may not exceed 25 per centum of the estimated annual United States share of the total production from all producing naval petroleum reserves; and

“(4) notwithstanding the provisions of subsection (b) of this section, the Secretary may, at his discretion if he deems it to be in the public interest, prorate such petroleum among such refiners for sale, without competition, at not less than the prevailing local market price of comparable petroleum.

“(e) Any petroleum produced from the naval petroleum reserves, except such petroleum which is either exchanged in similar quantities for convenience or increased efficiency of transportation with persons or the government of an adjacent foreign state, or which is temporarily exported for convenience or increased efficiency of transportation across parts of an adjacent foreign state and reenters the United States, shall be subject to all of the limitations and licensing requirements of the Export Administration Act of 1969 (83 Stat. 841) and, in addition, before any petroleum subject to this section may be exported under the limitations and licensing requirement and penalty and enforcement provisions of the Export Administration Act of 1969, the President must make and publish an express finding that such exports will not diminish the total quality or quantity of petroleum available to the United States and that such exports are in the national interest and are in accord with the Export Administration Act of 1969.

“(f) During the period of production or any extension thereof authorized by section 7422(c), the consultation and approval requirements of section 7431(a)(3) are waived.

“(g)(1) Prior to the promulgation of any rules and regulations, plans of development and amendments thereto, and in the entering and making of contracts and operating agreements relating to the development, production, or sale of petroleum in or from the reserves, the Secretary shall consult with and give due consideration to the views of the Attorney General of the United States with respect to matters which may affect competition.

“(2) No contract or operating agreement may be made, issued, or executed under this chapter until at least thirty days after the Secretary notifies the Attorney General of the proposed contract or operating agreement. Such notification shall contain such information as the Attorney General may require in order to advise the Secretary as to whether such contract or operating agreement may create or maintain a situation inconsistent with the antitrust laws. If, within such thirty day period, the Attorney General advises the Secretary that a contract or operating agreement may create or maintain a situation inconsistent with the antitrust laws, then the Secretary may not make, issue, or execute that contract or operating agreement.

“(h) Nothing in this chapter shall be deemed to confer on any person immunity from civil or criminal liability, or to create defenses to actions, under the antitrust laws.

“(i) As used in this section, the term ‘antitrust laws’ means—

“(1) the Act entitled ‘An Act to protect trade and commerce against unlawful restraints and monopolies’, approved July 2, 1890 (15 U.S.C. 1 et seq.), as amended;

“(2) the Act entitled ‘An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes’, approved October 15, 1914 (15 U.S.C. 12 et seq.), as amended;

“(3) the Federal Trade Commission Act (15 U.S.C. 41 et seq.), as amended;

“(4) sections 73 and 74 of the Act entitled ‘An Act to reduce taxation, to provide revenue for the Government, and for other purposes’, approved August 27, 1894 (15 U.S.C. 8 and 9), as amended; or

“(5) sections 2, 3, and 4 of the Act of June 19, 1936, chapter 592 (15 U.S.C. 13a, 13b, and 21a).

“(j) Any pipeline which accepts, conveys, or transports any petroleum produced from Naval Petroleum Reserves Numbered 1 or Numbered 3 shall accept, convey, and transport without discrimination and at reasonable rates any such petroleum as a common carrier insofar as petroleum from such reserves is concerned. Every contract entered into by the Secretary for the sale of any petroleum owned by the United States which is produced from such reserves shall contain provisions implementing the requirements of the preceding sentence if the contractor owns a controlling interest in any pipeline or any company operating any pipeline, or is the operator of any pipeline, which carries any petroleum produced from such naval petroleum reserves. The Secretary may promulgate rules and regulations for the purpose of carrying out the provisions of this section and he, or the Secretary of the Interior where the authority extends to him, may declare forfeit any contract, operating agreement, right-of-way, permit, or easement held by any person violating any such rule or regulation. This section shall not apply to any natural gas common carrier pipeline operated by any person subject to regulation under the Natural Gas Act or any public utility subject to regulation by a State or municipal regulatory agency having jurisdiction to regulate the rates and charges for the sale of natural gas to consumers within the State or municipality.

“(k) The President may, at his discretion, direct that all or any part of the United States share of petroleum produced from the naval petroleum reserves be placed in strategic storage facilities as authorized by sections 151 through 166 of the Energy Policy and Conservation Act or that all or any part of such share be exchanged for petroleum of equal value for the purpose of placing such petroleum in such strategic storage facilities.”

