CS

ID # 174381 CU
6:45 p.m. 9/12/90

WHITE HOUSE CO001-07
CORRESPONDENCE TRACKING WORKSHEET

- ☐ O · OUTGOING
- ☐ H · INTERNAL
- ☐ I · INCOMING

Date Correspondence Received (YY/MM/DD) / /

Name of Correspondent: Ronald Peterson

☐ **MI Mail Report** **User Codes:** (A) ______ (B) ______ (C) ______

Subject: Dept. of Energy draft testimony on Persian Gulf Crisis and oil supply

ROUTE TO: **ACTION** **DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
Cuoje	ORIGINATOR	90,09,12		C	90,09,12 CS
	Referral Note:				CS
Cuat 17	A	90,09,12		C	90,09,12
	Referral Note: See Comment				CS
Cuat02	I	90,09,12		C	90,09,12
	Referral Note:				CS
Cugray	I	90,09,12		C	90,09,12
	Referral Note:				CS
Cuat 19	I	90,09,12		C	90,09,12
	Referral Note:				

ACTION CODES:
- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:
- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

FOR OUTGOING CORRESPONDENCE:
- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

Comments: NLO. Jeff spoke with Gary Bennethum directly 7:30 pm on 9/12. No further action necessary. JRH/KRM CS

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PRESIDENTIAL REPLY

Code	Date	Comment	Form
C _ _		Time:	P-
DSP		Time:	Media:

SIGNATURE CODES:

CPn - Presidential Correspondence
- n - **0** - Unknown
- n - **1** - George Herbert Walker Bush
- n - **2** - George Bush
- n - **3** - George

CLn - First Lady's Correspondence
- n - **1** - Barbara Bush
- n - **2** - Barbara
- n - **3** - Bar
- n - **4** - Mrs. Barbara Bush

CBn - Presidential & First Lady's Correspondence
- n - **1** - Barbara & George Bush
- n - **2** - Barbara & George

MEDIA CODES:

- **B** - Box/package
- **C** - Copy
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- **G** - Message
- **H** - Handcarried
- **L** - Letter
- **M** - Mailgram
- **O** - Memo
- **P** - Photo
- **R** - Report
- **S** - Sealed
- **T** - Telegram
- **V** - Telephone
- **X** - Miscellaneous
- **Y** - Study

6279

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

URGENT

September 12, 1990

LEGISLATIVE REFERRAL MEMORANDUM

TO: DOI
Council of Economic Advisers (Obermiller 395-5036 242
Department of State (Rappaport 647-4463) 225
Department of Defense (Brick 697-1305) 325
Department of the Treasury (Carro 566-8523) 228
Dept of Justice 217
Dept of Transportation

SUBJECT: Department of Energy draft testimony on Persian Gulf Crisis and oil supply.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than COB today, September 12, 1990 - hearing scheduled September 13, 1990.

Questions should be referred to Gary Bennethum (395-3634).

Ronald K. Peterson

RONALD K. PETERSON for
Assistant Director for
Legislative Reference

Enclosures

cc: Ken Glozer
R. Cogswell
C. B. Gray / John Schmitz

WASHINGTON

ORM OPTICAL DISK NETWORK

ID# 174381 cu

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Comments:

09/12/90 15:49 DOE -PE-1 002

STATEMENT OF

James Watkins, (Admiral, USN) Ret

SECRETARY OF ENERGY

BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
United States Senate

September 13, 1990

Draft of 12 September 1990: 3:00 p.m.

Mr. Chairman and members of the Committee, I am pleased to be able to share with you our assessment of current oil market conditions, and to discuss with you the energy measures that the Administration is undertaking in response to the Middle East situation.

The August 2 embargo of Iraqi and Kuwaiti export production resulted in a loss to the world market of 4.3 million barrels per day of oil. Since then, the market has been supplied by oil on the high seas, by some drawdown of commercial stocks, and by excess production from Saudi Arabia, the United Arab Emirates, Venezuela, and others.

While the full effects of the oil embargo will not be fully evident until late September, we view the current market as relatively stable, but uncertain about future supply. We are closely monitoring the situation, and are in close consultations with our allies and with the member-states of the International Energy Agency (IEA). Should the situation warrant it, we are prepared to direct a coordinated drawdown of the more than 1 billion barrels in strategic stocks held by the U.S. and by other IEA states. The U.S. SPR drawdown capacity is 3.5 million barrels/day. Other IEA members have combined capability of 2.0 million barrels/day.

