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ESTABLISHMENT OF NATIONAL PETROLEUM RESERVES
ON THE PUBLIC LANDS

GOVERNMENT

DOCUMENTS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON PUBLIC LANDS

OF THE

COMMITTEE ON

INTERIOR AND INSULAR AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

H.R. 49

H.J. Res. 31, 112, 119, and 145

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

HEARINGS HELD

FEBRUARY 6, 21, AND APRIL 8, 1975

Serial No. 94-1

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ESTABLISHMENT OF NATIONAL PETROLEUM RESERVES ON THE PUBLIC LANDS

THURSDAY, FEBRUARY 6, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON PUBLIC LANDS,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:25 a.m. in room 1324, Longworth House Office Building, Hon. John Melcher (chairman) presiding.

Mr. MELCHER. The subcommittee will come to order.

Without objection the statements of our colleagues, Hon. Burt L. Talcott, and Hon. Albert H. Quie will be made part of the record at this point.

Mr. CLAUSEN. Mr. Chairman, I ask that my remarks follow those statements.

Mr. MELCHER. Without objection the remarks of my colleague on my right, the gentleman from California, will be made part of the record at this point. Hearing no objection it is so ordered.

[The statements of Hon. Burt L. Talcott, Hon. Albert H. Quie, and Hon. Don H. Clausen are as follows:]

STATEMENT OF HON. BURT L. TALCOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, I commend your Subcommittee for holding early hearings on legislation pertaining to the establishment of national petroleum reserves on public lands. Prompt action by this Congress is needed in order to assure optimum utilization of our oil reserves and also to assure full protection of our environment.

As we are all acutely aware, America is now confronted by simultaneous crises in the areas of economic progress and energy utilization. In his State of the Union message, President Ford offered one proposal which, if enacted, would go a long way toward solving both of these problems. I am a cosponsor of House Joint Resolution 31 which would implement the President's proposal.

As the President said, it is time to open the Elk Hills Petroleum Reserve for development. When domestic oil production is falling, Elk Hills offers an opportunity to increase production. And, when there is an increasing outflow or U.S. dollars to purchase foreign oil, the opening of Elk Hills could decrease that outflow.

The lessening of U.S. dependence on foreign oil would enable the U.S. to strengthen its international economic and political posture. A strengthened U.S. international posture would insure a more stable world order, and thus decrease the possibility of war.

Finally, Mr. Speaker, the opening of Elk Hills would provide positive environmental effects. I have advocated a delay in offshore drilling for oil until a full assessment of any environmental effect can be ascertained. The opening of Elk Hills would reduce the pressures for inadequately considered off shore drilling which could have deleterious environmental effects.

The Elk Hills reserves were established to be used in event of national emergency. Certainly there is such a national emergency now. Therefore, now is the time for the Congress to move with a sense of urgency to develop the Elk Hills reserves.

Revenues from the sale of the oil could be beneficially used to develop other domestic oil reserves in Petroleum Reserve number four in Alaska.

Mr. Chairman, I urge your Subcommittee to promptly approve the President's proposal to open the Elk Hills reserves.

STATEMENT OF HON. ALBERT H. QUIE, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF MINNESOTA

Mr. Chairman: I would like to urge support for H.J. Res. 31, and other bills to provide for the development of petroleum reserve areas on public lands. I have joined in sponsoring legislation identical to H.J. Res. 31, H.J. Res 112.

There are an estimated 300,000 barrels of oil per day presently lying in reserve in the Elk Hills facility in California, and if this supply were channeled into our refinery system throughout the country, it would bring us that much closer to reducing our dependence on foreign oil. Further, the legislation provides that the Secretary of Interior may establish other national petroleum reserves on public lands to be developed in accordance with the total energy needs of the Nation.

The Elk Hills petroleum reserve, if it were located in the Midwest, would more than fill the need of three refineries in the Twin Cities area of Minnesota, with a present total refining capacity of 194,000 barrels a day. These refineries rely almost exclusively on Canadian crude oil transported from the Inter-Provincial/Lakehead Pipeline from Edmonton, Alberta, which branches off at Clearbrook, Minnesota, to the Minnesota Pipeline. There is no other crude oil pipeline serving the Minneapolis-St. Paul area. Some crude is obtained from North Dakota, also to the west.

These "land-locked" refineries are concerned because their source of crude oil is threatened. The Canadian Government is taking action to cut down on the export of crude oil, in order to fill Canada's own energy needs. For these particular refineries, this amounts to a disaster. The plight of these refineries has been brought to the attention of the Administrator of the Federal Energy Administration, who has indicated his intention to assist them.

If the oil from Elk Hills were transported to the large refineries at Puget Sound, they would reduce their dependency upon Canadian oil now transported via the Trans-Mountain Pipeline from Edmonton, Alberta down to this area. This would free the same amount to assure the continued flow of oil to the Upper Midwest. With the construction and use of the Alyeska Pipeline it is assumed that the Puget Sound refineries will be obtaining their crude oil supply from that source, rendering superfluous the Trans-Mountain Pipeline. If this pipeline could be reversed to run to Edmonton, it could take crude oil by this route and merge with the pipeline now carrying oil to the United States from there. This is at least one possibility for utilizing the existing pipelines to carry crude where it is needed.

Minnesota refineries are important to our State. According to a report from one of them, over sixty percent of the energy products used in Minnesota are supplied by the refineries located within the State. Since residual fuel used for heating hospitals and schools is of such properties that it cannot be transported by pipeline, the refineries play a vital part in maintaining this supply.

While the immediate benefits of opening up just the Elk Hills property can be seen, there are other far-reaching possibilities in public lands covered in this bill. Protection is rightfully given to lands in the National Park, National Wildlife, Wild and Scenic Rivers and National Wilderness Preservation Systems. It also recognizes the National Defense interest, while assigning the responsibility for planning development to the Secretary of Interior.

Not the least of the benefits to be realized through enacting this legislation, would be the saving of a projected \$1 billion in the balance of payments each year the Elk Hills field would produce to capacity.

I thank the Subcommittee for this opportunity to urge the favorable consideration of H.J. Res. 31.

STATEMENT OF HON. DON H. CLAUSEN, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Mr. Chairman, as our Subcommittee builds on its work in the 93rd Congress and begins hearings today on alternatives to explore and develop the oil and gas resources of our Naval Petroleum Reserves, I want to take this brief opportunity to offer some general observations about the key role these reserves can and must play as we move toward the stated goal of energy independence.

While we will be considering a number of proposals to open up Elk Hills and other Naval Petroleum Reserve areas, I am pleased with what I view as a common agreement among our colleagues in the Congress and the Administration that we must move quickly to reach a mutually acceptable compromise.

While I fully appreciate the Chairman of the Armed Services Committee's concern over jurisdiction on this matter, I am personally more concerned about results and progress toward the goal of energy independence. If Armed Services can move with dispatch, this will satisfy my concern. The reason for our Committee's efforts so far is to bring Elk Hills into production to meet the strategic petroleum reserve, military and California commercial market objectives, and I, for one, am anxious to move ahead rapidly toward this end.

Quite frankly, I think we can accomplish this objective by incorporating the best features of the proposals into one comprehensive "package."

Specifically, the President's proposal for developing the Naval Petroleum Reserves differs materially from other proposals before the Subcommittee. In effect, the President's proposal would leave authority over the Reserves in the hands of the Defense Department, but would use increased production from the Reserves to establish a National Strategic Petroleum Reserve storage program to be used for military and essential civilian needs. The alternative proposals before the Subcommittee would, in effect, turn development over to the Department of the Interior for the total energy needs of the Nation.

In the matter of developing and managing the Reserves, I am of the opinion that the Interior Department, as the lead agency in developing and implementing national energy policy, should have basic responsibility, but there can and should also be a cooperative program with the Department of Defense to ensure that our national defense requirements are met.

Along these lines, I strongly support the President's proposal for establishing strategic petroleum reserves for national defense purposes. In times of emergency, the military must have access to immediately available reserves. If such reserves are not available then civilian energy supplies must be drawn down. We witnessed this heavy pressure, especially in California, during the Arab oil embargo. The proposed storage program has merit because it does provide a solution to this problem.

In addition to providing for our national defense fuel needs, the opening of the Reserves is an important short-term step in strengthening our long-term ability to attain a stronger bargaining position in dealing with the oil-exporting nations.

Efforts to develop our known petroleum reserves—military or otherwise—will bring us closer to energy independence, and is in the best interests of the Nation generally, and California in particular.

This concludes my general comments, Mr. Chairman, but I have a number of specific questions that I will want to direct to specific witnesses at the appropriate time.

Mr. MELCHER. This morning we are opening hearings on the question of authorizing the Secretary of Interior to establish on public lands national petroleum reserves.

The bill that we have before us—one bill and three House joint resolutions, which I think are all quite similar. What they are aimed at doing is put before the Congress the question of opening Elk Hills, and exploring on the public lands in Alaska, with exceptions, of course, which are all listed, exploring the opportunities for oil and gas on Alaska's public lands.

Without objection copies of H.R. 49 and H.J. Res. 31 will be made a part of the record at this point. Hearing none, so ordered.

[H.R. 49 and H.J. Res. 31 follow:]

[H.R. 49, 94th Cong., 1st sess.]

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Interior is authorized to establish on any reserved or unreserved public lands of the United States (except lands in the National Park System, the National Wildlife System, and the Wild and Scenic Rivers System, and the National Wilderness Preservation System and primitive and roadless areas in the national forests now under review for inclusion in the Wilderness System in accordance with provisions of the Wilderness Act of 1964), national petroleum reserves the development of which needs to be regulated

in a manner that will meet the total energy needs of the Nation, including but not limited to national defense.

SEC. 2. No 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 the naval reserve included shall be deemed to be excluded from the naval reserve.

SEC. 3. (a) The oil and gas 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 sixty days after notice is given 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) if neither the House of Representatives nor the Senate adopts a resolution of disapproval. Any such proposed plan shall explain in detail the method of development proposed, and shall provide for development and transportation of the oil consistent with public interest and to give opportunity to the smaller or independent oil producers and refining companies to utilize the crude oil production. Any such proposed plan by the Secretary shall also explain the relative need for developing the oil and gas resource 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) The Secretary of the Interior is hereby authorized and directed to explore for oil and gas production on public lands in the State of Alaska except lands in the National Park System, the National Wildlife System, and the Wild and Scenic Rivers System, and the National Wilderness Preservation System. The Secretary shall submit to Congress within two years a plan of development which shall not become effective unless authorized by an Act of Congress.

[H.J. Res. 31, 94th Cong., 1st sess.]

JOINT RESOLUTION 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

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Interior is authorized to establish on any reserved or unreserved public lands of the United States (except lands in the National Park System, the National Wildlife System, and the Wild and Scenic Rivers system, and the National Wilderness Preservation System and primitive and roadless areas in the national forests now under review for inclusion in the Wilderness System in accordance with provisions of the Wilderness Act of 1964) national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, including but not limited to national defense.

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(b) The Secretary of the Interior shall review the potential for oil and gas production in the State of Alaska, and submit to Congress within one year a plan of development, which shall not become effective unless authorized by Act of Congress.

Mr. MELCHER. As part of the President's program to open Elk Hills—he wants to do so, and I think he's right—it also seems to be part of the President's program to move into Pet. 4. I don't know enough about it to form a judgment, but the bill we have before us and the House joint resolutions we have before us don't presume to go into development of Pet. 4, they only say "exploration".

I think it's pretty clear that something will be done about opening Elk Hills; I think Congress is inclined to join with the President on that proposition.

Now, the question is: Is the Navy to continue to operate naval petroleum reserves in this modern era of high-powered, very rapid nuclear warfare? Is this still a valid concept? We will undoubtedly hear that the naval petroleum reserve was created because there was scandal and the Department of Interior wasn't doing the right job; this committee had extensive hearings on that subject a year ago. I feel it is fair to say that at least this committee did not see the need for Navy holding and operating petroleum reserves.

This is a question for the entire House to decide, under jurisdiction of the House rules. Jurisdiction for legislation dealing with naval petroleum reserves is clearly the Armed Services Committee's. The Armed Services Committee of the House did not act last year, even though the Senate did act, and the administration did request action on that Senate-passed resolution to direct the Navy to open up Elk Hills.

Surely, if we had acted last year, in summer or early fall, we would be now looking at the definite delivery date of some of the crude oil from Elk Hills; Elk Hills would be on line very shortly.

So, we had better act promptly in this Congress, and better find out what the Congress thinks would be the best way of opening Elk Hills, done by the Navy, done under the auspices of the Department of Interior, or some other agency. But, we've got two proposals around right now. One is this bill and the three House joint resolutions, all very similar; and the other proposal, of course, is one the President set up in his energy package, for the Navy to retain control and start developing.

We are anxious to hear your views on this, Mr. Secretary, and we hope that you will give us some guidance on this and give us the position of the administration between the two, whether it should be Interior, or whether it should be Navy.

With those remarks we will be glad to hear your testimony, Mr. Secretary.

TESTIMONY OF ASSISTANT SECRETARY JACK W. CARLSON; ACCOMPANIED BY ROBERT L. PRESLEY AND FREDERICK N. FERGUSON

Mr. CARLSON. Thank you, Mr. Chairman.

I would like to introduce the gentlemen with me. They are my staff assistant, Bob Presley and Assistant Solicitor Fred Ferguson.

I will come back to the three points you have raised, but first, if it is all right with the committee, I will read the testimony. I think we are going to find out that this is going to be an area of interest throughout this year, so perhaps it would be best to read through the few comments that I have.

The administration is in agreement with the intent of the many proposals to develop rapidly the petroleum reserves on public lands, including the naval petroleum reserves, such as Elk Hills in California and Naval Petroleum Reserve No. 4 in northern Alaska, of interest to you.

Many of the proposals recognize that the petroleum reserve concept is out of date and more readily accessible inventories are needed for both defense and national economic purposes; some don't. They recognize the need for oil now and in the years ahead. They call for development and production from Petroleum Reserves Nos. 1 and 4 in particular; but also there is some oil on Reserves Nos. 2 and 3. Some of the proposals call for eventual exploration, development, and production of Petroleum Reserve No. 4 according to a plan approved by act of Congress. The administration applauds the authors of these bills and the thrust that they have given.

The President has proposed a similar approach. Last week he sent to the Congress the Energy Independence Act of 1975. The act is comprehensive. It includes provision for conservation of energy, increasing the supplies of energy, and it includes contingency plans to handle emergency situations.

Title I and title II of the act would provide for the production of the existing naval petroleum reserves and the establishment of a national strategic petroleum reserve.

The present productive capacity of Elk Hills would be made immediately available to defense needs, strategic storage, and to the national economy, backing out high-cost imported oil. And I might say that that would be available in 60 days at a rate of 160,000 barrels a day. So, this is something that is readily available and quickly available to us.

The act provides for fully developing Naval Petroleum Reserves No. 2 and No. 3; they do have some oil, but it's not large.

It provides for exploration, development, and production of NPR No. 4 in Alaska by private industry similar to the Outer Continental Shelf, or by whatever other procedure which the President determines to be best suited to its development.

The President calls for the early production of Elk Hills, 160,000 barrels a day available now, and over 300,000 barrels per day by 1977. The President calls for the most rapid exploration, development, and production of NPR No. 4. This could mean as much as 2 million barrels a day, or more, additional supplies by 1985 from the roughly estimated 10 billion to 30 billion barrel reserve.

The President proposes setting up two reserves. The first would be a ready inventory for the military. The national strategic petroleum reserves (military) would, in time, total 300 million barrels. It would allow the Department of Defense to use petroleum products of double their current consumption for 1 full year without reducing the supplies available to the civilian economy. The military is consuming about one-half million barrels a day now. This seems to be the appropriate way to handle the military needs. They need to have a rapid flow of oil and oil products in case of an emergency, not to wait until it can be extracted from the ground, and then used for the military emergency; it has to be something that can flow rather rapidly. That is why the concept in the past that we have had since 1908 on petroleum reserves is now out of date with the times.

The second reserve would ultimately total 1 billion barrels and be available for the national economy. The President's energy program envisions independence from foreign sources by 1985. Imports in 1985 should total only 3 to 5 million barrels per day, as opposed to an exaggerated 12 million barrels a day if we do nothing. If an embargo

should then occur, the national petroleum reserve (civilian) could provide a flow of 3 million barrels a day for 1 year, or 5 million barrels a day for more than 7 months, thereby protecting ourselves against embargo action.

The very existence of these national strategic petroleum reserves would be a deterring factor in the mind of any foreign power which might contemplate the use of an embargo to achieve its national policy objectives. If we are again faced with the necessity of replacing oil supplies lost through an embargo similar to that of October 1973, this strategic reserve would allow us to carry on the Nation's business—unharmd—for up to a year. And that is a very important consideration because it affects the future security of this Nation and we feel it is a very important way to hold the civilian oil needs, as opposed to having it in the ground and a need for it to be extracted in times of adversity.

At our request the National Petroleum Council, an advisory committee to the Department of the Interior, made a study of emergency preparedness against another interruption of foreign supply. One of their most important recommendations was the creation of a strategic petroleum storage program, an inventory readily available, and not just a resource in the ground.

I'm very pleased to make available to the committee and to the committee staff for their study, the completed study of the National Petroleum Council.

The Project Independence Blueprint arrived at the same conclusion. The blueprint indicated a good cost/benefit ratio for strategic storage, indicating that the storage would save the economy \$3 to \$5 for each \$1 cost in the event of another embargo of the magnitude that we experienced last October. For a larger interruption of foreign supply, the cost/benefit ratio would be much higher. Clearly, a national storage program is a good investment.

I have asked the National Petroleum Council to follow up on their study and make recommendations on the alternative ways to develop a program. The letter making the request is attached. Other governmental studies will be requested, and some of this identified in the legislation that you are considering now before the Congress.

[The letter follows:]

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., December 31, 1974.

MR. JOHN E. SWEARINGEN,
Chairman, National Petroleum Council,
Washington, D.C.

DEAR MR. SWEARINGEN: Thank you for your summary report of September 10, 1974, entitled *Emergency Preparedness for Interruption of Petroleum Imports into the United States*. That report clearly outlines the options available to the U.S. in the event of a future denial of imported petroleum. Of particular interest to the Department of the Interior is your recommendation for the immediate development of an emergency petroleum security storage system.

The United States is now in the position where it needs to move decisively and promptly in this most critical area of national security. It is therefore requested that the Council undertake as a matter of urgency a study of the major factors involved in the implementation of a security storage system similar to that recommended by you in your summary report of September 10.

Your analysis should include, but not necessarily be limited to, discussions of; the optimum size of the security storage system in terms of total volume and deliverability; the alternatives available for providing this storage as expeditiously as possible; the financing problems which could be expected to arise; the

sources and types of fill for the storage; and Federal actions that could assist in expediting the development of the security storage system as well as Federal actions that might deter development. In addition your analysis should include discussions of the relative needs for crude versus product storage and any specific geographical, logistical or environmental problems which you would anticipate to be encountered were the Nation to be confronted with another energy emergency.

It would be most useful if your report would include analyses of both the 500 million barrel storage system recommended in your September 10 report and with a build up to a one billion barrel storage system. These systems should be analyzed on two bases; (1) normal development consistent with the objective of minimizing costs and (2) rapid development based on minimizing time to completion. With respect to the later case, critical materials problems should be identified.

Such studies should be completed as soon as practicable with a report submitted to me by May 1975.

Sincerely yours,

JACK W. CARLSON,
Acting Secretary of the Interior.

Mr. CARLSON. In some respects the act proposed by the President differs from the proposals presented by several distinguished Members of Congress and this committee.

We would recommend against proposals that create potential delays, such as requiring subsequent acts—such as approval of a plan—after passage of a bill, indicating the direction that Congress would like to go.

We recommend that reliance be placed on the private sector, and that the administration not be required to explore for oil and gas production on public lands, in the State of Alaska or elsewhere. We do not feel that the Federal Government should socialize risk-taking in the search for oil and gas.

We do not feel that a case has been made indicating that the private enterprise system has failed us in this important area and the Government must, either as a monopoly or as a competitor with private business, search for oil and gas. Oil exploration, primarily carried out by small and medium-sized firms, has been particularly vigorous. This is evidenced by the more than 32,000 wells completed in 1975, up 21 percent from 1973. Independents, or relatively small participants in the oil industry, drilled 88 percent of the exploratory wells in 1974. It is also shown by the Nation's leadership in technological improvements in all facets of oil extraction and processing.

Moreover, if the Federal Government were to finance exploration from its own resources, the additional budget costs could easily exceed \$12 billion for the exploration and development of NPR No. 4 alone. And we are somewhat hesitant, in terms of the budget stringency that people are looking at in years ahead, to think in terms of additional expenditures of \$12 billion or more in the Federal budget for this item.

If competition is inadequate, there are many policy tools that are less drastic than socializing a sector of the oil industry. We are using some of them in our management of the Outer Continental Shelf. Large companies will be prohibited from bidding together in some future sales. Royalty bidding is being tested to reduce the front-end payments so as to open up leases for smaller companies. Our tests in this area so far indicate this is encouraging direction and should go further.

This concludes my opening remarks. You asked specifically, Mr. Chairman, in terms of how you go about bringing forth additional resources as opposed to whether. The President was particularly

emphatic that we must get on with the job, and how we do it is of secondary importance to him.

The President has submitted in his bill the direction we go, and that is to use the existing institutional arrangements to go ahead with the initial development; and for the President to have discretion over longer run to determine changes in the institutional arrangements certainly as it concerns whether the government—in this case the Navy—would carry out exploration Pet 4, versus making use of the private sector for that important activity up there. That kind of discretion of direction to go is built into his recommendation that he sent to Congress.

So, I guess one would have to be candid, he certainly wants to get on with it. As to jurisdiction of the question, that is more a matter that perhaps the Congress would have better advice than we do; at the present time we have chosen to go with the existing institutional arrangements.

I will be pleased to answer any questions.

Mr. MELCHER. Well, are you saying, Mr. Secretary, that the draft bill sent up by the President's package dealing with Elk Hills and Pet 4 would amend the statute so as to give him the discretion later on to take away from the Navy's control, and establish it somewhere else?

Mr. CARLSON. No, it wouldn't. His proposal would give discretion to the President on use of the private sector in the exploration; but not change the present management arrangement that is handled by the Navy.

Mr. MELCHER. On balance, then, Mr. Secretary, what you are saying is—and this is kind of unique, all Government—what you are saying in your testimony is that since the President has said that the Navy hang on to it; do you think the Navy is better qualified not only to manage a field they are already managing, which is Elk Hills, but they are also better qualified to manage a field which your testimony says may have about as much oil as Saudi Arabia and other countries in the Mid East, rather than your own Department?

Mr. CARLSON. I'm representing not only the Department, but the administration here, and thereby the President. [Laughter.]

Mr. MELCHER. I think that's obvious today. But I don't share that viewpoint. But let's get into some of the points. I realize the constraints of your position.

Mr. CARLSON. Mr. Chairman, may I just respond to that? I think what we take as the starting place is the past will of the Congress as to the management relationship, the management arrangement which has prevailed since 1927. We have not proposed changes in what the Congress had mandated, what the management of these should be.

Mr. MELCHER. Of course, in all fairness, your Department and almost every Federal agency comes up here to the Hill and recommends changes in acts of Congress before and since 1927.

Mr. CARLSON. Feasible changes, I believe, sir.

Mr. MELCHER. Now, I want to find out if you have some information that I'm not aware of, that really indicates that there are proven reserves of 10 million to 30 million barrels in Pet 4.

Mr. CARLSON. We do not know for sure what the reservoirs contain until you've actually drilled holes in the ground. The holes that we have drilled up there have only been down to about the 2,000-foot level; and we think the oil supplies up there are much deeper than that.

There is a program to drill a hole this season; and additional holes will be tried under the current management arrangement. That will give some additional information. But it takes many more exploratory holes than that to firm up what one segment of that reserve contains.

So, our estimates are purely on the nature of the structures up there on the surface. That doesn't necessarily mean there is oil down there, but it does give you a possibility range of the likelihood.

Mr. MELCHER. When you say "our estimates," who are you talking about, Interior, or Navy, or both?

Mr. CARLSON. I am sure that would reflect both. The U.S. Geological Survey is the authorship of the range that I gave you; but that is generally the accepted range of most people.

Mr. MELCHER. Then, the exploratory well that is going to be drilled to this deep a depth is going to be drilled by whom?

Mr. CARLSON. By contract, but under Navy management.

Mr. MELCHER. Under Navy management. And so, this is as rapid as Navy has seen fit to act recently in exploration there in the program, one exploratory well this year.

Mr. CARLSON. Mr. Chairman, I think that within the season we may see two holes.

Mr. MELCHER. Two. Now, but yet, on the basis that there may be 10 billion to 30 billion barrels, the Navy, seeking to establish this likelihood, this year they are drilling two wells.

Mr. CARLSON. Yes, sir.

Mr. MELCHER. I'm not trying to be antagonistic, but I want to bring up the fact that Navy hasn't done much up there, have they?

Mr. CARLSON. Well, in all fairness to the Navy, the need for tapping Petroleum Reserve No. 4 did not become apparent until October of 1973.

Mr. MELCHER. Well, it was apparent to Congress before that. Can staff provide the date that Congress acted on directing Navy to further explore Pet 4?

Mr. SHAFER. I can't provide the exact date, Mr. Chairman, but it was much before 1973.

Mr. MELCHER. The fact is, as was brought out in our hearings last year, the record of Navy establishing even what was in Elk Hills was questionable. But what they were doing in establishing what might be the extent or availability of oil in Pet 4 was almost negligible; and that was contrary to the intention of Congress.

I think we are in kind of an awkward spot, Mr. Secretary. We here in the committee believe, or the committee at least last year believed that Navy wasn't doing very much of a job in the naval petroleum reserves, and it ought to be turned over to Interior. And you are the spokesman for Interior this morning, and yet you are almost in the position of having to defend Navy.

But I think we will elicit facts here that will be extremely helpful, not only for this committee, but will be instructive for any other committee in Congress, namely Armed Services, that will be dealing with that subject.

Now, when we talk about not needing to come back to Congress for any proposed plan, or development. I think we should establish clearly in our record that the leadtime necessary for any development in Alaska, Pet 4, would give Congress all kinds of time to act on any proposal that might be made.

First of all, the pipeline that's under construction will not, if it were available for production out of Pet 4, would very likely then just cancel out some other production from the Prudhoe Bay area, private production. So, it would take, for additional pipeline construction to carry production out of Pet 4, we are talking about something that might be completed in 6 years from now if we started within the next year or 2; isn't that true?

Mr. CARLSON. Yes, sir. We feel—of course you have a choice of routes, but obviously additional pipeline capacity would be necessary, you couldn't use the existing pipeline coming down from Prudhoe Bay.

Mr. MELCHER. Now, this is something that will go on, probably in this Congress—and we have been negligent in the last Congress—but the Mineral Leasing Act revision should certainly come this year, or at least the second year of this Congress. And you are well aware of what recommendations you will submit—speaking of Interior—to this committee in those revisions.

But I think you also recognize that there is a great deal of misgiving by the public of whether or not the deferred Mineral Leasing Act is in the public interest as much as it could be. So, I want to tell you that I think that a program to start leasing in Pet 4, to encourage that, would certainly not be acceptable to Congress at this time; I don't think it should be acceptable.

Mr. CARLSON. Well, Mr. Chairman, that's the critical item as to the speed. If you do not make use of the private sector to help you with exploration, and to remove the uncertainties as to what the reserves are, and that is handled by ourselves, the Government, it will take you an extended period of time, much longer than if you used the private sector.

I think it's very important to take into account, too, that there is a social cost on risk taking. If we take the risk, that's going to be run through the budget; in the private sector it will be running through their pricing structure.

Mr. MELCHER. Mr. Secretary, if we allow leasing in Pet 4 any time during the next year or two, let me take you through the experience of some independents on the North Slope. And if your testimony said you want to help those independents, let me take you through some of the experience of independents on the North Slope.

They gathered up their money, pooled it; bid on some leases on the North Slope, and waited for the pipeline construction to be completed so they could start to get out development. They are virtually broke, those independents because their capital is tied up year after year, after year.

Now, if there is going to be mineral leasing in Pet 4 within the next year or two the independents are going to be out because they cannot afford to tie up their capital in high-priced leases where there won't be any hope of getting any production for lack of pipelines for maybe 6 years.

So, I think this is a very serious flaw in the recommendations to Secretary Morton, which were made public last fall, encouraging some type of leasing in Pet 4; I think it is a flaw in the President's package right now. I don't think we are at all ready for any leasing there. And in all fairness, I hope the revisions in the Mineral Leasing Act are adapted so that the independents could have a better chance. If you

are going to tie up a huge quantity of capital, sure, some of the majors that have been doing right well with Mid-East oil have a great amount of capital they can tie up for the next 10 years.

But if we want to further break the independents that are left and operating in this country; or if we want to make sure that they can get in on an opportunity when and if Pet 4 is opened for development, then I would say that opening up the leasing premature to the time when there is any transportation available clearly operates in favor of the majors, and those majors, mind you, who are well-heeled now. Some of the so-called majors aren't too well-heeled either.

But it certainly leaves for the six or seven biggest majors the opportunity to latch on to those leases and hold them until transportation is available.

Mr. CARLSON. You have the multiple objective, Mr. Chairman, speed in providing the oil to the economy, to back out the high-priced interruptible oil from the Middle East, or going a slower pace where the Government actually gets in and does a significant part of the exploration; that is one tradeoff that has to be taken into account.

The other is the competition, how much you want to slow down to increase the competition. But we frankly feel there are other ways to gain additional competition. First, you have more of these independents going together. And we intend in the Outer Continental Shelf to forbid the larger producers to join together in the bidding process, and that helps the competition.

Second, we have looked at the front-end fund problem, the bonus bid does tend to reduce competition. So, we have experimented with royalty bidding on the Louisiana sale. That experience is worthwhile pursuing further, and that could help with the process.

Third, independents have been our source of risk taking in this economy. They are now doing 88 percent of the exploratory wells in this country. Their greatest advantage seems to be in risk taking, and then, after they have taken the risk and gained a high payoff, or no payoff for that kind of a risk, they turn it over to other parts of the oil industry that don't take such high risks, and they are in the routine business of production.

So, having the independents continuing all through the production process isn't necessarily an important part as long as you have that risk and that exploration going which the independents have generally carried out for us in the past.

As far as the Mineral Leasing Act is concerned, we will have recommendations: and an important recommendation will be to foster additional competition because the law right now makes it very difficult for us to competitively lease some of the onshore land because of the need for producing wells, to create a known geological structure.

Mr. MELCHER. Some of these things the committee is well aware of that you can do now without any additional legislation; and some of the points you raised require additional legislation, and therefore the revision of the Mineral Leasing Act.

But I repeat, if we want to set the stage for independents being locked out of potential development when and if Pet 4 is open, the premature leasing of that years ahead when there is any available transportation of the crude oil that's there will preclude them from getting into it.

Mr. CARLSON. Mr. Chairman, on the transportation, the cause and effect there, is not a matter of getting transportation up there and bringing the independents in there, we have to get somebody up there to see if there is oil there, and that would drive the transportation, not the other way around. I think that's important to keep in mind.

By the way, as far as the North Slope is concerned, that's an act of Congress that held up construction on that, and that's why I was trying to emphasize, don't have subsequent acts of Congress built into your legislation that would tend to hold up the additional insecurity in the Investment Act. Well, there was a lawsuit too.

Mr. MELCHER. Mr. Secretary, what really happened—and this committee is fully aware of it—what really happened is that Interior tried to issue an illegal right-of-way permit; it simply did not have the authority to write the permit which was being applied for. And after they were reminded of that in court, Interior belatedly came to this committee and said, "We want the revision of section 28 of the Mineral Leasing Act", and this committee promptly complied with that revision.

So, we know you weren't at Interior at that time, Mr. Secretary, but we shouldn't mislead anybody into believing it was an act of Congress that held up the construction. It certainly was section 28 of the Mineral Leasing Act that held it up, but it was all in the auspices of the Interior Department in not recognizing that the application they had before them was for a wider right-of-way than was permitted under the Mineral Leasing Act under section 28.

Now, when that point was clearly established by the court, Congress complied with the request of Interior and promptly enacted a law.

I readily admit some original sin in that process.

I am now going to recognize our colleague from California, Mr. Sisk, who is not a member of this committee, but whose congressional district is very close to Elk Hills, and he has a particular interest in this.

I might tell the members of the committee that Congressman Bell, who is from California also has a particular interest in Elk Hills, could not be with us today. But Bernie is one of the members of the California delegation who is very close to Elk Hills, and we appreciate hearing from you now; and perhaps you have some questions or comments to the Secretary.

Mr. SISK. Mr. Chairman, I appreciate it very much, and I wasn't expecting to be recognized before my colleagues here. But I know I have an equal interest and I do appreciate being able to make a very brief statement.

I, of course, as the gentleman from Montana knows, have long been interested and concerned with Elk Hills because of the problem we ran into in 1973. We indicated, of course, our increasing concern as far back as 1972, and I recall, in trying to move ahead with development work there.

I might say, Mr. Chairman, I basically am here in support of Joint Resolution 145. This resolution moves in the direction of concern which the chairman has expressed here this morning to in some way trying to consolidate and develop an overall program to move ahead with these reserves.

And I want to be careful, I'm not here to criticize the Navy per se, there are many reasons, possibly, why Navy has not done a better

job. But when we look at what Navy has done with their reserves, they haven't done very much, regardless of where the blame lies. And to look at the situation as it is today and has been the last few years, there is a desperate need for us to develop our own domestic reserves and to fulfill our needs. There has actually been a total lack of any move on these reserves, and it is my desire, along with many, to simply see if there is not a way that we can put these rather important inquiries somewhere where we can concentrate on doing the things that are necessary for determining, if possible, the amount of petroleum available as near as it's possible to determine them; and getting them into a shape where we can meet the needs of the country as well as the military.

I do not want to strip the military, and in my testimony before the Armed Services Committee I made this very clear. Some of my friends on Armed Services have been very hesitant about moving in the direction that some of us wanted to move.

But I think if we look at the realities, the world in which we live today, that it becomes totally fallacious that these reserves—in many cases somewhat unknown, to a large extent undeveloped—are really of any value, or could be, in terms of an existing war emergency. I just think that we, in the light of today's conditions, and the kind of time frame that we would be in in a war emergency, that these reserves aren't worth the powder it takes to blow them up if in fact we had that kind of need for it.

Mr. Chairman, I particularly want to express my appreciation to you for your interest and your concern in this. And with that I will not impose further, I will be glad to yield to my colleague from California.

Mr. CLAUSEN. Well, I would like to associate myself with the comments of my friend from California, Mr. Sisk, and possibly add this point, and see whether or not you agree with me while you are here.

It was brought to our attention during the embargo, and we have all the lines out there in California, that California is very much the supplier, and those allocations go out to California and end up servicing basic fleet requirements; and the entire distribution system out there felt the pressure when the crunch was on. And it was for that reason that so many of us turned to what appeared to be a ready reserve to be brought on line within 60 days.

It is my understanding that the basic reason for setting up this national petroleum reserve—is to totally reinventory our naval petroleum reserves, with a view toward coming up with an entirely new program to deal with what in effect is the changing national security and military situation in the world.

So, then this question occurred to me. While you are suggesting that you want to maintain the current administrative arrangements consistent with the institutional setup we now have, would it be at all practical to have as minimum a coordinated arrangement between the Department of Interior, which has the basic responsibility of carrying forward the energy program, and the Navy Department?

