

The original documents are located in Box 17, folder “Naval Petroleum Reserves (2)” of the Loen and Leppert 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 Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections.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.

April 10, 1975

MEMORANDUM FOR MITCHELL McCONNELL
Acting Assistant Attorney General for
Legislative Affairs
Department of Justice

THRU: MAX FRIEDERSDORF
VERN LOEN

SUBJECT: H. R. 49, authorizing establishment of
National Petroleum Reserves

On Tuesday, April 8, 1975, Rep. John Melcher, Chairman of the Subcommittee on Public Lands of the House Interior Committee requested a letter from the President in support of H. R. 49, or the Administration bill H. R. 2633, and a response to the following questions:

1. In supporting either H. R. 49 or H. R. 2633 is the unit plan contract abrogated by the opening up of Elk Hills?
2. Will support of either H. R. 49 or H. R. 2633, impede the anti-trust investigation?
3. Will passage of either H. R. 49 or H. R. 2633 resolve at least some of the issues raised by the Cory report and the Anti-trust investigation conducted by the Justice Department?

In lieu of a Presidential letter responding to the above questions, it is our position that a letter from the Justice Department to Mr. Melcher would be more appropriate. This approach has been discussed by telephone with Keith Clearwater of your Department who testified before Melcher's subcommittee on these questions.

A prompt response to Rep. Melcher from your Department with a copy to this office would be appreciated.

Sincerely,

Charles Leppert, Jr.
Special Assistant
for Legislative Affairs





Department of Justice

Testimony of

KEITH I. CLEARWATERS
Deputy Assistant Attorney General
Antitrust Division

On

H.R. 49 and H.R. 2633

Before the

Subcommittee on Public Lands
Committee on Interior and Insular Affairs
House of Representatives

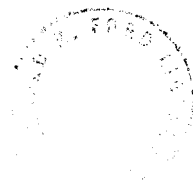
April 8, 1975



Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to appear before your Subcommittee to present the views of the Department of Justice concerning H.R. 49, a bill to authorize the Secretary of Interior to establish on certain public lands of the United States national petroleum reserves to be developed in a manner consistent with the total energy needs of the nation. I will also refer to H.R. 2633, an Administration bill which would seek to accomplish the same general objective as H.R. 49 -- opening Navy petroleum reserves to commercial uses in the current energy crisis. I will also discuss the current status of the Department's investigation of transportation facilities, exchange and pricing arrangements involving Elk Hills, particularly insofar as that investigation relates to the bills now under consideration.

Our comments relate solely to issues of competition policy as seen by the Department of Justice in this legislation. Our primary concerns stem from a desire to insure equal and nondiscriminatory access of the independent producers and refiners to (1) transportation



facilities necessary to lift crude production from Elk Hills and other reserves and (2) the bidding procedures established by the federal agency charged with implementing the program these bills would establish.

H.R. 49, as reported by the Committee on Interior and Insular Affairs, sets forth a general plan authorizing the Secretary of the Interior to establish national petroleum reserves on any United States public lands except specially designated public lands -- basically game preserves. These petroleum reserves may include, after prior consultation with the Secretary of Defense, all or part of an existing naval petroleum reserve. If the naval reserve is included, all facilities and property of the Department of the Navy are to be transferred to the Secretary of the Interior, and he shall assume the Navy's responsibilities and functions under existing contracts with respect to those reserves.

Under the bill, oil and gas in the national petroleum reserves outside Alaska may be developed under terms and conditions prescribed by the Secretary of the Interior, including competitive bidding procedures. These terms and conditions and also plans for development of each

area of the national petroleum reserves shall become effective if neither the House nor the Senate disapproves within 60 days. Each proposed plan of development shall provide for disposal and transportation of the oil consistent with the public interest.

H. R. 49 would give full and equal opportunity to "qualified persons" -- major companies and independents alike -- in the development or acquisition of the oil and gas. As for the Naval Petroleum Reserve Number 4 in Alaska, the Secretary is authorized by H. R. 49 to explore for oil and gas and to report annually to Congress on his plan for exploration. But no development leading to production is to be undertaken without further Congressional authorization.

The bill authorizes the Secretary to enter into contracts for the sale of oil and gas produced from the national petroleum reserves. These contracts are to be established by competitive bidding, for periods of not more than one year, and in amounts which, in the opinion of the Secretary, shall not exceed those which can be effectively handled by the purchasers.

Finally, any pipeline which carries oil or gas produced from the national petroleum reserves is to

be subject to the common carrier provisions of Section 28(r) of the Mineral Leasing Act of 1920, as amended (30 U.S.C. 185), regardless of whether the pipeline crosses public lands.

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 Committee report makes clear, 1/ 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 #4, to full production by outside parties. In Alaska, power to proceed beyond exploration is barred without further Congressional authorization.

In contrast to this broad and amorphous plan, the Administration has offered in H. R. 2633 the Energy Independence Act of 1975, a comprehensive and specific program for dealing with national petroleum reserves -- a program arrived at only after numerous

1/ H. R. Rep. No. 94-81 Part I. 94th Cong. 1st Sess. (1975).

meetings and drafting sessions among Executive Branch Agencies. Title I of the bill retains our Naval Petroleum Reserves under the jurisdiction of the Department of the Navy, but opens them to full production. Part of the full production is reserved for military purposes, while part may be used or exchanged for a National Strategic Petroleum Reserve established under Title II of the bill, or sold to the general public with the proceeds earmarked for a Special Fund. This fund would be used to develop the Naval Petroleum Reserves for full production, and to acquire petroleum for the National Strategic Petroleum Reserves. With regard to the National Strategic Petroleum Reserves, there may also be created an Industrial Strategic Petroleum Reserve, consisting of petroleum owned by importers or refiners and stored for the Government under such terms as the President deems necessary.

In developing the Administration's bill, care was taken to incorporate antitrust safeguards in the disposal to the private sector from naval petroleum reserves, and from the National Strategic Petroleum Reserve. For example, in a provision tailored specifically to the competitive problems at the Elk Hills Naval



Petroleum Reserve, and to the issues raised in our investigation, the bill provides that terms of sales or exchanges shall be so arranged as to give full and equal opportunity for acquisition of, or exchange for, the petroleum by all interested companies, including major and independent oil refiners alike. Again, with Elk Hills in mind, the uses of the Special Fund set forth in the bill include the construction and operation of facilities on or off the Naval Petroleum and Oil Shale Reserves, including pipelines from reserve to point of sale. This is designed to insure that the Navy can build its own pipeline to give access to this oil to all refiners if suitable arrangements cannot be made to effectuate this with the private carrier pipelines in California.

It should be noted that H.R. 49 provides that each proposed plan of development of each area of the national petroleum reserves shall "provide for disposal and transportation of the oil consistent with the public interest, and shall give full and equal opportunity for development of or acquisition of, or exchange for,

the oil and gas by qualified persons including major and independent producers or refiners alike." With the exceptions I will note later in my testimony, H.R. 49 certainly attempts to insure that access to the oil of Elk Hills and other reserves is not limited to a chosen few. However, as I will indicate later, the Administration's bill is more precisely drawn and, in my view, provides, with greater certainty, a fully competitive program.

Aside from the safeguards of Title I, relating to commercial access principally to Elk Hills, requisite findings of Title II, pertaining to possible commercial access to strategic petroleum reserves, mandate among other things that "the public interest requires that a strategic petroleum reserve program be consistent with the objective of preserving an economically sound and competitive petroleum industry, and that the program

provide for minimization of economic distortion, inflexibility, and unnecessary interference with market mechanisms." This public interest standard is incorporated in authorizations to the President to sell, use, or otherwise dispose of the National Strategic Petroleum Reserve (civilian), either in the event of emergency or on a finding that these stored reserves are no longer necessary. This standard would also apply to the manner in which the Secretary of the Navy arranges utilization of private capital, under competitively bid leases or competitively negotiated contracts, in the exploration, development and production of Naval Petroleum Reserve Number 4 in Alaska.

Title II also requires the President to make annual reports on actions taken and efforts to provide the strategic reserve system required under the Title. Among other subjects the reports are to consider the market impact of developing the storage program, including the extent to which purchases for the reserve system will affect competitive markets.

As I have indicated, the primary concern of the Department of Justice is not who administers the Naval Petroleum Reserves, whether these reserves should be

retained at all, or whether the lands should be opened to full production. Our basic responsibility is to insure, to the extent the reserves are opened and the oil disposed by the Government, that appropriate safeguards are imposed to provide equal treatment to all sectors of the petroleum industry and avoid distortion of the competitive free enterprise system. We would note, however, without reflecting on the Department of Interior, that the long experience of effective even-handed administration of the reserves by the Navy gives confidence in its ability to administer fairly and vigorously the competitive standards required in opening the reserves for full production and sale.