(12) Section 7431 is amended—

(A) by inserting “(a)” immediately before “The Committees”;

(B) by striking out “or oil shale” in clauses (1) and (2);

(C) by striking out “and oil shale” in clauses (2) and (3);

(D) by striking out “oil and gas (other than royalty oil and gas), oil shale, and products therefrom” in clause (3) and inserting in lieu thereof “petroleum (other than royalty oil and gas)”;

and

(E) by adding at the end thereof the following new subsections:

“(b) (1) During the period of production authorized by section

7422(c), the Secretary shall submit to the Committees on Armed Services of the Senate and the House of Representatives any new plans or substantial amendments to ongoing plans for the exploration, development, and production of the naval petroleum reserves.

“(2) All plans or substantial amendments submitted to the Congress pursuant to this section shall contain a report by the Attorney General of the United States with respect to the anticipated effects of such plans or amendments on competition. Such plans or amendments shall not be implemented until sixty days after such plans or amendments have been submitted to such committees.

“(c) During the period of production authorized by section 7422(c), the Secretary shall submit annual reports as of the first day of the fiscal year to the Committees on Armed Services of the Senate and the House of Representatives, and such committees shall cause such reports to be printed as a Senate or House document, as appropriate. The Secretary shall include in such reports, with respect to each naval petroleum reserve, an explanation in detail of the following:

“(1) the status of the exploration, development, and production programs;

“(2) the production that has been achieved, including the disposition of such production and the proceeds realized therefrom;

“(3) the status of pipeline construction and procurement and problems related to the availability of transportation facilities;

“(4) a summary of future plans for exploration, development, production, disposal, and transportation of the production from the naval petroleum reserves; and

“(5) such other information regarding the reserve as the Secretary deems appropriate.”

(13) Section 7432 is amended to read as follows:

“§ 7432. Naval petroleum reserves special account

“(a) There is hereby established on the books of the Treasury Department a special account designated as the ‘naval petroleum reserves special account’. There shall be credited to such account—

“(1) all proceeds realized under this chapter from the disposition of the United States share of petroleum;

“(2) the net proceeds, if any, realized from sales or exchanges within the Department of Defense of refined petroleum products accruing to the benefit of any component of that department as the result of any such sales or exchanges;

“(3) such additional sums as may be appropriated for the maintenance, operation, exploration, development, and production of the naval petroleum reserves;

“(4) such royalties as may accrue under the provisions of section 7433; and

“(5) any other revenues resulting from the operation of the naval petroleum reserves.

“(b) Funds available in the naval petroleum reserve special account shall be available for expenditure in such sums as are specified in annual appropriations Acts for the expenses of—

“(1) exploration, prospecting, conservation, development, use, operation, and production of the naval petroleum reserves as authorized by this chapter;

“(2) production (including preparation for production) as authorized by this chapter, or as may hereafter be authorized;

“(3) the construction and operation of facilities both within and outside the naval petroleum reserves incident to the production and the delivery of petroleum, including pipelines and shipping terminals;

“(4) the procurement of petroleum for, and the construction and operation of facilities associated with, the Strategic Petroleum Reserve authorized by sections 151 through 166 of the Energy Policy and Conservation Act; and

“(5) the exploration and study of the National Petroleum Reserve in Alaska as authorized in title I of the Naval Petroleum Reserves Production Act of 1976.

“(c) The budget estimates for annual appropriations from the naval petroleum reserves special account shall be prepared by the Secretary and shall be presented to the Congress by the President independently of the budget of the Department of the Navy and the Department of Defense.

“(d) Contracts under this chapter providing for the obligation of funds may be entered into by the Secretary for a period of five years, renewable, at the option of the Secretary, for an additional five-year period; however, such contracts may obligate funds only to the extent that such funds are made available in annual appropriations.”

(14) Section 7433(a) is amended by striking out “of the Navy”.

(15) Section 7433(b) is amended by striking out “and oil shale”.

(16) Section 7434 is amended by striking out “and oil shale”.

(17) Section 7435(b) is amended by striking out “of the Navy”.

(18) Section 7436(a) is amended by deleting “of the Navy, subject to approval of the President,”.

(19) Section 7438 is amended by striking out “Secretary of the Interior” wherever it occurs and inserting therefor “Administrator of the Energy Research and Development Administration”; and by striking out “of the Navy” wherever it occurs.

(20) The table of sections at the beginning of such chapter is amended—

(A) by inserting immediately before

“7421. Jurisdiction and control.”

the following:

“7420. Definitions.”

(B) by striking out:

“7432. Expenditures; appropriations chargeable.”

and inserting in lieu thereof the following:

“7432. Naval petroleum reserve special account.”