And I ask this, I guess because I'm sitting here on the committee, we have access to the Interior Department, and of course this has been traditionally under the Department of Defense. So, would it be at all feasible and practical to have a coordinated arrangement between the Department of Interior and the Department of Defense,

so we would have a feeling and have an understanding of what is going on, as it relates to some of these energy matters?

Mr. CARLSON. I guess, sir, it would be interesting to see what kind of cooperative arrangement you had in mind. In just the last few months we have worked more cooperatively with the Department of Defense than we did in former times in terms of developing the President's program, and also sharing geological information that would be useful to them as well as ourselves; and offering our expertise, should there be need for leasing on any of these reserves; and also the services of oversight on leases, that is done quite regularly by the Geological Survey.

Beyond that, I think it's a matter of seeing what kind of alternative one had in mind that would be useful. I think Congressman Sisk is quite right that the initial naval petroleum reserve concept came about the turn of the century; and I think it was in 1908 we started on this course of action because the Navy was worried about shifting the ships over to dependency on oil, oil products; and also still facing a mobilization type war.

And now the military situation is changed, and to service the military best you need to have a ready reserve, not something in the ground which you have to extract someplace; but when you can get the oil, and more importantly oil products like jet fuel for flight off aircraft carriers, to have that available to you during an emergency. And you need to have that in terms of a storage facility.

Mr. MELCHER. Mr. Secretary, excuse me. Will the gentleman yield?

Mr. CLAUSEN. I just want to make one more point. Go ahead.

Mr. MELCHER. Well, for the purpose of our record, and, Mr. Secretary, maybe this is the appropriate place for you to give us your opinion on what the Navy would do with natural gas that might be available in the Elk Hills Naval Petroleum Reserve; what they might do with the tremendous quantities of natural gas that we know are available in Pet 4; and where that fits into any concept of national defense, or any use by branches of the military.

Mr. CARLSON. The President's proposal is to go ahead and develop Elk Hills as rapidly as possible under the current management arrangements. And for the funds from that oil to be used in the exploration efforts in Petroleum Reserve No. 4, and also to help develop the strategic reserves as well as the Navy reserves in Colorado immediately. That's the program that—

Mr. MELCHER. Am I to assume from that answer, Mr. Secretary, that you also mean that whatever natural gas is there, the Navy should develop it, sell it, and then hang onto the funds for other purposes?

Mr. CARLSON. The funds would be dedicated for these particular purposes. A proportion of the funds would go back to the Treasury to be used elsewhere, but they are generally earmarked for the further energy development of Pet 4 and also the reserves; that's the proposal.

Mr. CLAUSEN. Of course, having a national strategic petroleum reserve will help us to meet military requirements. It is also likely that it will enhance our position in negotiations to avoid an embargo in terms of strengthening our position in dealing with the oil-producing countries, to the point, hopefully, where oil prices are driven down, and they can't play games with us. That's what really excites me.

Mr. CARLSON. Yes, I think that that's a very important feature of the energy program is to have the ability to counter an embargo such as the 2 million barrels a day embargo we had.

That's why the ready reserve concept is extremely important, as opposed to a long-run potential reserve. So, in Pet 4 we don't know whether we've really got all that natural gas and oil up there until we go up and explore that. That is not going to help anybody, including the military.

Mr. CLAUSEN. Do you find yourself comfortable with the comments I have made?

Mr. SISK. Yes, I basically agree with what my colleague from California has said. So I understand that your Department, or the administration, is basically opposed to the concept we have in mind, for example in House Resolution 145, as being contrary to national policy?

Mr. CARLSON. I think that the comment that I have been making is, you have to look at it not only in terms of a designation of land for reserve purposes, and thereby for development; but what happens the next step after that in terms of their development. Is there in fact in your bill, 145, Resolution 145, an effort to kind of have a nomination process, identifying the naval petroleum reserves as well as some other lands as the ones that should be rapidly developed?

Then I wonder how much time that will take versus the kind of nomination leasing program that we normally got there. And I think ultimately, if you want a reserve, you have to think in terms of ready reserve as opposed to reserves in terms of bottling up the resources over time.

I think, as the chairman has pointed out, your major question is where the most effective management should be to accelerate the development of oil from these public lands that we have.

Mr. SISK. Mr. Secretary, that brings up the very question, I think, of concern to our constituents, the people that we represent, the American people. We have observed what has happened over a great number of years now. And, as the chairman has so well brought out here, a great many people saw a number of years ago an approaching energy crisis. This is not as new as some people seem to think now. To some extent I think Congress has to take some of the blame for it. But I know our colleagues, and I'm sure Mr. Melcher will remember that Mr. Holifield from California years ago was preaching the doctrine that we had to be doing something. And we go up, for example, in Pet 4, and we look on the east side of the Coville River what has occurred, and then we look on the west side, this great barren area here, the so-called Naval Reserve—nothing.

And I have been up there, I have been in Alaska, and nothing has been done year after year over a long period of time. Now I think we maybe reaching the point, I think with some desperation, that something has to be done.

Maybe that is not the answer, I am not claiming that it is the sole answer; but certainly, we do need a direction with some urgency back of it in order to consolidate, move ahead and do something about it.

And to some extent the same thing has been true in Elk Hills. It just sits there, and you said better than I, we are living in a whole different age; 50, 75 years ago it was wonderful. I suppose you could

figure we could stall for a couple of years and hold the line under attack until we get this oil out of the ground and can use it. Today we recognize that is a total fallacy to even consider.

Mr. CARLSON. Congressman Sisk, the President has emphasized—many of our Presidents—the fact that we should get on and develop these leases; he is very strong on that.

As to the way, I'm sure there are many different alternative directions that one can go, and that is obviously what you are addressing. But the important thing is getting the job done. Of secondary importance is as to how.

Mr. SISK. I appreciate the imposition of your time, and the opportunity to express my feeling.

I would like to ask unanimous consent of the committee that I may present an additional statement before the record is closed.

Without objection Congressman Sisk's statement will be made part of the record along with the other statements of Members of Congress in the first part of our hearing record.

The gentleman from Arizona.

Mr. STEIGER. Thank you, Mr. Chairman.

Basically, Mr. Secretary, I think there is evidence of agreement between everybody involved, those of us with political interest in the administration, that we get in production.

I happen to believe that the fastest way we can get Elk Hills to production is the way the President recommends simply because if his energy act is adopted Elk Hills will be developed, and will be developed on a contractual basis.

I think the contribution of that development has been spelled out by you here very specifically, and the President also mandates that, and that the bidding be conducted by the new front-end cash and royalty commitments. I know that I have never discussed this with anybody in the business, Mr. Reynolds' comments, but very clearly that is a comparison.

I'm not interested in seeing—and I'm sure that nobody here is, especially Mr. Sisk—that this thing bogs down in some kind of jurisdictional dispute. But it does occur to me, for God's sake, we don't want any kind of cooperative arrangement; if you really want to slow it up, all you have to do to marry Interior and the Navy, and have them fighting over who is going to do what. That would be as bad as marrying two committees.

But I think there may be some rationale here for the input and the expertise of Interior, as well as the desire for production. It seems to me it would be entirely in keeping—maybe it would look good on somebody's table of organization—but it would be entirely in keeping with reason and logic that Interior take over the development of Pet 4 because of their clearly extensive experience in the area because of geographic problems, and the vast amount of Federal land involved.

Let Defense, by Executive order, develop Elk Hills. And it occurs to me that this would also solve the very problem of the jurisdiction. This committee and the chairman of the subcommittee is really not struggling with jurisdiction; the Interior Department is not struggling with jurisdiction, as evidenced by your statement. I think we are all struggling for production. And it seems to me that we also have to recognize the jurisdictional aspects.

It seems to me Defense would only be too happy not to have the obligation to develop Pet 4, except for a few guys whose careers depend on it.

But the fact is that there is very real basic and logic, and it also clearly would be of value in the legislative process, that's the only way I can describe it.

And I'm not asking—I ask for your official reaction, recognizing that you can't speak for your own office, much less the Department and administration. We have a lot of concern here in Pet 4, understandably, we really don't know anything about it.

Our other major concern is that fuel products, other than jet fuels and gasoline in Elk Hills are just not of primary military importance. And yet the location of the natural gas deposits in Elk Hills in areas that are now importing natural gas, as much as 1,500 miles, if I'm not mistaken, it's ludicrous, and simply hung up in jurisdictional situations.

So, again, it should be resolved by Executive order, the President can say you develop the oil and natural gas, x amount for civilians, x amount for military reserves. In my own mind that's the most efficient way to get at it.

What would your reaction be to an amended version of the chairman's bill in which we specifically call for development of Pet 4, allocating a certain amount of that for military use, but all the development being mandated in the Interior Department?

Mr. CARLSON. Congressman Steiger, I would be very pleased to carry back your suggestion to the administration to consider. As I have indicated before, there are many alternative ways to carry out the management. Primarily the objective as you expressed is to get on with the flow of oil, and have it come at the quickest point in time as we can.

Secondary is the turf issue, and all kinds of arrangements on turf can be handled, some of them more efficient than others; and we would be pleased to explore those.

The President came down on existing turf arrangement with the flexibility, in the case of Pet 4, he had some determination within the existing turf arrangements to get ahead and get the advantages of the incentive system in the private sector; helping in the exploration and development of Pet 4, which we think is absolutely essential to bring that resource into production, and create incentive for the transportation system to be developed at an early date.

Mr. STEIGER. I think it is not only a tradeoff, which it clearly is, but also recognizing that Defense has virtually no motivation for the development of Pet 4 as long as their needs for a stable future are met, particularly with the accelerated development of Elk Hills, the problems for the development and use of Pet 4 products are tremendous. And clearly the Navy would rather approach that as achievable immediately.

So, there are all kinds of reasons, and it just occurs to me that production is our main interest. And I hate to see the President's energy bill hung on this particular, really very, very narrow issue, which I guess in the balance is predominantly turf. The turf issue is very real, and that's one of the reasons I would like to get as much of the jurisdiction decision away from there.

I agree with you, and I hope that my friend, Mr. Sisk, would look again at 145 which has one very serious fault, Bernie, I think, in that it requires a 1-year development plan, and then approval by the Congress by affirmative action of that plan—the prompt action that my friend Mr. Melcher referred to, and the Congress action after we were aware of the right-of-way problem, that prompt action took 2 years which is pretty prompt for this outfit.

But the fact is, we don't have that luxury any more. So, that's why the authoritarian aspect of the military development, I don't want to say "bogged down." And I think one way in which we could get a broad approach is, as I suggested, to give Pet 4 to Interior, and obviously amend the President's Energy Act to include that recommendation, or do it some other way. But I think it's achievable.

Mr. CARLSON. I think the President was interested in a marriage of a different sort, between his ideas and yours; and this was one of the areas in which he wanted the marriage to work.

Mr. MELCHER. Just to correct the record, the President sent up a bill, or Interior sent up a bill on behalf of the President, mentioning section 28 of the Mineral Leasing Act and this subcommittee worked that out.

Mr. STEIGER. The subcommittee did a good job—I'm talking about the Congress.

Mr. MELCHER. Congress adopted it a couple of months after the subcommittee.

Mr. CARLSON. We will provide an opportunity for another accelerated process.

Mr. MELCHER. The gentleman from New Mexico.

Mr. RUNNELS. Thank you, Mr. Chairman.

As our colleague from California said, the Navy may take the opposite approach, and I don't want to get you caught in the middle, Mr. Secretary.

But you stated by Executive order, in about 1908, you set up these petroleum reserves. And I think from 1908 until 1975 is approximately 67 years that we have been waiting to do something. As far as the Navy is concerned, we set up Pet 1, 2, 3, and 4 and I will start with Teapot Dome.

I think the Navy can tell the Americans today, Teapot Dome is not working. As far as the reserve is concerned, that's what it was set up for, and something happened along the way under the Navy's administration, whoever the individual. However, today, Teapot Dome in the original intent is not there today.

I think if you look real close at Elk Hills, I think it has been mismanaged horribly. I think Standard of California is walking out of the situation. I saw in the paper just last week that Standard Cal said they had fought this thing long enough.

I would be in agreement with the chairman and others that the Department of Interior, or some other agency of the Federal Government should take over and be responsible for our petroleum reserves. I think the armed services must have a call on their necessities, but I think as long as their use was established and they knew that they had this much jet fuel, or whatever they had, or diesel fuel, or whatever their needs might be. Because looking at the President's program where he wants to set aside 1 billion barrels for the private sector, and 300 million barrels a day for military needs, evidently you see the percentage of military need as to the private sector.

I think we should look at our overall leasing habits because the President's statement sent to Congress where he wants to explore Pet 4, using the private sector of exploration and so forth, you know, this isn't the only lease the Federal Government owns. The Federal Government owns one-third of all the land in the United States. I think if we would put the test on how many wells are already on federally owned land, and if we would take the one-eighth royalty that the Federal Government gets, the Federal Government could immediately have that much for military needs by changing all future leases to agree taking it in kind, rather than in dollars and cents, all they want in petroleum.

I know the oil companies might not like it, in kind, but that is an option to our problem, change every Federal lease, whether it would be offshore; or in the State of Montana, or New Mexico, or wherever, they could change it to "in kind."

Mr. CARLSON. We have that authority now, sir.

Mr. RUNNELS. But is it in the leases?

Mr. CARLSON. Yes, sir. We can take the royalty in oil. In fact, we designate where the oil goes to a refinery.

Mr. RUNNELS. So, really, we don't have a problem with the Navy, and the Air Force, and the Marines, so forth, worrying about their needs; do we?

Mr. CARLSON. Well, we also have the Defense Production Act, which means the Defense Department has access to all oil in the economy.

Mr. RUNNELS. One hundred percent.

Mr. CARLSON. However, on behalf of the Defense Department, it wants that dedicated oil specifically for those purposes, so that suffering doesn't follow when they need to use that oil.

Mr. RUNNELS. All right, let's take Elk Hills, and I'm for developing Elk Hills. If it's just sitting there all these years, I'm going to argue that you can't get 160,000 barrels a day without a pipeline. Do you agree with that?

Mr. CARLSON. We do have a piping problem, but—

Mr. RUNNELS. You can't get any oil to the refinery today. It says in answer, "Present cost, early production, 160,000 barrels a day available."

Now, when you use the word "available," you are going to have to get you a bunch of trucks because you haven't got any pipelines to get it to the refinery.

Mr. CARLSON. Well, my understanding is that within 60 days we can get 160,000; 300,000 to 400,000 would take longer.

Mr. RUNNELS. Well, it's going to take 2 years to get 300,000.

Mr. CARLSON. Yes, sir.

Mr. RUNNELS. If everything works perfect.

Mr. CARLSON. Yes, sir.

Mr. RUNNELS. I want to throw in another thought. When you look at developing Elk Hills, don't you take the pipe away from the domestic user, take the pipe away that is going overseas? Because, if you take the pipe and all the necessary equipment to develop Elk Hills, you are going to cause another compounded problem in our energy shortage in America. And I don't think that anyone has looked at that.

Mr. CARLSON. The oil country goods supply situation, I think, is improving. The pipe itself, maybe the wait time is a year, 18 months now. But in rigs, you are perfectly right, we've got 3, 4, and 5 years.

Mr. RUNNELS. Well, on the rigs, you take 18 months on the pipe. All I'm saying is, I already know that the pipe suppliers have notified the domestic users of pipe that when this starts, 30-40 percent will be chopped from each one. So, you are going to compound the problem. I'm just saying, look at the real cost.

Mr. CARLSON. Yes, sir.

Mr. RUNNELS. In your statement you stated also that the independents drilled 88 percent of all the exploratory wells. I could spend all morning, and I'm sure you are aware, and I'm aware as to why it's the independents that have to drill the wildcats. They don't have the money to tie up, on long-term leases. And they have to take the farm-outs, normally speaking, from the majors to drill the wildcats.

We could do the same thing on Pet 4, or anything else if the Federal Government wanted to do it, on a checkerboard situation. Do you follow me?

Mr. CARLSON. Yes, sir.

Mr. RUNNELS. If they are going to use the private sector the Government risks no money whatsoever. But if you will checkerboard your leases with whoever it is you offset production every time they do business; and that's what happened at Elk Hills. Standard of California has proved the different location. But I think the Department of Interior should take a firm hand in all our petroleum reserves, and get the Navy and that situation out of the way; and I just believe we would be much better off in the long run.

I also would ask where, and how long a time in the President's bill would it take to build storage capacity for 1.3 billion barrels of oil.

Mr. CARLSON. We think that we can have this built at the end of the time that the President had in his message, by 1985.

Mr. RUNNELS. By 1985, and at what cost?

Mr. CARLSON. Well, the salt domes will run us, I think, close to \$1 a barrel in terms of storage there. That's the facility itself, as opposed to the cost of oil.

Mr. RUNNELS. You are going to have to drill the wells into the salt domes—do you know where the salt domes are?

Mr. CARLSON. Yes, we know where the salt domes are. But you are right, the leaching process does take an extended period of time. There happen to be some salt domes that are holding oil now. We know the technology and we know the plastic effect of the containers; it's a very useful way to storage.

We asked one of our advisory committees how much sense does it make to have salt dome storage where the salt domes are—which is in Texas and Louisiana—as opposed to where the need might be across the country. So, we have to look at other types of storage, aboveground tanks in some other parts of the country for possible storage closer to the use. That has yet to be evaluated.

I would be very pleased to take back your suggestions to the administration, as to how you think one should go about it.

Mr. RUNNELS. I would be happy to sit down with the administration, and throw out some ideas throughout 25 years of observation in working with these things. I'm sure there are many bad and good points.

Mr. CARLSON. I would like to take advantage of that, your expertise is well known.

Mr. RUNNELS. Thank you, sir.

Mr. MELCHER. The gentleman from Ohio.

Mr. SEIBERLING. Thank you, Mr. Chairman.

Mr. Carlson, I think you contributed a great deal to our understanding, certainly to mine; I'm a new member of this subcommittee, and I don't have any expertise on the subject, so perhaps you can contribute to my education.

First of all, let me say, I do think the administration bill has the virtue of being much more specific than the bill that some of us put in, in that it leads to a closer definition of the program. And it helps us in grappling with some of the problems that that might involve.

I wonder, you mentioned to Mr. Runnels, to a possible question by Mr. Runnels, that you envision 1985 as the time frame in which the storage facilities for this 1.3 billion barrels could be created.

Mr. CARLSON. Could be completed.

Mr. SEIBERLING. Completed. I understand that another possibility, instead of creating additional storage capacity is simply to drill wells, prove the existence of the oil there, and put the facility in place for pumping and transporting it, but not pumping the oil out. In other words, leaving it where it is as a storage reserve in the system. I wonder if you could comment on that as a practicality.

Mr. CARLSON. It's a high-cost alternative to provide the kind of flow that the Defense Department, or the economy would need. To have a storage program, in essence having reserves with piping system access to the refinery for use in an emergency period when we may need a fairly large flow.

In essence, that's what we think we have in Elk Hills. We think we have 160,000 barrels a day capability in 60 days now. Now, the Defense Department's need as indicated by the President's program, is the equivalent of over 1 million barrels a day. To do that in terms of a field firmed up with producing capability in the field, and pipes to the refineries, and from there to the military needs is much, much higher cost than having either the product, or the raw product itself in a storage facility where the flow is much higher, and the investment cost much lower.

Mr. SEIBERLING. You mean that the cost to the Government is higher, or the total cost?

Mr. CARLSON. The total cost, both how one would envision how the Government would enter in; but certainly in terms of the total cost to Government plus the private sector, there would be much higher social costs.

Mr. SEIBERLING. Well, don't those facilities have to be created anyway, if you drill the wells and produce the oil?

Mr. CARLSON. Yes, but it's the volume of the need to have a field laying fallow, to be able to go ahead and extract the oil for defense needs at the time the Defense Department has those needs, that is a very high cost approach. And Congressman Runnels would have more expertise on that.

Mr. RUNNELS. Would the gentleman yield?

Mr. SEIBERLING. I'll yield to the gentleman from New Mexico.

Mr. RUNNELS. The fallacy in that is the figure of 160,000 barrels a day, and you can run it up to 300,000 barrels a day in 2 years. The

oil is in place and you can only get so many barrels a day. And 160,000 barrels a day in 365 days, you don't use 58 million barrels a day in a year.

So, the need, 1.3 billion, there is a difference in bringing it out in 13 $\frac{3}{4}$ -inch pipe, than it is getting it out in 2 $\frac{1}{2}$ -inch tube, say 100 barrels a day. That's fallacy.

Mr. SEIBERLING. Well, I would assume we'd have a lot of pipe and other facilities so that it could be moved to different locations.

Mr. RUNNELS. But you can't get it out of the ground. If you sap a well, there are only two drives of an oil well. It's either driven by gas, or it's driven by water. And with water drive, if you drive too hard you'll force some water in there and you'll lose a good portion of your oil. And that's why first you have to get it to the surface. Even, take a barrel of crude, 1 barrel of crude will yield out about a third into gasoline. Then you take a certain portion into jet fuel, and a certain portion into heating fuel, and a certain portion in methane and asphalt, and so forth. You've got to look at the finished product that you want, not just the crude itself because the process has to take place after you get it to the surface.

Mr. SEIBERLING. Thank you, sir.

I would like to ask one other question.

Mr. CARLSON. Congressman, we do have this report from the advisory committee, and it would be helpful in describing this alternative to you, versus the one we are proposing. We'll make sure you'll have a copy of that.

Mr. SEIBERLING. One other question. What's the basis for the decision to have the Navy continue to manage these reserves, instead of the Department of Interior, or some other agency?

Mr. CARLSON. The existing institutions were kept intact to carry out this function, as opposed to a change.

Mr. SEIBERLING. Well, what great virtue is there in that in view of the record so far, of the institution that has already been charged with this responsibility?

Mr. CARLSON. Well, you look at the changes you think are feasible, and what kind of management arrangements are going on now, and how much improvement you will get by an alternative management arrangement of the project. And the President made the judgement to go ahead with the current institution. But I can't emphasize more that the objective here is to go ahead and get the oil.

Mr. SEIBERLING. Well, are there political compromises within the administration involved, or is this purely an executive decision?

Mr. CARLSON. Well, I would imagine that the President's comment about a marriage with the Congress can be taken quite literally.

Mr. SEIBERLING. Well, I'm not afraid of compromises with the Congress, I'm afraid of compromises within the bureaucracy. Is this the result of an objective decision by the President, or somebody reporting to him; or is that the result of a certain amount of jockeying among various agencies involved?

Mr. CARLSON. The President gets advice from a number of different sources. I happened to participate in a task force of develop this part of the energy package, and the task force membership included the Secretary of Defense and the Secretary of the Interior. And we came up with this proposal, we gave him the alternatives, and the President came down with that particular package you have before you, and the particular management arrangement.

Mr. SEIBERLING. So, what you are telling us is, this is an executive decision as to what is the best procedure from an administrative standpoint and efficiency standpoint, and not a result of trying to placate various bureaucracies within the administration.

Mr. CARLSON. I think we take into account the way the Congress has decided to manage these reserves in the past, and there has not been recommended a change to the way Congress has intended it.

Mr. SEIBERLING. Well, let's leave Congress out of it, Congress has the authority to change the law. But, what is the best way to do this, starting out with a clean slate, and recognizing some agencies have developed a greater expertise.

Mr. CARLSON. I think I can say, Congressman, this was discussed, many objectives were considered on how the management should be handled; and the judgement was that the status quo management was the appropriate way to go in the foreseeable future. Now, whether we had an extensive study, such as we did in terms of strategic inventory, no, we didn't.

Mr. SEIBERLING. Well, I am not implying anything sinister here, but it is helpful for us to know how objective the decision was because knowing the realities of political life, why, internal politics in every organization, in private corporations, I wanted to get a feel of it.

Mr. CARLSON. I think maybe there are also some differences between committees of the Congress.

Mr. SEIBERLING. There are always differences whenever you get a group of men working together, and I think it's important to know what those are because you have to take those into account in evaluating the program.

I yield back the balance of my time, if I have any.

Mr. MELCHER. The gentleman from Alaska.

Mr. YOUNG. Thank you, Mr. Chairman.

I, Mr. Secretary, happen to be one of the supporters of the concept of the Navy still managing and cataloging the research of Pet 4.

Mr. STEIGER. Tell me why.

Mr. YOUNG. Well, I won't tell why in public, but I think the Secretary will understand why very well.

Mr. Secretary, there seems to be a great interest within committees of the Congress now looking upon Pet 4 as a solution for the shortage of oil in the south 48. Has the Department looked at any other alternative areas that are public lands for the development and production of oil that could possibly be more rapid than Pet 4?

Mr. CARLSON. Yes, sir; we think that we identified all of the potential areas. As you know, we are talking about the Outer Continental Shelf and frontier areas, all around the coastal area of Alaska. And when we start going into the Bering Sea you know that we are trying out all alternatives.

Mr. YOUNG. Of course you know we have great responsibility for picking out certain lands to be set aside for parks and refuges, and so forth, and within your Department there is a highly recommended support, there is about 60 million acres that are high potential oil stands in geological strata there which are being proposed within your Department as parks and refuges; and is your Department considering the possibility that these lands should be put up for development and production of oil?

Mr. CARLSON. I'm sure, Congressman, we are not doing that as vigorously as you think we should. I will be pleased to take back your suggestion about our pursuing it. We do have explorations taking place as to mineral contents that we are likely to lock up and thereby prohibit development in the future.

Mr. YOUNG. What I'm trying to get across is, we have, I think, other areas within our State, as you well know, Mr. Secretary. I have a very deep fear in our enthusiasm in Congress to solve our energy problems that Alaska is going to end up as one big hole. And that if we are going to be one big hole I want to make sure that the natives of that State, and the people of the State that own State land are considered and have participation in the development of the oil resources of the State. I see the Congress and your Department looking at Pet 4 as a solution as I understand the present law. That solution may solve some of the "lower" 48 problems, but it certainly increases the problems within our State. I am referring primarily to the transportation corridor and the impact upon the second pipeline being proposed right now.

Mr. CARLSON. Yes; there would be additional use in terms of transportation corridors for the oil that would come out of Petroleum Reserve No. 4, if it should turn out to have oil in it. We don't envision that as being a major detrimental factor to the State. I think our experience on the Trans-Alaskan pipeline has turned out to be a happier experience than many people contemplated in terms of the environmental impact and in terms of environmental disruptions as we went along. It seems to be managed fairly well.

Mr. YOUNG. Well, I'm not talking about the environment per se, I'm talking about the total impact of 24,000 people in Alaska that we didn't have 8 months ago. And if we build another pipeline parallel at the same time, you've got 24,000 more people; and the gas line with 24,000 more people; and in a matter of 16 months we've got half again the population we had a year ago. And very frankly, we are not receiving revenues from that right now, we are bankrupt, I'll just put it right on the line, and we are in a dire position.

What I'm trying to say, there are possibly some areas that could be put on line sooner and would actually cause less impact than the Pet 4 project.

Mr. CARLSON. Many of those are—some of those areas are being pursued. I think that the question of the distribution of the benefits of gaining access to the oil is a question that one could bring up separately. If, in fact, it turns out that other areas of the country, or your particular State have a greater return back to the State and therefore there is incentive to look for mineral resources in those areas versus others, that might be something we might consider separately.

Mr. YOUNG. To go back to Mr. Runnels' suggestion, your leasing procedures, I have discussed that with you before, as you well know, I think it's vitally important to have independents within the State for balance, primarily, as against developing cartels of the majors. And there is no doubt in my mind that we have to support independents.

One of the ways to get the independents, of course, I really believe is in the old procedure of lease applications which the Interior Department put a freeze on by 1966, I think it put a freeze on all the applications. You are aware of what I am talking about, and they are ready to expire. But this did and would have brought in independents, I am

confident of that, if that could have been circumvented. Do you really think that the elimination of front-end money and royalty bidding will enable the independents to compete against the majors?

Mr. CARLSON. I was quite frankly surprised at the response which we received after the Louisiana coast sale, at the 10 tracts we set up on that basis. I was surprised at how high the royalty bids went. The experience is mixed, but obviously if we do not have rich areas like we had in "Mafla" where \$200 million was paid for a little over 5,000 acres, that is going to mean that more people can come in and bid on that particular resource. There is the efficiency loss problem, however, by having a higher royalty and thereby might develop less of the reservoir in the process. You have to make a tradeoff if you go to this measure that increases competition, we have a little loss of efficiency. You have to balance these off against each other.

Mr. YOUNG. Now we'll jump back to Pet 4. What is your potential program for this year as far as drilling exploratory wells in Pet 4 by the Navy, under contract?

Mr. CARLSON. We have one that is being put in place now, being drilled. And if I'm not incorrect we have a second one that's planned before the summer season comes on us.

Mr. YOUNG. Now, you say your 2- or 3-year program. I heard the figure 35 wells at different strata levels.

Mr. CARLSON. Yes. In time the Navy would envision that they would have wells of that number a few years down the road, I forgot the exact time period.

I think that's 5 years, 5 to 7 years.

Mr. YOUNG. These are under contract, these are not being drilled by the Navy.

Mr. CARLSON. No, they are under contract.

Mr. YOUNG. Under contract. Now, is this competitive bids, or is this just open bids?

Mr. CARLSON. How the Navy contracts for the bidding, I'm not positive on that. I am sure they have the discretion to go with either you suggest. How they did it with the one that's being set up to be drilled now, we'll check and provide the answer to you.

[The answer follows:]

The Navy contract for a deep (10,000-12,000 ft) exploratory well in NPR 4 was handled on the basis of competitive proposal bidding. The Navy indicates that they normally advertise for competitive bids or competitive proposals, depending on the circumstances. This was done in the PET 4 deep test. They advertised in the Commerce Business Daily, local newspapers, trade journals such as the Oil and Gas Journal and World Oil. They solicited proposals from all drilling contractors operating in the State of Alaska and others in the lower 48 states. A review of the proposals submitted found that the lowest cost proposal was submitted by a reputable, well qualified drilling contractor who was awarded the contract.

The Navy plans to continue along this line in their program to explore for oil reservoirs in PET 4.

Mr. YOUNG. Mr. Secretary, again, I appreciate your position, and I do support, as I said the exploration and the cataloging of Pet 4, so we know we don't have a bunch of dry holes over there, Mr. Chairman; and at the proper time possibly put it on line there.

But I would like to have the information concerning the possible number of wells, the time frame, the method of bidding, and actually when it is being put in operation.

Mr. SEIBERLING. Will the gentleman yield?

Mr. YOUNG. Yes.

Mr. SEIBERLING. Mr. Secretary, pursuing the question I asked you about storage in existence. I understand in talking further with Mr. Runnels that it is feasible to provide a certain amount of the petroleum reserve would remain underground in places where it's found. That it would be prohibitively expensive to try to store the entire 1.3 billion above ground or in new salt domes, or something like that.

Do you agree that it would make sense to leave part of it underground?

Mr. CARLSON. Well, I think one can think in terms of their existing productive capacity, including wells that are operating, that you can drop on for certain purposes. In terms of the need to counter embargoes, and the need of the military to operate under emergency stress, we determined that you need the 1.3 billion in readily available reserves at a very fast flow basis, which means not in the original structure, but in some sort of special container where the flow can be higher.

Mr. SEIBERLING. But if you had a field that would produce, let's say, half a million barrels a day, then that represents available oil at that rate, and all you need to do is have additional oil above ground, or in other storage.

Mr. CARLSON. I think I would argue that it would be wiser to develop that field on a maximum efficiency rate, and to take that oil out of the structure and put it in special storage facilities; and the net cost to the Government to handle the future emergency would be less than to go ahead and keep it in the structure and have the lower flow that would be occasioned by that heavy capital investment.

Mr. SEIBERLING. Well, I understand that some economists don't agree with that, they feel above-ground storage, or the equivalent would be prohibitively expensive.

Mr. CARLSON. Now, there is a difference between different types of storage. For instance, a tank above ground would cost you \$5 to \$7 to store, just for the facility itself. In salt domes, we think, it's closer to \$1. So, if you start getting into tank farms as such, yes, then you start getting somewhat competitive with the alternatives that you are talking about. But even then, I think, there will be questions whether that's the useful alternative to pursue. Clearly, the salt dome, salt mine approach is very cheap storage.

Mr. MELCHER. The gentleman from Oklahoma.

Mr. RISENHOOVER. I don't really have any questions. This is an educational experience for me. One question, you said "turf"?

Mr. CARLSON. Yes; that's a technical term for management, either under the Interior Department, as the chairman pointed out, or under the Department of Defense.

Mr. RISENHOOVER. I see.

Mr. CARLSON. In this case it refers to jurisdiction over the exploration program in the reserves that we now have.

Mr. RISENHOOVER. Well, my only concern is that we get this oil out of the ground and get it somewhere where we have access to it, in the most efficient method possible. I will leave it to the members of the subcommittee who are more experienced in the mechanics of this; I just want to see it accomplished.

Mr. CARLSON. We have a similar feeling, Congressman, that that's the most important objective; the turf question is secondary.

Mr. MELCHER. The gentleman from California.

Mr. LAGOMARSINO. Thank you, Mr. Chairman.

Mr. Chairman, I want to state for the record that I strongly support the commencement of production and development at Elk Hills. I think that we are not going to have any further credibility with the public as long as we sit there on top of all that oil and make no effort to develop it. They just won't believe there is a problem if we don't take an interest and do something.

The important thing is that while there are problems they can all be ironed out. All the objections that have been raised to this bill can be solved, and it's not too difficult.

Mr. CARLSON. Yes, sir.

Mr. MELCHER. Without objection the gentleman from California's statement will be made part of the record at this point.

[The statement of Mr. Lagomarsino is as follows:]

STATEMENT OF HON. ROBERT J. LAGOMARSINO A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman, the intent of these bills is to facilitate commencement of production at the Elk Hills Naval Petroleum Reserve. Objections to this proposal center mainly on two points. First, that national security dictates that we keep the reserve intact. And second, that such a transfer would open the way to abuses similar to the Teapot Dome scandal. I think both these objections can be laid to rest.

First of all, the argument that the Navy needs these reserves is obviated by the existence of a naval reserve in Alaska which contains ten times the reserves at Elk Hills. Second, each of these measures contain adequate safeguards against abuse. Congress will be required to approve any plans for disposal of the oil.

I have offered H.J. Res. 117, which provides the necessary authorization to the Secretary of the Navy to begin production at Elk Hills. The resolution directs that all sales shall be effected by competitive bid, under terms which give all interested parties, majors and independents, full and equal opportunity.

I feel it is essential that steps be taken now to produce this field. We have the expertise and the capability to do so, and under the bills before you, would gain the authority. I don't see how we can continue to talk about an oil crisis, and expect the public to believe us, when we are sitting on reserves of the magnitude of Elk Hills. I urge swift approval of these measures so that we can get down to attacking the real causes of the energy crisis.

Mr. MELCHER. Now, Mr. Secretary, I have a couple of questions of counsel with you.

Mr. CARLSON. Yes, sir. I am pleased to have Assistant Solicitor Fred Ferguson with me.

Mr. MELCHER. All right. Mr. Ferguson, in the President's bill, when you recommend amending section 7421(a), and 7421 (b), and (c), and so on, and (d), and it goes on to 7430. None of them, none of the amendments proposed in here have anything to do with guaranteeing to the independents the opportunity to buy that oil from Elk Hills; do they?

Mr. FERGUSON. I think that is correct.

Mr. MELCHER. In other words, the bill does not address itself to the equity of providing independents—speaking now of independent refineries—the equity of allowing those independents to really have access to that oil.

Mr. FERGUSON. Well, I am not as familiar with this bill as I should be, perhaps; I do not remember that that is in there.