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. For example, H.R. 49 requires opportunities, for majors and independents alike, to be provided in development or purchase of oil to "qualified persons" -- a term nowhere defined or

explained. These "opportunities" are to be set forth in broad, general plans of development formulated by Interior, rather than, as in the Administration bill, in the arrangement of terms for specific offers of bidding to give full and equal opportunity to acquire the oil to "all interested companies." The Administration bill requires the disposing agency to focus on each sale of NPR oil so as to give equal access to all interested companies, tailored to the specific facts and circumstances of that sale. This requires that, upon analysis, the agency must structure each sale in blocks small enough to permit small refiners to offer viable bids on the oil tendered.

Thus, the Administration bill, by tying full and equal opportunity to acquire oil to specific terms of sale, clearly requires sales in amounts small enough for the smaller refiners to be able to bid on and use. It thus obviates any need for H.R. 49's separate, and discretionary, provision requiring sales in amounts "which, in the opinion of the Secretary, shall not exceed those which can be effectively handled by the purchasers," while providing a more objective standard as well.

Finally, we would endorse the concept of common carriers to transport oil from the reserves which H.R. 49 attempt to apply. However, a reading of section 28(r) of the Mineral Leasing Act shows it contains a number of provisions designed for use in connection with public lands. Attempt to apply the section here could lead to some confusion in interpretation and protracted litigation. Moreover, in actuality, any problem over private carriers arises only in the context of the Elk Hills Naval Petroleum Reserve in California. In that State, while all the available carriers are private, the Navy Department is conducting negotiations with them to insure that when Elk Hills goes to full production all potential purchasers can transport the oil on equal terms. These negotiations, plus the specific safeguards incorporated in H.R. 2633, should in my judgment adequately deal with the problem.

Based upon the foregoing, we favor the Administration bill, H.R. 2633 over H.R. 49.

That concludes my testimony concerning the views of the Department of Justice on H.R. 49. Interest has also been expressed over the status of our investigation involving Elk Hills.

The Elk Hills antitrust investigation was started in June, 1970. It involved a full investigation of the operation of private transportation and marketing facilities available for the sale of crude oil produced for the Navy Department's account under contract which provided for the operation of Naval Petroleum Reserve #1, Elk Hills, California. The initiation of the investigation coincided with and the investigation was stimulated by proposals in 1970 to swap Elk Hills oil for Santa Barbara leases which were to be closed by the Government after the blowout in the Channel. This was simply a method of compensation of those companies which had bid on the leases. That legislation was not enacted by the Congress. Failure to enact the legislation tended to place a lower priority on any such investigation and the next two years the investigation moved very slowly because of staff attention to other, higher priority, activities of the Division.

With the legislative proposals to open up Elk Hills both in this Congress and the past Congress, we have determined that the investigation should be reactivated and intensified. This has been done.

Under the intensified investigation we are seeking to determine the answers to two basic questions. First, does the intrastate pipeline system in California, which is owned by various major companies, and by virtue of its intrastate nature is not a common carrier regulated by the Interstate Commerce Commission, serve as a competitive bottleneck which tends to foreclose independent producers or refiners from the market for crude oil or seriously disadvantage their competitive position? The answer to this question can only be resolved by a thorough investigation of all the facts concerning available pipeline systems in all of the surrounding oil fields in Kern County, California and the trunk line systems transporting oil from any of these fields, principally in Kern County where Elk Hills is located, to the three principal refining centers at Bakersfield in the Los Angeles Basin, and in the San Francisco Bay Area, as well as to Marine Terminals at Estero Bay on the Coast west of Bakersfield. We learned early in this investigation that the transportation of crude oil in California on these pipelines involved a practice of exchanges or transfers of crude oil through exchange agreements entered into between two or more parties to the crude oil transportation arrangement. Crude oil for shipment is generally sold to the pipeline owner, the oil company owning the pipeline at the field, and a comparable amount is purchased by the seller or another

company at a terminal near to the refiners plant. The question of whether a pipeline bottleneck exists, therefore, involves not only a question of whether pipelines are available as common carrier lines, but whether the opportunity for small refiners to acquire crude oil is foreclosed by any discrimination in the formation of rather complex exchange agreements. This analysis is underway and nearing completion by the staff.

The second basic question raised in this investigation is whether or not the posted pricing system in California and the various joint ventures involving major crude oil producers have created a noncompetitive pricing system which rises to the level of an antitrust violation.

Of course, in both these general areas our major concern is possible foreclosure of smaller companies from the acquisition of crude oil in general, and of Elk Hills crude in particular, now or in the future, either through denial or discrimination in the use of the intrastate pipeline system, or through disadvantage in the use of artificially pegged posted prices, or through other joint venture arrangements among the majors.

Needless to say, the inquiry we have undertaken has required a highly sophisticated and complicated analysis of the economic factors involved in crude oil transportation, exchanges and prices. How have we proceeded with this analysis? Our first effort was to obtain as much documentation as

possible concerning the various areas of inquiry. Letters were directed to each major and independent oil company known to have pipeline facilities in Kern County. The letters were also sent to all independent companies known to have an interest in access to sources of crude oil in the San Joaquin Valley. These letters asked for voluntary cooperation from the companies and were sent on April 17, 1974 after we had sufficiently briefed ourselves on available information from the Navy at Elk Hills as well as from interviews with some independent refiners.

Our request for information covered all contracts and related documents concerning any purchase, sale or exchange of crude oil from Elk Hills and Buena Vista Hills, thus covering both NPR #1 and NPR #2. It covered a request for comprehensive maps and statistics, and documents concerning existing trunk lines and storage facilities. It covered studies, surveys, memoranda and proposals considered in the transporting of crude oil from Elk Hills. It covered a request for exchanges of crude oil, not only involving Elk Hills, but all of the surrounding fields in Kern County. It covered any requests or refusals to exchange or permit use of transportation facilities. Also requested was posted price information, production statistics and purchase statistics with respect to all fields which were used as reference fields in the pricing of crude oil under Navy

contracts at Elk Hills.

After extensive documentation was received pursuant to the letter, the Antitrust Division staff conducted extensive conferences and interviews with both majors and virtually all of the independent refiners involved. It became apparent after several contacts with the smaller elements in the industry that we could not through their testimony develop specific instances of discriminatory practices on the part of the major companies. Independents, to the contrary, cited instances in which they were able to obtain government royalty crude oil from places remote from their refineries because of the exchange arrangements made with major companies. While it is conceivable that their statements to us may have been tempered by a fear of reprisal from the majors we have no direct evidence of this and I believe we have to take their statements for their face value. Needless to say, this does not mean that our investigation should be terminated without further analysis of the role which the independent plays in the total picture in California. It may well be that the independent is subjected to exclusion in production through more subtle means. It may also be that the independents are not part of a "favored club" and thereby may be required to pay a slightly higher exchange rate for transportation of crude than their larger competitors.

Throughout the course of our investigation numerous contacts have been maintained with staff personnel of the Cory Committee of the State Legislature. The Cory Committee to the extent it was not bound by confidentiality of certain material, cooperated fully and completely with our staff in the conduct of our investigation. We reciprocated.

In November, 1974 the Committee published its reports. Mr. Cory met with myself and staff of the Division to present these reports 2/ and urged the Department to take whatever action it felt appropriate after review of the studies. We are reviewing those studies and no final recommendation has been made by the staff to the Division as to action to be taken concerning those reports.

I should add that as is probably apparent to this Committee, our investigation and the Cory Committee's report have proceeded along many of the same avenues. We have obtained information in the course of our investigation which must now be evaluated in the light of the conclusions and theories advanced by the Cory Committee and the final determination must be made what Department action, if any, should be taken.

I think it might also be helpful to briefly discuss some of the legal theories involved in our investigation

2/ California Crude Oil Market Control, Crude Oil Exchanges, Cost of Refining California Crude Oil, Crude Oil Pipelines in California, Offshore Drilling, The Administration of State Owned Tidelands.

under the Sherman Act. We must explore whether there has been a conspiracy, combination or collusion among the major oil companies which would constitute a per se violation of the antitrust laws. As yet we have not uncovered facts which would establish such a violation. We are still investigating, however, and I would not want to suggest that the charge cannot ultimately be made. Further evaluation is necessary with respect to the merits of the charges made in the Cory Committee report, for example. The report presents the case on the theory of a per se violation arising from an understanding on the part of the seven major oil companies. We must go behind those charges and try to ascertain whether they have merit and will stand up in a court of law.

As part of our analysis of a conspiracy, we must examine whether the posted price system is a result of an implied agreement to fix the prices of crude oil. There is a pattern of substantial uniformity of postings on the part of the four oil companies which post prices and there is also a relationship of the posted price with the exchange agreements as the basis for determining values in a great number of exchanges. These are all facts which we must examine in detail before any conclusion can be made that a per se violation of the antitrust laws exists.

Turning from the per se conspiracy theory, there also remains the possibility of a Sherman Act violation outside the per se rules. That is, does a restraint of trade exist by an agreement either expressed or implied among the oil companies which, while not so pernicious as to be subject to a per se charge is unreasonable under the "rule of reason" approach. This requires a careful balancing of competitive effect and economic benefit through economies of scale and the like. Naturally this gets us into a much more profound investigation and analysis.