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*

STATEMENT BY THE PRESIDENT

In my first State of the Union Message more than a year ago, I set forth goals for regaining energy independence for the United States. I also outlined a comprehensive and ambitious national program needed to achieve our energy goals. The first goal is to reduce our growing reliance on imported oil.

We have launched energy programs that are possible within existing authorities and I have asked the Congress for the additional legislative authority that we must have. My proposed Energy Independence Act of 1975 contained thirteen specific programs to encourage energy conservation and increase domestic energy production. More recently, I sent to the Congress proposals dealing with nuclear energy, investment in energy facilities, and other measures needed to achieve our goals.

One of the original thirteen proposals was especially important because it permitted immediate action to produce more oil here in the United States. There are only a very few steps like this that are possible. Generally, it takes three years or more to bring new oil production on line.

Actions to increase domestic oil productions are critical because oil imports have grown to the point where they now account for almost 40% of the petroleum we are using. We are even more dependent now than we were a little over two years ago when we experienced the disruption of an oil embargo.

I am, therefore, pleased to sign into law today the Naval Petroleum Reserves Production Act of 1976 which puts in place one more element of our program to reduce dependence on foreign oil.



The Naval Petroleum Reserves had special importance when they were established over 50 years ago to guarantee an adequate supply of oil for the U.S. Navy. Today, the Reserves have even greater importance to the whole Nation because they can help reduce our dependence on imported oil and help stem the outflow of American dollars and jobs.

This new Act directs the Secretary of the Navy to commence a vigorous production program from the three Naval Petroleum Reserves located in California and Wyoming. The Act also redesignates the fourth Naval Petroleum Reserve in Alaska as a National Petroleum Reserve and transfers the jurisdiction to the Department of the Interior in June 1977. Production from the Alaskan Reserve is not authorized at this time, but the Act specifically calls upon the President to submit a development plan and appropriate legislation to the Congress. Work has already begun on those measures.

The new Act also makes it possible for production from the Naval Reserves to contribute directly to the creation of the Strategic Petroleum Reserve authorized in the Energy Policy and Conservation Act which I signed on December 22, 1975. Once established, the Strategic Reserve will provide both a deterrent to future embargoes and a significant means to offset the effects of any future supply interruption.

The Strategic Reserve will permit us to have needed petroleum much more readily available in the case of an emergency for our Armed Services and other critical national needs.

When in full production, the three Naval Petroleum Reserves in California and Wyoming will provide more than 300,000 barrels of oil per day. The development and production of Naval Petroleum Reserve Number One in Elk Hills, California, will make the biggest contribution.



The U.S. share of this production, about 80 percent, may be sold at auction and up to 25 percent of that amount could be set aside for sale to small refiners. At the President's discretion, all or part of the U.S. share may be used to build up the Strategic Petroleum Reserves. The Act authorizes use of revenues from the sale of petroleum for work on the Naval Petroleum Reserves, for the National Reserve in Alaska, and for the Strategic Petroleum Reserve.

This Act is an important step toward reversing our declining domestic oil production and it is another sign that we are making progress. Four of my original 13 proposals were included in the Energy Policy and Conservation Act which I signed into law on December 22, 1975.

The Congress still has before it 18 major energy proposals, including those remaining from the original 13 I submitted in January 1975 and others I have submitted since then. We need those measures to conserve energy and to increase domestic production. Congress must act on those measures so that we can achieve our national goals for energy independence.



APRIL 5, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

SIGNING OF THE NAVAL PETROLEUM RESERVES
PRODUCTION ACT OF 1976 (H.R. 49)

The President today signed the Naval Petroleum Reserves Production Act of 1976 which:

- . Authorizes production of petroleum from Reserves 1, 2 and 3, located in Elk Hills, California; Buena Vista, California; and Teapot Dome, Wyoming.
- . Transfers Jurisdiction of Reserve Number 4 in Alaska from the Secretary of the Navy to the Secretary of the Interior effective June 1, 1977 and redesignates it as a National Petroleum Reserve.
- . Calls upon the President to submit to Congress a proposed development plan and appropriate legislation to authorize development and production from the Alaskan Reserve.

The President also urged the Congress to pass the 17 major energy proposals which are still awaiting action.

BACKGROUND

- . Legislation authorizing production from the Naval Petroleum Reserves was one of thirteen proposals submitted to the Congress by the President in January 1975 as a part of his Energy Independence Act.
- . During the past year, the President has proposed additional energy legislation, including bills concerned with uranium enrichment, financing energy facilities, energy resource development impact assistance and Alaskan natural gas. (Eighteen proposals awaiting action were identified in the President's February 26, 1976, Energy Message.)
- . Four of the original thirteen proposals were included in the Energy Policy and Conservation Act which the President signed on December 22, 1975. The Naval Petroleum Reserve legislation is the fifth proposal now in law.