Mr. CARLSON. Mr. Chairman, may I respond?

Mr. MELCHER. Yes.

Mr. CARLSON. Sometimes we don't put in all the terms, conditions, procedures in a bill, and leave that to the regulatory authority. For instance, we have discretion—

Mr. MELCHER. Now, that's just great, Mr. Secretary, but when has the Navy, as a regulatory authority, paid any attention to the need for independent refineries to have access to any oil that they have ever produced?

Mr. CARLSON. I'm not familiar with the history of that, Mr. Chairman.

Mr. MELCHER. Well, Mr. Secretary, the history of the Navy, and the history of the Defense Department is to get the oil, or the product that they need, and they have never had any concern about the public's need, nor have they had any concern about independent refineries having access to anything they produce; and it's obvious they haven't because they want it produced for their own use.

Now, if we are going to have a serious bill here before Congress the administration is urging for Congress to adopt, and we are going to receive testimony—and I don't want to criticize you as an individual for Interior—but if we are going to receive testimony on behalf of the administration that they have some concern about independent producers, and I think also for independent refineries, then I believe that the recommendation for revision of the statute should take that into consideration.

And it is one of the shortcomings of Navy that their experience has never been such that they even recognized that they should have a concern about these independent refineries, or independent producers.

I bring that to your attention, I think that is very much a shortcoming of the President's bill as it affects Elk Hills. Perhaps your assistant has something to add, make some comments.

Mr. CARLSON. Robert Presley is with us.

Mr. MELCHER. Would you like to respond to that?

Mr. PRESLEY. Yes. I would like to point out that there is some consideration included in this legislation on page 16, beginning with the amendment to section 7430(b)——

Mr. MELCHER. Yes.

Mr. PRESLEY [continuing]. Which follows up on the next page, including the end of the paragraph, "including major and independent oil refineries alike."

Mr. CARLSON. To give full and equal opportunity for acquisition of, or exchange for, the petroleum by all interested companies, including major and independent oil refineries alike.

Mr. MELCHER. Well, Mr. Presley, I was speaking about Elk Hills, and drawing your attention to the lack of opportunity for independents at Elk Hills, and now you are drawing us to the section dealing with Pet 4.

Mr. PRESLEY. No; that is for production, any production, including Elk Hills, I believe.

Mr. CARLSON. Mr. Chairman——

Mr. MELCHER. Now, let me establish this. Is section 7430(b), the amendment recommended for section 7430(b), would that also apply to Elk Hills?

Mr. PRESLEY. Yes; that's the basic act.

Mr. MELCHER. Yes. Well, I stand corrected, then because it appears in here, in the portion of the bill, it takes care of developing Pet 4. It was not clear in my mind it would apply to Elk Hills.

Now, then you think this section here, (h) on page 16 and page 17 would assure that if Navy—if this bill became law—that Navy must

provide through regulation the opportunity for pipelines and offer the field—for instance adjacent to it would—carry the product that would be bid on by independent oil refineries in the area?

Mr. PRESLEY. That's right.

Mr. MELCHER. I think that is very significant, it is a point that we would make very clear to this committee. Last year when we held our hearings and the oil refineries in California testified before us, that they felt that the opening of Elk Hills must guarantee them the opportunity—

Mr. PRESLEY. This is a significant improvement, I believe.

Mr. MELCHER. Yes.

Mr. SEIBERLING. Will the gentleman yield?

Mr. MELCHER. Yes.

Mr. SEIBERLING. Well, I think it is very good that the gentleman from Montana has focused on this point. I think far too often, when we get one of these big projects, it ends up in the hands of a few of the major oil companies, and that's the end of it. At the time of the Alaskan pipeline bill, you may recall, I expressed similar concern because of the fact that the pipeline itself was owned by a consortium of the major oil companies, which created all kinds of problems. And I would hope that in considering this in the subcommittee, we would perhaps even spell out in greater detail—all this language is good—the necessity that access to facilities be also guaranteed, pipeline facilities and similar such things.

Mr. CARLSON. Congressman Seiberling, we very much support the very thought of competition in the development.

Mr. MELCHER. One further question, Mr. Presley, do you have the wording of section 7438 before you?

Mr. PRESLEY. No; I don't have the text of the law.

Mr. MELCHER. Do we have that available?

Mr. SEIBERLING. If I may ask one further question. It seems to me that 1985 is an awful long way off, an awful lot of things can happen by 1985. Most economists that I talked to think that the oil world prices will drop of their own accord by 1978, or perhaps sooner because of bringing in production of additional fields, and other things.

And the strategic problem in the military sense, the strategic problem, which brings up this legislation, is still going to be there. And I think on the record the Navy performance is pretty bad.

I would just like to ask you, if the Congress in its wisdom would decide that we would prefer to have this administered by the Department of Interior, do you foresee any specific problems as far as the executive branch is concerned?

Mr. CARLSON. If the Congress mandated us to manage it that way, we would carry out our mandate.

Mr. SEIBERLING. Well, I mean, do you think the Interior Department could function as well as the Navy?

Mr. CARLSON. I'm here testifying on behalf of the administration, but if we are allowed to go to the parochial basis, sure, I think there are many alternative organizations in the executive branch that could manage this responsibility.

Interior Department has had a traditional responsibility of managing land for multiple uses, including that kind of use.

Mr. SEIBERLING. Thank you.

Mr. MELCHER. Mr. Shafer?

Mr. SHAFER. Nothing.

Mr. MELCHER. I want to thank you very much, Mr. Secretary, Mr. Presley, Mr. Ferguson, for your appearance here today, for your frank and candid answers to our questions. Thank you very much; it's always a pleasure to have you here.

The committee will stand adjourned.

[Whereupon, at 12:05 p.m. the subcommittee adjourned, subject to the call of the Chair.]

ESTABLISHMENT OF NATIONAL PETROLEUM RESERVES ON THE PUBLIC LANDS

FRIDAY, FEBRUARY 21, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON PUBLIC LANDS,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1324, Longworth House Office Building, Hon. John Melcher (chairman) presiding.

Mr. MELCHER. The Subcommittee on Public Lands will come to order.

This hearing is being held concerning the possibility of opening Elk Hills, and the exploration of Pet 4 in Alaska.

A couple of weeks ago we heard from the Interior Department. This morning we will hear from Congressman Bell from California, Assistant Secretary Jack Bowers, and Mr. Schlecht, assistant to the chairman of the board, Standard Oil Co. of California.

Our first witness is Congressman Bell, who has introduced House Joint Resolution 31, and who has been one of the leading proponents in the House of Representatives to open up Elk Hills.

Al, we are very pleased to have you here this morning.

STATEMENT OF HON. ALPHONZO BELL, A REPRESENTATIVE IN CONGRESS FROM THE 27TH CONGRESSIONAL DISTRICT OF THE STATE OF CALIFORNIA

Mr. BELL. Mr. Chairman, I would like to thank you and the other members of the committee for allowing me this opportunity to present my views on the subject of establishing national petroleum reserves, as envisioned in the legislation before the committee here today, and for holding hearings on this subject of such vital importance to the national interest.

For the record, my active participation in the oil business numbers approximately 20 years. I was formerly president and chairman of the board of the Bell Petroleum Co., of California, a company whose operations were almost entirely devoted to oil and gas exploration and development. All of these assets have been sold and to all intents and purposes Bell Petroleum is no longer engaged in the oil business.

My views about the operation of this Nation's oil reserves, however, transcend any of my own past personal or business associations, and deal solely with the public interest.

The members of this committee are familiar with my long involvement and my views on the subject of our existing naval petroleum

reserves. Since early in the 93d Congress I have advocated utilization of Petroleum Reserve No. 1 at Elk Hills in Kern County, Calif., and Pet 4 in Alaska to help offset this country's dangerous reliance on foreign oil imports.

Today I will discuss, instead, what I believe should be our overall policy toward oil reserves.

To begin with, I have no quarrel over the need for reserves of fuel. A clear fact brought home by our current fuel shortages in this Nation is that our developed petroleum reserves are being depleted.

In light of this, the Federal Government must take steps to insure that new sources of petroleum and other alternate energy sources are developed and made available for our future needs.

On the other hand, we must not use this future need as an excuse to preserve our known sources of petroleum without adequate development, so that when faced with a serious need for energy, we are incapable of making adequate use of our reserves.

In line with this thinking, on the first day of this Congress, I introduced House Joint Resolution 31 which now has the support of more than 65 cosponsors, including several of the distinguished members of this committee.

This legislation would authorize the Secretary of the Interior to establish, on any reserved or unreserved public lands of the United States, with the exception of those exclusions spelled out in the bill, national petroleum reserves to be developed in a manner consistent with the total—and I emphasize this, total—energy needs of the entire Nation. This authority would extend to the existing naval petroleum reserves.

Let me explain the reasoning behind this approach.

First of all, 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 clearly best be carried out by that agency of our Government most competent to administer our petroleum and mineral resources, the Department of Interior.

This policy should take into account the projected demand for petroleum in this country over the next several decades, as forecast by the Federal Energy Administration, and should determine to what extent we should continue to rely on imports. Also, encouragement should be provided for exploratory efforts to find new sources of petroleum and other energy forms.

Second, as part of this overall policy, the Government should determine exactly how it will handle its own reserves to maximize our ability to meet our oil needs during an emergency to avoid such extensive dependence on the actions of foreign nations.

Certainly, the concept of insuring that America's military forces have an adequate supply of petroleum during an emergency is vitally necessary and highly commendable, but I do not think that this necessitates having our Navy, our Air Force, our Army or the Coast Guard in the oil business.

In my mind, the U.S. Navy has no more business being in the oil business than our Department of the Interior would have managing the 6th Fleet.

We can no longer afford the luxury of allowing them to incompetently administer and sit on such a critical resource as Elk Hills or Pet 4 in Alaska.

Furthermore, should a real military emergency occur, clearly the American military forces and the American public would be sadly disappointed in the actual capability of our existing naval reserves, due to their badly lacking state of readiness.

I see that Captain Dowd is here, who was formerly the administrator at Elk Hills, and I have been talking to him. I want to say he personally has done a fine job, but I want to point out that the Elk Hills field is not capable of producing nearly what it should be able to produce at its maximum efficient rate.

I have flown over Elk Hills many, many times and during those trips I noticed big holes in their tank farm—a huge tank farm, now totally inadequate, dilapidated, and falling apart.

My friends, they have a gas plant up there which is in mothballs, and has been in mothballs since the early 1920's, as far as I know.

It is not now capable of handling production, particularly production from the Stevens zone, which is a high gas-oil ratio zone.

If you were to produce an amount like 300,000 barrels a day, or 250,000, or whatever they are talking about, that gas plant would not be able to handle the gas. When you produce oil, gas comes out with it.

You cannot blow it in California because it is against the law. You cannot blow your gas. You have to use it, and rightfully so. You can inject it or use it for other purposes.

At present they could not use it because the gas plant could not handle it. It will take at least 2 years to get that gas plant in a position where it could handle it.

Let me point out here, as I will later on in my comments, that if a military emergency occurs and a war was on us right now, that field would not be able to produce at its maximum efficient rate before the war would be over.

I also want to point out that the pipeline facilities at Elk Hills are not yet adequate. I am hoping they are working on them, but I have not seen any indication that the pipelines are adequate to handle the necessary production. I see no indication that there are adequate pipelines to even get oil out of the Elk Hills area and over to the markets.

Certainly, they can probably make some tradeoffs and work out some arrangements with some of the oil companies for their pipelines, but actually they are inadequate, and there is no plan, as far as I know, to do anything about it.

I must say that the Elk Hills operation shows a great deal of incompetence and inability to handle such a very valuable field.

And, Mr. Chairman, as you know the Navy now controls seven reserves. Four are conventional petroleum reserves, and three are oil shale reserves.

Of the seven, only three are developed to a point where they could be brought into production within 1 year; and two of these three, reserves Nos. 2 and 3, have already been depleted to the extent that they are virtually useless as reserves.

The remaining reserve of these three, Elk Hills, is currently capable of producing a maximum of only 60,000 barrels a day, and the Navy

says it would take some 60 days to even bring it up to that very minimal level of production.

If fully developed and brought to full production, which would take from 1 to 3 years, the Elk Hills field could be operating at its maximum efficient rate of 300,000 barrels a day.

One can readily see that, if the current situation out there in Kern County continues to exist, a war or any other kind of national emergency could be long over before any benefits from the huge field at Elk Hills would even be felt.

Let me carry these figures one step further. Even at this maximum efficient rate of, let us say, 300,000 barrels a day from Elk Hills, this would not be enough oil to supply half of the military's daily requirements during peacetime. In wartime that level of production would supply less than one-sixth of the military's estimated requirements.

But this quantity of 300,000 barrels a day would go a long way towards reducing our dependence on Arab oil. And, multiplied out at \$10 per barrel, that amount would offset our balance of payments deficit to the tune of more than \$1 billion a year.

Now let us look up north at Pet 4, a gigantic oil reserve in northern Alaska, which by the Navy's own estimates has potential reserves of 10 to 30 billion barrels. Pet 4 is larger than the State of Indiana. This is, to date, totally undeveloped under the stewardship of the Navy.

Mr. Chairman, I seriously question whether we can even call these two fields reserves, given their present total lack of any state of readiness; they are more appropriately categorized as resources than reserves. The Navy has never really brought either of these fields up to legitimate reserve status.

Clearly the Naval petroleum reserves if the military were to depend on them, would not be adequately ready in time of emergency.

Mr. Chairman, particularly in view of our present energy crisis, if we are to develop reserves as a nation, then they should be explored, produced, and maintained in the most efficient manner possible. The Navy has clearly demonstrated its incompetence to do this. While the Department of the Interior has carefully planned and allowed for development of Prudhoe Bay in Alaska, the Navy has allowed its reserves to be drained by private oil companies, and has permitted Pet 4 to languish totally undeveloped.

Bear in mind here that the basis for the development of Prudhoe Bay, at least partially, was a 2 million barrel a day pipeline. Perhaps, if the figures for Pet 4 are what the Navy says they are, we should have been building a 4 million barrel a day pipeline.

As I mentioned earlier, reserves No. 2 and 3 have by now been almost completely depleted through drainage.

I believe that Congress must share the blame for the current condition of all of these reserves. There has never been enough attention by us in Congress, not enough monetary wherewithal given to the development of the field at Elk Hills or Pet 4 in Alaska.

I was greatly encouraged by the recommendations made by the President in his January 15 State of the Union address, and by the subsequent legislative proposal sent from the White House to the Hill. This call for action is long overdue, and it is a step in the right direction. But title I of the President's bill, which pertains to the petroleum reserves, does not go far enough.

The only truly realistic way to meet the President's aim for the petroleum reserves is to transfer jurisdiction away from the Navy, where these critical resources have for so long languished while our overall energy needs suffered, to the Department of the Interior, clearly that arm of our Government most qualified and best equipped to administer them.

The job of the Department of Defense is to have our fighting ships ready, our airplanes 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.

Mr. Chairman, in establishing petroleum reserves, we should look toward the development of total governmental, national petroleum reserves which would be capable of immediate production during a national emergency. This, of course, would include as a top priority, national defense purposes. I believe that this would be a more rational overall policy than having individual agencies holding reserves exclusively for their own use.

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 established more than 60 years ago at the time when the Navy was converting its ships from coal to bunker oil to insure a fuel source. The need for special reserves was eliminated, however, during the Korean war when Congress passed and President Truman signed the Defense Production Act of 1950. This act gives the military priority over all American oil supplies and production, and during any national emergency the Armed Forces have first call on all oil in America.

The Defense Production Act was, in fact, invoked in November and December of 1973, following the October war in the Middle East and during the Arab oil embargo. The military was allocated millions of gallons of scarce fuel, most of it jet fuel for the Air Force and the Navy. Did the Navy begin a crash program to develop and produce oil from its reserves during this crisis? No. They added to the Nation's energy shortage by drawing from our domestic supplies.

The oil business is a dynamic business, not static. The best answer for preserving oil reserves for emergency use, and future use, is to adequately develop known resources, and then use those resources to constantly explore for new reserves.

We should realize that we should be constantly developing new and more efficient sources of energy. Such alternate forms of energy will eventually help to reduce our dependence on conventional oil and gas discoveries and development as we know them today.

I believe that for the long term coal, solar, nuclear, and other alternate forms of energy should be developed to their fullest potential.

In conclusion, I believe that the Federal Government has for too long neglected the need to establish an overall, centralized policy for the development of our Nation's petroleum resources. The Interior Department has traditionally held the responsibility of managing our mineral resources.

I wish to say, parenthetically, that I have always been a strong supporter of our military program. I also am one that fully appreciates the great contributions the U.S. Navy has made to our Nation.

But in this instance, I think their judgment is clouded by their own self-interest. Our energy crisis is too severe to afford the luxury of

allowing any department of Government to act in its own selfish interest, and not the country's.

It has taken an energy crisis, an Arab oil embargo, and highly inflated fuel prices to bring this matter to the attention of the American people and the Congress. We have learned belatedly that the Government's oil reserves, which are currently owned and operated by the Navy, are for the most part not capable of supplying the necessary oil production to cope with a national emergency.

In 1973 President Nixon called for rapid production of the Elk Hills field. Last fall President Ford called for development of Elk Hills. What action have we seen from the Navy? Nothing.

What ever happened to aye, aye, sir?

We in Congress must take immediate action. We cannot afford to sit by any longer and do nothing.

Thank you, Mr. Chairman.

Mr. MELCHER. Thank you.

The gentleman from California.

Mr. CLAUSEN. I want to thank you very much, Congressman, for a very provocative statement. I think it is significant, inasmuch as you have a very significant background in the oil business as an individual prior to coming to Congress.

Why do you think—and I am asking you this because you are a Member of the Congress from California and have been in the area—why do you think the Elk Hills production is so important at this time?

Mr. BELL. Mr. Clausen, I think that it is very vital right now for this simple reason, that it is the only field in this Nation that within 3 years could be put on production at its maximum efficient rate of 300,000 barrels a day. It would make a difference of a billion dollars on our balance of payments. That is the only place in the United States where we can do that.

Offshore development of any substantial quantities of oils will not be available for 8 to 10 years if we start right now. Alaska will be 6, 7, maybe 8 years. Elk Hills is the only field that this country has, and, incidentally, the second largest field in the continental United States, that we can turn on and in 3 years get 300,000 barrels a day of production.

Don, relative to California, for example, we are currently importing there about 230,000 barrels a day of Arab oil. Elk Hills on full production would totally eliminate that. It is the only place that you can turn on in 3 years and get that much and make such an immediate difference in the balance of payments.

Now, true, that is not going to solve our 6 million barrels-a-day shortfall, but Don, we have to start somewhere. There is not one single field in this world that by itself is going to solve our shortfall. It is going to be a series of different fields and a constant working at it that is going to do it, and this is the most readily available place to start.

Mr. CLAUSEN. Now, in your testimony you said that you felt that the Navy's judgment was clouded by their own self-interest.

Would you comment on that?

What do you mean by self-interest?

Mr. BELL. Well, agencies—and I will not say that this is intended; I will say it is maybe an inadvertent thing—agencies get in a position sometimes, where they think that because they have established a certain program, that this program must be theirs. They lose track of

what the overall picture of the Nation is, and they think in terms of themselves, which is what the Navy has done relative to this field in Elk Hills. They have control of it. They hate to give up that control. They hate to give up the power.

Now, let me elaborate a little bit on that, Don. As I said in my comments, the Navy feels that they need Elk Hills and these other areas for a necessary military emergency, but let's not forget the very vital point that, after the Production Act, anytime we have a war, any kind of a military emergency, who gets first call of all our production? It is not the civilians; it is the military, the Navy, the Air Force, the Army and the Coast Guard.

Now, according to their reasoning, I suppose we should give an oil reserve to the Navy, an oil reserve to the Air Force, an oil reserve to the Army, and an oil reserve for the Coast Guard to protect them from all these problems. They do not need that. Today they are getting production from the civilian economy. That is where they get most of their production, except what they can get in foreign areas.

Mr. MELCHER. The time of the gentleman has expired.

Congressman Bell, we are going to extend to you the invitation to be part of our subcommittee this morning, and if you feel that you would like to be seated up here on the rostrum, you are welcome to sit either on the Republican side or the Democratic side.

Mr. MELCHER. Without objection, the statements by Congressman Glenn Anderson of California, Congressman Herbert Harris of Virginia, Congressman James Cleveland of New Hampshire, Congressman Ed Roybal of California, Congressman Bill Ketchum of California, Congressman B. F. Sisk of California, and Congressman James M. Jeffords of Vermont, will be placed in the record at this point.

Hearing no objection, it is so ordered.

[The statements referred to follow:]

STATEMENT OF HON. GLENN M. ANDERSON, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

I am grateful for this opportunity to express my support for H.J. Res. 145 and related legislation which would authorize the Secretary of the Interior to develop petroleum reserves on public lands.

It is time for the United States to discard an unneeded and outdated policy that began in the beginning of this century. The United States originally established the Naval Petroleum Reserves to provide stockpiles of oil for national emergencies. By law (under the Defense Production Act of 1950), the military now has first priority, in any national emergency, to the nation's fuel resources. Moreover, current domestic production is sufficient to take care of the needs of the armed forces. Thus, the original need for a reserve has changed. If the country needs fuel reserves, they must be under the authority of the Department of Interior (acting in the interest of the Nation as a whole) and not under a branch of the armed services.

The best example of the present policy's failure is in Petroleum Reserve No. 1 at Elk Hills. In an emergency situation the oil simply would not be available; the reserves are not developed. At the present time production from the field averages only 2,500 barrels a day. It would take 60 days to raise production to 100,000 barrels a day. And with the antiquated pipeline and tank system at Elk Hills, it would take three years to bring the field into its total production capacity of 300,000 barrels a day.

A new policy must take the needs of the Nation into account, not just that of the military establishment. The need for new domestic sources of oil is critical; the gap between energy consumption and energy supply is widening. Dependence on imported oil threatens the economic well-being of the United States. At \$10 a barrel, foreign oil is fueling inflation and is causing a serious balance of payments

deficit. Obviously the United States must strive toward greater energy self-sufficiency and reduce petroleum imports.

Half of the answer lies in adopting strict conservation programs and in making efficient use of energy resources.

The other half of the answer is developing the resources that are staring us in the face. The naval petroleum reserves are a valuable resource in our own backyard. Elk Hills, with reserves estimated between one and six billion barrels, with the potential to produce 300,000 barrels a day for 10 to 20 years, is the only place that can be opened and developed immediately. In the meantime exploration can begin in the far larger Naval Petroleum Reserve No. 4 in Alaska with reserves estimated at 33 billion barrels.

Until now the Navy and the Armed Services Committee have successfully blocked all efforts to develop the petroleum reserves. I urge support for H.J. Res. 145, and related legislation, which would transfer jurisdiction over the reserves from the Department of the Navy to the Department of the Interior. It is the job of the Interior Department to plan for the development of the mineral resources of this country. With the authority of the Interior Department to develop the petroleum reserves, the long-term energy needs of the Nation may be rationally met.

STATEMENT OF HON. HERBERT E. HARRIS II, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF VIRGINIA

Mr. Chairman, I have joined with my colleagues in cosponsoring H.J. Res. 31, a bill which would authorize the Secretary of the Interior to establish national petroleum reserves on certain public lands. It is essential that publicly-owned energy resources be developed now to insure sufficient long-range energy supplies and to control the currently inflated price of petroleum products.

One important thing to remember, for the Committee and the Congress, is how much of our domestic energy reserves are already controlled by the people of the United States. About 60% of known domestic oil reserves are located on public lands. Approximately 80% of developable, rich shale oil deposits are on lands owned by the Federal Government. Virtually all of this country's offshore petroleum and gas reserves are still owned and controlled by the public at the state or national level.

Those of us in the Congress who are interested in the orderly development of the public's energy face two tasks at this juncture: (1) to insure that the public maintains control over its fuel resources and (2) to see that the nation's energy reserves are developed in the public interest and not in the interest of the large oil corporations.

I wish to issue the following warning to the President, to the Secretary of the Interior, and to the petroleum industry: The opening of additional public lands to energy exploitation is not going to be another bonanza for the oil companies, in the name of the energy crisis.

This resolution, however, is not enough. Later in the session, the Congress must consider separate legislation that (1) deals with the anti-competitive structure of the oil industry; (2) provides alternatives to the present mineral-leasing procedures on public lands which now favor the major oil companies; and (3) insure that existing oil and gas leases are developed at a rate which is most energy-efficient for the nation, rather than at a rate most profitable to the oil industry.

Mr. Chairman, I support this resolution as a necessary first step in establishing the public-interest development of the nation's petroleum reserves, and I urge its adoption by the Congress.

STATEMENT OF HON. JAMES C. CLEVELAND, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW HAMPSHIRE

Mr. Chairman:

I welcome the opportunity to appear and testify on behalf of H.J. Res. 31 and its companion bills which are sponsored by the distinguished gentleman from California, Mr. Bell, and cosponsored by a bipartisan cross-section of Members including myself.

The measures before this committee are in keeping with the attitude we must take toward the energy crisis. We all know the problems that have been caused by our dependence on imported oil and petroleum products. We are all in favor of reducing this dependence and becoming as self-sufficient as possible in the energy

area. We have all spoken of the need to develop our domestic resources and to restore a favorable balance of trade.

Mr. Chairman, the measures before you will help achieve all these goals. Elk Hills is the largest untapped petroleum reserve in the contiguous United States. Development of it could increase domestic oil production by 300,000 barrels per day within 3 years. Such an increase could also reduce our balance of payments deficit by \$1 billion per year. Furthermore, transfer of authority for Elk Hills to the Interior Department would bring this important reserve under the direction of the agency that has control over energy policy and that is best able to put our oil to its most effective use.

I would like to add one final word for those who are concerned that transfer of the control of Elk Hills from the Navy to the Interior Department might weaken our national defense. I have in the past and will continue in the future to support a strong national defense for the United States. However, the time has passed for an oil reserve to be set aside for the exclusive use of the Navy. Under the Defense Production Act of 1950, the Armed Forces have first call to *all* oil in the United States during a national emergency. This Act, in fact, was invoked in 1973 during the Arab oil embargo and millions of gallons of fuel were smoothly allocated to our Armed Forces. This experience demonstrated that the Defense Production Act does work and that the concept of special military petroleum reserves is obsolete.

The time has come to act to establish our energy independence and to make full use of our available natural resources. We can ill afford further delay in this area. I urge rapid favorable action on this legislation

STATEMENT OF HON. EDWARD R. ROYBAL, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

One of the major lessons that we have learned from the Arab oil embargo is that the United States must reduce, wherever possible, its dependence on foreign oil. To do this it will be necessary to formulate a comprehensive national energy policy, an important part of which will be the maximum development, within social and environmental limits, of the Nation's energy reserves.

The success of such a policy will depend upon many factors, but one vital element will be the necessity that domestic petroleum reserves be regulated in a manner consistent with the energy needs of the Nation. Much of the oil that will be produced in the future will come from deposits in lands owned by the Federal Government. This would include the oil shale deposits as well as the Naval Petroleum Reserves.

The Naval Petroleum Reserves were established in 1912 to insure that oil would be available for fuel by ships that were being converted from coal to petroleum. To prevent Federal lands that were believed to contain oil from passing into private ownership, the reserves were created. The original need for these reserves has long since passed. They have been replaced by national needs that concern all Americans, not just the Navy. Some of the reserves, such as NPR 4 in Alaska, are believed to contain large amounts of oil but very little survey work has been done to determine the precise size of the resource.

The Nation's energy situation has now reached the point where all national needs must be considered in developing these resources. For this reason, I support H.R. 49 and H.J. Resolutions 31, 112, 119, and 145, which would establish national petroleum reserves from existing Federal lands. These reserves could contain parts of current Naval Petroleum Reserves, but only after consultation with the Secretary of Defense. In addition these bills would not preclude the continuance of control by the Navy if that control was considered in the best interests of the Nation. They would also require detailed development plans and an explanation of the relative need for production of oil and gas from the reserves. A decision concerning development would then be made on those merits, rather than the outright prohibition on national resources.

In the future it is very conceivable that new sources of energy will be available to us. In the meantime, however, we must maximize production of domestic petroleum. This can be done by organizing all of the petroleum reserves on Federal land into one coordinated system, which can then be responsively managed as the needs of the country require.

CONGRESS OF THE UNITED STATES,
Washington, D.C., March 19, 1975.

HON. JOHN MELCHER,
*Chairman, Subcommittee on Public Lands,
House of Representatives,
Washington, D.C.*

DEAR MR. CHAIRMAN: I appreciate this opportunity to make a statement in support of H.R. 49, authorizing the Secretary of the Interior to establish national petroleum reserves to be regulated in a manner consistent with the total energy needs of the nation. I believe that this bill is a most useful contribution to solving our nation's current energy shortage.

I believe that one of the most important provisions in H.R. 49, is the authorization of increased production from the Naval Petroleum Reserve #1 at Elk Hills, California. I have the privilege of serving as the Representative from the 18th Congressional District of California, in which the entire Reserve is located. I am thoroughly familiar with Elk Hills, and have long urged its development.

The point is, Mr. Chairman, that the Elk Hills Reserve, and indeed all the Reserves held by the Navy Department, are in such a state of neglect and unreadiness, that they would be virtually useless in the event we needed them for a conventional war, which is the stated purpose of the Reserves. In the event of such an emergency, we could not turn on the taps for this oil, since there are no taps to turn on. Moreover, I have been informed that only about half of the vast Elk Hills Reserve has been explored.

Mr. Chairman, we are sitting on a vast amount of oil, perhaps more than 1.2 billion barrels. I can see no reason why this oil should not be drilled, and drilled now.

During the 93rd Congress, I introduced H.J. Res. 838, also authorizing the production of Elk Hills. Over 100 members joined me in co-sponsoring that bill. A similar measure, introduced by Senator Jackson, passed the Senate. Both the House and Senate approved appropriations to finance the field's opening. I am convinced that the majority of our colleagues and constituents support the opening of Elk Hills, and will support H.R. 49. I hope that the Subcommittee, the full Interior Committee, and the House will give it swift approval.

Again, thank you for giving me the opportunity to state my views.

Sincerely,

WILLIAM M. KETCHUM.

STATEMENT OF HON. B. F. SISK, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF CALIFORNIA

Mr. Chairman: I appreciate this further opportunity to discuss some of my concerns as a California Representative regarding the lack of development of our Naval Petroleum Reserves, specifically the NPR at Elk Hills.

I fully realize that there are those who believe these Reserves, at least the two remaining with any producing capacity, should be maintained for a national emergency—a state of war.

As I pointed out before I do not think we can afford that luxury or hold to the belief that a billion barrels of oil in the ground will assist this country in future war. Hopefully, it will never come to that.

The entire concept of the NPR's has caused me concern, and especially during the Arab embargo. We were able to begin development at Elk Hills, but as testimony has revealed, NPR 4 in Alaska is getting two exploratory wells this fiscal year.

Basically I have many more questions than answers. I wonder why Buena Vista is still considered a reserve when there is very little, if any, petroleum left. Teapot Dome is providing 5,200 barrels a day, but wouldn't it be more efficient to have the U.S. buy a couple of oil wells with that amount of production.

Of course the situation up in Alaska is something else. For 50 years, nothing was done by NPR 4 operators. Private enterprise, on the other hand, has gone in there and justified a pipeline, and they are just across the Coleville River.

In summation, then, I just want to reiterate that I feel that the petroleum in those reserves belongs to the people of this nation and should be available to them.

Thank you.

STATEMENT OF HON. JAMES M. JEFFORDS, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF VERMONT

I would like to express my concern over pending legislation which would transfer control over our national petroleum reserves from the Navy to the Department of the Interior and which would eliminate any Congressional oversight function in the disposition of the oil in those reserves. I am particularly concerned over the national security aspects of it or any legislation which would eliminate ready availability of an oil reserve to the U.S. military in time of emergency.

The proponents of legislation, such as H.R. 49, argue that during a military emergency, first priority or claim on oil from the commercial sector would be reserved to the military. It is argued that the commercial sector's supplies would be without question, available for military use in sufficient quantities so that a national reserve is not necessary. They maintain that the present reserve should be exploited to offset importation of Arab crude into the U.S. and help our balance of payments situation.

Unfortunately, recent history does not provide evidence to support this line of reasoning. In fact, we find the opposite case to be closer to the truth. During the 1973 Arab embargo, the American multinational oil companies which are partners in ARAMCO accepted directives from the Saudi Arabian government to cut off product supplies to the U.S. military. This cutoff has been documented by the findings of at least 3 major investigations during the last Congress, i.e., that of the House Armed Services DOD Energy Resources Subcommittee, the Church Subcommittee on Multinational Corporations, and the Jackson permanent Subcommittee on Investigations. I am presently awaiting data from the Joint Chiefs of Staff and the Defense Fuel Supply Center to further document the details of this extraordinary situation.

The public record already shows that cooperation between the Saudi Government and the companies during the embargo was very close, to the detriment of American military preparedness during a time of a U.S. worldwide military alert. The companies provided data to the Saudi government regarding quantities of petroleum products supplied by them to the U.S. military from their various refineries around the world. The Saudis then cut back production of crude equal to this amount and the companies policed a freeze-out of the military of this quantity of product.

There is a question as to the sensitivity of the data which was passed. Although contracts between the companies and the Department of Defense are not classified, monthly deliveries from refineries are *not* public data. I am presently asking DOD for further information as to the exact sensitivity of the data which was passed.

Furthermore, the way in which the companies checked with DOD over the propriety of handing this information over to the Saudis is highly questionable. This has been documented by the Jackson Subcommittee in its April 1974 hearings. It appears that DOD was consulted only in the most perfunctory way, and that only 15 minutes was allowed for a DOD reaction to the situation. This time constraint was imposed by Exxon on DOD, effectively shutting-out the possibility of any reasonable review at the level of the Secretary of Defense.

The fact is that the data which was furnished enabled the Arabs to implement the secondary oil embargo which cut off refined products to U.S. military installations around the world at a time of worldwide strategic alert. The companies acted, then, as a willing agent of the Saudi government. According to counsel of the Church subcommittee, the "Saudis were so pleased by this cooperation that they promised to reward the companies. The companies were indispensable to the Saudi ability to implement the embargo and Yamani so informed the companies." Frankly, I find this posture on the part of the companies to be deeply disturbing.

I would point out that the ARAMCO consortium includes Exxon, Mobil, Standard of California, and Texaco. In the Jackson hearings there is conflicting testimony among these companies as to whether cooperation with Saudi desires was premature, that there was perhaps an over-eagerness to please the Saudis. We were on a military alert, and it seems to me that if a foreign government tells you to interrupt sales to the military you ought to lean over backwards to go the other way. Exxon in particular, seemed anxious to read into the cable traffic with the Saudi Government that a cut-off of supplies to the military was desired. Texaco disputes this interpretation, arguing that they did not interpret the Saudi request for data as "requiring a gallon for gallon cutback in Texaco product sales to the military."

There seems to be little question that the cut-off adversely effected military preparedness. We were forced to dip into our war reserves, although it is still classified how much longer we could have gone on in this manner before we hit bottom. DOD petroleum requirements are met by about 50% from continental U.S. sources and 50% from overseas sources. Most of the latter are from insecure Arab sources. For example, 90% of the fuel used at Hikam Field in Hawaii is the refined product of Arab crude. And, according to Secretary Schlesinger, we would be incapable of sustained steaming of the 7th Fleet after about 30 days if we were not able to divert additional resources into the region.