The whole question of the exchange arrangements and joint ventures among pipeline owners falls in this category. A joint venture does not in and of itself violate the antitrust laws nor in the view of the Department is a joint venture so suspect as to require those who enter into it to carry the burden of showing its necessity. A separate antitrust violation must be proven by the Government. In matters as complex as joint ventures and exchange arrangements in the oil business, that proof is difficult to achieve. We have not concluded at this point that no case rests on one of these more complex theories. We are awaiting the recommendation of the staff which we expect to have within the next few weeks.

SUBCOMMITTEE ON PUBLIC LANDS

April 8, 1975

To receive supplemental testimony on:

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.

WITNESS

Keith I. Clearwaters, Deputy Assistant Attorney General
Anti-trust Division
U.S. Department of Justice

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 of 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 quality 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.

H.R. 81

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

H.R. 81

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.



94TH CONGRESS
1ST SESSION

H. R. 49

[Report No. 94-81]

IN THE HOUSE OF REPRESENTATIVES

JANUARY 14, 1975

Mr. MELCHER introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

MARCH 18, 1975

Reported from the Committee on Interior and Insular Affairs with an amendment, and referred to the Committee on Armed Services for a period ending not later than April 19, 1975

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Interior is authorized to establish
4 on any reserved or unreserved public lands of the United
5 States (except lands in the National Park System, the
6 National Wildlife System, and the Wild and Scenic Rivers
7 System, and the National Wilderness Preservation System
8 and primitive and roadless areas in the national forests now

1 under review for inclusion in the Wilderness System in
 2 accordance with provisions of the Wilderness Act of 1964),
 3 national petroleum reserves the development of which needs
 4 to be regulated in a manner that will meet the total energy
 5 needs of the Nation, including but not limited to national
 6 defense.

7 SEC. 2. No reserve that includes all or part of an
 8 existing naval petroleum reserve shall be established with-
 9 out prior consultation with the Secretary of Defense, and
 10 when so established, the portion of the naval reserve in-
 11 cluded shall be deemed to be excluded from the naval
 12 reserve.

13 SEC. 3. (a) The oil and gas reserves in the contiguous
 14 forty-eight States established pursuant to this section may
 15 be developed under terms and conditions prescribed by the
 16 Secretary of the Interior sixty days after notice is given to
 17 the Congress (not counting days on which either the House
 18 of Representatives or the Senate is not in session for three
 19 consecutive days or more) if neither the House of Repre-
 20 sentatives nor the Senate adopts a resolution of disapproval.
 21 Any such proposed plan shall explain in detail the method
 22 of development proposed, and shall provide for develop-
 23 ment and transportation of the oil consistent with public
 24 interest and to give opportunity to the smaller or independ-
 25 ent oil producers and refining companies to utilize the

1 crude oil production. Any such proposed plan by the Secre-
 2 tary shall also explain the relative need for developing the
 3 oil and gas resource in order to meet the total energy
 4 needs of the Nation, compared with the need for prohibit-
 5 ing such development in order to further some other public
 6 interest.

7 (b) The Secretary of the Interior is hereby authorized
 8 and directed to explore for oil and gas production on public
 9 lands in the State of Alaska except lands in the National
 10 Park System, the National Wildlife System, and the Wild
 11 and Scenic Rivers System, and the National Wilderness
 12 Preservation System. The Secretary shall submit to Con-
 13 gress within two years a plan of development which shall
 14 not become effective unless authorized by an Act of Congress.
 15 *That in order to develop petroleum reserves of the United*
 16 *States which need to be regulated in a manner to meet the*
 17 *total energy needs of the Nation, including but not limited to*
 18 *national defense, the Secretary of the Interior is authorized*
 19 *to establish national petroleum reserves on any reserved or*
 20 *unreserved public lands of the United States (except lands in*
 21 *the National Park System, the National Wildlife Refuge*
 22 *System, the Wild and Scenic Rivers System, the National*
 23 *Wilderness Preservation System, areas now under review for*
 24 *inclusion in the Wilderness System in accordance with pro-*

1 visions of the Wilderness Act of 1964, and lands in Alaska
2 other than those in Naval Petroleum Reserve Numbered 4).

3 *SEC. 2. No national petroleum reserve that includes all*
4 *or part of an existing naval petroleum reserve shall be estab-*
5 *lished without prior consultation with the Secretary of*
6 *Defense, and when so established, the portion of such naval*
7 *reserve included shall be deemed to be excluded from the*
8 *naval petroleum reserve.*

9 *Upon the inclusion in a national petroleum reserve of*
10 *any land which is in a naval petroleum reserve on the date*
11 *of enactment of this Act, any equipment, facilities, or other*
12 *property of the Department of the Navy used in operations*
13 *on the land so included and any records, maps, exhibits, or*
14 *other informational data held by the Secretary of the Navy*
15 *in connection with the land so included shall be transferred*
16 *from the Secretary of the Navy to the Secretary of the In-*
17 *terior who shall thereafter be authorized to use them to carry*
18 *out the purposes of this Act.*

19 *The Secretary of the Interior shall assume the respon-*
20 *sibilities and functions of the Secretary of the Navy under*
21 *any contract which now exists with respect to activities on a*
22 *naval petroleum reserve to which the United States is a party.*

23 *SEC. 3. (a) The oil and gas in the national petroleum*
24 *reserves in the contiguous forty-eight States established pur-*
25 *suant to this section may be developed under terms and con-*

1 *ditions prescribed by the Secretary of the Interior. The*
2 *Secretary of the Interior shall use competitive bidding*
3 *procedures with prior public notice of not less than thirty*
4 *days of the terms and conditions for any contract, lease, or*
5 *operating agreement for development and production of oil*
6 *and gas from a national petroleum reserve. Such terms and*
7 *conditions and also plans for the development of each area*
8 *of the national petroleum reserves shall be published in the*
9 *Federal Register, but shall not become effective until sixty*
10 *days after final notice has been published and submitted to*
11 *the Congress (not counting days on which either the House*
12 *of Representatives or the Senate is not in session for three*
13 *consecutive days or more) and then only if neither the House*
14 *of Representatives nor the Senate adopts a resolution of*
15 *disapproval. Each proposed plan of development and each*
16 *amendment thereof shall explain in detail the method of*
17 *development and production proposed, shall provide for dis-*
18 *posal and transportation of the oil consistent with the public*
19 *interest, and shall give full and equal opportunity for devel-*
20 *opment of or acquisition of, or exchange for, the oil and gas*
21 *by qualified persons including major and independent pro-*
22 *ducers or refiners alike. Each proposed plan of development*
23 *by the Secretary shall also explain the relative need for devel-*
24 *oping the oil and gas resources in order to meet the total*
25 *energy needs of the Nation, compared with the need for*

1 prohibiting such development in order to further some other
2 public interest.

3 (b) Any oil or gas produced from such petroleum re-
4 serves, except such oil or gas which is either exchanged in
5 similar quantities for convenience or increased efficiency of
6 transportation with persons or the government of an ad-
7 jacent foreign state, or which is temporarily exported for
8 convenience or increased efficiency of transportation across
9 ports of an adjacent foreign state and reenters the United
10 States, shall be subject to all of the limitations and licens-
11 ing requirements of the Export Administration Act of 1969
12 (Act of December 30, 1969; 83 Stat. 841) and, in addi-
13 tion, before any oil or gas subject to this section may be ex-
14 ported under the limitations and licensing requirement and
15 penalty and enforcement provisions of the Export Adminis-
16 tration Act of 1969 the President must make and publish
17 an express finding that such exports will not diminish the
18 total quality or quantity of oil and gas available to the
19 United States and are in the national interest and are in
20 accord with the Export Administration Act of 1969.

21 (c) The Secretary of the Interior is authorized to enter
22 into contracts for the sale of oil and gas which is produced
23 from the national petroleum reserves and which is owned
24 by the United States. Such contracts shall be issued by com-
25 petitive bidding, they shall be for periods of not more than

1 one year's duration, and in amounts which, in the opinion
2 of the Secretary, shall not exceed those which can be effec-
3 tively handled by the purchasers.

4 (d) The Secretary of the Interior is hereby authorized
5 and directed to explore for oil and gas on Naval Petroleum
6 Reserve Numbered 4 and he shall report annually to Con-
7 gress on his plan for exploration of such reserve: Provided,
8 That no development leading to production shall be under-
9 taken unless authorized by Congress.

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

94TH CONGRESS
1ST SESSION

H. R. 49

[Report No. 94-81]

A BILL

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.

By Mr. MELCHER

JANUARY 14, 1975

Referred to the Committee on Interior and Insular
Affairs

MARCH 18, 1975

Reported from the Committee on Interior and Insular
Affairs with an amendment, and referred to the
Committee on Armed Services for a period ending
not later than April 19, 1975.

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. HENRY, 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:



2

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 Positioned 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 Hueme. 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.