PRINCIPAL PROVISIONS OF THE NEW ACT

The principal provisions of the Naval Petroleum Reserves Production Act are outlined below. Under the previous law, all of the NPR's were under the jurisdiction of the Secretary of the Navy and were held in reserve for use only in times of national emergency.

- . National Petroleum Reserve in Alaska
 - NPR-4 is redesignated as a "national" petroleum reserve and is transferred effective June 1, 1977, to the Secretary of the Interior who shall assume all administrative responsibilities formerly held by the Secretary of the Navy.

more



- Interior shall continue Navy's exploration activities and report annually to the Congress on further exploration plans.
- The President is called upon to submit to the Congress no later than January 1, 1980, a plan for the development of the Alaskan Reserve, appropriate legislation, and economic and environmental impact assessments. Development plans are to be prepared in consultation with the State of Alaska and appropriate Federal agencies.

. Naval Petroleum Reserves 1, 2 and 3.

- The Secretary of the Navy is directed to begin producing within 90 days NPR's 1, 2 and 3 at their maximum efficient rate consistent with sound engineering practices for a period of 6 years.
- Production can be continued for additional increments of 3 years if the President certifies that such production is in the national interest and neither House of Congress disapproves the action within 90 days.
- The Secretary of the Navy is directed to provide storage and transportation facilities for NPR-1, within three years of enactment, to accommodate production of not less than 350,000 barrels of oil per day.
- Sales of the U.S. share of oil (about 80%) shall be made at public auction to the highest bidder for periods not to exceed one year. Up to 25% is set aside for sale to small refiners at prevailing market prices.
- The Secretary of the Navy must consult with the Attorney General on matters which may affect competition and may not sign a contract inconsistent with anti-trust laws.
- The President may direct all or part of the U.S. share to be placed in the Strategic Petroleum Reserve directly or through exchange agreements. The Strategic Reserve was authorized by the Energy Policy and Conservation Act (December 22, 1975).
- Proceeds from the sale of NPR production shall be credited to a Naval Petroleum Reserve Special Account which, subject to the appropriations process, shall be made available for:
 - . Exploration, development and production of NPR's 1, 2 and 3, and for exploration and study in regard to the National Petroleum Reserve in Alaska.
 - . Facilities incident to production and delivery of petroleum.
 - . Petroleum and facilities for the Strategic Petroleum Reserve.

IMPACT OF THE BILL

- . NPR-1 at Elk Hills has proven resources of approximately 1.25 billion barrels of oil -- one of the largest petroleum fields in the U.S. Fully developed, it could produce oil at the rate of 200,000 to 300,000 barrels per day. Current

more



production is about 2,000 to 3,000 barrels a day, principally from production to offset private production in adjoining fields and for testing and maintenance purposes.

- . NPR-2 at Buena Vista is currently in full production, allowing a U.S. share of about 600 barrels per day.
- . NPR-3 at Teapot Dome has reserves of 42.5 million barrels and could produce at the rate of 21,000 barrels per day.
- . NPR-4 in Alaska has only 100 million barrels of proven reserves, but estimates of potential reserves run as high as 30 billion barrels.

#



EMBARGOED FOR RELEASE
UNTIL 2:15, E.S.T.

APRIL 5, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

In my first State of the Union Message more than a year ago, I set forth goals for regaining energy independence for the United States. I also outlined a comprehensive and ambitious national program needed to achieve our energy goals. The first goal is to reduce our growing reliance on imported oil.

We have launched energy programs that are possible within existing authorities and I have asked the Congress for the additional legislative authority that we must have. My proposed Energy Independence Act of 1975 contained thirteen specific programs to encourage energy conservation and increase domestic energy production. More recently, I sent to the Congress proposals dealing with nuclear energy, investment in energy facilities, and other measures needed to achieve our goals.

One of the original thirteen proposals was especially important because it permitted immediate action to produce more oil here in the United States. There are only a very few steps like this that are possible. Generally, it takes three years or more to bring new oil production on line.

Actions to increase domestic oil productions are critical because oil imports have grown to the point where they now account for almost 40% of the petroleum we are using. We are even more dependent now than we were a little over two years ago when we experienced the disruption of an oil embargo.

I am, therefore, pleased to sign into law today the Naval Petroleum Reserves Production Act of 1976 which puts in place one more element of our program to reduce dependence on foreign oil.

The Naval Petroleum Reserves had special importance when they were established over 50 years ago to guarantee an adequate supply of oil for the U.S. Navy. Today, the Reserves have even greater importance to the whole Nation because they can help reduce our dependence on imported oil and help stem the outflow of American dollars and jobs.