I was alarmed by the conclusions of the report of the Special subcommittee on DOD Energy Resources and Requirements of the House Armed Services Committee of June 1974. As a result of those hearings it is clear that the embargo resulted in reductions of DOD foreign procurement from 315,000 to 50,000 barrels per day, that DOD stocks were "reduced to dangerously low levels by the last quarter of 1973." In fact, peacetime operating stocks were exhausted and "pre-positioned war reserve stocks were used to continue operations in the absence of current deliveries." A total of 8.9 million barrels were drawn from these reserve stocks. As a result, "minimum readiness levels" of our military forces were "severely strained." The cutback of our military readiness was "critical for the operations of the 6th and 7th Fleets in Europe and the Pacific Ocean areas." Though much of the figures and specific instances of shortfalls are classified, the Secretary of Defense indicated such a situation could not be withstood for very long.

The very fact that we had to dip deeply into our pre-positioned war reserves and that we had to invoke the Defense Production Act of 1950 to meet some of our requirements, and still the armed forces were critically short of fuel indicates that either the companies did not act responsibly to military needs or that they simply did not have the supplies on hand to meet the requirement. Either way, the case for retention of such a national reserve seems strong to me. There is a critical difference between a readily-available supply of fuel, such as a reserve, and a readily-available *source* of supply, such as the oil companies. Any arrangement, such as H.R. 49, which just envisions triggering the source of the supply in time of national or military emergency is simply not satisfactory.

I would also point out that the findings of the very competent investigations of the Church Multinationals Subcommittee indicate that investment by the Multinational oil companies has increased in the Middle East since the embargo—this leads me to suspect the relationship between these companies and the Middle East governments. It also leads me to suspect that the companies have more leverage than one might think on those governments and that they could have done more than they did to mitigate the effects of the embargo on the U.S. military.

There were other, costly, side-effects of the product embargo. For example, the cut-off of product from the Exxon Gorco refinery in Guam to the U.S. military required a diversion of a tanker with 500,000 barrels of crude which was headed for the city of Los Angeles. Subsequently, Los Angeles had to pay as high as \$25 per barrel for substitute crude. This is, of course, outrageous price-gouging.

I am asking DOD for further detailed information regarding this alarming story, but the record already satisfies me that the commercial market was not available for critical military needs when the time came. Thus the arguments supporting legislation such as H.R. 49 in this regard ignore recent history. Certainly we should further develop Elk Hills so that the reserve has a ready availability at its Maximum Efficiency Rate within a short period of time and we should provide the funds for the Navy to develop the reserve in this way. The reserve should be used to develop our national strategic storage program, which would help us fulfill our obligations under the International Energy Agency agreement of November 1974.

But I would oppose production of Elk Hills oil until we had the storage facilities in place to accept the crude (or its equivalent, barrel for barrel, on the Gulf Coast or other area which had storage facilities).

Regarding funding, possibly we could help defray storage expenses through MER production and sale of Reserves No. 2 and 3 Buena Vista and Teapot Dome, and supplement these funds with adequate appropriations. But would sell such oil at old oil prices. Why should we join OPEC and the companies in a triple rip-off of the American consumer by selling it at over \$10 per barrel?

Lastly, I strongly support that portion of the present statute which calls for approval of both Houses of Congress before the reserve can be either used or sold. H.R. 49 takes this authority away from Congressional review and I am not clear as to what the reason is for this.

Mr. MELCHER. Our next witness is Jack Bowers, Assistant Secretary for Installations and Logistics, U.S. Department of the Navy.

Mr. Bowers, we are pleased to have you with us this morning.

Mr. BOWERS. Mr. Chairman, thank you.

Mr. Chairman, I have Captain Dowd with me. He is currently the Director of Naval Petroleum and Oil Shale Reserves, and as was stated by Congressman Bell, he had most recently before been our representative operating at Elk Hills.

Mr. MELCHER. Secretary Bowers, do I understand that Captain Dowd succeeds Captain Trunz.

Mr. BOWERS. That is correct. Captain Trunz has retired as of the end of January.

Mr. MELCHER. Thank you very much. You may proceed.

STATEMENT OF JACK L. BOWERS, ASSISTANT SECRETARY FOR INSTALLATIONS AND LOGISTICS, U.S. DEPARTMENT OF THE NAVY, ACCOMPANIED BY CAPT. GEORGE G. DOWD, DIRECTOR OF NAVAL PETROLEUM AND OIL SHALE RESERVES

Mr. BOWERS. Mr. Chairman and members of the committee, I am very pleased to be afforded the opportunity to discuss the naval petroleum and oil shale reserves and plans for allowing them an increasing contribution to our energy needs. I would first like to provide background information, starting with a brief history of the reserves, then telling you of accelerated activity during the last 2 fiscal years.

The naval petroleum and oil shale reserves were created between 1912 and 1924. Upon recommendations of U.S. Geological Survey, Presidents Taft, Wilson, Coolidge, and Harding established the petroleum reserves by withdrawal of relatively small but selective acreages of domain to be administered by the Navy as an assured defense fuel supply. Congress placed these reserves under authority of the Secretary of the Navy by an act dated June 4, 1920 (41 Stat. 813).

I have included a table below which includes a description of the proved reserves, estimated new reserves in the area of each of the NPR's and the joint listing of the three oil shale reserves.

[The table follows:]

	Proved reserves		Estimated new reserves		Area (acres)
	MM/bbls oil	MM/Mcf gas	MM/bbls oil	MM/Mcf gas	
NPR #1.....	1,009.6 ¹	1,180	482	300	146,095
NPR #2.....	15.6	NA	0	0	130,181
NPR #3.....	43.0	8.0	0	0	9,481
NPR #4.....	100.1	160.6	10,000-33,000	60,000-192,000	23,680,000
NOSR (jointly).....	0	0	16,000	0	145,333

¹ Contains both Government and private titled land. NPR-1 is under a unit plan with the Standard Oil Company of California who participates in the amount of 20 percent. SOCAL also operates NPR-1 under contract to the Department of the Navy.

During the last decade significant additions to knowledge of the reserves have been obtained. However, owing to funding at the \$5 million to \$8 million per year level, no substantial progress was made toward establishing the full potential of the naval reserves as a rapidly

available source of emergency oil. In 1967, the Navy initiated preparation of a complete plan for the exploration and development of all reserves. The plan was completed in April of 1973 and forwarded to the President, and in the fall of 1973, when the oil embargo created shortages, the Secretary of the Navy made a determination that NPR-1 should be produced.

This action was approved by the President and sent to the Congress. A modification of the administration bill was passed in the Senate, and in the House of Representatives the Armed Services Committee held comprehensive hearings.

Production from NPR-1, Elk Hills, was not recommended by the committee at that time. The committee concluded, however, that NPR-2 and NPR-3 were of little value as viable reserves and, therefore, the Navy should consider producing at these locations and using funds so derived to finance exploration and development of NPR-1 and NPR-4. While the original bill for production at Elk Hills was not passed in Congress, there was, however, an appropriation provided for exploration and development at NPR-1 and NPR-4 of \$11.5 million and \$47.5 million respectively, and a substantial program was initiated. The budgetary figures appearing in the legislation were drawn from the Navy plan of 1973. Congress followed in fiscal year 1975 with \$64.4 million to continue the program. DOD has now established in their planning a continuation of this effort through the fiscal year defense plan years.

As related above, the budget actions of 1974 and 1975 together with the ongoing fiscal year defense plan have been derived from the exploration and development plan submitted by the Navy in April of 1973. I would like to summarize the objectives of that plan.

For Elk Hills, NPR-1, we plan to conduct a program which will be completed in a 5-year period. During that time we will drill 76 exploratory wells at a cost of \$30 million and then complete the development of the field with 829 wells together with production facilities at a cost of \$417 million. It is anticipated that proven reserves will be increased by 500 million barrels to a total of 1.5 billion barrels.

In Alaska at NPR-4 we are conducting a seismic exploration program and at this point have identified an exploratory drilling program of 26 wells at a cost of \$382 million over the next 7 years. Based on the data already in hand, together with the new information, we would expect that within 1½ to 3½ years to have sufficient data on which to base the development program which must precede production. Given the magnitude of this program it can best be accomplished by entering into arrangements with private industry.

The moneys appropriated by Congress in 1974 and 1975 provided a promising start for the program described above. At Elk Hills we have drilled 10 exploratory wells and 32 development wells of which 39 have proved successful and have added 100 million barrels of proven reserve. At NPR-4 we are ahead of schedule with our 10,000 line-mile seismic exploration program which will have completed 3,500 miles of information by mid-1975. These data, together with previously established geophysical information, have identified a number of promising sites for exploratory wells. The first of these wells is already underway and the second will be started within a matter of weeks so that we may anticipate their successful completion during the winter operational season.

The program, as you can see, is well underway. It has been possible to accomplish this work under authorization provided by the existing statute together with fiscal appropriations which have been increased during the last 2 years; with approval of the budget which has been submitted in fiscal year 1976, the program can continue at appropriate pace. On the other hand, in order to meet our country's increasing energy challenge, it will be very important to take even more aggressive action; to this end, the President has submitted to the Congress for action the Energy Independence Act of 1975. Title I and title II of the bill provide the President with general authority pertaining to the subject under discussion today.

I would like to provide a brief summary of this bill, highlighting some of the actions which would be taken to implement its objectives. There is provision made for a national strategic petroleum reserve of up to 1 billion barrels for the civilian economy which is provided in title II and a 300-million-barrel reserve for the military which is provided in title I. Title I also provides for production at Elk Hills and other naval petroleum reserves for storage in the national strategic petroleum reserve, for replenishment of Department of Defense stocks, and for sale and exchange. A special fund would be established in the Treasury derived from the funds realized from sale of this petroleum. The special fund will provide moneys for exploration and development of all of the petroleum reserves and will provide for the establishment of the national strategic petroleum reserve.

In addressing the issue of producing at Elk Hills we have commonly discussed an initial goal of 160,000 barrels per day. We are mindful of the transportation requirements and have recently been working with the owners of pipelines and refineries in the California area to determine what action needs to be taken to assure delivery. Our initial review shows in excess of 100,000 barrels per day can be accommodated rather quickly and that with additional connections to existing pipelines we would be able to approach 160,000 barrels per day in a matter of months.

The current proposal has followed the pattern of previously introduced legislation in assuring that oil will be offered for sale in such a way that all companies, large and small alike, may be afforded a fair opportunity to participate. We would have authority within current legislation and with the assistance of the Small Business Act, to allocate appropriate amounts to the smaller companies.

As you know, Standard Oil Company of California is the partner of the Government at Elk Hills. They own approximately 20 percent of the field and we operate under an agreement which provides for sharing of production in that ratio. Much has been said about what would happen if Elk Hills were opened for other than national defense. We have initiated discussions on that subject with Standard Oil and would plan to negotiate modifications to the existing unit plan contract which would protect the partners' positions under the new legislation.

In a separate relationship Standard Oil of California has been for the last several years our operating contractor at Elk Hills. This is a competitively awarded contract renewable approximately every 5 years and is separate and distinct from the unit plan contract.

On January 7 of this year, Standard Oil informed us of their desire to withdraw from the operating responsibility. They cited the

fact that the very large drilling program planned for Elk Hills would demand management resources which they felt were sorely needed in other areas where they are trying to increase the supply of petroleum; in addition, they stated they are mindful of the frequent congressional and public concern regarding the potential conflict of interest which results from their several roles.

While we agree with them that the parties have been able to maintain appropriately separated business relationships, we are sympathetic to both of their citations and, therefore, indicated a willingness to seek a replacement contractor. Thereupon Standard provided formal notice on February 13. Our contract allows either partner to withdraw with 9 months notice and Standard Oil has asked that we accelerate that schedule if at all possible. We are moving out immediately to prepare a request for proposals for this job.

Without this early severance of our relationship, a new competition would have been scheduled for June of 1976. Based on responses in the past and informal inquiries, we are confident that a capable contractor will be found. The Navy is proceeding to accomplish this action in as short a time as possible.

For NPR's 2 and 3, title I provides for completion of development at NPR-3 and production from both fields. This was a recommendation from hearings conducted by the House Armed Services Committee last year.

Of the petroleum available at NPR-4, it is planned to utilize at least 20 percent for the national strategic petroleum reserve or such other amount as determined by the President and to make the remainder available to the public economy. As was indicated earlier in the discussion, we are expecting to be ready in the near term for participation by commercial industry in the development program. Starting immediately, the Navy would plan to begin an analysis of the optimum contracting procedures for obtaining this participation. We will consider competitive leasing, competitively negotiated contracts and other arrangements. We will seek to establish the best means by which participation can be made attractive to industry and yet will assure for the Government receipt of full value for the petroleum in NPR-4.

In summary, I would like to establish that we have in being a planned program that is on schedule. This will provide in the next several years a much needed improved development status of the naval petroleum reserves. In order to capitalize on the potential of these reserves, the administration has introduced a bill providing for the national strategic petroleum reserve, which instead of shut-in production capability provided in the first instance, will provide a large volume of petroleum for ready delivery at high rates. This more aggressive program requires new legislation as proposed by the Energy Independence Act of 1975, which we believe has been carefully designed to assure optimum utilization of the naval petroleum reserves for the increasing energy needs of the United States. The plan preserves the concept, inherent in the existing statute, of a protected source of supply for times of emergency for military and civilian economy alike.

Gentlemen, this concludes my prepared statement and I am ready to answer any questions.

Mr. MELCHER. Thank you, Mr. Secretary. Before we get into the line of questioning, I would like to clear up for the record, the obvious oversight that was made in last year's hearings, almost a year ago, the line of questioning of Captain Trunz which dealt with draining from Elk Hills. I will refresh your recollection. Were you here, Captain Dowd?

Mr. BOWERS. I believe we both reviewed the testimony.

Mr. MELCHER. Then first of all, I was asking Captain Trunz whether there was any drainage, and he explained that through water injection, that he felt that the draining had been choked off. In further response, he said, "We still feel that there is some drainage occurring, and we have caught it at the neck of the bottle which is not being protected through that water injection program. Now, I would say that if we did not have the program, it would be substantial. The drainage that is now occurring, I don't think I would say substantial, but there is drainage. Of course, if it is one barrel, we worry about one barrel of oil." Now we are talking about what I view as a very serious question: the Navy's ability to manage this field, which after all, is not an untapped field. It is one that was pumped out of in World War II, one that machinery pumped on. So the question was, in this open field, how much of Uncle Sam's oil was getting away and then being pumped out by the private oil companies that surround Elk Hills, and we thought it was a very serious point, to determine whether or not the public interests were being protected. As long as there is drainage occurring it is obvious that the public interest is not being protected. So the question was, how much drainage?

Captain Trunz confirmed that there was drainage, and that he was not satisfied with the drainage, and he would supply us with what his view was a few months later.

"I think that, establishing for the record, some idea of what extent of the drainage might be, and how great it would be, just to make it clear, I'm asking that all memorandums dwelling with seeking an injunction, whether it be memorandums between Navy and Justice, be submitted or supplied to the committee, dealing with seeking temporary injunction, or injunction relief, during the time of the litigation described."

Now, we have not received that and I am alarmed that we have not. I do not think there was any hesitancy about Captain Trunz in his testimony to supplying this. Why do we have to find out a year later, reviewing our records, that indeed we have not received it?

Mr. BOWERS. Well, I apologize for not having followed up on that. I did not know, had not been informed, that the requested information had not been delivered. We will see to it that you are provided with that information.

Mr. MELCHER. Thank you very much, Mr. Secretary.

Now, we will proceed on the 5-minute rule here, and I have a couple of questions for you, Mr. Secretary.

I do not think that the question before Congress is: Should Elk Hills be opened? I think that is pretty well established. Congress is going to agree with the President; open Elk Hills. The question is: How should it be opened, and who should be taking care of it?

We have reviewed the President's plan, and had it described to us by the Interior Department a couple of weeks ago. Now, when would you

view that any of the oil produced in Elk Hills would be available for commercial use?

Mr. BOWERS. The plan is explicitly described in the Energy Independence Act, and as it states, the oil that would be produced, it would be put into production as soon as authorized, and would be made available to first, the national strategic petroleum reserves, which in the first instance, of course, would not be immediately available.

No. 2, to replenish the mobilization reserve stocks of the military. Now I will go to No. 3, for sale or exchange. That sale or exchange could also, of course, be for the defense needs of petroleum. But let me make a point about both No. 2 and No. 3.

When the oil is sold for those purposes, it will undoubtedly most efficiently be sold to the refineries in the State of California, and exchange agreements made such that the military can take delivery on their required petroleum at point and of types of their choosing. So the answer is that effectively there will be oil placed in the refineries of the State of California rather quickly, immediately.

The probable first call on where the oil goes will be of the continuing needs for the defense forces which we have been receiving and buying in the various places all along.

Mr. MELCHER. I see. The administration is asking for a new tax on imported crude and some people have advocated gas rationing. I don't, as President Ford does not. But faced with those two ideas, one being the President's and the other being some consumer interests and some being Members of Congress, it seems to me that a better alternative is to get Elk Hills oil into the marketplace as quickly as possible.

Now if I follow your answer, Mr. Secretary, you are first going to put it into some sort of reserve.

Mr. BOWERS. Yes.

Mr. MELCHER. That is not in the marketplace.

Mr. BOWERS. No, that is not. As soon as the reserve is established, we would be putting it into the reserve.

Mr. MELCHER. Well, then it will not answer the question that the President has posed when he says we want to cut down on foreign crude imports by placing a high tax on it. So it will not answer that one, and it will not answer the other advocate's questions of why do they not have rationing so everybody can be assured that somehow—I do not follow their reasoning—but somehow they think it will hold down the price of oil. But in no way does your action indicate that you are going to put Elk Hills oil in the marketplace to relieve a serious economic crunch that this country is now observing.

Mr. BOWERS. Well, I have pointed out that additionally, as we set it up, it would effectively get in the marketplace. But your point is well taken, and I would like to expound on that philosophy.

The energy problems that we have today have been growing without public awareness for a good many years. Our use of petroleum has been expanding more rapidly than have been our sources of supply. But the real realization came to our attention in the embargo in the fall of 1973.

Now, what I believe is the most important solution we have is to make sure that future embargoes do not throttle this country's

economy, and/or our military position. There are two ways of doing this.

One is to produce everything we have and hope that we can attain a complete independence from the foreign sources of supply, because they may be unstable. But on the other hand, that may not be completely attainable. Therefore, it has been concluded that in addition to doing everything we can to expand our sources of supply, that we should set aside a reserve which is left ready to be used when such an embargo occurs and produce all of the rest.

Now from the naval petroleum reserve, the way that we would expect to do this is to provide a portion of NPR-4 and all of NPR-1 for the strategic reserve, and 80 percent of NPR-4 would go in for the daily use to the public economy, decreasing the dependence on a daily basis.

Mr. MELCHER. Mr. Secretary, you and I both know, and I hope the public knows, that there is not going to be anything coming out of Pet-4 for many, many years, regardless of what is done.

Mr. BOWERS. That is correct.

Mr. MELCHER. So it is obvious that it begs the point. You are talking about an economic situation in 1975 and 1976 of trying to fulfill the President's goal of reducing our reliance on foreign crude by saying the Navy is going to do something up at Pet-4. I do not think as long as you are wedded to the idea that you espouse in your document here, and repeated right now, that we can ever hope that the Navy will have any real concern about the serious economic situation there is.

We need the crude oil now, not in some reserve. We need it going into the marketplace. You talked about the need for the military reserve when the country is clearly marching steadily toward a deepening recession, and perhaps a depression, part of which is due to a lack of crude oil, part of which is due to skyrocketing energy costs, whether it is coal or natural gas or any other source of energy, simply because crude oil has gotten to be so extremely expensive. You espouse this reserve program as if we are sitting somewhere on a lovely situation where we can look to the country's well-being in the future when our well-being is going to hell right now.

We've got to do something, and the whole situation, Mr. Secretary, is, we cannot afford not to produce crude oil now where we have it and where it is draining away, mind you. Draining away from Elk Hills, draining out of our reserves, enriching private oil companies, but hurting ourselves. I think we have to get something going here.

The gentleman from Nevada, Mr. Santini.

Mr. SANTINI. No questions.

Mr. MELCHER. The gentleman from California.

Mr. CLAUSEN. Mr. Secretary, for my edification and for that of the record, what was your occupation prior to—

Mr. BOWERS. I was with the aerospace industry.

Mr. CLAUSEN. The aerospace industries?

Mr. BOWERS. In California.

Mr. CLAUSEN. In California. Now, I noticed in your testimony you indicated that you have this partnership with Standard Oil of California for the Elk Hills field. And you indicated on January 7, this year, "that Standard Oil informed us of their desire to withdraw from operating responsibility," and then went on to say that

it was "their reasoning that its management resources could be put to use in some other place, rather than Elk Hills."

Then you go on to say, "we are now moving out immediately to prepare a request for proposals for this job. We are confident that a capable contractor will be found." Now can you explain why another capable contractor would come in? I am assuming most of these oil companies are still in the oil producing business to make a profit. Why would they be more likely to be a partner than Standard Oil?

Mr. BOWERS. Well first of all, we have previously, when we have completed the job, had adequate competition. We have had responses from other companies. Second, I imagine at any given point in time, every company is in a different situation. Some may have specific areas where they do have good exploratory opportunities and can place their resources to this end, and other companies do not.

Actually, on the field the job is done by oil rigs, people that Standard contracts with. This is work that they do not do themselves. They merely manage the activities. So the actual drilling and so on is done by people that are in the business of that anyway. So we are talking more of a management expertise. And as I said, different companies at various times, will have different capacity available.

Mr. CLAUSEN. Now it is clear to me that part of your testimony suggests that setting up the strategic reserve has taken pressure off the commercial industry in California that has to supply the fleet reserve.

You testified in California that the commercial interests have a significant portion that is going to meet the fleet reserve requirements, as I understand it. Now, what impact will Elk Hills have, going into this reserve, to provide relief to that commercial market?

Mr. BOWERS. Well I believe that the chairman has pointed out that there is going to be a net delivery of petroleum to reserves and not put out on the open market. Actually, however, I would anticipate that the California commercial market would benefit from this because it would be most likely that we would deliver the oil to the refineries in the State of California, and place other oil in these reserves, other oil or refined products.

But I think you are getting at the same question that the chairman stated, and we are in a dilemma. There are two objectives in the country today. One is to protect ourselves from serious embargoes and the very large impact that would occur in that situation. And the other, of course, is the economics and lack of fuel. It is quite a dilemma, and there are good answers to both sides of the question.

Mr. CLAUSEN. What impact can we anticipate from the 300,000-barrel-a-day capacity that you ultimately expect to reach? What sort of relief will be given to the commercial market in California once this is brought into production, and when?

Mr. BOWERS. I would say, initially particularly, the largest percentage will go to the commercial market. It will get there by going to the refineries and being sold, and then we will obtain exchange products at other points of our selection, which we get right now anyway, so that is no change.

Mr. CLAUSEN. But, of the 300,000-barrel-a-day production that you anticipate, what percentage of that would be available to this California market, other than that which is going into reserve?

Mr. BOWERS. It changes as a function of time. Initially we do not have 300,000 barrels. We start with closer to 100,000, build up to 160,000 and in that time period, the time that we can do that, I would imagine that close to 100 percent would go into the commercial market in California.

Mr. CLAUSEN. When?

Mr. BOWERS. When? Within the first 6 months of opening the field. And then as we, in the later years, add additional development levels and build up productive capacity higher, a part of it would be dependent upon the refinery capacity of the State, and it would take a good deal more.

After we set up the strategic petroleum reserve, which would be some matter of years, I imagine no earlier than 2 or 3 years would we even begin to start it. I mean, have a significant immeasurable capacity. And then on in to the following years, we would then, at first priority, be delivering that petroleum or an exchange crude product to go into those reserves.

So at that time, it might gradually go to a lower percentage from the 100 percent at which it starts.

Mr. CLAUSEN. Mr. Chairman, I would like to pursue this further, but I know that Mr. Bell wants to pursue some questions.

Mr. MELCHER. The gentleman from Oregon, Mr. Weaver.

Mr. WEAVER. Mr. Secretary, on page 8 you say, "We will consider competitive leasing, competitively negotiated contract and other arrangements". What other arrangements?

Mr. BOWERS. Frankly, I do not know. What our problem is here, in the two ways that we are experienced in developing these lands are, as we have done at Elk Hills in one instance, and as the Interior Department has done in competitive leasing in the other, the competitive leasing approach has been appropriate for those areas where there is a fairly substantial risk involved, and a bonus and a royalty are the methods of payments.

Now on the other hand, in Alaska PET 4, we have a much higher degree of certainty that there is a substantial amount of oil. The normal approach that has been used in the competitive leasing arrangement would not provide the government with anything like the appropriate full value of that oil in that circumstance. Therefore, we are going to want to seek other means by which—other means of leasing, for example, or a different ratio, and so on, or other forms of financial arrangements.

We have two objectives. One to make it sufficiently attractive that the companies will come in and do the development work and set up the production capability, and the transportation capability, and yet get for the government full value. Our plan would be first to examine the history of all of the competitive leasing records of the Interior Department. We would also go to the industry and solicit them for ideas regarding appropriate solutions, and take record from our own experience and come up with some means that obtains those objectives.

Mr. WEAVER. Do you deal with Standard Oil on the same basis that you deal with any other oil company, in terms of government development of the field?

Mr. BOWERS. In terms of where? In PET 4?

Mr. WEAVER. Elk Hills.

Mr. BOWERS. Yes.

Mr. WEAVER. Because they own 21 percent, is that correct, of Elk Hills?

Mr. BOWERS. Yes. And when they produce it, they will by our contract, receive 20 percent of that production.

Mr. WEAVER. They will enjoy 20 percent of the proceeds of any development that occurs in Elk Hills itself?

Mr. BOWERS. It would be operated by the operating contractor that we use. And since the government owns 80 percent of the share, we would receive 80 percent of the output; Standard Oil would receive 20 percent of the output.

Mr. WEAVER. Well, would it be to the advantage of the Government to buy out Standard Oil now?

Mr. BOWERS. I do not believe that that would be desirable. Frankly, for the amount of the cost that would be entailed, I suspect Congress would not appreciate footing that bill, putting it very directly.

Mr. WEAVER. Would this oil be classified as old oil or new oil under the present regulations?

Mr. BOWERS. That is not for the Navy to decide. FEA will probably make that decision.

Mr. WEAVER. I am of the opinion that this oil should stay in the ground as reserve, because of the state of the economy. I do not share the chairman's logic, but I may be convinced.

Mr. MELCHER. The gentleman from California, Mr. Bell.

Mr. BELL. Thank you Mr. Chairman. Mr. Chairman, I would like to expand upon your very good comments, first of all, by saying that I think you are exactly right, that right now is the time when we need that reserve. Ten years from now we can see the light at the end of the tunnel, where possibly in offshore drilling, in Alaska, through coal, through all of these other things, we can possibly meet—I will not say necessarily, but possibly—we can meet our energy needs.

But right now is when the crunch is on. Not 10 years from now; not 5 years from now. Right now. I want to make that point, and I think the chairman brought it up very clearly.

Now Mr. Secretary, why, in light of the Defense Production Act of 1950, is it still necessary for the Navy to feel that they have to keep this oil in reserve?

Mr. BOWERS. I first want to start from scratch and say the Navy does not want anything. The law says that this is the way it will be. We are instructed by the law to protect—

Mr. BELL. Before the National Defense Production Act you were instructed.

Mr. BOWERS. That is correct.

Now, No. 2, the Navy does not consider it its peculiar property. It is utilized and established for national defense and that includes all of the armed services, and therefore there need not be a separate reserve for all of them.

Mr. BELL. In other words, that is for the armed services, not the Navy.

Mr. BOWERS. It is for national defense.

Mr. BELL. It is for the armed services. It does not belong to the Navy; it belongs to the armed services. Is that correct?

Mr. BOWERS. That is correct. The Navy is still by statute the operator of and protector of the reserve.

Mr. BELL. But that does come under the Secretary of Defense. If he wants you to open it up, you have to open it up because it really belongs to national defense.

Is that correct?

Mr. BOWERS. I have to be rather careful about that. The statute says—since it was written before there was a Department of Defense—the statute says the Secretary of the Navy shall make that determination.

Mr. BELL. It is a Navy oil reserve?

Mr. BOWERS. Yes, it is.

Mr. BELL. So you cannot say that it applies to the armed services generally. It applies to the Navy. It is either one or the other. You cannot have it both ways, Mr. Secretary.

Mr. BOWERS. It is a question of ownership.

Mr. BELL. What is the ownership based on?

Mr. BOWERS. The U.S. Government.

Mr. BELL. The U.S. Navy, not the Government. Right?

Mr. BOWERS. I do not know, frankly, whether the ownership—

Mr. BELL. Now let me go to the other questions and I will hold that for Captain Dowd.

Mr. BOWERS. Excuse me. May I finish the remainder? You did pose a further interesting point. You asked why should we not rely upon the Defense Production Act.

I believe that the point that I made earlier is very important, mainly that in times of embargo the complete country is hit by the shortage. In the fall of 1973 when this happened, we had to employ the Defense Production Act and the 500,000 to 600,000 barrels per day came right off the top of the civilian economy. Now I think that what this Nation should do, in slight opposition to the chairman's relation to priorities, is that we must have a reserve, and I think it should be large enough for both civilian and military so that if shut off occurs you can take care of that without having to take out the useful amounts that the civilian economy would have.

Mr. BELL. At the price of oil today, getting Arab oil when we have potential that should be developed, say, in offshore Alaska, would it not be a little more productive at this particular time, and would it not be a little bit more intelligent for us to go after finding reserves and finding those reserves? When we are close to self-sufficiency or something like that, and could feel more secure about it, then we could set aside the reserves, rather than do it right when the crunch is on.

Mr. BOWERS. I do not think—

Mr. BELL. In other words, the existing situation is a question of having two agencies of government differing. The Interior Department says that we should be looking for oil and developing it, as in Prudhoe Bay. The Navy says, "Let's shut it in." Now that is while the crunch is going on.

Now, to me—somehow that does not ring with any sense. It seems to me that when you have a crunch on, that is the time to develop your oil and try to find more reserves and go right at it. And then when you reach a point or a plateau where you think you are in pretty good shape, then set aside the reserves. But right now we are in a crisis, and there are some economists who say that our whole problem of

recession, and our whole problem of inflation, are directly related to our energy problems.

Now can you still say that this is the time to be setting aside reserves so that we can spend more money to buy Arab oil?

Mr. BOWERS. We evidently are not going to be able to resolve the answer of whether a protection from embargo or contribution to the economic situation is most adequate, but when we talk of crises, I submit that the crisis during the embargo in the fall of 1973 was more severe in its impact on the total economy than what we are experiencing today.

Mr. MELCHER. The time of the gentleman has expired. The gentleman from Oklahoma.

Mr. RISENHOOVER. I came in late. I did not have any questions, but this line of questioning is interesting.

Mr. BELL. Will the gentleman yield his time to me?

Mr. RISENHOOVER. Yes.

Mr. BELL. I thank the gentleman.

Mr. Secretary, you just said that when we had an embargo it put a terrific strain on the economy. But at that particular time you did not respond to it regardless of the needs of the Navy, regardless of the needs of the Defense Department. You did not respond to this. You were shutting in production.

Mr. BOWERS. Sir, you are absolutely wrong. I wrote a determination that Elk Hills should be opened. The President approved it, the Senate approved it, and the House of Representatives did not pass it.

Mr. BELL. Correct. It was the House Armed Services Committee that would not allow it to be opened. I will make that slight correction. The Armed Services Committee did not allow it to be opened up. Now whether you personally were advocating that it be opened up or not, I do not know. There was some shutting in going on at the time, and I am sure you recognize that, on the part of the Navy. I am not going to be personal, but that is, of course, precisely what was wrong. I might add right here that, according to my information, of all of the Government's onshore reserves, Government-owned, the Navy has close to 40 percent.

If your figures are right in the area of Alaska and in the area of Elk Hills on the state of the Government's reserves, you have close to 40 percent. Of the Government-owned, onshore reserves, you have 40 percent of them. That is a pretty substantial amount.

So when the rest of the country is trying to open production up, you are, in effect, for other reasons shutting it in. And I say that we can no longer afford that luxury in our energy policies—where one branch of Government is going one way and opening it up, trying to find oil, and the other is shutting it in.

Now I think that is one of the main reasons for our bill and I think it makes sense from everything that you have said, Mr. Secretary. I do think that it adds up to strengthen your position on that bill.

Mr. BOWERS. I think your point is that it is a matter of timing, however, because the Energy Independence Act does suggest that the greater bulk of these reserves be provided to the economy and that the greatest portion be put in reserve for the civilian economy.

Mr. BELL. You do not have to talk about reserves, Mr. Secretary, because you get that, you get that automatically. All you do is ask

for it. And who gets it first? The Navy gets it, and the Army gets it, in time of war. In time of nonwar you still get it.

Now let me ask you one question: Do you not think these reserves would be better administered by the Department of the Interior for the next 15 years?

Mr. BOWERS. Well, that would be a tough question to answer, sir. First of all, I think you have to look at the reserves one by one. As far as NPR No. 1 is concerned, we will not only put this in the hands of an operator—we have in the past—we would, we will choose a competent industrial organization to operate it. The field is fairly well developed, about half developed now as far as the number of wells. And as you pointed out earlier, the connections and some of the gas equipment must be supplemented. That would be done by that contractor.

And I do not think it matters very much what office of the Government is the placer of that contract. Now, as far as Alaska is concerned, we had experience in Alaska for a great many years where actually the work that the Navy did in exploration led to the discoveries of Prudhoe Bay. We currently have been able to discharge our responsibilities by using contractors to do the job. We obtained a contractor to do the seismic exploration, and as I said, they have done a good job. They are on schedule. We used other contractors to do the analysis, and we have suggested then that further development be a matter for industry.

Mr. BELL. What you are saying, Mr. Secretary, implies that you are efficient at doing a good job in Alaska and Elk Hills and so forth, and you said a few minutes ago in your testimony that you anticipated some time back the energy crunch that may be upon us very soon.

Did you do anything about doing something about that energy crunch at either Elk Hills or Alaska in anticipating it and taking some action?

Now, bear in mind that the Interior Department started action on Prudhoe Bay back in 1969, at least in opening it up for production and in possible anticipation of this, but you did not. Now, you were talking about the administration of this, before your administration, and you mentioned the fact also that the money that you got appropriated was not adequate for your actions up there, and you are right. I agree it was not.

But I can tell you, Mr. Secretary, I have been here for 14 years in this Congress and I have yet to hear any member of the House Armed Services Committee getting up on the floor and saying that we need that money for the oil reserves in Elk Hills and Alaska.

I have heard it talked about for carriers, for nuclear submarines, for missiles, and that is the Armed Services area of expertise; and that is, logically what they want the money for.

In this connection, let's look at a possible conflict. You need money for your oil reserves. You need money to develop, the very thing you say you have not got. You need that money, and I agree with you, you should have it. But the Armed Services Committee might need money for a carrier, they might need money for a nuclear submarine, they might need money for a missile. Which is going to get priority? Will priority be given to the needs of rudimentary production

and development of Elk Hills, the rudimentary production and development of PET 4, or to the aircraft carrier, the nuclear submarine, the missile, the strengthening of the armed services?

Now, tell me which is going to get priority.

Mr. BOWERS. You correctly describe the problem. The problem has been that it has not been perceived as a proper priority in the atmosphere in which we have existed in these last 14 years, and now it is emerging separately.

But however, you are right, it still would become a problem. Carl Vinson suggested legislation in about 1960 or 1962 which would have suggested that the budget for the reserves be separated from the Department of Defense and in the Energy Independent Act we have done that also. And so I believe that is the means by which we would be able to overcome the problem that is very real.