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 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, 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

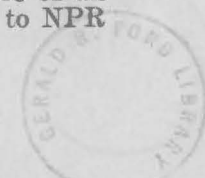
Honorable Jack W. Carlson, Assistant Secretary of the Interior for Energy and Minerals:

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	1979	
ESTIMATED EXPENSES						
NPR 1—Elk Hills:						
Demolishing existing facilities	1,000					1,000
Pipeline tie-in to Arco, Social, Tosco	1,100					1,100
Pipeline tie-in to Union	2,100					2,100
Build and/or acquire P.L. to Point Huemene	23,000	26,000	5,000			51,000
Build HP gas line to North Coles levee	1,000					1,000
Production (lifting) costs at 25¢/bbl	12,000	13,000	14,500			39,500
Exploration drilling (50 wells)	34,800	103,700	33,500			172,000
Exploration drilling (823 wells)						823,000
Mobilizing facilities						1,000
Total	5,700	142,300	147,100	120,900	67,100	483,100
NPR 2—Buena Vista: No expenses incurred; income						
NPR 3—Buena Vista: No expenses incurred; income						
NPR 4—North Slope, Alaska:						
Well work-over (green oil)	1,500					1,500
Exploration drilling (22 wells total)	10,000	10,000	10,000			30,000
Development drilling (400 wells per year)	5,000	1,000	750			6,750
Oil and gas processing facilities	100	832	1,402			2,234
Production (lifting) costs at 50¢/bbl						1,972
Mobilizing facilities						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	18,600	9,300			57,500
Exploration drilling (25 wells)	30,200	50,800	38,500			163,100
Total	54,700	69,400	47,800	48,790	220,600	220,600
Strategic storage study						
Naval Petroleum and Oil Shale Res. Administration	1,000	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	1,223,880	
NPR 2	300	2,070	1,870	1,630	1,460	7,460
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

1 Fiscal year 1977 includes a 3-year 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 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.

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;



"(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, 1212; 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; 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



§ 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.

§ 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.

"(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."

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



EXISTING LAW

(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.

THE BILL AS REPORTED

“(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

§ 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.

“(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.”

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



EXISTING LAW

THE BILL AS REPORTED

(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.

§ 1005 (b) (1) (h) ... (b) All money ... (c) ... § 1003 Disposition of royalties

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.



Union Calendar No. 70

94TH CONGRESS
1ST SESSION

H. R. 49

[Report No. 94-81]

IN THE HOUSE OF REPRESENTATIVES

JANUARY 14, 1975

Mr. MELCHER introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

MARCH 18, 1975

Reported from the Committee on Interior and Insular Affairs with an amendment, and referred to the Committee on Armed Services for a period ending not later than April 19, 1975

[Strike out all after the enacting clause and insert the part printed in *italic*]

APRIL 18, 1975

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in bold roman]

A BILL

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.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 ~~That the Secretary of the Interior is authorized to establish~~
- 4 ~~on any reserved or unreserved public lands of the United~~

1 States (except lands in the National Park System, the
 2 National Wildlife System, and the Wild and Scenic Rivers
 3 System, and the National Wilderness Preservation System
 4 and primitive and roadless areas in the national forests now
 5 under review for inclusion in the Wilderness System in
 6 accordance with provisions of the Wilderness Act of 1964),
 7 national petroleum reserves the development of which needs
 8 to be regulated in a manner that will meet the total energy
 9 needs of the Nation, including but not limited to national
 10 defense.

11 SEC. 2. No reserve that includes all or part of an
 12 existing naval petroleum reserve shall be established with-
 13 out prior consultation with the Secretary of Defense, and
 14 when so established, the portion of the naval reserve in-
 15 cluded shall be deemed to be excluded from the naval
 16 reserve.

17 SEC. 3. (a) The oil and gas reserves in the contiguous
 18 forty-eight States established pursuant to this section may
 19 be developed under terms and conditions prescribed by the
 20 Secretary of the Interior sixty days after notice is given to
 21 the Congress (not counting days on which either the House
 22 of Representatives or the Senate is not in session for three
 23 consecutive days or more) if neither the House of Repre-
 24 sentatives nor the Senate adopts a resolution of disapproval.
 25 Any such proposed plan shall explain in detail the method

1 of development proposed, and shall provide for develop-
 2 ment and transportation of the oil consistent with public
 3 interest and to give opportunity to the smaller or independ-
 4 ent oil producers and refining companies to utilize the
 5 crude oil production. Any such proposed plan by the Secre-
 6 tary shall also explain the relative need for developing the
 7 oil and gas resource in order to meet the total energy
 8 needs of the Nation, compared with the need for prohibit-
 9 ing such development in order to further some other public
 10 interest.

11 (b) The Secretary of the Interior is hereby authorized
 12 and directed to explore for oil and gas production on public
 13 lands in the State of Alaska except lands in the National
 14 Park System, the National Wildlife System, and the Wild
 15 and Scenic Rivers System, and the National Wilderness
 16 Preservation System. The Secretary shall submit to Con-
 17 gress within two years a plan of development which shall
 18 not become effective unless authorized by an Act of Congress.

19 TITLE I

20 *That in SEC. 101. In order to develop petroleum reserves of*
 21 *the United States which need to be regulated in a manner*
 22 *to meet the total energy needs of the Nation, including but*
 23 *not limited to national defense, the Secretary of the Interior*
 24 *is authorized to establish national petroleum reserves on any*
 25 *reserved or unreserved public lands of the United States*

1 (except lands in the Naval Petroleum Reserves, the Na-
 2 tional Park System, the National Wildlife Refuge System,
 3 the Wild and Scenic Rivers System, the National Wilder-
 4 ness Preservation System, areas now under review for inclu-
 5 sion in the Wilderness System in accordance with provisions
 6 of the Wilderness Act of 1964, and lands in Alaska other
 7 than those in Naval Petroleum Reserve Numbered 4).

8 *SEC. 2. No national petroleum reserve that includes all*
 9 *or part of an existing naval petroleum reserve shall be estab-*
 10 *lished without prior consultation with the Secretary of De-*
 11 *fense, and when so established, the portion of such naval*
 12 *reserve included shall be deemed to be excluded from the*
 13 *naval petroleum reserve.*

14 *Upon the inclusion in a national petroleum reserve of*
 15 *any land which is in a naval petroleum reserve on the date*
 16 *of enactment of this Act, any equipment, facilities, or other*
 17 *property of the Department of the Navy used in operations*
 18 *on the land so included and any records, maps, exhibits, or*
 19 *other informational data held by the Secretary of the Navy*
 20 *in connection with the land so included shall be transferred*
 21 *from the Secretary of the Navy to the Secretary of the In-*
 22 *terior who shall thereafter be authorized to use them to carry*
 23 *out the purposes of this Act.*

24 *The Secretary of the Interior shall assume the respon-*
 25 *sibilities and functions of the Secretary of the Navy under*

1 *any contract which now exists with respect to activities on a*
 2 *naval petroleum reserve to which the United States is a party.*

3 *SEC. 3. SEC. 102. The oil and gas in the national petro-*
 4 *leum reserves in the contiguous forty-eight States established*
 5 *pursuant to this section may be developed under terms and*
 6 *conditions prescribed by the Secretary of the Interior. The*
 7 *Secretary of the Interior shall use competitive bidding pro-*
 8 *cedures with prior public notice of not less than thirty days*
 9 *of the terms and conditions for any contract, lease, or operat-*
 10 *ing agreement for development and production of oil and gas*
 11 *from a national petroleum reserve. Such terms and conditions*
 12 *and also plans for the development of each area of the*
 13 *national petroleum reserves shall be published in the Federal*
 14 *Register, but shall not become effective until sixty days after*
 15 *final notice has been published and submitted to the Congress*
 16 *(not counting days on which either the House of Representa-*
 17 *tives or the Senate is not in session for three consecutive days*
 18 *or more) and then only if neither the House of Representa-*
 19 *tives nor the Senate adopts a resolution of disapproval. Each*
 20 *proposed plan of development and each amendment thereof*
 21 *shall explain in detail the method of development and produc-*
 22 *tion proposed, shall provide for disposal and transportation*
 23 *of the oil consistent with the public interest, and shall give*
 24 *full and equal opportunity for development of or acquisition*
 25 *of, or exchange for, the oil and gas by qualified persons in-*

1. *cluding major and independent producers or refiners alike.*
 2. *Each proposed plan of development by the Secretary shall*
 3. *also explain the relative need for developing the oil and gas*
 4. *resources in order to meet the total energy needs of the Na-*
 5. *tion, compared with the need for prohibiting such develop-*
 6. *ment in order to further some other public interest.*

7. *(b) Any oil or gas produced from such petroleum re-*
 8. *serves, except such oil or gas which is either exchanged in*
 9. *similar quantities for convenience or increased efficiency of*
 10. *transportation with persons or the government of an adjacent*
 11. *foreign state, or which is temporarily exported for conven-*
 12. *ience or increased efficiency of transportation across ports*
 13. *of an adjacent foreign state and reenters the United States,*
 14. *shall be subject to all of the limitations and licensing require-*
 15. *ments of the Export Administration Act of 1969 (Act of*
 16. *December 30, 1969; 83 Stat. 841) and, in addition, before*
 17. *any oil or gas subject to this section may be exported under*
 18. *the limitations and licensing requirement and penalty and*
 19. *enforcement provisions of the Export Administration Act of*
 20. *1969 the President must make and publish an express finding*
 21. *that such exports will not diminish the total quality or quan-*
 22. *tity of oil and gas available to the United States and are in*
 23. *the national interest and are in accord with the Export Ad-*
 24. *ministration Act of 1969.*

