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THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
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Good evening, and thank you, John, for that kind introduction. It is always good to get back to Illinois, especially to speak to as constructive an audience such as this one.

During the year I have served as Federal Energy Administrator, it has been my privilege and pleasure to work closely with your Congressman, John Anderson, on many energy-related issues. Without his staunch support at many critical junctures, I am certain that we would have seen far less progress than we did during 1975.

Last week marked a significant anniversary in our nation's energy history. It was exactly one year ago last Thursday that President Ford proposed the first comprehensive national energy policy ever put forth by any chief executive, as part of his first State of the Union message.

The plan the President laid out a year ago was not a spur-of-the-moment proposal. It was the most carefully thought out and coordinated combination of interrelated economic and energy programs possible, and the overall aim was to begin working on solutions to both economic and energy problems. After a year of debate broad energy legislation emerged from Congress.

In announcing his decision to sign the Energy Policy and Conservation Act, the President said that the bill is far from perfect. But the bill is a start, and it does begin the long-overdue process of letting energy prices rise to the point at which they truly reflect the value of energy, and the tremendous costs involved in producing energy -- whether it is oil, coal, natural gas, nuclear power, or other more advanced forms.

Perhaps the most serious problem confronting both the energy industries themselves and industries heavily dependent on energy supplies for their operations has been uncertainty -- uncertainty as to future supplies and prices, uncertainty as to federal regulatory policies, uncertainty as to future markets.

The bill signed by the President last month moves toward removing much of that uncertainty. It establishes a clear direction for petroleum prices over the next 40 months, with some useful flexibilities leading up to the time when price controls will become discretionary, rather than mandatory.

The bill does not provide the complete and immediate removal of oil price controls that some would have liked to see. Nor does it provide the continued absolute controls that others would have enjoyed.

What the bill does do is to provide a capability to increase the incentive for new oil exploration and production activity, at a rate which allows the economy to absorb the impact of increasing energy prices gradually.

When President Ford signed the energy legislation, he said that he fully expected to use the flexibilities granted by the gislation to phase out controls over the 40 month period.

That promise is an important one for both the energy producers and the energy consumers of this country. It renews the Administration's commitment to insuring adequate energy supplies for consumers by allowing producers to receive fair value for the energy they produce.

That concept is the entire basis for the American free enterprise system. It has built the strength of our industry and our overall economy and has sustained that strength through past crises and economic cycles.

The Energy Policy and Conservation Act includes the first key elements of what can eventually be the comprehensive national energy policy we have been seeking for so long.

We have entered 1976 with our national energy vulnerability standing at roughly six million barrels of oil per day. In plain terms, that means we have to pay out nearly 75 million dollars every day to foreign oil producers for crude oil and petroleum products to fuel this nation's economy.

Our energy independence balance sheet is in the red by six million barrels a day now, and if we do nothing to reverse the trends, we will wind up two years from now with an eight million rel per day deficit, and ten years from now with red ink on balance sheet to the tune of ten million barrels of oil per day.

All of you in this audience know that a strong, viable corporation can withstand one or two years in the red, but not a decade or more of continually increasing deficits.

The company's stockholders or board of directors would demand that something be done to reverse the picture, and that's exactly what the American public has been demanding of the Federal government in the area of energy.

In the past year, we have been able to begin the process of reducing the growth in the size of our energy deficit. The Energy Policy and Conservation Act enacts four of the thirteen titles in the President's program, and several more have either passed one house or are in conference.

The gradual decontrol of prices of domestically-produced petroleum, automotive fuel efficiency standards, and an extended authority to convert installations now burning oil and natural gas to coal are already part of the law.

Legislative proposals to authorize commercial production of oil from Naval Petroleum reserves, to provide tax credits for home insulation, and to increase the production of natural gas are now nearing completion of Congressional action.

In addition, the emergency standby authorities and the provisions for strategic petroleum storage already enacted provide us with a necessary "reserve for contingencies" which could enable us to withstand a prolonged embargo affecting a significant part of our foreign oil supplies.

All together, the combined effect of legislation already completed will be to reduce our vulnerability by the equivalent of some two and one-half to three million barrels of oil per day.

But that <u>still</u> leaves us with a five to five and one-half million barrel per day entry on the deficit side of our ledger, when we consider the eight million barrels of foreign oil per day we would need two years from now in the absence of any new energy actions.

In addition, our long-term energy picture is not bright unless we take positive action to increase supply and reduce demand. If we do nothing, imports could reach about ten million barrels per day by 1985.

We cannot, should not, and need not tolerate the perpetuation of a deficit of that magnitude. We have the resources, we have the technological know-how, and we have the ingrained desire for independence which can spur us to begin trimming away at our energy deficit by depending more on our own country's energy wealth, and less on the energy we have been buying from foreign producers.

To do the job, we need to move forward on four essential growth tracks in developing domestic energy supplies.

We need to encourage greatly increased development and production of crude oil partially from the frontier areas and through enhanced recovery techniques. We need to accelerate exploration for new reserves of natural gas. We need to facilitate production, distribution, and use of coal from our massive resource base of that fuel. And we need the contribution that nuclear power can make to the growing need for electric power generation.

We need all of these energy contributions. No one of them or even two or three can do the entire job of supplying the energy we will need two, ten or twenty years from now.

And we will have to run very hard just to stay where we are now, much less meet increased energy needs in the future.

The domestic oil fields which today produce eight and one-half million barrels of oil each day will be at the level of two and one-half million barrels a day of primary production by 1985. And non-associated natural gas production from current fields, which was 15 trillion cubic feet last year, will decline to less than six trillion cubic feet per year by 1985.