Coordination is key to strategic stocks drawdown. The world oil market is highly integrated and as a consequence strategic stocks placed into the market by one IEA nation will benefit all. Since benefits are shared, so should be the responsibility for use of strategic stocks. This principle is appropriate and consistent with the President's Middle Eastern policy.

The Iraq-Kuwait embargo took place coincidentally at a time when world oil stocks were at very high levels. In the United States, crude stocks in late July were about 50 million barrels above last year's level.

Currently, crude oil stocks are 76 million barrels above minimum operating inventory, and well above levels at the same time last year. Gasoline stocks are tight, but adequate. Distillate stocks are above normal. Propane stocks are 11.5 percent below last year's level, but have risen significantly since June.

We are very concerned about the ability of refiners to continue to operate at near maximum capacity for an extended period of time. World wide refining capacity declined by 10% over the past decade, with a disproportionate share of the capacity reductions occuring in the United States and Western Europe.

Consultations with industry and analysis of market information suggest the problem in the short term is not necessarily one of capacity, but of dislocations related to, quality, and distribution of supply. In general, the crude production coming on line to replace the lost Iraq and Kuwait production is expected to be of lower quality, and we are more vulnerable to events such as refinery accidents, transportation problems, or bad weather.

Worldwide, excess production capacity is available to offset the shut-off of Iraqi-Kuwaiti export production. A substantial part of this excess capacity has been brought on line, but is insufficient to fully offset the shortfall. For this reason, the United States and its allies are taking steps to mitigate the effects of the embargo by facilitating production of indigenous supplies, by encouraging efficiency, and by maximizing fuel switching.

The Administration on August 15 announced a first set of short term measures aimed at reducing reliance on oil imports in the last quarter of 1990. These measures included: increased Prudhoe Bay production; mediation of a dispute between producers and California authorities over commencement of production at Pt.

Arguello, off Santa Barbara; a request to Texas and other States to increase allowable production in some fields; and a slight increase in production from Elk Hills Naval Petroleum Reserve. With the exception of Pt. Arguello, which cannot be brought into production this year, most of these increases have been pledged or achieved.

On the demand side, we will this week launch a National campaign, under the sponsorship of the Advertising Council, aimed at encouraging consumers to use energy more efficiently. This initiative will seek the cooperation of consumers to take modest individual steps that will collectively have a meaningful impact on oil consumption; that will reduce energy costs to consumers, and that, in some cases will likely also save lives. I have also issued a notice to all Department of Energy operations directing that they undertake all feasible action to reduce oil consumption, switch to other fuels, and increase use of alternative fuels.

Mr. Chairman, on Tuesday evening the President called on Congress to enact this month legislative measures that would serve the national interest by reducing our dependence on foreign oil. These measures include:

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- Incentives for Domestic Oil and Gas Exploration:

The Administration has included in the budget for the last two fiscal years a temporary tax credit for new enhanced oil recovery projects and for exploratory drilling expenditures; elimination of the transfer rule; an increase in the percentage depletion net income limitation; and a larger deduction from income of exploratory drilling costs by independent producers.

- Impact of WEPCO on Fuel Switching:

The results of the WEPCO decision must be addressed legislatively if we are to achieve the maximum achievable and cost effective conversion from oil to natural gas. The Administration has proposed to Congress a provision to deal with this issue in the context of the Clear Air Act amendments. It is important that Congress act on this proposal.

- PURPA Size Limitations:

The Administration supports the removal of size limitations on renewable energy technologies contained in the Public Utility Regulatory Policy Act. The House and Senate have passed different versions of this legislation in different bills. We are prepared to work with Congress to promptly complete action on this legislation.

- Treatment of Utilities' Energy Efficiency Rebates: Utility rebates to residential consumers for investments in electricity conservation were excluded from taxation by a provision of the National Energy Conservation Act of 1978. This exclusion expired on June 30, 1989. The Administration supports a reinstatement of this exclusion for residential consumers, and will submit a proposal for Congressional action.

- Titles I-III of the 1990 National Energy Policy Act: The Administration supports key provisions of this legislation, including those related to energy efficiency technology transfer, and renewables. We are prepared to work with Congress in a spirit of compromise to find common ground in support of this Act's main objectives.

- Environmentally Sensitive Exploration of ANWR: The Arctic National Wildlife Reserve should be explored initially for the purpose of estimating resources that would be recoverable through environmentally low-risk options. In

March of 1989, this committee approved a bill authorizing exploration and development of ANWR. Similar legislation was introduced in the House. The time has come to move forward on ANWR.