1. *(c) The Secretary of the Interior is authorized to enter*
 2. *into contracts for the sale of oil and gas which is produced*
 3. *from the national petroleum reserves and which is owned*
 4. *by the United States. Such contracts shall be issued by com-*
 5. *petitive bidding, they shall be for periods of not more than*
 6. *one year's duration, and in amounts which, in the opinion*
 7. *of the Secretary, shall not exceed those which can be effec-*
 8. *tively handled by the purchasers.*

9. *(d) The Secretary of the Interior is hereby authorized*
 10. *and directed to explore for oil and gas on Naval Petroleum*
 11. *Reserve Numbered 4 and he shall report annually to Con-*
 12. *gress on his plan for exploration of such reserve: Provided,*
 13. *That no development leading to production shall be under-*
 14. *taken unless authorized by Congress.*

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

21. TITLE II

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

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

1 § 7420. Definitions

2 “(a) In this chapter—

3 “(1) ‘National defense’ includes the needs of, and the
4 planning and preparedness to meet, essential defense
5 industrial and military emergency energy requirements
6 relative to the national safety, welfare, and economy, par-
7 ticularly resulting from foreign military or economic
8 actions.

9 “(2) ‘Naval petroleum and oil shale reserves’ means
10 the naval petroleum and oil shale reserves established by
11 this chapter, including Naval Petroleum Reserve Num-
12 bered 1 (Elk Hills), located in Kern County, California,
13 established by Executive order of the President on Sep-
14 tember 2, 1912; Naval Petroleum Reserve Numbered 2
15 (Buena Vista), located in Kern County, California, es-
16 tablished by Executive order of the President on Decem-
17 ber 13, 1912; Naval Petroleum Reserve Numbered 3
18 (Teapot Dome), located in Wyoming, established by Ex-
19 ecutive order of the President on April 30, 1915; Naval
20 Petroleum Reserve Numbered 4, Alaska, on the north
21 slope of the Brooks Range, established by Executive order
22 of the President of February 27, 1923; Oil Shale Reserve
23 Numbered 1, located in Colorado, established by Executive
24 order of the President of December 6, 1916, as amended
25 by Executive order of June 12, 1919; Oil Shale Reserve

1 Numbered 2, located in Utah, established by Executive
2 order of the President of December 6, 1916; and Oil Shale
3 Reserve Numbered 3, located in Colorado, established by
4 Executive order of the President of September 27, 1924.

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

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

9 (2) Section 7421(a) is amended—

10 (A) by striking out “for naval purposes” and in-
11 serting in lieu thereof “for use of the armed forces”;
12 and

13 (B) by striking out “section 7438 hereof” and in-
14 serting in lieu thereof “this chapter”.

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

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

20 “(A) to explore, develop, operate, and produce
21 petroleum, from Naval Petroleum Reserves Numbered
22 1, 2, and 3 at a rate consistent with sound oilfield
23 engineering practices up to two hundred thousand
24 barrels per day for a period not to exceed three years

1 commencing ninety days after enactment of this leg-
2 islation; and

3 “(B) to construct or procure pipelines and asso-
4 ciated facilities for transporting oil, associated liquids
5 and gases, from Naval Petroleum Reserves Numbered
6 1, 2, and 3 to the points where such production will
7 be refined or shipped.

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

13 “(2) The production authorization set forth in para-
14 graph (1)(A) of this subsection is conditioned upon the
15 Secretary reaching an agreement with the private owner
16 to continue operation of Naval Petroleum Reserve Num-
17 bered 1 under a unitized plan contract which adequately
18 protects the public interest.

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

23 (4) Section 7423 is amended by inserting “(a)” imme-
24 diately before “The Secretary”; and by adding at the end
25 thereof the following new subsection:

1 “(b) During the three-year period of production au-
2 thorized by subsection (d) of section 7422 (during which
3 three-year period the consultation requirements of section
4 7431(3) are waived), the Secretary shall submit annual
5 reports to the Armed Services Committees of the Senate
6 and the House of Representatives detailing—

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

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

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

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

19 “(5) the plans for further exploration, develop-
20 ment, and production at Naval Petroleum Reserve
21 Numbered 4.”.

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

23 “(b) Notwithstanding any other provision of law, each
24 sale of the United States share of petroleum, gas, other
25 hydrocarbons, oil shale, or products therefrom, shall be

1 made by the Secretary at public sale to the highest qualified
2 bidder at such time, in such amounts, and after such
3 advertising as the Secretary considers proper and with-
4 out regard to Federal, State, or local regulations control-
5 ling sales or allocation of petroleum products.”.

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

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

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

20 “§ 7432. Naval Petroleum and Oil Shale Reserves Special
21 Fund

22 “(a) There is hereby established on the books of the
23 Treasury Department a special fund designated the ‘Naval
24 Petroleum and Oil Shale Reserves Special Fund’. There
25 shall be credited to such fund—

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

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

10 “(3) such additional sums as have been, or may be,
11 appropriated for the maintenance, operation, explora-
12 tion, development, and production of the naval pe-
13 troleum and oil shale reserves.

14 “(b) Funds available in the Naval Petroleum and Oil
15 Shale Reserve Special Fund shall be available for expendi-
16 ture in such sums as are specified in annual congressional
17 appropriations Acts for the expenses of—

18 “(1) exploration, prospecting, conservation, de-
19 velopment, use, operation, and production of the naval
20 petroleum and oil shale reserves as authorized by this
21 chapter;

22 “(2) production, including preparation for produc-
23 tion as authorized by this Act, or as may hereafter
24 be authorized; and

25 “(3) the construction and operation of facilities

1 both within and outside the naval petroleum and oil
2 shale reserves incident to the production and the
3 delivery of crude petroleum and derivatives, including
4 pipelines and shipping terminals.

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

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

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

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

20 (1) by inserting immediately before

“7421. Jurisdiction and control.”

21 the following:

“7420. Definitions.”;

22 and

23 (2) by striking out

“7432. Expenditures: appropriations available.”

1 and inserting in lieu thereof the following:

“7432. Naval Petroleum and Oil Shale Reserve Special Fund.”.

2 SEC. 202. (a) The Secretary of the Navy shall establish
3 a study group which shall investigate the feasibility of
4 creating a National Strategic Petroleum Reserve (Mili-
5 tary) (hereinafter in this section referred to as the
6 “Reserve”). Any such Reserve should include petroleum
7 stored at strategic locations, or available for delivery to
8 such locations, and include facilities for storage, transpor-
9 tation, or processing thereof. In computing the amount of
10 petroleum to be stored in such Reserve, the Peacetime
11 Operating Stocks and Prepositioned War Reserve Stocks
12 of the Department of Defense shall not be included. Such
13 Reserve should be in addition to any National Strategic
14 Petroleum Reserve (Civilian) which may be otherwise
15 provided for.

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

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

Union Calendar No. 70

94TH CONGRESS
1ST SESSION

H. R. 49

[Report No. 94-81]

A BILL

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.

By Mr. MELCHER

JANUARY 14, 1975

Referred to the Committee on Interior and Insular
Affairs

MARCH 18, 1975

Reported from the Committee on Interior and Insular
Affairs with an amendment, and referred to the
Committee on Armed Services for a period ending
not later than April 19, 1975.

APRIL 18, 1975

Reported with amendments, committed to the Com-
mittee of the Whole House on the State of the
Union, and ordered to be printed

FILE

THE WHITE HOUSE

WASHINGTON

April 21, 1975

MEMORANDUM FOR: JOHN MARSH
THROUGH: MAX FRIEDERSDORF
VERN LOEN VL
FROM: CHARLES LEPPERT *CL*
SUBJECT: Elk Hills Naval Petroleum Reserves
legislation

Two bills have been reported in the House of Representatives concerning Elk Hills Naval Petroleum Reserve in California. H. R. 49, authorizes the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves, etc., was reported by the House Committee on Interior and Insular Affairs.

H. R. 5919, provides for the exploration, development and production of Naval petroleum reserves with revenues derived therefrom placed in a special fund, and the production to be applied to the petroleum needs of the Department of Defense and the establishment of a study group to investigate the establishment of creating a military national strategic petroleum reserve, was reported by the House Committee on Armed Services.

Both Committees will be heard before the Rules Committee on Tuesday, April 22nd requesting a rule for their respective bills.

Rep. Alphonzo Bell (R-Calif) strongly supports H. R. 49 and requests the President and the Administration to support H. R. 49. Bell contends that H. R. 5919 does not support the President's energy program because it calls for production only for military purposes. H. R. 49 provides for production to meet both military and civilian needs and is supportive of the President's energy program.

A draft copy of Rep. Bell's statement to the Rules Committee and a one page outline of the differences between the two bills are attached along with a copy of each bill and Committee report.