This new Act directs the Secretary of the Navy to commence a vigorous production program from the three Naval Petroleum Reserves located in California and Wyoming. The Act also redesignates the fourth Naval Petroleum Reserve in Alaska as a National Petroleum Reserve and transfers the jurisdiction to the Department of the Interior in June 1977. Production from the Alaskan Reserve is not authorized at this time, but the Act specifically calls upon the President to submit a development plan and appropriate legislation to the Congress. Work has already begun on those measures.

more



The new Act also makes it possible for production from the Naval Reserves to contribute directly to the creation of the Strategic Petroleum Reserve authorized in the Energy Policy and Conservation Act which I signed on December 22, 1975. Once established, the Strategic Reserve will provide both a deterrent to future embargoes and a significant means to offset the effects of any future supply interruption.

The Strategic Reserve will permit us to have needed petroleum much more readily available in the case of an emergency for our Armed Services and other critical national needs.

When in full production, the three Naval Petroleum Reserves in California and Wyoming will provide more than 300,000 barrels of oil per day. The development and production of Naval Petroleum Reserve Number One in Elk Hills, California, will make the biggest contribution.

The U.S. share of this production, about 80 percent, may be sold at auction and up to 25 percent of that amount could be set aside for sale to small refiners. At the President's discretion, all or part of the U.S. share may be used to build up the Strategic Petroleum Reserves. The Act authorizes use of revenues from the sale of petroleum for work on the Naval Petroleum Reserves, for the National Reserve in Alaska, and for the Strategic Petroleum Reserve.

This Act is an important step toward reversing our declining domestic oil production and it is another sign that we are making progress. Four of my original 13 proposals were included in the Energy Policy and Conservation Act which I signed into law on December 22, 1975.

The Congress still has before it 17 major energy proposals, including those remaining from the original 13 I submitted in January 1975 and others I have submitted since then. We need those measures to conserve energy and to increase domestic production. Congress must act on those measures so that we can achieve our national goals for energy independence.

#



OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
UPON SIGNING THE
NAVAL PETROLEUM RESERVES
PRODUCTION ACT

THE ROSE GARDEN

2:23 P.M. EST

Secretary Rumsfeld, Secretary Kleppe, Secretary Middendorf, Administrator Zarb, distinguished Members of the House and Senate:

Just over two years ago the Arab oil embargo taught the United States a lesson, that we should not be too dependent on other nations for our oil supplies. We learned all too well the high price of energy dependence, both in the terms of inflation and lost jobs.

Over a year ago, in my First State of the Union Message, I set forth goals for regaining our energy independence and a comprehensive program for achieving those goals. Shortly thereafter I submitted to the Congress my comprehensive energy independence plan, which contained specific programs to encourage conservation and increase domestic production.

One of my proposals called for development and production of our Naval Petroleum Reserve. This step is especially important because it is one action we can take to get an immediate increase in domestic oil production, thereby lessening our dependence on foreign oil.

Accordingly, today I sign into law the Naval Petroleum Reserves Production Act of 1976. This act directs the Secretary of the Navy to begin full-scale production from the two petroleum reserves in California, including Elk Hills, and one from Wyoming.

When in full production, these three reserves will provide more than 300,000 barrels of oil per day, which represents about 4 percent of what we now import daily from foreign suppliers.

The new act also makes it possible for production from the Naval reserves to contribute directly to the creation of strategic petroleum reserve authorized in the Energy Policy and Conservation Act, which I signed into law December 22, 1975.

MORE



Once established, the strategic reserve will provide both a deterrent to future embargoes and a significant means to offset the effects of any future supply interruption. The strategic reserve will permit us to have needed petroleum much more readily available in case of emergency for our Armed Forces and other critical national needs.

The act also redesignates the Naval Reserve in Alaska as a Naval Petroleum Reserve to be managed by the Department of the Interior.

This act is a very important step toward reversing our declining domestic oil production, but other steps obviously must be taken.

Eighteen major energy proposals still await Congressional approval on Capitol Hill. I strongly urge the Congress to move ahead on these additional initiatives so that as we celebrate our 200th year of independence, we take an affirmative action toward achieving energy independence as well.

END (AT 2:26 P.M. EST)



April 1, 1976

Dear Mr. Director:

The following bills were received at the White House on April 1st:

- ✓ S. 3060
- ✓ H.R. 49
- ✓ H.R. 200
- ✓ H.R. 8617

Please let the President have reports and recommendations as to the approval of these bills as soon as possible.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable James T. Lynn
Director
Office of Management and Budget
Washington, D.C.