Additional initiatives will be undertaken this week to obtain further increases in oil supplies, greater efficiency, and more fuel switching over the next 18 to 24 months. On the supply and fuel switching side, these initiatives are aimed at cutting through a number of regulatory bottlenecks that have prevented reasonable and environmentally beneficial projects from coming on line.

The President also urged that no one even contemplate profiteering from the Iraqi crisis. Immediately after the invasion of Kuwait, DOE issued a joint statement with the Departments of Justice and Transportation expressing concern with the recent increase in gasoline prices. DOE does not have the authority to dictate oil prices, but does have the responsibility to monitor and report market trends. The Justice Department is watching for any indication of anti-competitive activity, which

will be met with vigorous antitrust prosecution. We are working closely with Justice and will share the results of our analyses with them, as well as with Congress and the American people.

As the President noted on Tuesday night and on previous occasions, "Conservation efforts are essential to keep our energy needs as low as possible." To that end, we intend to set a National example by requiring greater efficiency in Federal energy use. We also intend to illuminate for private and corporate consumers the idea that it is a matter of economic and environmental self-interest to reduce waste and increase efficiency.

Among these medium term measures are a few that merit particular attention today. In Alaska, two projects on the Beaufort Sea - Niakuk and Pt. McIntyre - are awaiting final permits that would assure 100,000 b/d of new production by the end of 1991. In California, over 13,000 wells, currently shut-in, can be reopened to production if the Kern River pipeline can be completed to bring much needed natural gas for enhanced oil recovery. Heavy oil production in California can contribute 100,000 B/D or more to the U.S. supply.

Nearly three dozen natural gas pipeline projects are awaiting approval by a variety of Federal and State agencies. These projects, whose approval can be expedited, have the potential of backing out 55,000 b/d of oil by 1991; 300,000 b/d by 1992; and nearly 600,000 b/d by 1994.

We are working actively with the Federal Energy Regulatory Commission to identify those projects which can provide natural gas to displace oil and to remove Federal roadblocks to their approval. We are also working the FERC to streamline their procedures for consideration of pipeline projects. In the final analysis, however, it may be necessary to seek statutory changes to insure that required environmental reviews and federal permitting are completed within a reasonable period of time.

Mr. Chairman, this Nation has the material and technical capability to reduce the vulnerabilities inherent in our dependence on insecure supplies of imported oil. The response measures we have been able to define and to promulgate in the last 30 days, have been drawn from the important investment we have made in the last year to develop a National Energy Strategy (NES). It has been a fundamental tenet of the NES to craft policy options that respond to the multiple goals of economic productivity, energy security, and environmental quality.

The short and medium term measures I have discussed here today are responsive to those multiple objectives. If fully successful, they will have the effect of reducing our oil import requirements by over 1 million barrels/day of oil equivalent. This is substantially more than U.S. oil imports from Kuwait and Iraq prior to the embargo.

It was in July 1990 that the President directed the Department of Energy to develop the NES in close collaboration with other Federal agencies. Just one year later, events have brought home the message that complacency on energy issues is costly and self-defeating. We have gathered fresh evidence that no part of the American energy sector can be allowed to deteriorate, or become less than fully productive, or rendered impotent by regulatory deadlock. We must, as the President stated, take advantage of all the energy resources - coal, natural gas, hydro, nuclear and the full range of renewable technologies that are available to the nation in part because of the substantial investments we have made in Federal research and development.

The development of the National Energy Strategy has proven

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opportune. It has provided a framework for dealing prudently but effectively with the present, unexpected situation. It will prove even more useful for the longer term.

We are on schedule for the completion of the NES. We expect to complete the remaining analytical work by the end of September, and to develop a set of coherent policy options for the President's consideration in December. I would add that the inter-agency process that has been established for the NES has proved effective in engaging the attention and cooperation of the multiple Federal agencies involved in most aspects of energy decisionmaking.

Mr. Chairman, I will close by stating that the current situation in the Middle East will have an impact on the economy of the U.S., and more severely on the economies of less developed nations, including Eastern Europe. But it will also offer a range of opportunities to craft long-range energy policies grounded in reality and in common sense. The strategic task we set for ourselves in June of 1989 will permit us to make

intelligent decisions for the future as it has for the present. I hope you and the members of this committee will find it possible to support it. This concludes my statement, and I would be happy to answer any questions.