Naval Petroleum Reserves Alternatives

HR-49

1. Management by Department of the Interior:
 - Principal resource management agency which considers production, environment and conservation objectives of the Nation.
 - Extensive experience and expertise supervising oil and natural gas exploration, development and production Federal lands for 100 years.
2. Requires competitive bidding of contract, lease or operating agreement.
 - Terms and conditions subject to disapproval by either house of Congress for 60 days.
3. No production limitation for NPR 1, 2 and 3 other than good management.
 - Thereby reduces dependency on foreign oil by 300,000 BPD, *OR MORE*
 - Use for military and civilian needs and for strategic stockpile.
4. Equal opportunity for majors and independents.
5. All income to Treasury--no "special fund."
 - Congress retains full control over the use of the receipts.
6. The full volume of all new oil is dedicated to the U. S. economy.

HR-5919

1. Management by Navy:
 - Principal agency for military activities at sea, not land or resource development.
 - NPR activity has always been low priority within Department of Defense.
 - Agency is poorly equipped to handle environmental and conservation problems.
2. Limits production to 200,000 BPD for three years, *From RESERVES # 1, 2, & 3.*
3. Limits disposition of production exclusively to benefit of armed forces.
4. All income to "special fund" earmarked for:
 - Naval Petroleum and Oil Shale Reserves.
 - Pipelines and shipping terminals within and outside the Reserves.



DRAFT ONLY

TESTIMONY OF
CONGRESSMAN ALPHONZO BELL
(27TH DISTRICT - CALIFORNIA)
BEFORE THE HOUSE COMMITTEE ON RULES

APRIL 22, 1975

Mr. Chairman, I thank you and the other Members of the Committee for allowing me this opportunity to present my views on the two bills before you here today.

The distinguished Chairman and the other Members here know of my long involvement with the subject of bringing our petroleum reserves into production to help offset this Nation's very dangerous energy situation. Since early in the 93d Congress, I have advocated utilization of Petroleum Reserve #1 at Elk Hills in California to help offset our dangerous reliance on unstable foreign oil imports.

Mr. Chairman, the time has long passed since there was a need for special oil reserves for the exclusive use of the Navy.

The Naval oil reserves were set aside early in this century to assure a source of fuel for Naval vessels. The need for these special reserves was eliminated, however, during the Korean War when Congress enacted the Defense Production Act of 1950. As you know, this Act guarantees the military top priority over all American oil supplies and production -- and during any national emergency, the Armed Forces have first call on all oil and gas in America.

The Naval reserves, as such, owe their existence to nothing more than happenstance -- namely the reaction of Congress to the particular problems surrounding the Teapot Dome scandal during the Harding administration. Were it not for that infamous scandal which grew out of a particular President's very unwise choice of Cabinet officers, what are now Naval reserves would instead still be National petroleum reserves administered by the Secretary of the Interior.

Although that reaction by Congress to a problem back in the 1920's may have been a wise policy decision then, it is now clearly outdated -- an anachronism. I fail to see the reasoning behind having our Navy administer this Nation's mineral resources in 1975.

The job of our Department of Defense is to have our fighting ships ready, our jets ready, our military personnel ready, and our military equipment ready to protect the United States. Its job is not to handle the energy reserves and resources of this Nation.

Clearly the Department of the Interior, which has traditionally held the responsibility of managing our mineral resources, has more expertise and is better qualified to administer our oil reserves, as set down in H.R. 49.

This bill would authorize the Secretary of the Interior, after consultation with the Secretary of Defense, to establish National Petroleum Reserves on public lands of the United States, including the existing Naval fields. These national reserves would then be regulated and developed in a manner consistent with the total energy needs of the entire Nation, including but not limited to national defense.

As you know, this legislation has already been unanimously reported by the House Committee on Interior and Insular Affairs, and now has the support of more than 95 co-sponsors in the House. Similar legislation has been introduced in the Senate by Senators Mark Hatfield and Charles Percy.



Mr. Chairman, I think most Members of Congress agree that the Federal Government desperately needs to formulate an overall, central policy with regard to the exploration, development, production, and transportation of our domestic petroleum resources. This can best be carried out, as set down in H.R. 49, by that agency of our Government most competent to administer such matters -- the Interior Department, in cooperation with the Federal Energy Administration and the new Energy Resources Council.

The bill reported by the House Armed Services Committee (H.R. 5919) pretends to aim at helping our energy situation, but I seriously question whether we will ever see any meaningful production under their bill, if enacted, due to several glaring and serious deficiencies in it.

First, the Armed Services bill allows for production up to a maximum of only 200,000 B/D for a period of only 3 years, but it in no way directs any production. Even if the Navy moved quickly to produce the maximum allowable under this bill, which we would have no guarantee of, the Nation would see only 3 years of production at that very minimal level. Also, it is important to see that, as the bill is written, the 200,000 B/D maximum they are talking about applies to production from Reserves #1, 2, and 3 combined.

Secondly, the Armed Services bill is deficient in that, intentionally or otherwise, its provisions dove-tail in upon themselves: subsection "A" (page 3, line 25) allows for production "for a period not to exceed three years . . .", yet the following subsection (page 4, line 11) provides for construction or procurement of pipelines to "be fully operable by three years after the date of enactment"

Mr. Chairman, you know the Navy's track record on this as well as I do, and I see all kinds of potential here in H.R. 5919 for them to stall off producing until the pipelines are ready, which very conveniently happens to coincide with the expiration of their authority to produce under the bill.

The third major inadequacy that I see in the Armed Services bill is that it spells out nothing whatsoever about PET 4 in Alaska -- it doesn't even mention it. Our bill, H.R. 49, authorizes and directs the exploration for oil in that vast area in Northern Alaska so we will know how much oil we've got up there. Mr. Chairman, right now, even though that reserve was established over 40 years ago, we don't even know whether there are any oil and gas up there in any sizeable quantities -- because the Navy has allowed that huge field to lie there totally unexplored for all practical purposes.

With PET 4, we are talking about an area larger than the State of Indiana, and it is high time we got it explored to find out what quantity of oil we have there.

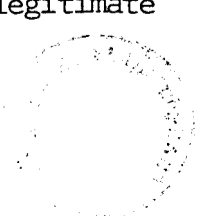
Finally, Mr. Chairman, the most serious deficiency in H.R. 5919 is that it permits the Navy to retain control over this Nation's oil reserves -- which I see as completely illogical and anachronistic.

Certainly the concept of assuring a source of fuel for America's military forces is vitally necessary and highly essential to the national defense -- but I don't think this necessitates having our Navy in the oil business.

The U.S. Navy has no more business being in the oil business than the Department of the Interior would have managing the Sixth Fleet.

We can no longer afford the luxury, Mr. Chairman, of allowing such a critical resource as Elk Hills, or PET 4 in Alaska, to sit there in such an inadequate state of development and readiness and to be administered by an agency neither designed nor qualified to administer mineral resources.

I seriously question whether we can even legitimately call Elk Hills or PET 4 "reserves" -- given their present total lack of any state of readiness, they are more accurately categorized as potential "resources" than "reserves". The Navy has never really brought either of these two fields up to legitimate reserve status.



Bringing the vast Elk Hills field in California up to its full maximum efficient rate of production, as H.R. 49 would allow for, would take only 1 to 3 years and would provide 300,000 to 450,000 additional barrels of badly needed domestic oil a day (or, potentially, 10 million gallons of gasoline per day.)

At current prices, this amount of increased domestic production would have an immediate favorable impact on our balance of payments to the tune of more than \$1 billion per year.

Other sources promise potential production 10 or more years down the pike, but Elk Hills is the only place in the United States where we can realize such a sizeable quantity of oil production almost immediately, when it is so desperately needed to help ward off our dangerous dependence on the whims of the Arab nations.

Apparently the Navy is now thinking along the lines of drilling some 1000 additional wells at Elk Hills, then essentially shutting them in. Mr. Chairman, it doesn't take an economist to see that this makes no sense economically. Such a program would be inefficient, uneconomical, and inflationary. It would also place unreasonable and non-productive demands on the Nation's supply of oil rigs, drilling pipe, tubular goods, and the qualified personnel who are badly needed elsewhere for productive undertakings. This is precisely, Mr. Chairman, why Standard of California has asked to be let out as operator of Elk Hills -- they don't want to continue to have their scarce equipment and personnel drained into an operation where they think there isn't going to be any production.

Mr. Chairman, allow me to cite something Arthur Burns said last fall:

"We cannot afford continuing buying oil from foreign sources at the rate we are going now. If we continue this, this will result in a massive redistribution of the political and economic power of the world. This is a dangerous implication for the United States. Oil exporting countries have taken in \$75 billion in oil revenues from the total world. The U.S. contribution to this has been \$23 billion."

By now, those figures are even much higher. But we in Congress can do something about this, and can do something about it right now which will make a substantial difference to this Nation in the future.

Mr. Chairman, in the national interest the Congress must allow Elk Hills to be brought into production. And, in the national interest, this should be done in the most competent manner possible -- by the Department of the Interior.