Mr. BELL. Well, who in effect controls that budget, Mr. Secretary?

If we are just talking about the separation now, who controls how it will be divided up?

Mr. BOWERS. We would recommend the dollars would go in to properly develop the field.

Mr. BELL. That is, in effect, the Navy has control.

Mr. BOWERS. Then, as you know, the other departments of the Government and the President then review it before it goes to the Congress, and that would be——

Mr. BELL. The question is really who gets the priority, who gets the emphasis? Which get the arguments, which get the support? And I think you have to agree with me, as a patriot you would have to agree with me that for the good of the country this should be administered by the proper area of expertise, which is the Interior Department.

We have enough square pegs in round holes. I think we ought to start putting round pegs in round holes.

Mr. BOWERS. I want to make one other point on that because it is very important. As far as the money is concerned, to get rid of this competition aspect, the bill provides for the production from Elk Hills to provide money to the special fund, that money would then only be used for the development of these reserves, and so would not compete with the other moneys.

So we would be out of that area.

Mr. BELL. Mr. Secretary, in all of your discussions here I would like to ask you one question that I think is rather pertinent. You talk about development, you talk about drilling, and you talk about setting up for production, but I have not heard you yet mention that it is your intention to bring Elk Hills up, and that it is absolutely your intention as a witness that we will all watch follow through, that it is your intention to bring up the production of Elk Hills to its maximum efficient rate.

I have not heard you say that.

Will you say that?

Mr. BOWERS. I will say that. That is our intent.

Mr. MELCHER. The time of the gentleman has expired.

I have a couple of other points to be answered here for the record.

One is that, Mr. Secretary, there is a great amount of gas, known gas deposits right below the various levels of oil at Elk Hills, but I do not believe that you have directed yourself to that problem, and I wonder on what basis and under what statutes the Navy would produce gas.

Mr. BOWERS. I believe, in fact I am quite sure, that the statute covers gas as well as petroleum. Congressman Bell has pointed out that particularly in the Stevens Zone where we have a high gas content, it will be very important to reinject this to maintain the pressure balance in the field, and some of the facilities that are already there can do part of this, but they do need to be supplemented.

If we had further gas which would be appropriate for sale, I believe we would have a similar authority.

I would like for Captain Dowd to supplement that answer.

Mr. MELCHER. Captain?

Captain DOWD. Yes, that is our position. The current statute authorizing production from the reserves includes hydrocarbons and of course we are talking about associated gas. Therefore we do have the authority, if an opening up should occur, to produce the gas as well as the crude oil.

Mr. MELCHER. Captain, has the Navy ever produced any gas?

Captain DOWD. Yes, we produce the gas in association with the oil. It comes out of the ground at the same time. It lifts the oil to the surface.

Mr. MELCHER. I understand that, but have you ever developed a gasfield?

Captain DOWD. In Alaska we have developed the South Barrow gas field; yes, sir.

Mr. MELCHER. The South Barrow gas field?

Captain DOWD. Yes, sir.

Mr. MELCHER. Which has produced what, Captain?

Captain DOWD. It produced nonassociated gas.

Mr. MELCHER. Pardon me?

Captain DOWD. Non associated gas.

Mr. MELCHER. How much gas does that field produce?

Captain DOWD. I will have to provide that for the record.¹

Mr. BOWERS. It has only been developed to the point of necessity to supply the Federal operations in the area, and the village of Barrow.

Mr. MELCHER. It is a pittance.

Mr. BOWERS. Yes, it is, it is a very small amount.

Mr. MELCHER. Captain, is it not true that the Navy has never developed a gas field of any size and utilized it commercially?

Captain DOWD. That's true.

Mr. MELCHER. And the Navy has no use, conceivable use, other than the few buildings at South Barrow, for utilizing gas; is that not true?

Captain DOWD. True.

Mr. MELCHER. And isn't there a substantial field, a gas field, the Carneros field below the Stevens Oil Zone in Elk Hills?

Captain DOWD. Yes, it is a condensate.

Mr. MELCHER. It is a substantial natural gas field, is it not?

Captain DOWD. Well, we are getting into semantics, Congressman. The Carneros structure is what they call a largely condensate type of hydrocarbon. It does have a large amount of gas in it.

Mr. MELCHER. Which would help satisfy the Nation's energy needs at this time. The Navy has no use for it of any kind other than some peculiar circumstances such as South Barrow where you heat a few buildings.

¹ See letter dated March 11, 1975 on p. 60.

Captain DOWD. Well, you are confusing me by talking about the Carneros field in Elk Hills and the South Barrow field in Alaska.

Mr. MELCHER. I am talking about the Navy using gas.

Captain DOWD. The Navy using gas? Well, the gas at the Carneros structure at Elk Hills is not being used, nor is the gas that is in any of the other zones, because as the Secretary pointed out, we are constrained by Federal law as to what we can produce.

Mr. MELCHER. Yes, absolutely, because it was never in the concept of Congress the Navy would develop a natural gas facility and make it available for commercial use.

Captain DOWD. Well, there was specific congressional authority given to the Navy with regard to the only real gas field we have, which is the South Barrow gas field, to go ahead and produce that field toward the purposes the Secretary pointed out, namely, to provide gas for the Federal agencies in the Barrow area, plus the native village of Barrow. That is enacted into law.

Mr. MELCHER. Well that answer might, on the record, sound like a substantial number of Federal agencies with a multitude of buildings up there, but would you, for the record, just tell us how many buildings there are, and how much heat this gas will provide?

Mr. BOWERS. We will give you that for the record, sir. I think the point is well made. It is a small amount of gas provided. The field, of course, is larger than that, if we developed it.

Mr. MELCHER. I will establish for the record there are very few buildings there and there are very few natives there in the village.

Well, I do not want to belabor the record. I do not want to take the time of the committee or the Navy, but the point is, while the law setting up the naval petroleum reserves also, besides locking in the oil, locked in some gas, and that is a substantial amount.

Mr. BOWERS. I think your point is well taken, that in the development program we should give attention to the gas in both the NPR-1 and 4. There is no question about that.

[Information for the record from Captain Dowd is in a letter dated March 11, 1975 which follows:]

DEPARTMENT OF THE NAVY,
NAVAL PETROLEUM AND OIL SHALE RESERVES,
Washington, DC., March 11, 1975.

HON. JOHN MELCHER,
*Chairman, Subcommittee on Public Lands, Interior and Insular Affairs Committee,
House of Representatives, Washington, D.C.*

DEAR MR. MELCHER: I would like to take this opportunity to provide for the record gas production and consumption statistics for the South Barrow Gas Field, Naval Petroleum Reserve Numbered Four, Alaska which is pertinent to Secretary Bowers' testimony before the Subcommittee on Public Lands of the House Interior & Insular Affairs Committee on Friday, February 21, 1975.

Initially it should be noted that the number of buildings in Barrow is difficult to ascertain. Many "buildings" started their existence as packing cases and tents. These have been connected in various size assemblies by plywood sections making it difficult to determine where one "building" leaves off and another takes up. With the foregoing in mind, perhaps the best indicator of an actual building count is to refer to the number of accounts listed with Barrow Utilities. They are currently servicing 432 customers. The City Clerk advised that the current population of Barrow is 2,307.

There are the following government agencies in the Barrow area:

U.S. Government:

Bureau of Indian Affairs, Branch of Roads.

Federal Aviation Administration, Flight Service Station.

National Weather Service Office.

Post Office.
 Public Health Service, Alaska Native Hospital.
 Naval Arctic Research Laboratory.
 Alaska State Government:
 Barrow Manpower Center.
 Dept. of Health and Social Services, Barrow Health Center.
 Div. of Family and Children Services.
 District Court.
 Div. of Aviation.
 Probation Officer.
 State Trooper.
 North Slope Borough:
 Administrative & Finance Office.
 Physical Plant Office.
 Planning Office.
 Borough School District.
 High School.
 Elementary School.
 Administration Office.
 City of Barrow:
 City Clerk.
 Fire Department.
 Police Department.

Production from the South Barrow Gas Field began on August 1, 1949. As of December 31, 1974, the total production extracted from South Barrow Gas Field is 8,008,095.1 MCF broken down as follows:

(a) All Government agencies in the Barrow area including the Naval Arctic Research Laboratory (Barrow Camp) have used 6,889,445.1 MCF.

(b) Barrow Utilities Inc., a purchaser since December 1964, has purchased through December 31, 1974, 1,118,650.0 MCF.

Production from the South Barrow Gas Field during Calendar Year 1974 averaged 2,095 MCF per day.

I trust the above information is satisfactory. I shall be very pleased to provide any further data required.

Sincerely,

GEORGE G. DOWD,
Captain, JAGC, USN, Director.

Mr. MELCHER. Now, Mr. Secretary, you are advocating—and I am a little bit alarmed at this—you are advocating devising some sort of leasing program for PET 4. I do not happen to share Interior's viewpoint that we are anywhere near to any leasing and, therefore, nor do I share your viewpoint when you describe setting up almost a duplication of what Interior has on public lands.

I think you are talking about something that they have carried in the law and occurs in the Mineral Leasing Act, and I am a little bit alarmed at that. I do not believe that we need to add, at this time, when there is not any transportation available for crude oil out of PET 4, and will not be for some long period of time, to talk about a scheme to have leases in PET 4.

But I only point out that if there was such a scheme carried out, carried out by leasing, it would be pretty much a duplication of what Interior is doing already.

Mr. BOWERS. Sir, by no means do I mean that, and I have not reached any conclusions about how it could best be done. I responded to Congressman Weaver's questions in that regard. And we expect, as I said in my testimony, in 1½ to 3½ years to have identified the first areas that would then be appropriate for development, and at that time I have no conceived notions about how it would be done, other than that I recognize that it would be necessary to bring commercial capital and expertise in to do the job.

Mr. MELCHER. Well, you say we will consider competitive leasing?

Mr. BOWERS. That is one consideration. Competitive contracts is another which is more traditional, the Navy way, than the other means, means such as setting up with companies or consortiums an operating responsibility to do the job.

Mr. MELCHER. This is an example of one branch of government seeking to devise a plan that may be duplicating another branch of government in the same lines of endeavor.

One other point comes up, though, when you talk about allocation of oil out at Elk Hills, and I know that—I am a little bit concerned about that too, because we have already got the Federal Energy Administration into allocating crude oil supplies to refineries, and I had assumed that the language that is proposed in the President's bill would seek to give a fair opportunity to independent refiners in the California area, would seek to do that by assuring competitive bids and bids at no disadvantage in transportation in terms of pipeline availability, at no disadvantage, and if you are going to allocate that, then we are going to have another layer of government red-tape involved.

And we have already got the Federal Energy Administration on the business of allocation of crude oil.

Mr. BOWERS. Let me make a distinction in the word "allocation." First of all, we do want to make sure that the existing pipelines do not give any company an unfair advantage.

Mr. MELCHER. I agree with that.

Mr. BOWERS. Then, if it is necessary to set aside—I will use that word rather than "allocate"—set aside a percentage of the total output and say, this can only be provided to small businesses, and in the refinery business a small business is defined as 25,000 barrels a day or less. We would set aside that total amount and then let the small businesses compete for that percentage, and we would let the larger companies compete for the remainder.

Mr. MELCHER. Well, for the record, then, what you are referring to in the President's proposed bill is on page 16 of this packet, and then section 7430(b), to add the following:

The terms of such sales or exchanges as provided in section 7430(a) 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 refineries alike.

Is that what you are referring to?

Mr. BOWERS. Yes, sir.

Mr. MELCHER. And that language will assure what you have just described in more detail?

Mr. BOWERS. That plus the provisions of the Small Business Act.

Mr. MELCHER. Plus the provisions of the Small Business Act.

Mr. BOWERS. Yes.

Mr. MELCHER. One more point.

How many lawsuits are involved now at Elk Hills, then, between the Navy and somebody else?

Mr. BOWERS. I believe two.

Mr. MELCHER. How long has this litigation been going on in the first one?

Mr. BOWERS. 1967.

Mr. MELCHER. 1967.

And the second one began in 1973 or 1974?

Mr. BOWERS. 1974.

Mr. MELCHER. 1974.

So an open oil field, such as Elk Hills, leads to litigation. That is one conclusion we can draw.

Mr. BOWERS. As you know, the first of those is still in the hands of the court, and the result has been that we were afforded no protection by the court action and, therefore, we used offset production in order not to drain the field.

In the second instance, we have obtained a temporary restraining order so that the oil is not being produced outside of the field and, hence, it is not draining.

Mr. MELCHER. Now, you are talking about the 7-R?

Mr. BOWERS. 7-R.

Mr. MELCHER. For that one particular section?

Mr. BOWERS. That is true. So we are in a pattern where we do have a temporary restraining order which is solving the problem until we can negotiate the solution.

Mr. MELCHER. Well, Mr. Secretary, if Elk Hills is open, you are going to resolve both of those?

Mr. BOWERS. We expect to anyway, yes.

Mr. MELCHER. Well, the second case that you are speaking of, 7-R, you could resolve that simply by taking 7-R into the reserve, into the naval reserve?

Mr. BOWERS. Yes.

Mr. MELCHER. You would have that authority under the law.

Mr. BOWERS. We are in the process of negotiating that, and should we not have a good result in negotiation, we would have the authority to do that.

Obviously, we would, in the eyes of the court, be remiss if we had not given the other party full opportunity to present us with the evidence appropriate. So we are going to do that.

Mr. MELCHER. In this instance, the litigation on 7-R, when you sought and obtained an injunction, also removed oil from the domestic market, about 16,000 barrels a day, right?

Mr. BOWERS. In our role, not as the grasping Navy, but in our role as protectors of the reserve, by statute, we were compelled to take that action so that that oil, which properly belongs to the reserves, in our opinion, was protected, and that is our job by the law of the United States.

Mr. BELL. Will you yield?

Mr. MELCHER. I yield.

Mr. BELL. You resulted in shutting in production, at the time of the great energy crunch in 1974; you were shutting in approximately 18,000 barrels a day production. Now, you were protecting the reserve on the philosophy that the production of the reserve should be shut in for minimum production, right, on the philosophy that the production in the naval oil reserve should be very minimal and that any production that drains that, therefore, is stepping up your production, and therefore means the field would be produced, is that generally correct?

Mr. BOWERS. Sir, do you think I have had any other alternative?

Mr. BELL. No, I do not think you do or did, but this suit going ahead resulted in shutting in 18,000 barrels a day production and the possibility of finding a new parallel structure there that might be a

bigger field, which as not yet been discovered. Do you know how big that Tule Elk Field is?

Mr. BOWERS. As a matter of fact, we have drilled a number of wells. I think currently Standard Oil feels there are on the order of 45 million barrels of recoverable oil in their portion in 7-R, and we have identified a much larger number in the field as it extends into the current confine of the reserve. So we have been able to add to the proven reserves.

Mr. BELL. Have you reached the outer limits? You are sure there is no more in those reserves?

Mr. BOWERS. No; I would not say that we have. We believe that it probably extends all the way to the Stevens Zone.

Mr. BELL. You may have a much bigger field than you actually—

Mr. BOWERS. That is correct.

Mr. BELL. And you shut that in?

Mr. MELCHER. Mr. Secretary, we do not blame you for the law. Do not misunderstand. We are responsible for the law, and we are sure that under the law, the Navy had no other choice than its action that was taken in regards to the lawsuits that are involved in 7-R, and asking for the injunction.

Now, I think the point is well made—I agree with it, as a matter of fact. I think the President is agreeing with it, that the answer to part of it is to open up Elk Hills and getting production that will permit SOCAL and 7-R to get their production back on the road.

The gentleman from California?

Mr. CLAUSEN. Mr. Chairman, I would like to ask unanimous consent that I be permitted to address questions to the Secretary in writing and that he be instructed to respond?

Mr. MELCHER. Without objection, it is so ordered.

[The information referred to follows:]

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., February 26, 1975.

Hon. DON H. CLAUSEN,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CLAUSEN: I would like to take this opportunity to provide answers to the additional questions which you raised pertinent to our testimony before the Subcommittee on Public Lands of the House Interior and Insular Affairs Committee on Friday, 21 February 1975.

Question 1. Under Title I of the President's Energy Independence Act of 1975, please reiterate what will happen to the oil produced from Naval Petroleum Reserve No. 1 at Elk Hills.

Answer. In prepared testimony we indicated that disposition of the petroleum would be as follows: (1) for delivery to the National Strategic Petroleum Reserve; (2) replenishing of Department of Defense mobilization war reserves; and (3) for sale and exchange. It is anticipated that it will be at least two to five years before the National Strategic Petroleum Reserve system could be established. Therefore, the immediate impact will be to add 60 million barrels of petroleum per year to California refineries. While much of the refined products may go for use by the Department of Defense, the Elk Hills oil would displace other petroleum normally drawn from domestic sources for this purpose and thereby will create a beneficial impact on the nation's supply. Later on, Elk Hills and Alaskan oil will be directed for storage in the National Strategic Petroleum Reserve.

Question 2. Why does the Navy need the Naval Petroleum Reserves when it may invoke the provisions of the Defense Production Act to obtain the petroleum products it needs in time of emergency?

Answer. The United States currently imports a significant percentage of its oil requirements. If, as was the case in the recent oil embargo, the Defense Production Act is utilized, the military requirements will be drawn from that petroleum otherwise available to the public economy and create a significant impact.

The Energy Independence Act provides a military reserve so that this will not not happen, but, in addition, makes an even larger provision in Title II for a National Strategic Petroleum Reserve for the civilian economy.

Question 3. Why does the Navy consider itself qualified to operate the Petroleum Reserves?

Answer. The Navy has through the years established a competent organization which has attained significant expertise and detailed acquaintance with each of the Naval Petroleum Reserves. Naval officers have been provided education in both legal and engineering fields to man specific positions of responsibility. The job is one primarily of management. Industrial organizations, individually chosen for appropriate expertise, perform most of the major tasks under contract. These organizations are selected and then directed by the Navy in the performance of these tasks.

Question 4. We have heard statements today which indicate that the facilities at Elk Hills may not be in a state of readiness. Would you please advise this Committee on the present readiness condition at Elk Hills?

Answer. This question must be answered from aspects of both quality and degree of readiness. As far as quality, the Rotating Production Test Program, which calls for the demothballing and testing of 150 pumping wells per year, has demonstrated excellent results. For example, in 1971, a five-day trial showed that within 24 hours 60,000 barrels per day was attained using less than 75% of the wells equipped with pumping units. In 1972, a major inspection was made of the mothballed 35R Gas Processing plant. It was found to be in excellent condition. Now, on the other hand, as far as degree of readiness is concerned, the investments made at Elk Hills to date do not allow utilization of the full potential of the field.

Additions must be made in pumping systems and disposition lines, and particularly in the Gas Processing plant. In the event Elk Hills was opened, specific plans exist to accomplish initial objectives. The current Navy program to complete the development at Elk Hills will provide additional wells and other needed facilities to increase the total deliverability. As mentioned in the prepared testimony, analysis is being made of the necessary pipeline facilities outside of Elk Hills. After this analysis is complete the Navy will make recommendations for actions necessary to provide transportation; the Energy Independence Act of 1975 will provide necessary authorization to take the actions found necessary.

I hope the above information is satisfactory. I will be very pleased to provide any further data required.

Sincerely,

JACK L. BOWERS,
*Acting Secretary of the Navy,
Naval Petroleum and Oil Shale Reserves.*

THE ASSISTANT SECRETARY OF THE NAVY,
INSTALLATIONS & LOGISTICS,
February, 26, 1975.

DEAR MR. CLAUSEN: Attached herewith is a copy of one of the proposals made in 1969 to exchange Naval Petroleum Reserve No. 1 (Elk Hills) for submerged lands under the Santa Barbara Channel—(H.R. 12541 91st Congress (1st Session) introduced by Representative Charles Teague).

JACK L. BOWERS.

Attachment.

[H.R. 12541, 91st Cong., 1st sess.]

A BILL to terminate Naval Petroleum Reserve Numbered 1, to establish certain submerged lands under the Santa Barbara Channels as Naval Petroleum Reserve Numbered 5, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) Naval Petroleum Reserve Numbered 1, California, is hereby terminated and all lands of the United States which prior to the date of enactment of this Act have been included in Naval Petroleum Reserve Numbered 1, are hereby declared to be public lands of the United States.

(b) All contracts relating to lands inside Naval Petroleum Reserve Numbered 1 which (1) were entered into under authority of section 7426 of title 10, United States Code, or any other provision of law, and (2) have not been completely executed, are hereby cancelled.

SEC. 2. (a) All submerged lands under the jurisdiction of the United States in the Santa Barbara Channel, and located generally between Point Conception and a line extending to the west end of San Miguel Island on the west, and between the mouth of the Santa Clara River and a line extending to the east end of Anacapa Island on the east, are hereby established as Naval Petroleum Reserve Numbered 5 to be held for the exclusive use and benefit of the United States Navy in accordance with chapter 641 of title 10 of the United States Code. The Secretary of the Navy and the Secretary of the Interior shall determine the exact boundaries of Naval Petroleum Reserve Numbered 5 and publish such boundaries in the Federal Register not later than the ninety days after the date of enactment of this Act.

(b) (1) Every lease, permit, license, contract, or other agreement or authorization in existence on the date of enactment of this Act relating to exploration for, or development or removal of deposits of oil, gas, natural gasoline, and associated hydrocarbons from any of the submerged lands established as Naval Petroleum Reserve Numbered 5 by subsection (a) of this section is hereby terminated, cancelled, revoked, or withdrawn, as the case may be, except that the Secretary of the Navy may permit the continuance of production or new drilling in the area nearby the location of the January 28 blowout if, in his judgment, such production or drilling is necessary to control or minimize the leakage of oil or gas.

(2) Each person having a compensable interest in any lease, permit, license, contract, agreement, or authorization terminated, cancelled, revoked, or withdrawn by this subsection shall, at his election—

(A) be paid a lump sum in full settlement of all his claims against the United States as a result of such termination, cancellation, revocation, or withdrawal, as the case may be, the amount of such lump sum to be agreed upon by him and the Secretaries of the Navy and Interior; or

(B) be given credit on a competitive basis with respect to equivalent rights and lands which formerly constituted Naval Petroleum Reserve Numbered 1 as he and the Secretaries of the Navy and Interior shall agree upon.

SEC. 3. In order to protect and conserve the oil, gas, natural gasoline, and associated hydrocarbons in Naval Petroleum Reserve Numbered 5, the Secretary of the Interior and the State of California may establish a portion of former Naval Petroleum Reserve Numbered 1, the exact boundaries of which shall be published in the Federal Register and in such other publications as the State may require, and the state may lease the lands within such area for exploration for, or development or removal of, deposits of oil, gas, natural gasoline, and associated hydrocarbons in the same manner and to the same extent as such state can lease any of the submerged lands under its jurisdiction in the Santa Barbara Channel. No part of such area shall be leased by the State of California until such State—

(1) Shall have terminated, canceled, revoked, or withdrawn as the case may be, all leases, permits, licenses, contracts, agreements, or authorizations for the exploration for, or development or removal of, deposits of oil, gas, natural gasoline, and associated hydrocarbons in all of the submerged lands under its jurisdiction in the Santa Barbara Channel, and

(2) agrees to permit exploration for, or development or removal of, deposits of oil, gas, natural gasoline, and associated hydrocarbons in that portion of the submerged lands under its jurisdiction in the Santa Barbara Channel only in the same manner and to the same extent as the United States permits such exploration, development, or removal of oil, gas, natural gasoline, or associated hydrocarbons in Naval Petroleum Reserve Numbered 5.

SEC. 4. The Secretary of the Interior is authorized to credit to the land and water conservation fund established by section 2 of the Land and Water Conservation Fund Act of 1965, in accordance with and subject to the limitations of subsection (c) (2) of such section, from revenues due and payable to the United States from the leasing of lands formerly within Naval Petroleum Reserve Numbered 1, an amount which he determines is equivalent to the revenues which would have otherwise been credited to such fund from revenues received from the submerged lands established as Naval Petroleum Reserve Numbered 5 by this Act.

Mr. MELCHER. Thank you very much, Mr. Secretary.

Our next witness, and last witness today, is Mr. Schlecht, assistant to the chairman of the board, Standard Oil Co. of California. Please proceed, Mr. Schlecht.

STATEMENT OF R. F. SCHLECHT, ASSISTANT TO THE CHAIRMAN OF THE BOARD, STANDARD OIL CO. OF CALIFORNIA, ACCOMPANIED BY TURNER H. McBAINE, GENERAL COUNSEL, STANDARD OIL CO. OF CALIFORNIA

Mr. SCHLECHT. Thank you, sir.

My name is R. F. Schlecht, and I have two principal assignments in Standard Oil Co. of California. I am assistant to the chairman of the board, and in this capacity I am involved with the company's interest at naval petroleum reserve No. 1 at Elk Hills. I am also president of Chevron Land and Development Co., a wholly owned subsidiary of Standard Oil Co. of California. With me is Mr. T. H. McBaine, Standard's general counsel.

Mr. Chairman, we are here at your request to discuss Standard's termination of the operating agreement with Navy. We appreciate the opportunity to present this matter before you.

Before commenting directly on the immediate question, I should first like to explain briefly the nature of Standard's present dual role at Elk Hills. As I am sure you are familiar, Navy and Standard agreed in 1944 to operate the lands within the Elk Hills Reserve as a unit, and entered into the owners' agreement known as the unit plan contract. At the time, there were approximately 44,000 acres of land within the boundaries of the reserve. Of these, approximately one-fifth were privately owned in fee by Standard Oil Co. of California, and the remaining four-fifths were owned by the United States and administered by the Navy. The Standard lands were and are not all in one block, but are checkerboarded throughout the reserve. About one-fifth of the petroleum reserves within the Elk Hills Reserve lie under lands owned by Standard, and therefore under the unit plan contract Standard is entitled to one-fifth of the production.

A unit agreement is an arrangement common in the petroleum industry under which the owners of two or more separate parcels of land in a common pool or field agree to operate the lands overlying the pool or field as a single unit, and to share production of petroleum and the costs of operation in agreed upon proportions. These arrangements are usually for the life of the field and the parties have the same basic objective, namely to produce oil currently at minimum expense and at maximum rates consistent with sound engineering practice.

The unit plan contract between Navy and Standard as land owners at Elk Hills is different in that its long-range purpose has been, not to produce oil currently, but to conserve oil in the ground until needed for a future emergency.

The unit plan contract makes provisions for exploration, development, drilling, and equipping and maintaining wells and other equipment in the reserve so that the reserve can be produced upon short notice. There are also other specific provisions providing for cost sharing and the offtake of petroleum for both owner parties.

Subject to the provisions of the unit plan contract, Navy was given exclusive control over the exploration, prospecting, development, and operation of the reserve. Navy was also given the right, at its discretion, to undertake the actual operations of the reserve directly with its own personnel, or to contract for such operation. Navy in the past has chosen to contract this work and has entered into three successive

contracts or operating agreements with Standard for doing the actual operations at the reserve.

This dual role of Standard, one, as owner of lands and petroleum within the reserve, and two, as operator of the reserve for Navy, has led to frequent misunderstandings. If I may summarize the situation very briefly:

The unit plan contract is an owners' agreement between the Navy and Standard which outlines the two owners' respective rights and obligations during the life of the contract. The operating agreement is a separate arrangement between Navy and Standard under which Standard acts as contractor for Navy for the actual operation of the reserve.

It is this second arrangement, the operating agreement, that Standard has elected to terminate. The termination of the operating agreement will not affect Standard's position as an owner under the unit plan contract.

Standard, in the dual role of owner-participant in the unit plan contract and as contract operator, has been closely associated with Navy in the administration and operation of the Elk Hills Reserve for the past 30 years. Throughout this period, there has been a spirit of cooperation and understanding between the two parties, and when either faced a difficult decision, it has given the other party an indication of its intention prior to taking specific action. It is in light of this spirit of cooperation that Standard advised Navy in early January 1975 that Standard wished to terminate its role as operator at Elk Hills.

This communication was not a formal notification of termination. Standard at the time wished only to advise Navy of its intent and to seek Navy's views as to the exact timing in which the termination could be satisfactorily effected.

Acting Secretary of the Navy Bowers subsequently advised Standard that he would expect a formal written notice of termination pursuant to the provisions of the current operating agreement. Secretary Bowers also assured Standard that when formal notice is received, Navy will endeavor to expedite the process of acquiring a new operator. The Secretary was, however, not optimistic that this task can be accomplished prior to the expiration of the 9-month period provided by the operating agreement.

Standard thereafter on February 14 formally notified the Navy of its intention to terminate its role as operator at Elk Hills. This notice was given to the Secretary of the Navy in a letter from Mr. John R. Grey, president of Standard Oil Co. of California. Under terms of the operating agreement, Standard's contract with the Navy will terminate 9 months from the date of this formal notice.

I wish to assure the committee that this decision was not made in haste. It was given serious and lengthy considerations at the highest management levels in our company. Standard values the confidence placed in it by Navy and the Congress as evidenced by three separate awards of the operating function, and we reached the decision to terminate the operating agreement with regret.

We are very mindful, however, of the serious current domestic energy situation and the need to find, develop, and produce new oil reserves. The President has asked that every effort be made to increase domestic production of petroleum, and Standard is focusing its attention to this objective. The success of our program, we have concluded after much

serious thought, would be impeded if we were to continue as operator at Elk Hills. Continuing as operator would require Standard to divert supplies of trained manpower and other resources to the detriment of these other compelling national priorities.

We are also mindful of unjust criticism and misunderstanding of Standard's role as operator at Elk Hills which could well work to the detriment of both Navy and Standard.

For these two reasons, we believe the termination of our role as operator would be in the best interest of both parties.

At this time I wish to emphasize that Standard will cooperate with Navy to the fullest extent possible to achieve an orderly transition to a new operator.

We appreciate the opportunity to discuss Standard's position on the termination of its operating agreement with Navy at Elk Hills, and hope that these comments have been helpful to your committee.

Mr. MELCHER. Mr. Schlecht, who owns the pipeline within Elk Hills?

Mr. SCHLECHT. The gathering pipelines in Elk Hills are owned by the unit, if you are referring to what I call trunk lines or transmission lines outside the unit.

Mr. MELCHER. Within the unit.

Mr. SCHLECHT. They are owned by the unit.

Mr. MELCHER. Owned by the unit? So you own 20 percent?

Mr. SCHLECHT. Yes.

Mr. MELCHER. The Navy owns 80 percent?

Mr. SCHLECHT. Yes, sir.

Mr. MELCHER. Or is it 22 percent that So-Cal owns?

Mr. SCHLECHT. Probably 21 percent, sir.

Mr. MELCHER. Of course, I guess there is no problem—has anybody ever discussed the problem, or has anybody expressed the problem to you, that if Elk Hills is opened up, that ownership of pipelines within the unit will somehow benefit So-Cal?

Mr. SCHLECHT. I have not heard that, no, sir. It solely goes outside of the unit.

Mr. MELCHER. Within the unit, which is public land, of course, it would have to be operated as a common carrier. Is that not present law?

Mr. SCHLECHT. Within the unit, it would be operated by the unit. These are largely not transmission lines, but really gathering lines, as you recognize, to move the crude where it can be transported out of the area. I do not think common-carrier status is the proper way to say this. They are merely gathering lines owned by the unit.

Mr. MELCHER. Anyone that wants to argue the point about whether a pipeline, even if it is 100 feet within the unit, would be operated as a common carrier—maybe the point will never come up—the law would say, if the point did come up, it would be operated as a common carrier. Is that not right?

Mr. SCHLECHT. Under Navy's control, yes, sir; because, again, Navy has exclusive control within certain limitations provided by the unit plan contract.

Mr. MELCHER. How about if it were under Interior's control?

Mr. SCHLECHT. I would imagine that the same thing would prevail.

Mr. MELCHER. Is not the law clear that on a public land, a pipeline has to be operated as common carrier?

Mr. SCHLECHT. It is my understanding—Mr. McBaine is probably better qualified to answer that than I.

Mr. McBAINE. My understanding is the same, Congressman Melcher; that that is what the law would maintain, yes, sir.

Mr. MELCHER. Let us get outside of the petroleum reserve, outside the unit, and on to everybody's land, whether it is private or public. There seems to be an argument that is posed that the independents are not going to get a fair shake at the oil that is produced in Elk Hills, because major oil companies own the pipelines, and they are going to have the advantage. That is the argument that is posed. What, in your viewpoint, is there to that argument? How much pipeline that is outside the unit would be utilized if Elk Hills were opened at 300,000 barrels a day do you own that would serve the purpose of transporting the oil from there?

Mr. SCHLECHT. Let me answer that question in two parts. First, the pipelines are carrying crude today which is being produced in areas throughout the San Joaquin Valley outside of Elk Hills. The capacity of the pipeline, the through-put of the crude that is being produced, is less than the existing capacity of the pipelines, which incidentally are owned, I believe, by six to seven separate companies.

Mr. MELCHER. Would you identify some of those six or seven, or all of them, if you can?

Mr. SCHLECHT. Standard, Union, Arco, Atlantic-Richfield, Texaco, Mobil, Tasco, Getty. I believe those are the ones. I may have left out one, sir.

Mr. MELCHER. Would you say that these would all be identified as major oil companies?

Mr. SCHLECHT. I would not call Tasco or Getty—the others, yes.

Mr. MELCHER. Getty is not a major oil company?

Mr. SCHLECHT. It depends on your definition of major, sir.

Mr. MELCHER. Let us put in the definition. Is it a very large oil company?

Mr. SCHLECHT. It is a fairly large oil company, all right, sir. If I may continue; this capacity, which is available, is not adequate to handle production of 300,000 barrels a day. We cannot, at Standard, speak for the other pipeline owners, obviously. But we are aware roughly of what they are doing with the capacity, how much they have. We have estimated, I think, we concur with what Secretary Bowers indicated; that about 150,000–160,000 barrels a day of additional oil above and beyond that which is now being produced in the San Joaquin Valley from Elk Hills could be transported from the valley to refining centers. Of this—the second part of the question you asked—Standard has about 50,000 barrels a day, more or less, capacity available to it at the present time. This will vary, of course as to what happens to some of our steam floods, or steam floods of other producers. As of now, that is a good, round number.

Mr. MELCHER. Do any of these pipelines cross public lands?

Mr. SCHLECHT. Yes, sir.

Mr. MELCHER. Are they operated as common carriers?

Mr. SCHLECHT. They are. Standard's is operated as a common carrier between pumping stations, whenever such segment of the line crosses public lands; yes, sir.

Mr. MELCHER. Mr. McBaine, is it your contention that as counsel for the company, that only that portion of a pipeline that crosses public land will be operated as a common carrier?

Mr. McBAINE. It depends on how you define that segment of the line. If one visualizes that it is simply stopping at the border of the parcel of public land, no. That would be unrealistic. If, however, the line that operates across a portion of public land and can be considered a separate line in and of itself, only that might be a common carrier.

Mr. MELCHER. Well, Mr. Briscoe testified a year ago, in response to similar questions, that this system is too complicated. He said:

I do not want to seem evasive here. I am trying not to be. The system is so complicated that, for instance, in a given 5-mile section, you might have three common carrier sections, two proprietary sections, and I would think it would operate as the common carrier. But I cannot say that the entire system, with all its extremities, would.

Mr. SCHLECHT. I think that is correct, Mr. Chairman. I might say, from a legal point of view, this question has never been raised. We have heard a great deal about this in the last year or so in connection with the possible opening up of Elk Hills. It seems to me it is largely a theoretical question. There never has been any actual complaint from anybody about the way in which these lines operate. We have had a great deal of discussion, to me, that seems largely academic.