Our coal mines are producing at rates equal to those of the 1940's and to meet the need for energy from that source coal production will have to increase to over one billion tons per year by 1985.

With oil and gas in increasingly short supply domestically, electric power to meet the needs of consumers and industry in the next 10 years will have to be generated with coal and nuclear fission.

All the energy actions aimed at increasing our available supplies of oil, gas, coal, and nuclear power are designed to interact to reach the common goal of having enough secure domestic energy to meet our requirements.

If any of the areas of development cannot proceed quickly enough to fulfill its part of the energy supply equation, then other development efforts will have to be accelerated to pick up the slack.

If new domestic reserves of oil and natural gas are not discovered and brought into production rapidly, we will need even greater emphasis on synthetic fuels plants to produce the liquid and gaseous fuels we will need.

This in turn will impact on the demand for coal as a raw material for these synthetics plants.

But, if we cannot mine, transport, and burn coal in sufficiently vast quantities to supply our future needs, then, we are going to have to look to other energy sources.

The potential energy contribution of nuclear power has been and will continue to be a vital part of our total energy base.

Like coal, nuclear power is a completely domestic energy resource, which can contribute greatly to our future energy needs from within our own borders, minimizing our need for energy imports.

If we are to make the most of nuclear energy, we will need both construction of more nuclear generating facilities and construction of uranium enrichment plants to fuel the reactors.

Work must be done to close the nuclear fuel cycle before commercial waste disposal and recycling of plutonium back into reactors can be fully achieved.

Proven, safe waste-disposal procedures are in use today, and substantially better methods have been developed and will be demonstrated shortly. Extensive protection against the possibility of terrorist diversion of weapons-grade nuclear material has been practiced successfully for over 20 years.

However, improved measures must be developed and implemented. These will not involve undue police measures or intolerable cost.

Thus, the recycle process is commercially and economically attainable within the needed time frame.

The ultimate answer for future energy supplies is development of our own indigenous resources -- new and relatively inexhaustible sources for the distant future, and traditional sources for the present and the immediate future, to give us the time to bring the new sources to commercial reality.

In the meantime, widespread diligent conservation efforts, in combination with the lingering effects of the economic slowdown, have resulted in the pleasant surprise that, as we came to the end of 1975, oil consumption was running about a million barrels a day less than our earlier projections. Part of that figure is attributable to warmer-than-usual weather during the fall. But much of the saving resulted directly from industrial and individual conservation efforts.

The federal government has reduced its energy consumption by 28% as a result of its energy management program. Implementing the conservation programs in the new energy bill should lead to a 50% improvement in automobile gas mileage by 1980, significant improvements in major household appliance efficiency, and considerable efficiency improvement in industrial energy consumption.

With these new conservation authorities, and continuation of existing FEA programs, as well as other conservation and production incentives, we hope to encourage additional import savings of a million barrels per day over the next two to three years.

But, even with optimum saving of energy, conservation is only one important part of the answer to our energy problems.

In the long term, we will need many parallel energy actions, nearly all of which will require the cooperation of industries such as yours to help translate potential into reality.

We cannot simply let the oil and natural gas in Alaska sit there like money in the bank. We have to explore further the vast potential of the frozen north, and then build the necessary facilities to transport oil and gas to the consuming areas of the lower 48 states.

We cannot afford to let the potential energy supplies of the Outer Continental Shelf remain largely unexplored and undeveloped. We must build the offshore drilling rigs to explore the Atlantic OCS, the Gulf of Alaska, the areas of the Pacific Coast, and the remaining untapped areas of the Gulf of Mexico to find out whether there are in fact new reserves of oil and gas upon which we can count for future energy.

We cannot just talk proudly of our vast coal reserves and then fail to put them to work for us, both in natural form as coal, or in gaseous or liquid form as synthetic fuel.

We cannot ignore the energy potential lying trapped in oil shale beneath portions of our Western states.

And we must harness geothermal steam and build hydro-electric installations where they are feasible.

Nor can we disregard the proven potential for clean, efficient generation of electric power using nuclear fission.

Perhaps the single most important fact tying all of these potential energy sources together is that the attainment of our energy production goals through development of all of them need <u>not</u> and must not conflict with the simultaneous achievement of environmental protection and improvement.

This year is an election year and that means lots of politics. But the issue of energy independence and the need to bring our country back to the invulnerability we enjoyed for many years transcends politics.

Our political independence requires economic independence. And it has become increasingly clear that we cannot have true economic independence without energy independence.

If nothing else, the energy crisis has taught us that energy is basic to everything we do in our society. We do not live in log cabins any more; we do not cut down trees to heat our homes and cook our meals; we do not keep horses for transportation; and we do not live the bulk of our lives within a few miles of our birthplace.

The United States has come far during the 200 years of its political independence, and it is not exaggerating one bit to say that a great measure of that progress has depended upon adequate supplies of energy available at reasonable cost to consumers and industry.

As we launch the Nation's bicentennial year, we have an unprecedented opportunity to complete the development of a national energy policy that will assure energy, economic and political independence in the third century of our history.

But we can fashion that bright future only if all of us work together -- environmentalists, developers, manufacturers, consumers -- all of us working to reach the balanced approach which traditionally has meant progress toward national goals.

We have done it often in the past when the Nation has been threatened. And today we are no less threatened by excessive dependence on foreign energy supplies than we might be by overt military threats.

Our response must be no less decisive than it would be if we faced the threat of war. But it can be a peaceful response. It simply requires that we roll up our sleeves, work together here within our own boundaries and get the job done.

I know all of you will continue to do your part to build America's future for its next 200 years. And I assure you that this Administration will continue to press for the economic climate which both allows and encourages the private industry of the nation to do the job it has done so well in the past.

Thank you.

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