The Interior Department, as of December 31 of last year, has 1,448 personnel who were classified as petroleum engineers and geologists. Specifically, according to information I have obtained from the Department, this total includes 203 petroleum engineers and 1,245 geologists.

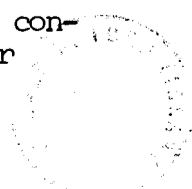
By contrast, according to the latest data I have received, the Naval Office of Petroleum and Oil Shale Reserves consists of only 47 persons -- 11 Naval personnel and 36 civilians.

Clearly, the United States Department of the Interior has the expertise and is best qualified to administer our petroleum reserves. Right now, Interior is administering the equivalent of 3 million barrels per day of production from leases on the Outer Continental Shelf. To try to bring the Navy up to a comparable level of competence would require a wasteful and redundant duplication within the Defense Department of the Bureau of Land Management and the U.S. Geological Survey.

Mr. Chairman, in thinking about petroleum reserves for the future, we should look toward the development of total governmental, national petroleum reserves which would be capable of immediate production during a national emergency as envisioned in H.R. 49 as reported by the House Interior Committee. This would, of course, include as top priority national defense purposes, yet would be a much saner and more rational over-all policy than having individual agencies holding reserves exclusively for their own use. I therefore urge this Committee's priority consideration to making H.R. 49 as reported by Interior Committee in order for consideration on the House Floor.

Thank you, Mr. Chairman.

.....



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 of 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 quality 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.

○

H. R. 49

[Report No. 94-81]

IN THE HOUSE OF REPRESENTATIVES

JANUARY 14, 1975

Mr. MELCHER introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

MARCH 18, 1975

Reported from the Committee on Interior and Insular Affairs with an amendment, and referred to the Committee on Armed Services for a period ending not later than April 19, 1975

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

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.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Interior is authorized to establish
4 on any reserved or unreserved public lands of the United
5 States ~~(except lands in the National Park System, the~~
6 National Wildlife System, and the Wild and Scenic Rivers
7 System, and the National Wilderness Preservation System
8 and primitive and roadless areas in the national forests now



1 under review for inclusion in the Wilderness System in
 2 accordance with provisions of the Wilderness Act of 1964),
 3 national petroleum reserves the development of which needs
 4 to be regulated in a manner that will meet the total energy
 5 needs of the Nation, including but not limited to national
 6 defense.

7 SEC. 2. No reserve that includes all or part of an
 8 existing naval petroleum reserve shall be established with-
 9 out prior consultation with the Secretary of Defense, and
 10 when so established, the portion of the naval reserve in-
 11 cluded shall be deemed to be excluded from the naval
 12 reserve.

13 SEC. 3. (a) The oil and gas reserves in the contiguous
 14 forty-eight States established pursuant to this section may
 15 be developed under terms and conditions prescribed by the
 16 Secretary of the Interior sixty days after notice is given to
 17 the Congress (not counting days on which either the House
 18 of Representatives or the Senate is not in session for three
 19 consecutive days or more) if neither the House of Repre-
 20 sentatives nor the Senate adopts a resolution of disapproval.
 21 Any such proposed plan shall explain in detail the method
 22 of development proposed, and shall provide for develop-
 23 ment and transportation of the oil consistent with public
 24 interest and to give opportunity to the smaller or independ-
 25 ent oil producers and refining companies to utilize the

1 crude oil production. Any such proposed plan by the Secre-
 2 tary shall also explain the relative need for developing the
 3 oil and gas resource in order to meet the total energy
 4 needs of the Nation, compared with the need for prohibit-
 5 ing such development in order to further some other public
 6 interest.

7 (b) The Secretary of the Interior is hereby authorized
 8 and directed to explore for oil and gas production on public
 9 lands in the State of Alaska except lands in the National
 10 Park System, the National Wildlife System, and the Wild
 11 and Scenic Rivers System, and the National Wilderness
 12 Preservation System. The Secretary shall submit to Con-
 13 gress within two years a plan of development which shall
 14 not become effective unless authorized by an Act of Congress.
 15 *That in order to develop petroleum reserves of the United*
 16 *States which need to be regulated in a manner to meet the*
 17 *total energy needs of the Nation, including but not limited to*
 18 *national defense, the Secretary of the Interior is authorized*
 19 *to establish national petroleum reserves on any reserved or*
 20 *unreserved public lands of the United States (except lands in*
 21 *the National Park System, the National Wildlife Refuge*
 22 *System, the Wild and Scenic Rivers System, the National*
 23 *Wilderness Preservation System, areas now under review for*
 24 *inclusion in the Wilderness System in accordance with pro-*

1 *visions of the Wilderness Act of 1964, and lands in Alaska*
 2 *other than those in Naval Petroleum Reserve Numbered 4).*

3 *SEC. 2. No national petroleum reserve that includes all*
 4 *or part of an existing naval petroleum reserve shall be estab-*
 5 *lished without prior consultation with the Secretary of*
 6 *Defense, and when so established, the portion of such naval*
 7 *reserve included shall be deemed to be excluded from the*
 8 *naval petroleum reserve.*

9 *Upon the inclusion in a national petroleum reserve of*
 10 *any land which is in a naval petroleum reserve on the date*
 11 *of enactment of this Act, any equipment, facilities, or other*
 12 *property of the Department of the Navy used in operations*
 13 *on the land so included and any records, maps, exhibits, or*
 14 *other informational data held by the Secretary of the Navy*
 15 *in connection with the land so included shall be transferred*
 16 *from the Secretary of the Navy to the Secretary of the In-*
 17 *terior who shall thereafter be authorized to use them to carry*
 18 *out the purposes of this Act.*

19 *The Secretary of the Interior shall assume the respon-*
 20 *sibilities and functions of the Secretary of the Navy under*
 21 *any contract which now exists with respect to activities on a*
 22 *naval petroleum reserve to which the United States is a party.*

23 *SEC. 3. (a) The oil and gas in the national petroleum*
 24 *reserves in the contiguous forty-eight States established pur-*
 25 *suant to this section may be developed under terms and con-*

1 *ditions prescribed by the Secretary of the Interior. The*
 2 *Secretary of the Interior shall use competitive bidding*
 3 *procedures with prior public notice of not less than thirty*
 4 *days of the terms and conditions for any contract, lease, or*
 5 *operating agreement for development and production of oil*
 6 *and gas from a national petroleum reserve. Such terms and*
 7 *conditions and also plans for the development of each area*
 8 *of the national petroleum reserves shall be published in the*
 9 *Federal Register, but shall not become effective until sixty*
 10 *days after final notice has been published and submitted to*
 11 *the Congress (not counting days on which either the House*
 12 *of Representatives or the Senate is not in session for three*
 13 *consecutive days or more) and then only if neither the House*
 14 *of Representatives nor the Senate adopts a resolution of*
 15 *disapproval. Each proposed plan of development and each*
 16 *amendment thereof shall explain in detail the method of*
 17 *development and production proposed, shall provide for dis-*
 18 *posal and transportation of the oil consistent with the public*
 19 *interest, and shall give full and equal opportunity for devel-*
 20 *opment of or acquisition of, or exchange for, the oil and gas*
 21 *by qualified persons including major and independent pro-*
 22 *ducers or refiners alike. Each proposed plan of development*
 23 *by the Secretary shall also explain the relative need for devel-*
 24 *oping the oil and gas resources in order to meet the total*
 25 *energy needs of the Nation, compared with the need for*

1 *prohibiting such development in order to further some other*
 2 *public interest.*

3 *(b) Any oil or gas produced from such petroleum re-*
 4 *serves, except such oil or gas which is either exchanged in*
 5 *similar quantities for convenience or increased efficiency of*
 6 *transportation with persons or the government of an ad-*
 7 *jacent foreign state, or which is temporarily exported for*
 8 *convenience or increased efficiency of transportation across*
 9 *ports of an adjacent foreign state and reenters the United*
 10 *States, shall be subject to all of the limitations and licens-*
 11 *ing requirements of the Export Administration Act of 1969*
 12 *(Act of December 30, 1969; 83 Stat. 841) and, in addi-*
 13 *tion, before any oil or gas subject to this section may be ex-*
 14 *ported under the limitations and licensing requirement and*
 15 *penalty and enforcement provisions of the Export Adminis-*
 16 *tration Act of 1969 the President must make and publish*
 17 *an express finding that such exports will not diminish the*
 18 *total quality or quantity of oil and gas available to the*
 19 *United States and are in the national interest and are in*
 20 *accord with the Export Administration Act of 1969.*

21 *(c) The Secretary of the Interior is authorized to enter*
 22 *into contracts for the sale of oil and gas which is produced*
 23 *from the national petroleum reserves and which is owned*
 24 *by the United States. Such contracts shall be issued by com-*
 25 *petitive bidding, they shall be for periods of not more than*

1 *one year's duration, and in amounts which, in the opinion*
 2 *of the Secretary, shall not exceed those which can be effec-*
 3 *tively handled by the purchasers.*

4 *(d) The Secretary of the Interior is hereby authorized*
 5 *and directed to explore for oil and gas on Naval Petroleum*
 6 *Reserve Numbered 4 and he shall report annually to Con-*
 7 *gress on his plan for exploration of such reserve: Provided,*
 8 *That no development leading to production shall be under-*
 9 *taken unless authorized by Congress.*

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

94TH CONGRESS
1ST SESSION

H. R. 49

[Report No. 94-81]

A BILL

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.