Mr. MELCHER. I think the subcommittee felt, when it drafted the Alaskan pipeline bill, and addressed itself to this particular point—section 28 of the Mineral Leasing Act—that we felt that we were saying that any permit that was granted to a company to build a pipeline, any portion of which crossed public lands; that the entire pipeline must be operated as a common carrier. We were, of course, addressing ourselves specifically to the Alaska Pipeline, which as you know goes across public lands, State land, and private land. But in the general bill—but in this title that we amended, section 28, dealing with this particular point, it became general law; and we were addressing ourselves to all pipeline permits. So it was not our purpose to say, well, direct the Secretary of the Interior to stipulate, if he granted a permit to cross public lands for a pipeline, to stipulate that only a portion of the line would be operated as a common carrier. It was our purpose, and our intent—and it was adopted by the full committee, and by the House, and it was held jointly in conference—that the whole question of common carrier status, the whole advantage of common carrier status, would be applied to all of the pipeline so involved, even if a very small percentage of it crossed public lands.

Now, if we are not clear on that, this committee wants to be advised of it, and I think we will have clarifying legislation adopted. We have not been apprised by Interior that they have any question on it. We have not been advised by anybody else, as a matter of fact, that there is any question on it. The comment in the news media and private conversations frequently seem to point out that there is some doubt in people's mind on that, and I think your answer, and the answer of Mr. Briscoe—your answer today, Mr. Briscoe's last year—clearly indicates that there is some doubt. Therefore, I think perhaps the committee had better address itself to correct that; that the committee should address itself to clarifying any doubt that might be involved with the committee's intent in that legislation.

Mr. McBAINE. If I may comment, Mr. Chairman; I agree thoroughly with that statement. There is certainly no objection on my part, or my client's part. The question is, having agreed in principle with what you have said, to apply that principle to the places they exist. While that becomes very complicated, of course, with a lot of different pipelines and a lot of different areas that they cover, I think, when the facts are looked into, the committee will be satisfied that there is no real problem here, but the common carrier segments of these lines do operate in accordance with the law, and do provide equal opportunity to all would-be shippers.

Mr. MELCHER. I hope we are going to find what you say is true. But I think, Mr. McBaine, that we also want to determine that the terminus, the receiving end and the discharging end, are operated as common carriers, also; because if that is not the case—in other words, where you were, the pipeline starts—and where it ends is only to the advantage of one or more companies, I would assume they would be major oil companies, then I do not really believe we have established the concept of common carrier. I visualize common carrier meaning you can have access to the pipe where you want to, as long as it does not interfere with anybody else's rights; that is, in the operation of the pipeline, and that you can get off of the pipeline where you want. That is how I visualize a common carrier. I hope that is what we will find, and that that is the way you visualized it.

Mr. BRISCO. May I say there again—I do not want to make this more complicated than it really is—that again presents a problem, because then the interstate pipelines, which clearly have common carrier applications and are regulated, as you know, by the ICC—this problem, whether there is sufficient input capacity, can somebody drive up and say, I want you to take certain oil? They say, well, we are carrying oils for other common carrier shippers; we cannot take your oil today, Tuesday. It will have to be Thursday.

When you were talking about moving this crude oil, it is not quite as though you were carrying a parcel for United Parcel Service or something. So the problem on this question of entry and access from admittedly regulated pipelines is a very difficult factual problem. It is one that engages the constant attention of the ICC, for example, on the long interstate lines.

Mr. MELCHER. We are not going to interfere with the ICC's administration of their portion of the law. What we are particularly addressing ourselves to is the permit granted to the pipeline company to go across public lands. It does not have anything to do going interstate. It is very clear that this committee was not addressing itself just to interstate pipelines. It was addressing itself to also intrastate. Therefore, we took on the authority of making certain under the Mineral Leasing Act that this would be, indeed, the case, regardless of where the pipeline was, as long as it was involved in public land and had a permit for it, regardless of whether it went across lines.

The gentleman from Oregon?

Mr. WEAVER. Mr. Schlecht, it rather intrigues me as a member of this committee, this issue, I am learning it, so my questions will be rather naive.

I am wondering how you feel about the oil that you may derive from Elk Hills as to whether it is old oil or new oil in terms of how you would be able to price it.

Mr. SCHLECHT. Again this is a matter, as Mr. Bowers indicated, for the Federal Energy Administration to resolve. We would have complied with whatever rulings there are on this issue.

Mr. WEAVER. You have no position on it now?

Mr. SCHLECHT. No, sir, whatever they direct us to do, we would abide by that as we have in every instance.

Mr. WEAVER. My quick calculations are, it would mean a difference of \$100 million a year to Standard Oil.

Mr. SCHLECHT. That is a substantial sum of money. That is exactly right. I have not checked your arithmetic, but it is a big sum of money, yes.

Mr. WEAVER. But you have no position on this whatsoever. I assume you will.

Mr. SCHLECHT. Again, if we are asked, and as again, we will have to say, I am sure, that this is a matter which the FEA—

Mr. WEAVER. Off the cuff what do you think, old oil or new oil?

Mr. SCHLECHT. Let me answer this way, sir. Again by going back to what the FEA has stated under what I assume one time were their regulations, we have looked at it and we have interpreted it, but we have not formally asked them for concurrence, that following the guidelines that they have set out, that it would be new oil by and large, because again I refer solely to the fact that there is a provision that says that oil which is produced from the field in excess of the base period—I am sorry, I do not recall exactly what the base period is—would be treated as new oil.

Mr. WEAVER. You do not think this is a special situation?

Mr. SCHLECHT. Certainly it is a special situation. That is why I say this is something the Government will have to rule on. Most certainly if this were a commercial oil field, there would be no doubt in my mind. I would answer the question differently.

Mr. WEAVER. The Navy has drilled 10 exploratory wells and 30 development wells.

Could you tell me who drilled those, who did the actual physical drilling?

Mr. SCHLECHT. Contract drillers. I do not have the name.

Mr. WEAVER. You do not know. It was not Standard Oil?

Mr. SCHLECHT. No. The unit arrangement with Standard's operator probably arranged to have these contract drillers.

Mr. WEAVER. Would you like to sell this oil to the Government, have the Government take it, or would you prefer to have the oil to sell?

Mr. SCHLECHT. I think the answer to that, sir, is we would like to have the oil as commercial oil, most certainly. We have market commitments to meet. On the other hand, if we were to receive full compensation based upon the present value of future production, again, it becomes financially a matter of being equal. I would say there is no strong preference one way or the other. We are in the oil business. We would like to have the crude oil, sir, our own crude oil, sir.

Mr. WEAVER. I assume therefore you support the President's position of opening this oil up immediately for use.

Mr. SCHLECHT. As an owner-participant, we almost have, I think, three separate views on this. They are certainly not inconsistent.

We have for a long period, though, maintained the position of being neutral on whether or not Elk Hills is opened up. I am speaking in our role as owner-participant in the unit plan contract. We have not instigated the opening up, and we have neither favored it or opposed it. This statement has been issued publicly many times. As an operator, and we will be for 9 months or less for the future, we assure you that we stand by ready to do anything we can, if the Congress—and this is where it has to be determined—determines that it should be opened up, to do everything we can to facilitate that. Speaking as a commercial oil company, we would welcome access to our own oil.

Mr. WEAVER. You got into the unit in the first place by owning a little land around there, and you decided just as if you were true private operators, to develop this.

Is this correct?

Mr. SCHLECHT. I am sorry, I did not hear you.

Mr. WEAVER. I assumed you got into this unit in 1944 because you owned some land there and the Government owned some land, and you decided, just as if you were two private operators, to develop this unit.

Mr. SCHLECHT. Yes, sir.

Mr. WEAVER. This is a longstanding ownership of yours?

Mr. SCHLECHT. Oh, yes.

Mr. WEAVER. Prior to 1944?

Mr. SCHLECHT. Yes, sir, longstanding.

Mr. WEAVER. Thank you.

Thank you, Mr. Chairman.

Mr. MELCHER. The committee will stand in recess for 10 minutes. (A brief recess was taken.)

Mr. MELCHER. The subcommittee will come to order.

The gentleman from Oklahoma.

Mr. RISENHOVER. Mr. Schlecht, I noticed you said on this unit plan contract as landowners of Elk Hills, the purpose has not been to produce oil currently but to conserve oil in the ground. You say that you have some frequent misunderstandings with the Navy.

Has there been a misunderstanding about what constitutes an emergency when this oil should be taken out of the ground?

Mr. SCHLECHT. No, sir. I did not mean to imply that we had had a misunderstanding between Standard and the Navy, but that there had been misunderstandings by people in all areas about this rather complex dual relationship and the complexity of the contracts. We have had our differences from time to time, obviously, with the Navy. As Secretary Bowers indicated, there are two matters in litigation at the present time.

The thrust of my use of the word misunderstanding here was really misunderstandings largely with people on the outside.

Mr. RISENHOVER. Who on the outside?

Mr. SCHLECHT. Congress, the public, whoever may be interested in the subject. In other words, it is a complicated area. I run into misunderstandings within my own company. All people who are aware of the fact that we are out at Elk Hills, aware of the fact that we are an operator, aware of the fact that we are owners, but still, because they have not been working with it day to day, not sure what our role is of operator, what the possible conflicts might be. Certainly there are some misunderstandings between us and the Navy, I would say with everyone.

Mr. RISENHOOVER. My understanding is—correct me if I am wrong—that you own 20 percent of the oil in that reserve.

Mr. SCHLECHT. Yes, sir.

Mr. RISENHOOVER. Can you produce that if you desire?

Mr. SCHLECHT. No, sir. This is the whole purpose of the unit plan contract. We are operating this as a unit. This has certain provisions in it that apply to how the production of the reserve, if it is to be produced, will be shared between the parties. At the present time there is a very minimal production, mostly for testing and maintaining the reserve. At the present time we are not free to produce it on our own. This oil has been, if you will, put in the bank for 30 years now. Standard put its 20 percent and the Navy put its 80 percent in, and it has been, other than for a period of 2 years, during World War II, has been produced at very nominal rates.

Mr. RISENHOOVER. If I owned 20 percent of that oil, I would be having a big misunderstanding with the Navy about whether to produce it or not.

There is an emergency.

Mr. SCHLECHT. We entered into an agreement, sir. We bargained for that when we entered into the unit plan contract.

Mr. RISENHOOVER. You are coming out from under. You are asking to be released as operator.

Mr. SCHLECHT. That is a dual role again, sir. Again it is a part of these misunderstandings. As unit plan contract participants, we are not asking to be released of anything. We are going to stay out. We are going to hold our 20 percent. It is only as operator, doing the actual day-to-day operation as contractor for the Navy that we are asking to be relieved, and have elected to terminate.

Mr. RISENHOOVER. You would like to start operating; you would like to start producing that oil and sell it?

Mr. SCHLECHT. As a commercial oil company, we would like to get our own oil; yes, sir.

Mr. RISENHOOVER. You are prohibited from doing that at the present time by the Navy?

Mr. SCHLECHT. By the unit plan contract that we freely entered into in 1944.

Mr. RISENHOOVER. Circumstances are a lot different today than they were in 1944.

Mr. SCHLECHT. Yes, sir.

Mr. RISENHOOVER. It would be to your advantage that that reserve become productive, be pumped out.

Mr. SCHLECHT. Yes, our own oil, which is 20 percent; yes, sir.

Mr. RISENHOOVER. That is all I have.

Thank you, Mr. Chairman.

Mr. MELCHER. The gentleman from California, Mr. Bell.

Mr. BELL. Mr. Schlecht, I see on page 4 of your statement a line that concerns me. You say that continuing as operator would require Standard to divert supplies of trained manpower and other resources to the detriment of these other compelling national priorities.

Mr. Schlecht, in that area, if as the Navy said, as Secretary Bowers has testified, if the Navy intends to increase that production to 300,000 a day, at a maximum efficient rate, then why would you want to get out when you would begin to start getting some money as a result of 20-percent ownership? If 80 percent gets money, 20 percent also gets money as a result of the sale of that oil that is produced.

Why would you want to get out at this particular time if the Navy has already stated that they intend to increase the production?

Mr. SCHLECHT. Sir, as owner of 20 percent, we will get this oil whether we are operators or not.

Mr. BELL. Not in the quantity.

Mr. SCHLECHT. Oh, yes. We get no oil for being operator.

Mr. BELL. I am sorry. I thought you were speaking now as compared to future.

Mr. SCHLECHT. No, sir.

Second, I think there was uncertainty in our minds as to whether or not Elk Hills would eventually be opened up or not.

Mr. BELL. You think, despite what Secretary Bowers said or what other people testifying have said, that there is a distinct possibility, regardless of what the President wants, that, regardless of that, you still think there is a chance, a good chance, apparently, that the Navy still will not open it up adequately for production?

Mr. SCHLECHT. There is a reasonable chance it will happen. That is our opinion; yes, sir.

Mr. BELL. Now, the Navy has said they intend to develop it, they intend to drill wells, they intend to fix the field up, they intend to develop it. That does not necessarily mean they will produce it; does it?

Mr. SCHLECHT. No, sir.

Mr. BELL. Let us take a look at our economic picture for just a minute. Supposing—let us assume you are right for a minute. Let us assume that the Navy were to drill this field and not produce it. That would mean that there are other oil companies in this Nation that are avidly trying to get tubular goods and equipment to drill other fields to find oil for the needs of the United States, right?

Mr. SCHLECHT. Yes, sir; including our own.

Mr. BELL. If the Navy is competing for those tubular goods and that equipment and going to spend millions of dollars drilling it and shutting it in, then that is not giving the companies that want to find oil for the United States a fair break, right?

Second, would you say that that could be inflationary—in other words, if you spend money, \$1 to get \$2 out, and you do not get \$2 out, does that not contribute to the inflationary spiral that we already are experiencing?

Mr. SCHLECHT. As an amateur economist, I would think that statement is correct; yes, sir.

Mr. BELL. I have heard other comments, aside from what you have said, that tend to confirm this, that the Navy has no intention, or at least the Armed Services Committee—I will put it there where it belongs, probably—and the Navy together, have no intention of really opening up the production to the extent that the President says he needs it opened up for the good of the country. I say that that is a question in my mind, not that it is true, but it is a question in my mind, whether they really intend to, judging by past performance, year after year after year. I would say that is a pretty good bet.

Now, let me ask you this. It was touched on today about your role in the Elk Hills. Mr. Schlecht, if you want to look over there, you will see a map that outlines the Stevens Zone, there, the large blue, up there in that corner that the Chairman mentioned, is section 7-R, which is the area that I believe you developed.

Would you give us a little background on the development of that lawsuit and what happened?

I am talking about the second lawsuit. We might go back to the first later.

Mr. SCHLECHT. Yes. The temporary restraining order.

Mr. BELL. The temporary restraining order.

Mr. SCHLECHT. The company in mid-1973, in line with the Government's desire to increase oil supplies, undertook to explore, drill an exploratory oil well in section 7-R as it is identified, and were successful. At the time we felt, our geologists felt that this field would to possibly—extend possibly to the boundary of the naval petroleum reserve and Standard drilled several development wells and produced the oil.

You will recall that this was the time, particularly during the embargo when the production of crude was very vital to our country, that production reached, as you mentioned a few moments earlier, 15,000 to 18,000 barrels a day.

In February, the middle of February last year, 1974—

Mr. BELL. May I interrupt you and ask you to transpose that into gasoline? Would I be correct to say 42 to a barrel would make 300,000 gallons of gasoline, roughly?

Mr. SCHLECHT. I would have to do my arithmetic in my head for a moment. 18,000 barrels a day, about a third of that, 6,000 barrels a day, of gasoline, maybe 7,000 barrels a day, of gasoline, it would be 300,000 gallons, I think per day.

Now, at that time in February, the Navy asked the Federal District Court for an injunction, which was granted, which curtailed all operations and production of Standard of California in Section 7-R, and nothing has happened by way of any operations or anything in Section 7-R since that time. We are still under this temporary injunction.

Mr. MELCHER. The time of the gentleman has expired.

The gentleman from California, Mr. Clausen.

Mr. CLAUSEN. Mr. Chairman, I returned late. I think in the interests of time I want to discuss some of the questions with Counsel and be permitted to direct some questions to Mr. Schlecht.

I ask unanimous consent that he respond at this point in the record.

Mr. MELCHER. Without objection, so ordered.

[The information referred to follows:]

STANDARD OIL CO. OF CALIFORNIA,
San Francisco, Calif., March 14, 1975.

HON. DON H. CLAUSEN,
House of Representatives,
Washington, D.C.

DEAR SIR: Your letter of February 28, 1975, raised three questions regarding my testimony for the hearing record of February 21, 1975, on H.R. 49 and H.J. Res. 31. These are in addition to the several questions that Mr. T. H. McBaine and I were directed to respond to in writing during the course of my testimony.

The following are the answers to all but two of these questions. The responses to the question of my response to (1) the summary statement contained in the Joint Committee on Public Domain on crude oil pipelines in California, and (2) the brief explaining what is believed to be contained in Section 28 of the Mineral Leasing Act, which was directed to Mr. McBaine, are in preparation and will be transmitted under separate cover.

The following are your other questions and my responses:

Question 1. You indicated you were terminating your operating agreement at Elk Hills. You also agreed with the view that the field probably would not be opened to produce at the MER of production. If you were assured the field would be opened and produced at the MER of production through Congressional mandate, would this affect your decision to terminate the operating agreement? Why?

Answer. In arriving at our decision to terminate the Operating Agreement, we weighed, along with other factors, the possibility that Elk Hills might be opened up and produced. Thus, under the conditions as we are now able to foresee, we would not change our decision to terminate the Operating Agreement even if Elk Hills would be opened up and produced at the MER of production.

The reasons for this conclusion are those on which we based our decision to terminate the Operating Agreement. Specifically, I refer to Standard's needs for utilization of its resources to find, develop and produce new oil reserves. Continuing as Operator would require Standard to divert supplies of trained manpower and other resources to the detriment of this objective. Also, the unjust criticism and misunderstanding of Standard's role as Operator at Elk Hills is a contributing factor.

Question 2. You said any share of the oil from Elk Hills for independent refiners would have to come from the Navy's 79 percent share. Does this mean you have the refining capacity available to use your 21 percent share of a MER of production of 300,000 barrels per day from Elk Hills?

Answer. If Elk Hills were opened up and produced at the above rate, Standard could utilize all of its share of the production in its refineries. There may be economic advantages, however, in terms of crude oil transportation or refinery efficiency to move some of our share via crude exchanges with other companies.

Question 3. What are the constraints of the marketplace that limit you to only 80 percent of your refining capacity? Is it the inability to sell product or the inability to obtain crude supplies?

Answer. Standard's two large California refineries in the Los Angeles and San Francisco areas recently have been operating at rates below capacity because of reduced demands for production. Total requirements for oil products seem to be reduced because of energy conservation by the public and resistance to high prices that result from the high cost of crude oil. Our small Bakersfield refinery consistently operates at less than capacity because of the shortage of crude in the local area and the logistics and economic problems associated with appropriating suitable crude from other resources.

Question 4. What increase in refinery capacity will the current expansion at and El Segundo achieve?

Answer. Presently, Standard's California refineries have a crude running capacity totaling 446,000 barrels per day. After the Richmond and El Segundo expansions, the crude running capacity will be increased by over 75%.

Question 5. What percentage of crude running capacity are Standard's and the industry's refineries in California currently processing?

Answer. Crude runs in Standard's California refineries are presently running about 86% of total capacity. Published information from the October 1974 *Mineral Industry Surveys* of the U.S. Department of the Interior—Bureau of Mines show that all California refineries were operating at 85.7% of January 1, 1974 crude capacity.

Question 6. What percent of Standard's current runs are made up of foreign imported oil?

Answer. During the period October 1974—January 1975, 46.9% of the crude run in Standard's California refineries was from foreign sources.

I respectfully submit the above answers to your questions for the record and trust that they are fully responsive.

Very truly yours,

R. F. SCHLECHT.

Mr. CLAUSEN. I will yield to the gentleman.

Mr. BELL. Furthering my line of thinking there, Mr. Schlecht, is it possible—I will not say it is necessarily likely or necessarily sure or anything like that, of that kind—is it possible with the amount of drilling that has been done, and the production that has been made, and the shutting in that is currently taking place of all that produc-

tion, is it possible that that Elk field, as you call it there, could be extended to a very sizable field if it were known where it is confined to?

Mr. SCHLECHT. It all really has been done by the unit, section 18-R, 17-R, and 8-R, and it indicated it is substantial already, but not fully delineated.

Mr. BELL. Not fully delineated? Well sir, it could be larger? It could not be smaller, but it could be larger.

Mr. SCHLECHT. Yes, sir.

Mr. BELL. Right.

So, in effect, in the need for exploration we have again shut down potential larger fields that the country so badly needs.

Now, let me ask you this. Is there any possibility for deeper zones below the well known Stevens Zone, that you see colored blue in the map there? Is there a possibility of a deeper zone somewhere along that structure?

Mr. SCHLECHT. The possibility exists sir.

Mr. BELL. Have there been many wells drilled in the basin in that area?

Mr. SCHLECHT. I know of none, but I should not respond to that. Certainly if there has been, it has been one or two. There have not been—

Mr. BELL. But that, in your opinion, does not fully explore the potential in that area.

Mr. SCHLECHT. No, sir.

Mr. BELL. Is there a possibility that there are other structures besides the Tule Elk field that could be there that could be quite substantial that have not been uncovered because of the dampening effect of the reserves, the Naval Reserve principle to shut down production so it discourages other companies from looking for oil. Is that a possibility?

Mr. SCHLECHT. Yes, sir.

Mr. BELL. Do you think there is any knowledge, any geophysical that there could be, not definite, but that there could be a structure that contains potential quantities of oil besides the Tule Elk field?

Mr. SCHLECHT. I have known, sir, whether our company has or not, I do not know.

Mr. BELL. So, in effect, Mr. Schlecht, what you are saying is that the Navy's reticence about producing this at a time when it is so badly needed in the country has had a dampening effect on the total oil energy effort in that area.

Mr. SCHLECHT. Speaking for my company, yes, sir.

Mr. BELL. And that it had a dampening effect on any further exploratory effort that might find new zones in the field that were never in that area of the reserve?

Mr. SCHLECHT. Yes, sir, speaking for my company.

Mr. BELL. One more question, Mr. Chairman. I do not want to take too much time; just one more question.

Pursuing the Chairman's question a minute, where are most of the independents that would be available to get access to any production that would be produced from Elk Hills field through pipelines or otherwise? Are there some oil companies, independent oil companies in Bakersfield, or in the area, the environs Bakersfield, that could possibly obtain some of this oil?

Mr. SCHLECHT. Yes, sir. They have refineries at Bakersfield, yes, sir.

Mr. BELL. They have refineries and those are mostly controlled by independent companies?

Mr. SCHLECHT. Yes, sir.

Mr. BELL. And also I assume independents have access to it, at the end of the so-called, assuming that the gentleman is right, common carrier line going into the city of Los Angeles and environs. They could possibly, those independents might have access to it under some arrangements, exchange or some kind of arrangement.

Mr. SCHLECHT. Yes, sir. I think, sir; I am sure some kind of exchange arrangement will have to be made because as I know you appreciate, that merely having the opportunity and the facilities to put crude into the pipeline means that you are somehow going to have to get crude from that point over to where your refinery might be. And, all refineries are not necessarily at the terminus of the pipeline.

Mr. BELL. But we would have a problem, would we not; inasmuch as the present pipeline going to Bakersfield is 12,000 barrels a day, we would have a problem of the possible need to build a pipeline of a larger size to get oil to the independents here in Bakersfield in a quantity that they perhaps might want. Actually we are speaking of whoever ends up opening the field up, if it is opened up.

Assuming that, well, we would have to deal with that problem, would we not?

Mr. SCHLECHT. I am not certain we can say that additional capacity to Bakersfield would be essential. The controlling factor, in all likelihood, I believe again—again this is based upon our understanding—that refinery capacities which are now idle on the order of about 50,000 barrels a day, could well be the controlling factor of pipeline capacity. But of this, again, I am not certain.

Mr. BELL. Thank you.

Mr. MELCHER. Mr. Schlecht, a year ago Mr. Halyer testified before this committee for independent refiners—

Mr. SCHLECHT. Yes.

Mr. MELCHER. [continuing]. He identified their association; he testified for the Independent Refiners Association of California and identified that association as 15 of the 23 small refineries in California. Mr Davidson, president of Eddington Oil Co., located in Los Angeles, also testified the same day before the committee. Also, they addressed themselves to the question of if Elk Hills was opened up, how the small independent refinery could have access or an opportunity to get to the crude oil. Both of them talked about a set-aside provision. I am quoting "We could suggest that the legislation incorporate a set-aside provision for small refiners to allow the crude deficient companies to more effectively utilize their facilities," quoting Mr. Halyer. Now, is this procedure used in California at present?

Mr. SCHLECHT. The small business set aside for the acquisition of crude oil? Not to my knowledge.

Mr. MELCHER. Mr. Davidson further testified along the same line. He said it must be set to assure that the small refiner can afford to buy it. Whatever their object was, I understand their object—that is clear. It is a procedure that you would view or that you would find fault with?

Mr. SCHLECHT. Providing the small business with a segment of the Government's oil from the production of Elk Hills. I do not find any fault with that.

Mr. MELCHER. As I understand it, 21 percent of it would be your oil.

Mr. SCHLECHT. 21 percent of our oil to use, to take as we see fit, not the Government.

Mr. MELCHER. In other words, whatever arrangement was made to protect the independent should be out of the 79 percent controlled by Government.

Mr. SCHLECHT. That is correct, sir. I think it has to be, sir.

Mr. MELCHER. You think it has to be that?

Mr. SCHLECHT. Yes, sir.

Mr. MELCHER. What would we do adopting legislation to satisfy the point raised by Mr. Davidson that the pricing must be set to insure that the small refiner can afford to buy it?

Mr. SCHLECHT. That is a much more difficult question to respond to. I think that again this goes back to the Government's regulatory authority on pricing, and presumably it takes into account not only the cost of the raw material but also the control over the production and refining of this crude at an independent price.

Mr. MELCHER. Mr. Davidson said a year ago, "However, at the present time this is not the case."

I had better read the first sentence.

Over a long period of time, of course, it is recognized that equal prices must prevail for equal oil. However at the present time this is not the case. Until equality prevails, it is obvious that the independent small refiners cannot pay a higher average price for crude oil than the majors and still fulfill the independent's traditional role as price competitors.

Mr. Schlecht, Mr. Davidson identifies himself as President of Eddington Oil Co. with a capacity of refining 29,500 barrels per day in Los Angeles, and I think the testimony of Mr. Halper indicated that Standard Oil of California had a refining capacity of around 500,000 barrels per day. That is correct, is it not?

Mr. SCHLECHT. In California, it sounds a bit high; but in that order of magnitude, yes.

Mr. MELCHER. And now Mr. Davidson is stating that the refiners, independent refiners have to pay more for crude oil.

Mr. SCHLECHT. Well, sir, we buy substantial quantities of purchased crude oil, and under the two-tier pricing system that the Government has instituted, I think we pay exactly the same price for the crude, or whether it be old oil or new oil, as independents or anyone else. Perhaps what he had reference to and, again, I do not want to put words in his mouth, is that some major oil companies, including Standard, have their own production leases for feeding, and the cost, if I may use that in contrast to the purchase price of produced oil, is less than what the quoted price would be, which is obvious, because one does not go into the business of exploring for crude, and the many unfortunate misses that we have not finding oil, not producing oil, without having some return for this effort.

So, if he is referring to that, it is true. If he is referring to going on the open marketplace to buy crude, and I assure you we buy an awful lot in California, then to my knowledge both of us are paying the quoted price, whether it be the new oil price or the old oil price.

Other than geographic differences of locations and fields, the quality of the crude oil involved, we are paying identically the same price. There is no advantage because we buy a great amount of crude or a small amount, a quantity discount or anything like that.

Mr. MELCHER. When you trade with another oil company, do you sometimes give in that trade an advantage?

Mr. SCHLECHT. No, sir.

Mr. MELCHER. Is there any set of circumstances in a trade, there is a favored price that would be less than the price an independent would have to pay for it?

Mr. SCHLECHT. No, sir. If you are referring to exchange differentials or something like that, then there are differences, sometimes in our favor, sometimes against us. But these are negotiated at arms length and it is usually a matter of a few pennies. Again, there is no discrimination, no difference between how a small refinery or a large refinery is treated. They are treated completely identical. We have done a very extensive review of this, and there is no evidence to support that at all. There is no favored nation in Standard Oil of California.

Mr. MELCHER. Let me say that the legislation coming out of this committee to open up Elk Hills and the legislation that will be considered by the House, we will make certain that what Mr. Davidson has talked about here on the public record and what other people have talked about in private is taken care of in the legislation. We are talking then about 79 percent of 300,000 barrels, which would be almost 240,000 barrels a day, which would be available in central California, which is Government oil. We will make sure that the independents have a chance to purchase that at a fair price.

Mr. SCHLECHT. Yes, sir. I fully understand that.

Mr. MELCHER. The gentleman from California.

Mr. CLAUSEN. Mr. Schlecht—

Mr. SCHLECHT. Yes.

Mr. CLAUSEN [continuing]. I would like to switch the questions over to another area, just for general information while you are here, and that relates to the refining capacity that you have and how close to the maximum you are now operating. And, what is your general information as to the rest of the majors, and also the independents? How close to capacity are they now?

Mr. SCHLECHT. If I may be permitted to give you a very approximate answer, I have not come prepared. Specifically I would say we are operating on the order of 80 percent, somewhere in that range, of capacity.

Mr. CLAUSEN. What are the reasons why you are not operating at 100 percent capacity?

These are the questions that are being asked by my constituents.

Mr. SCHLECHT. The marketplace, by and large, has dictated it, as to how much crude should be refined into finished products, and we are attempting to meet as much of that as we can. We are supplementing our domestic sources of crude oil with higher cost foreign imports.

Mr. CLAUSEN. Now, to what extent, as far as your understanding is concerned, do the other oil companies operate at about that same level?

Mr. SCHLECHT. It would only be a guess on my part that indeed most of them are operating at a lower capacity. Again, this has been for the past several months or years.

Mr. CLAUSEN. I know that you are having difficulty in acquiring new refinery sites because of environmental complaints and concerns.

To what extent is that a problem out there in California?

Mr. SCHLECHT. For those who need the additional capacity, I think it is quite a problem, not limited solely to oil refineries but to powerplants, and like that. At the present time Standard of California, as you may know, is undertaking expansion of its existing refineries, both at El Segundo and Richmond. We are spending hundreds of millions of dollars on this. The work is now under way and when completed will add to our capacity. But if one were to go out and get a new grass roots refinery, or we negotiated a refinery in a different location, I think you have stated the case very, very well; that it is an extremely difficult situation.

Mr. CLAUSEN. Now with this expanded capacity, what percentage of your current capacity would this provide you, income wise?

Mr. SCHLECHT. Well, I will have to provide you with that after I—I just do not have those figures sir, and I hate to mislead you on this because part of this capacity we are putting in as replacement capacity to make our refinery more efficient. I have not followed this closely enough.

I would be happy to supply that for the record.

Mr. CLAUSEN. I want to ask you a real tough question. I have before me a report from the joint committee on public domain on crude oil pipelines in California. This came as a result of a joint committee chaired by Mr. Kenneth Cory of the State legislature, and he came to a conclusion which, in effect, is wrapped up in this summary.

I would like to have your comment on the point that the major oil companies control California crude oil by their ownership and control of the crude oil pipelines. It's been said that this control artificially depresses prices paid to independent producers and restricts the supply of crude to the independent refiners. Starving the independent refiners inhibits competition at the retail products level and results in too high prices at the gasoline pump.

I am sure that has been directed to you before. How do you respond to that summary and that allegation in this report?

Mr. SCHLECHT. The question has not been put to me directly in that manner, but it certainly has to our company many times. I think it is proper to say here that I do not agree with that.

Mr. CLAUSEN. Would you please respond again, sir.

Mr. SCHLECHT. We do not agree with that conclusion, sir.

Mr. CLAUSEN. I would like to have you amplify on that question, and if you would like to give me in detail a response prepared for submission to the record, that would be very helpful, if we have that as a part of our record.

Mr. SCHLECHT. I think this will be preferable, sir, from my standpoint that we do give you the best response that we can on that, for the record, and we will so do it.

Mr. CLAUSEN. May I ask then for unanimous consent Mr. Chairman, that he be directed to respond to the questions and it will be in writing.

Mr. MELCHER. Without objection it is so ordered and when received will be placed in the Subcommittee files.

Mr. MELCHER. The committee is advised that the documents that are referred to, the report of the Joint Committee on Public Domain on crude oil pipelines in California, will be made a part of the committee files.

[The material referred to will be found in the committee files.]

Mr. MELCHER. It will be available to any member of the committee for study.

Now, Mr. Schlecht, Mr. McBaine—the staff has advised me that using—Mr. McBaine, in response to a question I asked you using the term “the common carrier segment of the pipeline” seems to indicate you are talking about the pipeline, which is segmented, of course; therefore, you are talking about only a portion of that pipeline being operated as a common carrier. I did not understand you to say that, but is that what you meant?

Mr. McBAINE. Mr. Chairman, I am handicapped if we are not discussing a particular line with specific facts before. It is my understanding that the lines are not segmented in segments consisting solely of portions that pass over public lands and then portions that pass over nonpublic lands. That is not the fact. They are segmented in some instances into portions, part of which cross public lands. If any part of a segment of a particular pipeline crosses public lands, that whole segment is a common carrier. There is a law for it and operated under the law of California as a common carrier pursuant to section 28 of the Mineral Leasing Act.

For example, the line may have been built and operated from A to B crossing a section of public land somewhere in the middle of that land and operated for 10 years. After 10 years, whoever operates the pipeline decides to extend that line from B to C, line that extension is put on that line from B to C, if it does not cross any public land, that is not necessarily operated as a common carrier.

That is the kind of factual situation I was referring to. I think in order to be more specific, one would have to look at each particular pipeline.

Mr. MELCHER. I think so, too, and you would have to look at each particular pipeline. But if there were an intent to avoid common carrier status for a pipeline, the company could apply for a permit from Interior that portion of it which crosses public land. One of the stipulations would be that he would operate as a common carrier from A to B, but if there was a purpose or if there was an intention of the company to avoid the responsibility of common carrier, then the later construction would almost be simultaneous, would be from point B to point C and would destroy the intent of the Congress who wanted the pipeline built as a common carrier and utilize the permit system through Interior on crossing public land as a vehicle to enforce the pipeline being enforced as common carrier.

I also suspect that we do need to amplify section 28 of the Mineral Leasing Act to make sure what we visualize as an enforcement of that status on almost any pipeline in the West. Any pipeline of any distance is very likely to cross public lands at some point. Perhaps we need to amplify that and state that any contiguous lines built with it, or however you want to put it, technically intermesh with it, connected with it, shall also be operated as a common carrier.

If that is the point that has promoted the serious charges that are in the Joint Committee on Public Domain in California and their report and the rather serious testimony that we received from Mr. Davidson, and privately we have heard discussed from other people, then we will take steps to correct it.

I think this committee really wants all these pipelines to be operated as common carriers and wants to utilize this system, the permit system, to enforce it.

I wonder if we would be asking too much, Mr. McBaine, if we asked you to give us a brief on this.

Mr. McBAINE. I think, Mr. Chairman, we could certainly do so in connection with a written statement on Mr. Cory's report there.