By Mr. MELCHER

JANUARY 14, 1975

Referred to the Committee on Interior and Insular
Affairs

MARCH 18, 1975

Reported from the Committee on Interior and Insular
Affairs with an amendment, and referred to the
Committee on Armed Services for a period ending
not later than April 19, 1975.

94TH CONGRESS
1ST SESSION

H. R. 5919

IN THE HOUSE OF REPRESENTATIVES

APRIL 14, 1975

Mr. HÉBERT introduced the following bill; which was referred to the Committee on Armed Services

A BILL

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That (a) chapter 641 of title 10, United States Code, is
4 amended as follows—

5 (1) Immediately before section 7421 insert the fol-
6 lowing new section:

I



1 "§ 7420. Definitions

2 " (a) In this chapter—

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

9 " (2) 'naval petroleum and oil shale reserves' means
10 the naval petroleum and oil shale reserves established by
11 this chapter, including Naval Petroleum Reserve Num-
12 bered 1 (Elk Hills), located in Kern County, California,
13 established by Executive order of the President on Sep-
14 tember 2, 1912; Naval Petroleum Reserve Numbered 2
15 (Buena Vista), located in Kern County, California, es-
16 tablished by Executive order of the President on De-
17 cember 13, 1912; Naval Petroleum Reserve Numbered 3
18 (Teapot Dome), located in Wyoming, established by
19 Executive order of the President on April 30, 1915;
20 Naval Petroleum Reserve Numbered 4, Alaska, on the
21 north slope of the Brooks Range, established by Executive
22 order of the President of February 27, 1923; Oil Shale
23 Reserve Numbered 1, located in Colorado, established by
24 Executive order of the President of December 6, 1916,
25 as amended by Executive order of June 12, 1919; Oil

1 Shale Reserve Numbered 2, located in Utah, established
2 by Executive order of the President of December 6,
3 1916; and Oil Shale Reserve Numbered 3, located in Col-
4 orado, established by Executive order of the President
5 of September 27, 1924;

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

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

10 (2) Section 7421 (a) is amended—

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

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

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

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

21 " (A) to explore, develop, operate, and produce
22 petroleum, from Naval Petroleum Reserves Numbered 1,
23 2, and 3 at a rate consistent with sound oilfield en-
24 gineering practices up to two hundred thousand barrels
25 per day for a period not to exceed three years com-

1 mencing ninety days after enactment of this legislation;
2 and

3 “(B) to construct or procure pipelines and asso-
4 ciated facilities for transporting oil, associated liquids,
5 and gases, from Naval Petroleum Reserves Numbered 1,
6 2, and 3 to the points where such production will be
7 refined or shipped.

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

13 “(2) The production authorization set forth in para-
14 graph (1) (A) of this subsection is conditioned upon the
15 Secretary reaching an agreement with the private owner
16 to continue operation of Naval Petroleum Reserve Numbered
17 1 under a unitized plan contract which adequately protects
18 the public interest.

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

23 (4) Section 7423 is amended by inserting “(a)” im-
24 mediately before “The Secretary”; and by adding at the
25 end thereof the following new subsection:

1 “(b) During the three-year period of production au-
2 thorized by subsection (d) of section 7422 (during which
3 three-year period the consultation requirements of section
4 7431 (3) are waived), the Secretary shall submit annual
5 reports to the Armed Services Committees of the Senate and
6 the House of Representatives detailing—

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

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

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

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

19 “(5) the plans for further exploration, development,
20 and production at Naval Petroleum Reserve Numbered

21 4.”, (5) Section 7430 (b) is amended to read as
22 follows:

23 “(b) Notwithstanding any other provision of law,
24 each sale of the United States share of petroleum, gas, other

1 hydrocarbons, oil shale, or products therefrom, shall be made
 2 by the Secretary at public sale to the highest qualified bidder
 3 at such time, in such amounts, and after such advertising as
 4 the Secretary considers proper and without regard to Federal,
 5 State, or local regulations controlling sales or allocation of
 6 petroleum products.”.

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

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

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

20 **“§ 7432. Naval petroleum and oil shale reserves special**
 21 **fund**

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

1 “(1) all proceeds realized under this chapter from
 2 the disposition of the United States share of petroleum
 3 or refined products, oil and gas products, including roy-
 4 alty products;

5 “(2) the net proceeds, if any, realized from sales
 6 or exchanges within the Department of Defense of re-
 7 fined petroleum products accruing to the benefit of any
 8 component of that Department as the result of any such
 9 sales or exchanges; and

10 “(3) such additional sums as have been, or may be,
 11 appropriated for the maintenance, operation, explora-
 12 tion, development, and production of the naval petro-
 13 leum and oil shale reserves.

14 “(b) Funds available in the naval petroleum and oil
 15 shale reserve special fund shall be available for expenditure
 16 in such sums as are specified in annual congressional ap-
 17 propriations Acts for the expenses of—

18 “(1) exploration, prospecting, conservation, de-
 19 velopment, use, operation, and production of the naval
 20 petroleum and oil shale reserves as authorized by this
 21 chapter;

22 “(2) production, including preparation for produc-
 23 tion as authorized by this Act, or as may hereafter be
 24 authorized; and

25 “(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. 2. (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.

1 both within and outside the naval petroleum and oil
2 shale reserves incident to the production and the de-
3 livery of crude petroleum and derivatives, including
4 pipelines and shipping terminals.

5 “(c) The budget estimates for annual appropriations
6 from the naval petroleum and oil shale reserve special fund
7 shall be prepared by the Office of Naval Petroleum and Oil
8 Shale Reserves and shall be presented by the President in-
9 dependently of the budget of the Department of the Navy
10 and the Department of Defense.

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

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

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

20 (1) by inserting immediately before

“7421. Jurisdiction and control.”

21 the following:

“7420. Definitions.”;

22 and

1 (2) by striking out

2 “7432. Expenditures; appropriations available.”

3 and inserting in lieu thereof the following:

“7432. Naval petroleum and oil shale reserve special fund.”

4 SEC. 2. (a) The Secretary of the Navy shall establish
5 a study group which shall investigate the feasibility of creat-
6 ing a national strategic petroleum reserve (military) (here-
7 inafter in this section referred to as the “reserve”). Any such
8 reserve should include petroleum stored at strategic locations,
9 or available for delivery to such locations, and include facili-
10 ties for storage, transportation, or processing thereof. In
11 computing the amount of petroleum to be stored in such
12 reserve, the peacetime operating stocks and prepositioned
13 war reserve stocks of the Department of Defense shall not be
14 included. Such reserve should be in addition to any national
15 strategic petroleum reserve (civilian) which may be other-
16 wise provided for.

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

1 (c) Not later than one year after the date of the enact-
2 ment of this Act, the Secretary of the Navy shall report to
3 the Congress the findings and recommendations of the study
4 group.

94TH CONGRESS
1ST SESSION

H. R. 5919

A BILL

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.

By Mr. HÉBERT

APRIL 14, 1975

Referred to the Committee on Armed Services

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 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, 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, Antitrust 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	1979	
ESTIMATED EXPENSES						
NPR 1—Elk Hills:						
Demothalling existing facilities.....	1,000					1,000
Pipeline tie-in to Arco, Social, Tosco	1,100					1,100
Pipeline tie-in to Union	2,100					2,100
Build and/or acquire PL to Point Huemene	500					500
Build HP gas line to North Coles levee	25,000	20,000	5,000	1,000		51,500
Production (fitting) costs at 25¢/bbl	1,000	4,000	13,000	14,500		39,500
Exploration drilling (50 wells)	12,000	8,400	7,500	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	600	650	650	1,500
Exploration drilling (22 wells total)		900	10,000	10,000	10,000	20,800
Development drilling (100 wells per year)		10,000	1,000	750	600	40,000
Oil and gas processing facilities	5,000		832	1,202	1,572	7,950
Production (fitting) costs at 50¢/bbl	100					4,205
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	18,600	9,300	5,100	57,500
Exploration drilling (25 wells)		30,200	50,800	38,500	43,600	163,100
Total	54,700	69,400	47,800	48,700	220,600	220,600
Strategic storage study						
Naval Petroleum and Oil Shale Res. Administration	1,000	8,000	8,000	8,000	8,000	1,000
Total expenses	11,800	219,232	237,052	199,522	136,050	793,656
ESTIMATED INCOME						
<i>(Crude oil value of \$10/bbl)</i>						
NPR 1	345,600	424,130	424,130	30,000	1,223,860	
NPR 2	300	2,070	1,870	1,690	1,530	7,460
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

¹ 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 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.

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;

“(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; and

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

§ 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”.

(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.”

22

(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

23

(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.

○