If you will notice, one of the things that Mr. Cory complains about is the law of the State of California as enunciated by the California Supreme Court. Unfortunately, we have very little influence on that. Mr. Cory has complained that the law of the State of California is not to his liking. Perhaps he will try to change that; I do not know. That is not really something that a private company has anything to do about except to comply with the law.

Mr. MELCHER. As I understand, the gentleman from California's request, Mr. Clausen, was that Mr. Schlecht be allowed to answer in detail in response to your specific question that he put to him.

If you want to incorporate with this response of Mr. Schlecht a legal brief explaining what you believe is contained in section 28 of the Mineral Leasing Act in regard to common carrier status, I think that it would be most helpful to the committee.

Mr. McBAINE. Yes, sir.

[The information referred to follows:]

PILLSBURY, MADISON & SUTRO,
San Francisco, Calif., April 1, 1975.

HON. JOHN MELCHER,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN MELCHER: During the course of my appearance before the Subcommittee on Public Lands of the House Committee on Interior and Insular Affairs on February 21, 1975, in the company of Mr. R. F. Schlecht, and in a hearing on H.R. 49 and H.J. Res. 31, you asked that I file with the Subcommittee a memorandum regarding the provisions and obligations of Section 28 of the Mineral Leasing Act with particular reference to the common carriage requirement imposed on crude oil pipelines which cross Federal lands. The memorandum in enclosed. I trust that it meets your requirements.

Yours very truly,

TURNER H. McBAINE

MEMORANDUM RE SEC. 28 OF THE MINERAL LEASING ACT

I.

Sec. 28 of the Mineral Leasing Act of 1920 read in part as follows when adopted: " * * * rights of way through the public lands, including the forest reserves, of the United States are hereby granted for pipeline purposes for the transportation of oil or natural gas to any applicant possessing the qualifications provided in section 1 of this Act, to the extent of the ground occupied by the said pipe line and twenty-five feet on each side of the same under such regulations as to survey, location, application, and use as may be prescribed by the Secretary of the Interior and upon the express conditions that such pipe lines shall be constructed, operated, and maintained as common carriers:

* * * * *

Provided further, That no right of way shall hereafter be granted over said lands for the transportation of oil or natural gas except under and subject to the provisions, limitations, and conditions of this section. Failure to comply with the provisions of this section or the regulations prescribed by the Secretary of the Interior shall be ground for forfeiture of the grant by the United States district court for the district in which the property, or some part thereof, is located in an appropriate proceeding."

In 1935 the words "may be granted by the Secretary of the Interior" were substituted for "are hereby granted" in line 2, and in line 10 the following was added after the common carrier provision:

"* * * and shall accept convey, transport, or purchase without discrimination, oil or natural gas produced from Government lands in the vicinity of the pipe line in such proportionate amounts as the Secretary of the Interior may, after a full hearing with notice thereof to the interested parties and a proper finding of facts, determine to be reasonable."

As suggested by this legislative history, it has been held that the common carrier obligation imposed in 1920 and the obligation to carry or purchase oil or natural gas produced from Government land in the vicinity of the pipeline added in 1935 were separate and distinct obligations, and that the holder of a crossing permit issued under Sec. 28 was obliged prior to 1973 to meet and conform to both obligations. *Denver Petroleum Corporation v. Shell Oil Company* (1969) 306 F. Supp. 289, at 302.

It was also held that the common carrier provision quoted above was not limited to oil and gas produced from Government lands, but applied also to oil and gas produced from other lands as well. *Montana-Dakota Utilities Co. v. Federal Power Commission* (8 Cir. 1948) 169 Fed. 2d 392, cert. den. (1948) 69 Sup. Ct. 82.

In 1973 Sec. 28 was extensively revised and amended. It now reads in part as follows:

"(a) Rights-of-way through any Federal lands may be granted by the Secretary of the Interior or appropriate agency head for pipeline purposes for the transportation of oil, natural gas, synthetic liquid or gaseous fuels, or any refined product produced therefrom to any applicant possessing the qualifications provided in section 1 of this Act, as amended, in accordance with the provisions of this section.

* * * * *

"Common Carriers

"(r)(1) Pipelines and related facilities authorized under this section shall be constructed, operated, and maintained as common carriers.

"(2)(A) The owners or operators of pipelines subject to this section shall accept, convey, transport, or purchase without discrimination all oil or gas delivered to the pipeline without regard to whether such oil or gas was produced on Federal or non-Federal lands.

"(B) In the case of oil or gas produced from Federal lands or from the resources on the Federal lands in the vicinity of the pipeline, the Secretary may, after a full hearing with due notice thereof to the interested parties and a proper finding of facts, determine the proportionate amounts to be accepted, conveyed, transported or purchased.

* * * * *

"(5) Whenever the Secretary has reason to believe that any owner or operator subject to this section is not operating any oil or gas pipeline in complete accord with its obligations as a common carrier hereunder, he may request the Attorney General to prosecute an appropriate proceeding before the Interstate Commerce Commission or Federal Power Commission or any appropriate State agency or the United States district court for the district in which the pipeline or any part thereof is located, to enforce such obligation or to impose any penalty provided therefor, or the Secretary may, by proceeding as provided in this section, suspend or terminate the said grant of right-of-way for noncompliance with the provisions of this section."

Both the text and the legislative history of the 1973 amendment suggest that the holder of a crossing permit issued today, instead of being subject to the two obligations imposed under the 1920 and 1935 statutes, as set forth above, is now subject to a single obligation, viz. to accept, convey, transport or purchase without discrimination all oil or gas delivered to the pipeline, whether from Federal or non-Federal lands, with the amount Federal lands to be determined by the Secretary of the Interior.

In other words, instead of being obliged to act as a common carrier for all would-be shippers, regardless of the origin of the oil, and also as a common carrier or common purchaser of oil from Federal lands, under the 1973 amendment the owner of a pipeline crossing Federal lands must carry or purchase without discrimination all oil delivered to the pipeline, without regard to where the oil comes from.

Two points may be noted:

(a) The language of Sec. 28(r)(2)(A) is such that it indicates that it applies to pipelines crossing Federal lands constructed under permits issued prior to 1973 as well as those constructed under permits issued subsequent to 1973; and

(b) It is not clear whether the option to carry or to purchase without discrimination is to be exercised by the pipeline owner, or may be exercised by the one who delivers the oil. In any event, it is clear that if the pipeline owner purchases the oil, without discrimination and with the consent of the one who delivers the oil, the obligation of the pipeline owner under Sec. 28 has been met.

II

A form of stipulation commonly required by the Secretary of the Interior as a condition for the issuance of a crossing permit reads as follows:

"The applicant agrees to operate the pipe line as a common carrier in accordance with the provisions of the Mineral Leasing Act, and, within 30 days after the request of the Secretary of the Interior, to file rate schedule and tariff for the transportation of gas as such common carrier with any regulatory agency having jurisdiction over such transportation, as the Secretary may prescribe." (*Chapman v. El Paso Natural Gas Co.* (D.C. Cir. 1953) 204 F. 2d 46 at 48.)

Under the pre-1973 statute, it was held that the obligation of one accepting a crossing permit under Sec. 28 became effective upon acceptance of the grant, and that nothing further was necessary before a would-be shipper could demand service. Thus in the *Denver Petroleum* case, *supra*, the court said (306 F. Supp. 303):

"The obligation is absolute, exists from the date of the grant, and no administrative action is necessary to ripen the obligation."

Presumably the same thing is true of the obligation arising under Sec. 28 as amended in 1973.

Only one thing is needed to trigger the obligation: A request for common carriage or purchase. Once the request is made, enforcement of the obligation is left to the courts or to the regulatory agencies having jurisdiction over the pipeline (See subsection (r)(5) of Sec. 28 as amended in 1973).

Insofar as the common carriage obligation is concerned, an interstate crude oil pipeline crossing Federal lands is obliged to file a rate schedule and tariff with the Interstate Commerce Commission; and an intrastate crude oil pipeline crossing Federal lands is obliged to file a rate schedule or tariff with the state regulatory agency having jurisdiction. Objections to these rates or tariffs may be made to agencies concerned, and adjudicated by them in the normal exercise of their jurisdiction.

The principal remaining question to be considered is the scope of the common carriage obligation, i.e. the kind and extent of the service that must be furnished. The decided cases make it clear that the obligation does not attach only to that portion of the pipeline which crosses Federal lands, but attaches to the entire line from the point of origin to the terminal at which it ends. As the court said in *Montana-Dakota Utilities Co. v. Federal Power Commission* (8 Cir. 1948) 169 F. 2d 392, at 399, of an integrated inter-connected natural gas pipeline system crossing public lands in numerous places:

"* * * the duties of petitioner as a common carrier * * * do not end at the boundaries of the public land traversed by the pipe lines. They apply alike to the entire interstate transportation of natural gas over every part of the interconnected pipeline system."

On the other hand, there is no obligation on the part of the owner-operator of a crude oil pipeline crossing Federal lands to enlarge his line, or to construct additional loading or unloading facilities, to accommodate would-be shippers. The basic obligation of the owner-operator is to operate his line and his facilities without discrimination between all would-be shippers, including himself. Thus the owner-operator of such a pipeline cannot transport his own oil in preference to that of non-owners who wish to ship their oil, and carry for the latter only where there is excess capacity in the line over and above the requirements of the owner-operator. Beyond this, it is very difficult to go, because the precise obligations of the owner-operator will depend upon all the facts involved, and will have to be

determined on a case-by-case basis. Again, the basic requirement is that the owner-operator operate without discrimination, without giving his own requirements priority, and if he does this, he has met his legal obligation.

III

As noted above, subsection (r)(5) of Sec. 28 as amended in 1973 provides the means of enforcing the obligations of common carriage or purchase arising under Sec. 28. Thus it provides that if the Secretary of the Interior has reason to believe that any owner or operator of a pipeline subject to Sec. 28 is not operating his line in accord with these obligations he may

(a) request the Attorney General to prosecute an appropriate proceeding before the ICC or FPC or appropriate State agency or United States district court to

(i) enforce such obligation; or

(ii) impose any penalty provided therefor; or

(b) by a proceeding as provided in the section, suspend or terminate the right-of-way for the pipeline over Federal lands.

Under subsection (x) of Sec. 28, as amended in 1973, the Secretary of the Interior has the authority to promulgate regulations imposing various penalties for failure to observe the obligations imposed by Sec. 28.

So far as the statute is concerned, therefore, the Secretary clearly has ample means for enforcing the provisions of Sec. 28 of the Act.

Mr. MELCHER. The gentleman from Oklahoma.

Mr. RISENHOOVER. I think I understood you a while ago to say that there is additional capability of 150,000 to 160,000 barrels a day in those pipelines in that area which services Los Angeles. Is that correct?

Mr. SCHLECHT. The capability is in the pipelines of the historic six or seven owners in the general area of Elk Hills, and these pipelines go to Los Angeles, to Bakersfield, to our refinery in Richmond near San Francisco.

Also, there is a line running over to Austero, which is a marine terminal loading port Standard owned, and vessels can tranship to Los Angeles or San Francisco refining centers.

Mr. RISENHOOVER. You have a 100,000-barrel-a-day capacity.

Mr. SCHLECHT. Including crude for production of other fields, in that order of magnitude; yes, sir.

Mr. RISENHOOVER. You could handle another 100,000 barrels a day, approximately. That pipeline would handle 150,000 to 160,000 barrels a day.

Would that 50,000- to 60,000-barrel difference be available to those independents in Bakersfield?

Mr. SCHLECHT. I am sorry, sir. I do not know the genesis of this 100,000 barrels a day. Again, I would like to correct the statement for an impression I may have left.

When I speak of pipeline capacity, I am referring to not only Standard's pipeline capacity but that of the industry as a whole, the other owner-shipper-operator as well.

But again, sir, I am sorry. I do not understand the 100,000-barrel-a-day figure.

Mr. RISENHOOVER. You are saying you are operating at 80 percent of your capacity?

Mr. SCHLECHT. Refined capacity.

Mr. RISENHOOVER. You could handle another 100,000 barrels a day if you were piping it in there.

Mr. SCHLECHT. Only, sir, if the market was there to absorb it. In other words, we control our refinery runs to what we need to supply

the market. To some extent I think we should recognize if additional crude became available from Elk Hills, to some extent this could well back out imported foreign oil.

Mr. RISENHOOVER. That is what I am getting at. We could be producing domestic oil.

Mr. SCHLECHT. Excuse me, sir; I misunderstood. Yes, sir. Exactly, sir.

Mr. RISENHOOVER. We are importing 100,000 barrels a day or 150,000 barrels a day. We could actually increase—it depends on what you want to do with those pipelines.

Mr. SCHLECHT. Yes, sir; this is correct. There may be some instances of other companies that need additional oil or would increase their markets that are unsatisfied. But that is in the order of magnitude correct.

Mr. RISENHOOVER. Eighty percent of that 500,000 barrel a day capacity that you have in Richmond and Los Angeles, how much of that is foreign crude?

Mr. SCHLECHT. I do not have that figure, sir. I am sorry. I do not mean to be evasive on this. This tends to change frequently, but I can get it for you, as to the amount of foreign crude we are importing.

Mr. MELCHER. Without objection, that will be included. That will be made a part of the record at this point.

[The information referred to is in letter from Mr. Schlecht to Hon. Don Clausen, dated March 14, 1975, and placed in the record on p. 77.]

Mr. MELCHER. Thank you very much, Mr. Schlecht and Mr. McBaine. We really appreciate your appearance before us today, and your testimony has been helpful to the committee.

The subcommittee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 1:10 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

Subsequent to the hearing, statements were received from Kass Green of Friends of the Earth, and Brock Evans, representing the Sierra Club.

[The statements follow:]

STATEMENT OF KASS GREEN, OF FRIENDS OF THE EARTH

Friends of the Earth has long been interested in the future on Naval Petroleum Reserve No. 4, in northwestern Alaska. We are, therefore very concerned with Section 3(c) of H.R. 49 which authorizes and directs the Secretary of the Interior to explore for oil and gas on Pet. 4. This vast de-facto wilderness is more than just a petroleum reserve. Contained within it are some of the most unique wildlife habitats in Alaska today. The two million acre Teshekpuk-Cape Halkett region is one of the best waterfowl nesting areas on the North Slope playing host to pintails, old squaws, king eiders, and many more. Calving grounds for the 250,000 member Arctic caribou are centered in the 7 million acre Utukok River basin. In addition to these unique wildlife habitats, the Reserve supports a wide variety of animals ranging from the endangered peregrin falcon to the grizzly bear.

Pet. 4 also is one of the largest de-facto wilderness areas remaining in the United States. It's 23,000 acres (37,000 square miles) contain several rare ecosystems, each unique and different from the others. The regions in the Brooks Range and its foothills are extremely scenic and picturesque. Many potential natural landmarks and historical sites are scattered throughout the Reserve.

Friends of the Earth is not opposed to gas and oil exploration in Pet. 4. However, we feel that if exploration is to begin, the surface resources of this spectacular area should be recognized and protected by legislative action in H.R. 49. We propose that all exploration be postponed for at least five years until a comprehensive study has been made of all the various resources contained in Pet. 4. We, furthermore, suggest that the surface resources of Pet. 4 be put under the jurisdiction of the U.S. Fish and Wildlife Service which have clearly indicated their exceptional capability in managing for both wildlife and oil. Their management of the Kenai Moose Range is an example of this capability.

Thank you for your consideration of these proposals. Please include this statement in the record of hearings and proceedings on the legislation.

STATEMENT OF BROCK EVANS, DIRECTOR OF THE WASHINGTON OFFICE, SIERRA CLUB

At this Committee is aware, we have testified before the previous Congress on the predecessor bill to H.R. 49, and expressed our concerns at that time about the adverse environmental implications which would result from unrestricted authority of the Secretary of the Interior to establish "petroleum reserves" on "any reserved or unreserved public lands." Now we understand that the exclusions from this right to create reserves have been expanded to include certain lands in Alaska, including lands subject to state and native selection, and the "D-2" public interest lands, withdrawn by the Secretary of Interior under the authority of the Alaska Native Claims Settlement Act, to be considered by the Congress for potential national parks and wildlife refuges.

We strongly urge the Committee confirm these exclusions and to adopt one other: an exclusion from petroleum reserve authority of the Alaska public lands known as the "citizens D-2 proposals." These proposals were introduced in the last Congress as H.R. 13564, and again before this one as H.R. 2063. They will be considered together by the appropriate bodies of the Congress when hearings and markup sessions are held; and for this reason, it is extremely important that the integrity of the lands involved and their park and wildlife potential not be compromised before the Congressional consideration takes place. The citizens D-2 proposals embrace about 106 million acres of Alaskan public lands, or about 23 million more than the D-2 lands withdrawn by the Secretary. We urge that the language to exclude Alaskan D-2 lands be written to read as follows: "... and those public lands in the state of Alaska, known as D-2 lands, as identified by either the Secretary of Interior or by other legislation now pending before this Congress, which are being considered under the terms of the Alaska Native Claims Settlement Act of 1971, for inclusion in the National Park, National Wildlife Refuge, National Wild and Scenic Rivers, and National Forest Systems."

Another section of the bill which is of immediate concern is Section 3(c), which authorizes and directs the Secretary to explore for oil and gas on Naval Petroleum Reserve No. 4, in northwestern Alaska.

We think it is extremely important to direct the attention of this committee to the fact that Pet. 4 is much more than an oil reserve. It is a vast and beautiful wilderness of 23 million acres—larger than the state of Indiana. It is also an outstanding wildlife area. The Utukok River basin, on the western side of the Reserve (thought to contain no prime oil fields) is the historical and present calving ground of the 250,000 member Arctic caribou herd, the largest in Alaska. And the Teshekpuk-Cape Halkett region lying in the northeastern part of Pet 4's coastal plain is considered to be the best waterfowl nesting area on the North slope. Finally, the lands in the northern part of Pet 4, in the Brooks Range and its foothills, and extremely scenic and are natural additions to the proposed Gates of the Arctic (or Nuniamuit) National Park.

The Teshekpuk waterfowl area is approximately 2 million acres. The Utukok area is about 7 million, and the additions to the Gates of the Arctic Park would be about 1 million, for a total acreage (moist of it in areas of low oil potential) of about 10 million.

We urge that these 10 million acres of known wilderness, scenic, and wildlife values be given special recognition and protection in H.R. 49, and in the legislative history which surrounds it. The legislative history should clearly recognize that Pet 4 has more value to the nation than simply as an oil reserve, and it should clearly identify the specific values and places which must receive special management and protection.

We believe that the best method of protecting these values and yet permitting necessary exploration for gas and oil in appropriate places would be to require management of the surface resources of Pet 4 by the Fish and Wildlife Service. The Service is capable of managing both wildlife and oil values, as its experience in the Kenai Moose Range indicates. And the legislation should prohibit exploration in the above-named areas for a period of no less than five years, to give the Service time to study and make recommendations to the Congress about the future possible management of their resources.

Thank you for your consideration of these proposals. We are discussing the fate of a magnificent remnant of America's wilderness, and we should not dispose of it lightly. We can submit further information or maps if necessary. Please make this statement a part of the record of hearings and proceedings on this legislation.

ESTABLISHMENT OF NATIONAL PETROLEUM RESERVES ON THE PUBLIC LANDS

TUESDAY, APRIL 8, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON PUBLIC LANDS OF THE
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

Washington, D.C.

The subcommittee met, pursuant to notice, at 10:15 a.m. in room 1324, Longworth House Office Building, Hon. John Melcher [chairman of the subcommittee] presiding.

Mr. MELCHER. The Subcommittee on Public Lands will come to order.

This morning we are meeting again on H.R. 49, which is the bill, which has been reported out of the committee and is on the House floor. The sequential referral was sent to Armed Services for their reviews and recommendations. We find in following the hearings in Armed Services on H.R. 49, that the Justice Department had its testimony concerning the investigation that we had for 5 years, if I am not mistaken, on the question of antitrust violations and marketing of crude oil in the California area. H.R. 49 was drafted, we thought, to prevent unfair practices by major oil companies in the sales of crude oil that Elk Hills has put into production.

I was concerned about the testimony that was presented before the Armed Services Committee by Justice. We have heard from the administration on four or five different occasions during the past year and a half. We have not told the administration who to send up here to testify concerning H.R. 49, and we are a little bit puzzled to find that the Justice Department shows up at this late date to start testifying on H.R. 49.

I think it is fair to say that the members of this subcommittee and the members of the full committee assumed that when we asked the administration to send up witnesses to testify on H.R. 49, that we were getting a balanced report from the Administration, and that the Justice Department had an interest and that they communicated an interest to Defense or to Interior. Or, if they did not choose to communicate that interest to Defense or Interior, they would certainly communicate with us directly.

So, Mr. Clearwaters, you are here as a result of our correspondence to the Attorney General to provide for us some of the answers to these questions.

First of all, is there anything in H.R. 49 that impedes the investigation of your division or injures it in any way? Second, is not legislation such as H.R. 49 or the administration's bill the proper vehicle to provide an end to monopolistic practices in the marketing of crude oil?

Third, does the Justice Department have a different viewpoint on H.R. 49, or the administration's bill than had been presented to us by Interior and Navy?

I trust your testimony is going to answer those questions.

Mr. CLEARWATERS. Thank you, Mr. Chairman.

I would like to suggest that my testimony be submitted for the record and printed in full. I will try to summarize some of the pertinent issues as we see them.

Is that permissible?

Mr. MELCHER. That your testimony be entered in the record?

Mr. CLEARWATERS. Yes, sir.

Mr. MELCHER. Without objection, Mr. Clearwaters' testimony will become part of the record at this point as if read.

You may proceed.

Mr. SKUBITZ. Reserving the right to object, Mr. Chairman. Mr. Clearwaters is the only witness appearing here today. I have not seen his testimony. It would be of great help to me to have him read his testimony into the record so that we might ask questions about his testimony.

Mr. MELCHER. The gentleman from Kansas, the ranking member of the Republican side of the full committee, reserves the right to object.

Mr. Clearwaters, I suggest you read your testimony.

Mr. CLEARWATERS. Thank you, Mr. Chairman, and all the members of the subcommittee.

STATEMENT OF KEITH I. CLEARWATERS, DEPUTY ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE

Mr. CLEARWATERS. 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 objectives 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 U.S. public lands except specifically designated public lands, basically game preserves and forest areas. 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 No. 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, 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.

In contrast to this broad and, we would believe, 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 meetings and drafting sessions among the 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 national 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 can not 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 areas 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 No. 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 to avoid distortion of the competitive free enterprise system.

We would note, however, without reflecting on the Department of the Interior, that the long experience of effective evenhanded administration of the reserves by the Navy gives some 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—

Mr. MELCHER. May I interrupt you, Mr. Clearwaters?

Mr. CLEARWATERS. Yes.

Mr. MELCHER. Is not "qualified persons" the legal term?

Mr. CLEARWATERS. It is a term that has been used before in competitive bidding practices, I believe.

Mr. MELCHER. Is not that a term—we mean by that term persons with a demonstrated ability. We are led to believe by counsel that it is a legal term, that it has been used frequently, and that it has a definitely low interpretation. We are quite concerned that either we are misled by counsel, or if we are not misled by counsel, then the Justice Department is quibbling.

Mr. CLEARWATERS. I believe that the term qualified persons can be interpreted by the Administrator to mean either a—

Mr. MELCHER. No; we are not interested in how an Administrator would interpret it. We are interested in how a court would interpret it.

Mr. CLEARWATERS. The court might well uphold the Administrator's interpretation of one, a qualified person being someone who has or can cough up the money and actually can show that he can actually participate in the bidding. He has the cash on hand. That could be a qualified person. With some kinds of competitive bidding, that is all that is required. Or, two, based upon the history of the

company's dealings with the Department of Interior or the Department of the Navy, whoever the Administrator may be, the Administrator makes a determination that, based upon historical dealings, this individual is a qualified person, even though they may be new interests who want to get into the market. That is legitimate. As a lawyer, I would argue for the Administrator, under the term qualified persons, that he does not have to deal with anyone who has not already dealt with the Department of the Interior. I think that can be a very bad interpretation.

Mr. MELCHER. I am led to believe, Mr. Clearwaters, that you firmly believe that the term "interested persons"—is that the term that is used in the administration bill?

Mr. CLEARWATERS. That is the language we have.

Mr. MELCHER. Interested companies, that that is superior to "qualified persons."

Mr. CLEARWATERS. I believe it takes some of the discretion away from the Administrator too, to exclude companies without a legitimate basis.

Mr. MELCHER. I would want to present to the House the very best term that is available. If it seems to be the consensus of the counsels from the Interior, Justice, our own Committee, other Committees of the House, that "interested companies" precludes any shenanigans by the Administrator over the term "qualified persons".

Mr. CLEARWATERS. On that point, Mr. Chairman—

Mr. MELCHER. I am afraid it is just a matter of opinion. I do not know where it would come out the strongest.

Mr. CLEARWATERS. OK.

On that point, Mr. Chairman, I think I would like to say that we would like to have our staff meet with any of your counsel, with anyone you would feel would want to meet with us in working out some of these details. We would be very happy to cooperate with this committee and with the Armed Services Committee, if you feel that cooperation would be helpful.

Mr. MELCHER. I think it would be.

Please proceed.

Mr. CLEARWATERS. We have been talking about the preference of the Department for the language of 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, certainly that kind of access is most important for the preservation of independent refineries. 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 obviates, we believe, 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—while we believe the administration's bill provides 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 attempts to apply. However, a reading of section 28(r) of the Mineral Leasing Act shows that it contains a number of provisions designed for use in connection with public lands. Attempts to apply this 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, all potential purchasers can transport the oil on equal terms. These negotiations, plus specific safeguards incorporated in H.R. 263 should, in my judgment, adequately deal with the problem. Based upon the foregoing, we prefer the administration bill, H.R. 2633, over H.R. 49.

That concludes my testimony concerning the views of the Department 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, as the chairman noted, 5 years ago in June 1970, and involved the full investigation of the operation of private transportation and marketing facilities available for the sale of crude oil produced for the Navy Department account under contract which provided for the operation of Naval Petroleum Reserve No. 1, Elk Hills, Calif.

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.

In the next 2 years the investigation moved very slowly because of staff attention to other higher priorities 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, and 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, serving 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 through a thorough investigation of all the facts concerning available pipeline systems in all of the surrounding oil fields in Kern County, where Elk Hills is located.

In the trunk line systems transporting oil from any of these fields, but particularly 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 transportation of crude oil in 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 refiner's 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 non-competitive 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 through 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.

The 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 No. 1 and NPR No. 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 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 conferences and interviews

with both majors and virtually all of the independent refiners, and finally 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 statement at 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 subject 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.

We do not have the answers to those questions yet. 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, and we reciprocated.

In November of 1974 the committee published its report. Mr. Cory met with myself and staff of the Division to present these reports 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 this Division as to action to be taken concerning those reports.

I should add that, as is probably apparent to the 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 as to what action, if any, by the Department should be taken.

I think it might also be helpful to briefly discuss some of the legal theories involved in our investigation under the Sherman Act. We must explore whether there has been a conspiracy, combination, or collusion under 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 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.

Their report represents 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 these charges and try to ascertain whether they have merit and will stand up in a court of law.

As a part of our analysis of conspiracy, we must examine whether the posted price system is a result of an implied agreement to fix the 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 a basis for determining values on 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 law exists.

Mr. MELCHER. Mr. Clearwaters, I want to ask you directly right at this point whether H.R. 49 or the administration's bill in any way impedes your investigation.

Mr. CLEARWATERS. It does not.

Mr. MELCHER. Does H.R. 49 or the administration's bill help your investigation?

Mr. CLEARWATERS. To the extent that greater access may be provided to independent competitors in obtaining, for example, Elk Hills production or greater access may be enjoyed by the competitor, the independents, because of the common carrier provisions of your bill, for example, or the broader provisions of the administration bill. Many of the issues that we are exploring in our investigation would be favorably resolved by that legislation.

The investigation would not terminate with this legislation. There are still a lot of other issues we have to explore, but certainly a number of the issues on access to pipelines and on access to crude would be favorably resolved from our standpoint by this legislation.

Mr. MELCHER. Thank you. You may proceed.

Mr. CLEARWATERS. Turning from the per se conspiracy theory, there also remains a 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, which would be unreasonable under the rule of reason approach? This requires a careful balancing of competitive effect as against 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 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. Matters as complex as joint ventures and exchange arrangements in this oil business have proved as 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 staff, which we expect to have within the next few weeks.

Mr. Chairman, that concludes my prepared statement.

Mr. MELCHER. Thank you very much, Mr. Clearwaters.

First of all, I want to establish what your professional background is and how long you have been with the Department of Justice.

Mr. CLEARWATERS. I have been in the Department of Justice for 5 years, going on 6.

Mr. MELCHER. Nearly 6 years.

Have you been with the Antitrust Division for all of this time?

Mr. CLEARWATERS. Except for a brief sojourn with the President's Advisory Council on Executive Organization, I have been with the Antitrust Division throughout this time.

Mr. MELCHER. Prior to your Government service, what is your background, Mr. Clearwaters?

Mr. CLEARWATERS. I was associated with the firm of Simpson Thatcher and Bartlett, New York City, N.Y.

Mr. MELCHER. Did you deal with antitrust?

Mr. CLEARWATERS. That was my sole practice.

Mr. MELCHER. Sole practice.

Now, the administration's bill and H.R. 49 both deal with Alaska. You have not addressed any of your remarks to Alaska.

Has the Justice Department, for instance, reviewed the impact that the administration's bill would have on the NPR 4—the 22 million acres in Alaska?

Mr. CLEARWATERS. Yes; we have.

I might also mention that we do have a full investigation of the Alaska Pipeline still underway.

Mr. MELCHER. That is a different matter.

Mr. CLEARWATERS. Not really; at least to assure access. They are really the same issues from a standpoint of the desire to make that—

Mr. MELCHER. I am sure they are the same issues, but the pipeline is a different matter that this subcommittee has oversight and jurisdiction over. And I am not going to get into all the ramifications of that.

My question goes to the portion of the administration's bill that deals with Navy exploring, and then the authority, as I understand the bill, to enter into leases for development. Has the Justice Department reviewed that and approved it?

Mr. CLEARWATERS. I do not believe—from the standpoint of the Antitrust Division—I do not believe we have passed on that provision. Although I am sure that the Office of Legal Counsel has reviewed the entire legislation and has presented its views. I would think they have.

Mr. MELCHER. I see.

Mr. CLEARWATERS. But we did not present our views of the Antitrust Division.

Mr. MELCHER. It would seem to me, Mr. Clearwaters, in view of the fact that there is no transportation available for either oil or gas from the petroleum reserve, that the opportunity for leasing would be limited only to companies that have a great deal of capital and can afford to tie up capital in the leases for an undetermined number of years; and that this is an obvious case of where the independents will be blocked out—that the circumstance would certainly block out independents from bidding on any leases. And I draw this to your attention because it seems to me that it would be a much broader problem than an opportunity for independents in Elk Hills.

We, in H.R. 49, specifically prevent any leasing or any development in NPR 4 because we view the conditions as such not in the public interest to allow any leasing at this time.

Mr. CLEARWATERS. Mr. Chairman, your comments are well taken. I would like to have the opportunity to go back and think about those for a while, and, if possible, include in the record a response based upon your thinking.

Mr. MELCHER. We will be delighted to have that response.

Now, as you point out, H. R. 49 is a broad bill; it includes, of course, various possibilities of national petroleum reserves. And because of that, we felt that we had to give quite a little leeway to Interior to draw specific plans for a specific area. But why, if H. R. 49 became law and the naval petroleum reserve at Elk Hills, after consultation with the Defense Department, was turned over to Interior and developed, why would not the plan presented incorporate each and every one of the fine points—by fine, I mean meritorious points—that you find in the administration's bill? Why would not Interior object, or send up to Congress, a plan that does exactly as you stated it should, as outlined in the administration's bill, including the common-carrier provision that we mentioned in H. R. 49 tailored specifically for Elk Hills?

In other words, why do you find fault with a bill that would direct the administration to come up with the best conceivable plan to incorporate all of the recommendations that you have outlined and give the broadest protection of the public interest conceivable? I just do not understand your position on that, Mr. Clearwaters.

Mr. CLEARWATERS. I think it is a matter of drafting preference that the more carefully Congress tailors any piece of legislation which represents instructions to an agency—be it an independent regulatory agency or an executive branch agency in this case—the more carefully the instructions are spelled out to that agency, the more certainty the agency has in administering the program, and the greater the scrutiny by the Congress to the agency's performance under the standards. And I think the Congress should have the benefit of that scrutiny.

Mr. MELCHER. I completely agree. But Mr. Clearwaters, as you must recognize, development and production from Elk Hills would be entirely different from development and production of Teapot Dome. The one has 1.3, 1.5 or maybe up to 2 billion barrels of reserve, and the other has 15 million barrels of reserve, that probably will have to be obtained through secondary or tertiary recovery.

Now, given those circumstances—and I have only given you two possibilities—how could we specifically draw into the statute, without bogging down, the very meritorious aspects that you find should be included in a production?

In other words, the two plans have to be different; and since they have to be different for production, why not be specific enough to safeguard the public interest in a general way, but depend on the plan itself to hold down the fine points that you recommend?

Mr. CLEARWATERS. Well, I think that this is a pretty—in my view—a pretty minor point, but one that I think would require the administration to focus on each individual sale. If you made him tailor competitive requirements and held his feet to the fire, on each individual sale, rather than some overall plan where he might allocate to major oil companies a certain segment of the production, at the same time allowing independents to have another segment—never the two would meet.

I understand your problem, Mr. Chairman, as far as drafting in such detail that it is like a round peg fitting in a square hole as far as moving from one reserve to the other. I would only suggest, Mr. Chairman, that, again, we stand ready to work with your staff to try to design the thing as narrowly as possible and still accomplish

the objectives that you want to see in this legislation, and try to go along with you.

Mr. MELCHER. One of the advantageous portions of your testimony was delivered at Armed Services Committee 2 weeks ago, and again this morning, with your reference to each individual sale which would be tailored to meet the requirements or provide the opportunity for independents to get in and buy the crude oil. I fail to see, however, why you doubt that would be part of the plan developed by Interior. I think the very language of H.R. 49 almost mandates that type of a finding. We use the term, of course, in the opinion of the Secretary, and you find fault—or question—whether that should be used.

However, we adopted that particular leeway because in the full committee Mr. Eckhardt had some concern about independent oil companies or independent refiners getting an opportunity for access to crude oil. We adopted that amendment specifically at his request; he made a case for it and it was accepted by the full Committee. And I just question whether your concerns would not be taken care of by the plan submitted by the Secretary of Interior. It seems to me it would have to be recognized.

Mr. CLEARWATERS. They might well be, Mr. Chairman. I think that one option—this is certainly—speaking for myself now—one option might be to give the Secretary discretion as you have, but also require that the Secretary obtain the advice of the Attorney General as to whether his plan, or his individual sale, would tend to create a situation inconsistent with the antitrust laws. There is some precedence for that.

Mr. MELCHER. Do you advise the Secretary on these sort of procedures?

Mr. CLEARWATERS. Not as a matter of course.

Mr. MELCHER. Unless it is requested?

Mr. CLEARWATERS. Yes.

Might this not be something that Congress would say? That the agency charged with competition pooling has at least taken a look at the program that is proposed by the Secretary or the Administrator, and that Congress could approve its scrutiny of the whole program?

Mr. MELCHER. We demand that if it is necessary.

How does the Department of Justice function in these cases, for instance? You have been with Justice for almost 6 years?

Mr. CLEARWATERS. Yes, sir.

Mr. MELCHER. All during the time of the antitrust investigation, were you aware at Justice—you, or anybody else aware at Justice—that this committee was holding hearings on a similar bill to H.R. 49 in the 93d Congress?

Mr. CLEARWATERS. No, sir.

The Antitrust Division was not aware of it.

Mr. MELCHER. The Antitrust Division was not aware?

Mr. CLEARWATERS. No, sir.

That is not that surprising. We had input in the administration's legislation.

Mr. MELCHER. What is the liaison with Justice Department and what goes on up here?

Mr. CLEARWATERS. We have an Office of Legislative Affairs that serves as the principal liaison for following what the activities of

Congress are. We cover a number of bills which touch upon competitive principles in the Antitrust Division, and issue a number of reports. But, generally, we do not volunteer reports; we try to comply with those requests of the Congress. But unless it is something that really affects our program, we seldom will volunteer testimony. We try to serve as an information agency to the Congress more than anything.

Mr. MELCHER. You know, opening up Elk Hills has been a question before Congress, specifically before this subcommittee, for a year and a half. As you pointed out in your testimony, it has been discussed in the executive branch of Government for more years than that. And it was specifically proposed in the administration's—well, the administration backed the resolution passed by the Senate in the 93d Congress to open up Elk Hills. It is now specifically a portion of the President's energy package in bill form before the House Armed Services Committee. And all during this time, at some point, Justice Department must have become concerned with what was going on in this regard. And at what point did your Division become specifically interested in the proposed legislation?

Mr. CLEARWATERS. We were invited to testify before the Armed Services Committee.

Mr. MELCHER. Pardon me?

Mr. CLEARWATERS. We were invited to testify before the Armed Services Committee.

Mr. MELCHER. And that was the first time?

Mr. CLEARWATERS. We generally try to honor invitations.

Mr. MELCHER. Yes, well, does not Justice somehow advise the other agencies on matters that they are concerned with?

Mr. CLEARWATERS. We certainly were participants in the drafting of the legislation to open up Elk Hills in the administration.

Mr. MELCHER. Yes.

Mr. CLEARWATERS. We were very active in those sessions.

Mr. MELCHER. So you were involved in that?

Mr. CLEARWATERS. Yes.

Mr. MELCHER. In effect then, could you review what the Navy told the subcommittee and what the Interior Department told the subcommittee?

Mr. CLEARWATERS. I think one of our staff had gotten copies of the testimony and had, in fact, briefed the—Joseph Mullen, I think, briefed the Secretary of the Interior. Perhaps the Secretary did not testify before your committee.

Mr. MELCHER. So their testimony was clear and, in effect, they were giving us a position of the administration, with Justice participating.

Mr. CLEARWATERS. That is right.

Mr. MELCHER. I yield to the gentleman from Kansas.

Mr. SKUBITZ. I think the gentleman just answered my question. I was under the impression that the Justice Department did not get into the legislative drafting field. I thought that you advised, but you were not going to get yourselves into a situation where you wrote the legislation, and then had to prosecute the law. But apparently, you have gotten into this area.

MR. CLEARWATERS. We do, on occasions, sir. For example, the Regulatory Modernization Act on Transportation was drafted predominantly by the Justice Department. We do engage in drafting major—

MR. MELCHER. Now Mr. Clearwaters, the administration bill does not seem to me to deal with gas from Elk Hills.

MR. MELCHER. I do not think it is specifically mentioned, but is it your impression that the definition of petroleum would include natural gas?

MR. CLEARWATERS. As I was looking for the definition of petroleum—the definition, section 7420, subsection (a), sub 3:

Petroleum shall be deemed to include crude oil, gas, natural gasoline and other related hydrocarbons, oil shale and approximately such resources.

MR. MELCHER. So it would also, the same provisions would apply to any sales of natural gas?

MR. CLEARWATERS. Yes, sir.

MR. MELCHER. Now, when you testify before us today concerning the even-handed administrator fairly and vigorously managing the competitive standard required in opening the reserve for full production and sale, you are repeating the testimony in the copy you gave at the House Armed Services Committee, and it leads me to question you to this extent. I am not aware that Navy has a past record of sales of petroleum products.

MR. CLEARWATERS. Only in a very limited degree. The operating contract, management contract for Elk Hills, for example, was conducted by a bid.

MR. MELCHER. Well, critics of the proposition of opening up Elk Hills state, and correctly so, that Standard of California gets \$55 million a head on the oil produced from Elk Hills, and the point is erased if Elk Hills is opened up. Well, will the Government ever catch up on that \$55 million? So actually, whatever experience Navy has in this operating contract, it seems to be subject to criticism. What does Justice think about that?

MR. CLEARWATERS. Well, I have tried to take a very neutral position in this testimony. Perhaps I have failed. But I believe it is for Congress to decide which agency should administer the opening up of Elk Hills. Justice really has no position on favoring one agency over another; only to the extent—

MR. MELCHER. I am puzzled, then, by your statement which is contained in both your testimony to Armed Services and in this one, that gives confidence in Navy's ability to administer fairly and vigorously the competitive standards required in opening the reserve for full production and sale. If you have something to add to what maybe is their expertise or experience in regard to these sales, we would like to know about it.

MR. CLEARWATERS. Well, there is some experience that Navy has in its dealings with SoCal, for example. We represent—the Civil Division of the Department of Justice represents the Navy in some of the litigation that has come from Elk Hills and the surrounding areas; and there is at least a cadre of people there who have a familiarity with the operation of Elk Hills in its present form.

Mr. MELCHER. You not only approve of the \$50 million to \$55 million that Navy is behind on Standard of California's production of oil from Elk Hills—you not only approve of that, you commend them for it.

Mr. CLEARWATERS. No, I do not approve of it. I do not commend it at all. I believe that matter has not yet been resolved. Probably it will be resolved by litigation brought by the Department of Justice on behalf of the Navy. Conceivably, that could be the way it will be resolved.

Mr. MELCHER. Is there any litigation involved? Has Justice recommended any litigation at that point?

Mr. CLEARWATERS. Not to the best of my knowledge, as far as I know.

Mr. MELCHER. Mr. Clearwaters, would it not be cleared up entirely if there was production from Elk Hills, and the Government—whether it is Navy or Interior—Uncle Sam takes most of the oil that is produced, until they have gotten back their \$50 million.

Mr. CLEARWATERS. I really have no position to date on that.

Mr. MELCHER. I just want to establish for the sake of our record that there has been severe criticism of Navy on this particular point, and it hardly seems to me to warrant the confidence you express in their even-handed ability to administer fairly and vigorously the competitive standards required in the opening of reserves for full production and sale. And I would shudder, personally, I would shudder at how Navy might handle any leasing from Petroleum Reserve No. 4 in Alaska. I do not think they have any expertise. I do not think they have any experience. I do not think they have any ability in that regard. And regardless of what happens, whose bill is passed, whether it is the administration's bill or H.R. 49, I intend to be very vocal and strong in pointing out that the House of Representatives—that in no way should this country consider opening up a 22-million-acre reserve in Alaska for leasing at this time; that it would be entirely irresponsible and contrary to the public interest when we do not know what is there. We do not have any transportation out of there, and obviously, the only ones who would benefit from any leasing at this time would be extremely strong, financially fixed major oil companies.

I have taken up a lot of the committee's time and therefore recognize the gentleman from Oklahoma.

Mr. RISENHOVER. I have no questions.

Mr. MELCHER. The gentleman from Kansas.

Mr. SKUBITZ. Thank you, Mr. Chairman.

I only have one question of the witness. On page 1 of your testimony, the last paragraph:

Our comments relate solely to issues of competition policy, as seen by the Department of Justice, in this legislation. Then our primary concern stems from the desire to assure equal and nondiscriminatory access to producers and refiners, and on transportation facilities, and so forth; and then two, the bidding procedures established by the Federal agencies, and so on.

Mr. Clearwaters, would you tell us what could be done to our bill, H.R. 49 that would meet your concerns? Could you submit to this committee in the next day, in draft form, an amendment to our bill that would satisfy your concern on these two points?

Mr. CLEARWATERS. Yes. Can I have 2 days?

Mr. SKUBITZ. OK, we will give you 2 days. That is pretty good. You spent 5 years on one section of this bill and you provide the amendments in 2 days, that will be fine.

You know, what fascinates me about this legislation, Mr. Clearwaters, is how, under our new rules that H.R. 2633 is handled—title I went to Armed Services; title II, III, IV, V, VI, VII, and VIII, XII and XIII went to the Interstate Commerce Committee, of which I am a member; title IX went to Ways and Means, and titles X and XI went to Banking and Currency. None of it went to this committee. We are getting in on the act now, and I think rightfully so, but I am wondering who is going to put this thing all together again in legislative form to eventually take to the House.

Mr. CLEARWATERS. I do not have the answer to that.

Mr. SKUBITZ. Neither do I. But that is reform in the House of Representatives. Thank you, Mr. Chairman. [General laughter].

Mr. MELCHER. The gentleman from Oregon.

Mr. WEAVER. Mr. Clearwaters, how exactly does the Government sell the oil in Elk Hills or the divisions as explained in both of these bills? How does the Government sell the oil?

Mr. CLEARWATERS. Under the bills themselves, sir? The only difference is that the Secretary of Interior, under H.R. 49, would devise a plan that would cover part or all of the production at Elk Hills, and the plan would conceivably go into detail as to how the sales would be made by the administrator—what kind of bids would be let, and the like. It is—in short, it really is not spelled out.

Mr. WEAVER. I understand that. I do not mean for you to second-guess the Secretary of Interior. Is he coming in and letting somebody drill a well, and that is yours to get it out; or is the Government drilling, pumping the oil out, and then selling crude at some point? At what point is the sale made of the actual oil?

Mr. CLEARWATERS. Conceivably, the administrator could do the exploration and development, and only sell the production. Conceivably also—

Mr. WEAVER. He would not have to?

Mr. CLEARWATERS. No, he would not have to. He could lease to private companies to explore and develop.

Mr. WEAVER. How about the administration? Does it differ in this regard?

Mr. CLEARWATERS. I think that there is some. The difficulties in that the administration of H.R. 2633 has so many different reserves, it is kind of hard to track through. But I would say to the Congressman that private companies may be permitted to take leases from the administrator under the administration's bill, also.

Mr. WEAVER. In other words, the Government has got oil, unless it is new oil, which is going for \$10 a barrel. The Government may not get \$10 a barrel for this oil under these terms. Is that possible?

Mr. CLEARWATERS. You mean the bids might be lower than that? Conceivably.

Mr. WEAVER. It may be that the Government would get the rights, actually, for the development of the oil, and the Government is not in the business of selling the crude product, necessarily, in either of these bills. That is really what I am trying to get at.

Mr. CLEARWATERS. Yes. Our offshore leasing experience provides some precedent where the block of land is leased by the Federal

Government to the private companies, or a consortium of private companies; and the lease cost depends on what they get out of the ground. So, the Government is not just simply taking a gamble that there will not be oil there.

Mr. WEAVER. This is a different situation. We know the oil is there, so therefore I think the Government should get full retail value for it. Do you know if the unit agreement between Standard Oil and the Government can be abrogated if either of these bills pass—either the administration or H.R. 49 passes?

Mr. CLEARWATERS. I have not taken any position on that, and I think I prefer the department did not, because we may find ourselves in litigation on that.

Mr. WEAVER. It is certainly a possibility.

Mr. CLEARWATERS. Yes.

Mr. MELCHER. Will the gentleman yield there?

Mr. WEAVER. Yes.

Mr. MELCHER. This point has been raised in the Armed Services Committee hearing that if Elk Hills opened up, and it is opened up not on the basis of a military need—a military emergency, a national emergency—that it is conceivable the unit contract could be abrogated, and therefore Standard of California could start pumping oil drastically, and get more than their share. Now, surely Justice has an opinion on that, Mr. Clearwaters.

Mr. CLEARWATERS. I am not sure that the Antitrust Division does have an opinion. I would say that H.R. 2633, I believe, defines a national emergency in an attempt to integrate the legislation into the unit contract.

Mr. MELCHER. Might I say, Mr. Clearwaters, that we asked Justice Department to testify on H.R. 49. You have been selected by the Justice Department to give that testimony. This is an extremely pertinent point. This subcommittee must be advised on that particular point, and we will expect to be advised on it. Because the question of either bill, or some new bill, being adopted by the House—which would cancel out the unit agreement and somehow put the United States at a disadvantage—is an extremely pertinent point for the House to consider. So let us not spin our wheels. Let us have Justice Department answer that. If there is somebody other than you that should answer it, we would appreciate it. We expect that answer to be coming up here.

Mr. CLEARWATERS. We will furnish you a letter, Mr. Chairman.

Mr. WEAVER. Thank you, Mr. Chairman, for saying that. I am not all that familiar with the administration bill.

Mr. CLEARWATERS. It is very hard to track through.

Mr. WEAVER. Because that is owned by refineries. The national strategic petroleum reserve oil is owned by the Government, I trust.

Mr. CLEARWATERS. Yes, sir.

Mr. WEAVER. Further, when they say sold to the general public, that means the oil has been sold to the industry and then in turn are going to sell it.

Mr. CLEARWATERS. Yes, sir.

Mr. WEAVER. Which of the various processes in developing oil, getting it to the public, are of greatest concern to you, in terms of antitrust—the pumping, the drilling, in terms of Elk Hills, the transportation, refining or the retailing?

Mr. CLEARWATERS. All of the above.

Mr. WEAVER. All of them.

Mr. CLEARWATERS. No, seriously, I think the major concern focused on this legislation has been access to transportation facilities coming out of Elk Hills. I think that is a major concern.

Mr. WEAVER. Standard Oil right now is the only one——

Mr. CLEARWATERS. That is right.

Mr. WEAVER. But I think it can only carry 150,000 barrels a day. It only has about 50,000 barrels of capacity left. Would not there have to be another pipeline?

Mr. CLEARWATERS. What——

Mr. MELCHER. May I interrupt for just a moment.

Let us have staff set up some of the diagrams of these pipelines because it is very pertinent to the consideration.

Perhaps for the benefit of the members of the public who are here, Bill, perhaps you could set the angle of the easel up there so the public can see it.

Mr. WEAVER. I would like to ask staff a question.

Where is this one pipeline that serves Elk Hills?

Mr. SHAFER. The one pipeline that serves Elk Hills, as I understand, is the existing Standard Cal pipeline in this direction here [indicating], and that is rated by——this is a Navy map. It was prepared by the Navy. That is rated at 50,000 barrels a day and could be put into production in approximately 2 months time.

There is also another line, as you will notice, an ARCO line, that goes through a corner of Elk Hills, generally somewhat parallel to the So-Cal line. That is rated also at 50,000 barrels a day and could be put into production in approximately 2 months.

There are two other lines, the Toscopetro and the Union line, where connections could be made; they vary from 1 month to 18 months.

The total capacity of all four lines has been estimated at approximately 150,000 barrels a day.

Mr. WEAVER. I see. That is a total of 150,000 that we got in the testimony.

Mr. SHAFER. Yes, sir.

If you get beyond 150,000 barrels a day, you would have to truck out or you would have to build additional pipelines.

Mr. WEAVER. Mr. Clearwaters, we will expect you to take the position on this, but I see the potentiality of the Government building a pipeline as being an important factor in clearing up this antitrust situation.

Mr. CLEARWATERS. Well certainly the administration's bill would give a fund to the administrator in that bill to build, to conceivably build such a pipeline, to give them the money to do so. Certainly that is one option.

Another option would be to, whatever pipeline facilities are built, requires that they be maintained as common carriers.

Mr. WEAVER. But then we would have to ship the oil somewhere to get to the refineries. You mentioned in your testimony that there is, or at least the refinery situation has pretty well strangled independents.

Mr. CLEARWATERS. If the pipelines were made common carriers, to the extent that they carried Elk Hills crude, then the independent refiners would not be isolated.

Mr. WEAVER. They would not?

Mr. CLEARWATERS. That is right.

You asked about concerns of the Division. The second major concern from the standpoint of the competition policy would be the access of the independents to bidding in lots that are small enough so that they can manage them.

Mr. WEAVER. You are talking about the bidding on the crude once it is in the pipeline?

Mr. CLEARWATERS. Bidding on the crude itself.

Mr. WEAVER. But I mean not in the ground, but on the product that is in the pipeline.

Mr. CLEARWATERS. As an answer, I would say that the independents, if you lease the land out for exploration and development, if it is already there in the ground, and the Navy or the Interior, whoever administers the program, should frame the lots of crude to be sold in small enough quantities in order to get independents in there, to compete with the majors; because the independents may not be able to take a huge amount.

Mr. WEAVER. You are talking about putting a well in the ground and limiting them as to how much they can pump out of it?

Mr. CLEARWATERS. Yes, sir.

Mr. WEAVER. All right.

That is all I have, Mr. Chairman.

Mr. MELCHER. The gentleman from Massachusetts.

Mr. TSONGAS. Mr. Clearwaters, the Cory committee, I assume, was a State legislature?

Mr. CLEARWATERS. Yes, sir.

Mr. TSONGAS. When did they begin their investigations?

Mr. CLEARWATERS. I do not have an exact date. I think probably 2 years ago.

Mr. TSONGAS. Aside from the references in your statement that I have read, basically what did the Cory committee conclude?

Mr. CLEARWATERS. It concluded that the situation in California was tantamount to a monopoly in the intrastate system of pipelines exchange arrangements among the majors.

Mr. TSONGAS. Are there vehicles on a State level to provide for antitrust action on an intrastate basis?

Mr. CLEARWATERS. The State of California does have a State antitrust law. There are a variety of State antitrust laws, and I am not certain what relief could be obtained under California law.

Mr. TSONGAS. Was there any followup on the part of the State to the Cory report?

Mr. CLEARWATERS. I believe the report was referred to the State attorney general by the Cory committee. I do not know what has happened since.

Mr. TSONGAS. I would assume, just reading the testimony, that the Justice Department feels that the Cory report bears looking into.

Mr. CLEARWATERS. Yes, sir, and we are.

Mr. TSONGAS. But on its face, there are some doubts about it.

Mr. CLEARWATERS. I think we have to go behind the report and to further analysis to see if their claims can stand up in an antitrust suit.

Mr. TSONGAS. Does the concern over the findings of the Cory report dictate the different bill than H.R. 49?

Mr. CLEARWATERS. I do not believe it does.

I think basically the legislation and our concerns in terms of our investigation run on separate tracks, and that if we can build into the legislation sufficient safeguards to assure access by these independents to transportation and supply, then we can go ahead with the legislation and proceed with our investigation separately.

Mr. TSONGAS. But one could assume that there is some concern about practices that would motivate the Department to come here and testify and to draft a separate bill.

Mr. CLEARWATERS. Yes, sir.

Mr. TSONGAS. So one could, then, look forward to some activity in terms of the investigation.

Mr. CLEARWATERS. I cannot really predict what the staff is going to recommend. They may recommend that the investigation be closed. I have not received the staff recommendation on our investigation at this point.

Mr. TSONGAS. If the recommendation were that the investigation be closed, you would want to conclude that nothing took place and therefore the whole rationale for a separate bill would fall through?

Mr. CLEARWATERS. I do not think so.

I think again, I would keep that on a separate track. I think even though there may not be facts and circumstances which rise to an antitrust violation under the Sherman Act, as a matter of public policy, Congress can instill competitive principles above and beyond a hard-core antitrust violation in any legislation enacted by it. I think Congress should do so, notwithstanding the presence or absence of an antitrust violation in opening up Elk Hills so far.

Mr. TSONGAS. My concern is not so much for the safeguards that you are looking for, because I think I am sympathetic to that. My concern is perhaps the logic, based on an issue that I was involved in a month ago involving the major oil companies and the gas retailers. It was a question of whether the Justice Department in serious pursuit of violation of the oil companies, and I look forward to whatever conclusions they come up with.

Could you so inform the committee?

Mr. CLEARWATERS. Yes, sir.

Mr. TSONGAS. Thank you, Mr. Melcher.

Mr. MELCHER. Mr. Clearwaters, sir, some points are left unanswered, or are not clear at least. I was not aware of the reference you made, but I am told by staff that you made the reference that would seem to apply to Elk Hills, at least under the Mineral Leasing Act. Is that correct?

Mr. CLEARWATERS. I do not believe I did. I believe that these bills are free standing. I do not recall making that particular reference.

Mr. MELCHER. There is no—you will not find any indication in H.R. 49 that proven oil flow would be released from the Mineral Leasing Act; will you?

Mr. CLEARWATERS. No, sir.

Mr. MELCHER. I would not want any confusion on that.

This common carrier provision that is in H.R. 49, specifically states that oil or gas produced from the national petroleum reserve, if it is transported in a pipeline, the pipeline must act as the common carrier. You commend that feature in H.R. 49, and you note the lack of it in the administration's bill. Is that not a major defect in the administration's bill?

Mr. CLEARWATERS. The administration's bill attempts to deal with access to transportation in broader general language. I think that it would be the view of the Department that a well designed common carrier requirement might be preferable to other kinds of remedies to get access to transportation. I do not view it as a defect, necessarily; but I think that we would prefer a common carrier solution.

Mr. MELCHER. Well, except for what this subcommittee and committee were successful in enacting into the present law regarding any pipeline for oil and gas across Federal lines, it must be operated as a common carrier, except for that provision. There is really no requirement to make sure that the pipelines operate as common carriers; is there?

Mr. CLEARWATERS. No, sir.

Mr. MELCHER. So, we believe, and I think you share that belief with us, that one of the ways to make sure that the competitiveness of the independents is upheld is to have a common carrier provision in the final version of the bill that is passed by Congress.

Mr. CLEARWATERS. I tend to agree with that. Yes, sir. I think it might be preferable to draft free standing common carrier provisions, and not to incorporate the Mineral Leasing Act provisions, as I discussed earlier with you.

Mr. MELCHER. Yes; we discussed that point earlier.

We have now, this committee, considered the free standing common carrier provision or amending the Mineral Leasing Act.

Now, at the time the bill comes on the House floor, if we were presented with language that we found superior, we would consider, of course, offering that, if H.R. 49 is under control of the Interior Committee when it is presented on the floor. It does mean that we have the opportunity on the floor.

Mr. CLEARWATERS. I promised the gentleman from Kansas some redrafted language. We will try to incorporate the common carrier provisions in that redraft as well.

Mr. MELCHER. We would be delighted to receive that from you, Mr. Clearwaters. Now, there has been some discussion that Standard of California has some sort of an advantage if Elk Hills is opened. The general discussion seems to boil down—it has, for instance, geological data. There are a number of things that have been discussed that it has; that is one of them. It has access to geological data simply because they are part owner of the oil that is there on that reserve; and they have the operators there under contract bidding themselves.

Now, we are persuaded in this committee that that data is available to Navy, and therefore, in drafting H.R. 49, we specifically state that that information must be turned over to Interior. We would assume that any proposed plan by Interior would make available that information to everybody that is interested in bidding on the production or bidding on any contract.

Do you find any merit in the argument that somehow, because Standard of California has this information, that they somehow have an unfair advantage?

Mr. CLEARWATERS. Not so long as the information is disseminated to all interested bidders.

Mr. MELCHER. And you would assume that that would be done by Government, regardless of whether Navy or Interior administered it?

Mr. CLEARWATERS. I would hope so, and I would suspect that we might want to firm that up by legislative command, by the information we supply.

Mr. MELCHER. Now the second point arises that Standard of California has an unfair competitive advantage if Elk Hills is opened up because they own that pipeline or have interests in other pipelines.

Do you feel that the administration's bill and H.R. 49 address that particular problem, and that enactment of either one would deal with protection of the public interest concerning the transportation facilities that Standard of California holds?

Mr. CLEARWATERS. That is my view. I think that the specific common carrier provisions contained in H.R. 49 certainly do away with any advantage; and there is language in the administration's bill which attempts to deal with the same problem. I think either bill would make access to the pipeline available to competitors.

Mr. MELCHER. Now you, in your testimony, very briefly alluded to the practice of the Interior, or I believe you did—to what Interior does with the Government's share of oil produced, for instance, from off shore. Do you feel that under H.R. 49 there is any restriction by Interior to continue that practice they already have in effect in many areas of reserving sales of Government oil directly to independents?

Mr. CLEARWATERS. I believe they can do that within the framework of the legislation.

Mr. MELCHER. Of H.R. 49?

Mr. CLEARWATERS. Yes, sir.

Mr. MELCHER. If you were advising Interior on behalf of the Justice Department, I assume you would draw that to their attention in this proposed plan?

Mr. CLEARWATERS. Yes, I would, Mr. Chairman.

However, with the smattering of economics that I have, I question whether such a reservation should be made.

The Government, I think, is entitled to get the highest bid for the oil so long as the independents have an equal opportunity to bid. An economist might argue that they should not be further sheltered by keeping the majors out of competition. But certainly it can be done under this legislation. I would so advise.

Mr. MELCHER. Mr. Clearwaters, we have reviewed in this subcommittee the Cory report and made it part of our file previously. But the facts and arguments made in the Cory report of unfair business practices between the majors versus the independent refiners in the California crude oil market could very well be settled, as far as production from Elk Hills is concerned, by either bill. I think you testified to that previously. But I want a clear answer, if you feel that is the case.

Mr. CLEARWATERS. Certainly as far as the transportation allegation or transportation bottleneck are concerned in the bill, I believe would favorably resolve that issue.

Mr. MELCHER. How about the posted price.

Mr. CLEARWATERS. I question whether that would be resolved by your bill.

Mr. MELCHER. Would not the opportunity for the government to sell the 80 percent of the oil that is produced, or 79 percent would be more correct—to have direct sales of that, because it is Government oil—would not that solve the posted price problem that is alleged in the Cory report?

Mr. CLEARWATERS. To the extent that the oil that the Government is selling was free of that taint, it would be free to extend 79 percent. But, of course, the contract I believe with So-Cal and Elk Hills specifies that So-Cal is to lift the maintenance portion of the crude at posted prices in California. So right now the Government is selling oil which is pegged at a formula tied to a posted price of California. We want to guard against that, of course, if you are going to have a separate barter for Government, as you suggest.

Mr. MELCHER. Now I am not clear. We are persuaded that the sale by Government of oil produced from Elk Hills can be done on a competitive basis, can protect the interest of the independent refiners; and we are persuaded that if that is done, on that portion, on that amount of oil, the unfair posted price argument contained in the Cory report will be resolved.

Mr. CLEARWATERS. I agree with that.

Mr. MELCHER. You would agree with that?

Mr. CLEARWATERS. Yes, sir.

Mr. MELCHER. And you would have confidence that either Navy or Interior, acting on behalf of the Government, could make such a proposal in the public interest?

Mr. CLEARWATERS. Yes, sir.

Mr. MELCHER. Well then to summarize, Mr. Clearwaters, the Justice Department does not believe that enactment of even one of the bills would impede the antitrust investigation now ongoing in California.

Mr. CLEARWATERS. That is correct.

Mr. MELCHER. The Justice Department believes that in contrast to a meeting impeding the investigation, enactment of either of the bills in the form that Justice approves of, would enhance the investigation and correct some of the problems the investigation has centered upon?

Mr. CLEARWATERS. Yes, sir.

Mr. MELCHER. Does staff have any questions?

The gentleman from Arizona?

The gentleman from Nevada?

Mr. SANTINI. There are a couple of points I would like to make. In prepared testimony you state unequivocally on page 8, Mr. Clearwaters, that the Department of Justice is not concerned with who administers Elk Hills.

Then, on page 9, is offered the gratuitous observation that we would know, however, without reflecting upon the Department of the Interior that the long experience of effective evenhanded administration of the reserves by the Navy gives confidence in its ability to administer fairly and vigorously the competitive standards required in opening

reserves for full production and sale. This seems to me to be an unqualified endorsement of the status quo?

And I do not quite understand why both postures are offered on successive pages. Is there anything in the history of the Department of the Interior's management of any reserves concerned, to suggest that it would unfairly or unevenly administer that program?

Mr. CLEARWATERS. No, sir. I think that the intent of that statement was simply to recognize the historical management by the Navy, and no more. It certainly was not meant to condemn, in any way, the Department of the Interior, or its management of these facilities.

Mr. SANTINI. As I understood the discussion at hand, there is some comment concerning the Cory Commission report? Apparently that report states explicitly that they feel there have been violations of antitrust law in the management of Elk Hills by the Navy.

Is that a fair summary of their report?

Mr. CLEARWATERS. I believe that there were antitrust violations, or issues raised in connection with Elk Hills, and the Navy has operated—I do not believe that they characterize it as an antitrust violation by the Navy.

Mr. SANTINI. Unfair competition practices?

Mr. CLEARWATERS. Basically, as I recall, they alleged one instance of collusive bidding on the Navy contract to the tying of the posted price to the sales of what crude does come out of Elk Hills. And the contention of the Cory Committee, the posted price itself, is a pegged price which is a product of at least a tacit conspiracy of the four majors.

So that I would agree with your summary that the Cory Committee has said antitrust violations exist with respect to Elk Hills.

Mr. SANTINI. And the Department of Justice is at the present time conducting an ongoing investigation with regard to the merit of these allegations?

Mr. CLEARWATERS. Yes, sir.

Mr. SANTINI. If those allegations prove founded or valid, would it not suggest that perhaps a new form of administration would be desirable, in view of the fact that the prior practices would be admitted?

Mr. CLEARWATERS. On the facts that we now have, we may have to prove that Navy was the willing participant in an antitrust violation and I think that if we did uncover something like that, of course the whole question of the Navy's administration would be called to account.

Simply the fact that the Navy "may" be an alleged victim of an antitrust conspiracy, I do not believe calls for demerit on the part of the Navy. There are many of us who are victims of antitrust conspiracies.

Mr. SANTINI. But as the administrative agency, perceiving a conscious malfeasance, would you suggest at least a misfeasance or nonfeasance on the part of the Navy as the administrative agency, if they permitted this practice to exist?

Mr. CLEARWATERS. I do not go back far enough in my experience with the Navy's administration of this reserve, but I do believe—and I will correct this in the record if I am wrong—I do believe that the Navy has referred to us from time to time, and worked with us, in the exploration of possible antitrust violations related to Elk Hills.

And I think that that certainly is an important thing for any agency charged with disposing of Government property, or purchasing Government property, to refer suspected antitrust violations.

The Navy has done that, I believe, and I will correct that for the record if I am wrong.

Mr. SANTINI. Thank you, Mr. Clearwaters.

Mr. MELCHER. Does the staff have any questions?

[No response.]

Mr. MELCHER. Thank you very much, Mr. Clearwaters. We appreciate your appearance here.

Before we adjourn, I would like to have these letters to the Attorney General made a part of the record at this point.

[The letters to Attorney General Levi follow:]

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., March 27, 1975.

HON. EDWARD H. LEVI,
Attorney General of the United States, Office of the Attorney General, U.S. Department of Justice, Washington, D.C.

DEAR MR. LEVI: On Wednesday, March 26th, Deputy Assistant Attorney General Keith I. Clearwaters testified before the House Armed Services Subcommittee on Investigations which is considering H.R. 49, a bill reported by the House Interior Committee and which authorizes the Secretary of the Interior to establish National Petroleum Reserves.

During this testimony, while supporting Administration legislation to open existing Naval Petroleum Reserves to production, Mr. Clearwaters indicated that the Justice Department is conducting an anti-trust investigation of several major oil companies in California, including Standard Oil Company which has an operating contract and a unit plan contract with the Department of the Navy for the Elk Hills Naval Petroleum Reserve.

Elk Hills clearly falls under H.R. 49's provisions.

Although the Interior Subcommittee on Public Lands held extensive hearings on this legislation in 1974 and 1975 and although the Administration was requested to comment upon it, no Justice Department representatives appeared nor was our attention directed to any possible anti-trust or other Justice Department investigations underway which could have affected our consideration of the bill or of the President's proposal. We were not informed that passage of H.R. 49 or the President's proposal would interfere in any way with Justice Department activities. Nor is Mr. Clearwaters' testimony clear on this point. This leads me to question whether or not there has been a serious lack of communication between executive agencies and with the Congress.

I would now appreciate a prompt clarification of the Department's position on H.R. 49. Specifically, what provisions, if any, does the Department of Justice object to in H.R. 49 and also what specific provisions should be incorporated to ensure that Justice is not hampered in its on-going investigations into the conduct of Standard Oil of California or any other companies with respect to Elk Hills and especially Standard Oil Company's unit plan contract with Navy?

Thank you.

Sincerely,

JOHN MELCHER,
Chairman, Subcommittee on Public Lands.

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., April 1, 1975.

Hon. EDWARD H. LEVI,
Attorney General of the United States,
U.S. Department of Justice,
Washington, D.C.

DEAR MR. ATTORNEY GENERAL: As you are undoubtedly aware, the Subcommittee on Public Lands of the Interior and Insular Affairs Committee held extensive hearings during the 93rd Congress and again during this Congress relative to the establishment of national petroleum reserves on certain public lands of the United States. Among lands that could be affected are the four existing Naval Petroleum Reserves, i.e., Elk Hills and Buena Vista in California, Teapot Dome in Wyoming and Naval Petroleum Reserve No. 4 in Alaska.

Subsequent to hearings this year, H.R. 49, the proposal dealing with this matter, was reported out by the Full Committee by a vote of 32 to 0. Due to overlapping jurisdictional problems the bill was referred by the Speaker to the House Armed Services Committee. At these hearings Deputy Assistant Attorney General Keith I. Clearwaters appeared and raised numerous questions regarding H.R. 49 as well as questions regarding your Department's pending investigations concerning operation of private transportation and marketing facilities of Elk Hills oil and apparently other matters involving Standard Oil Company's operations in California.

This Committee was surprised that the Department of Justice did not see fit to furnish this information to us during the two or more years H.R. 49, or similar legislation, has been under consideration. If your investigation was of such overriding importance it is difficult to understand why it was not brought to our attention before this late date.

By my earlier letter of March 27 to you I solicited your comments and suggestions regarding H.R. 49. However, in view of Mr. Clearwaters' recent testimony before the House Armed Services Subcommittee on Investigations I feel it necessary to supplement our record on H.R. 49, specifically for a clarification of the involvement of the Justice Department and request that Mr. Clearwaters appear before the Subcommittee on April 8, 1975, at 10:00 a.m. in room 1324 Longworth House Office Building.

Kindest personal regards.

Sincerely,

JOHN MELCHER,
Chairman, Subcommittee on Public Lands.

Mr. MELCHER. The subcommittee will stand adjourned until Friday at 10 a.m.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Friday, April 11, 1975.]

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Committee on Internal Security - Sub-Committee A
 1000 Pennsylvania Avenue, N.W.
 Washington, D.C. 20540

Honorable Earl Warren
 U.S. Supreme Court Building
 Washington, D.C.

Dear Mr. Chief Justice: I am writing to you in the hope that you will find the enclosed material of interest. It is a collection of articles and documents which I have gathered together over the past few years. I believe they will be of interest to you and your colleagues.

I have enclosed a copy of a letter which I wrote to you on this subject. I also have enclosed a copy of a letter which I wrote to you on this subject. I believe they will be of interest to you and your colleagues.

I am sure that you will find the enclosed material of interest. It is a collection of articles and documents which I have gathered together over the past few years. I believe they will be of interest to you and your colleagues.

I am sure that you will find the enclosed material of interest. It is a collection of articles and documents which I have gathered together over the past few years. I believe they will be of interest to you and your colleagues.

Very truly yours,
 [Signature]

Enclosure: 1 copy of letter to Mr. Chief Justice, dated 11/11/55.

Very truly yours,
 [Signature]

Enclosure: 1 copy of letter to Mr. Chief Justice, dated 11/11/55.