

REPORT TO BOARD OF DIRECTORS
MANUFACTURING CHEMISTS ASSOCIATION

Ronald S. Wishart, Jr., Chairman
Energy Conservation Committee

September 14, 1976

This is the first report of the Energy Conservation Committee, established by the Board of Directors at its November 1975 meeting. Up to that date, and beginning in October 1974, an ad hoc committee had dealt with energy conservation matters. From October 1974 onward, the Committee has maintained, where legally feasible, a close liaison and active cooperation with the Department of Commerce and with the FEA and its contractors.

Since its establishment, the Committee has been dealing with two major responsibilities:

1. Supervising the ongoing voluntary program of twice-yearly reports on energy conservation to the Department of Commerce and the Federal Energy Administration. As of the preparation of this report, the most recent energy conservation report was that submitted in April 7 of this year, in which 107 MCA member companies participated. The report showed energy conservation for the calendar year 1975 as 4.0% per unit of output, compared with 1972 as a base year. Without the energy costs of OSHA and environmental regulations in effect in 1975 but not in 1972, the energy conservation rate would have been 4.9%. An over-riding reason for the relative modesty of these figures was that, due to the recession, our industry was operating at only 74.2% of capacity in 1975, compared with 83.5% in 1972.

There are very few major MCA member companies not taking part in MCA's energy reporting program or those of other relevant associations, such as the Fertilizer Institute and the Pharmaceutical Manufacturers Association. These few companies have been individually contacted, and will hopefully be taking part in the next report to the two Federal agencies, due in mid-September.

This voluntary program is the result of an October 1974 meeting between top Commerce Department and FEA officials and top officials of some 28 major chemical companies, all MCA members. At this meeting, there was agreement on a consensus energy conservation goal of 15% per unit of output by calendar 1980 as compared with

calendar 1972.

2. Since December 1975, when the President signed into law the Energy Policy and Conservation Act, the Committee has been seeking to cope with the new industrial energy conservation provisions which are part of this Act.

The Act focuses on the ten leading energy-consuming industries by two-digit SIC codes, officially identified early this year. Not surprisingly, our industry (SIC 28) ranks first.

For each of these top 10 industries, FEA is to set an energy conservation goal, replacing the consensus goals under which many industries, including ours, have been operating. FEA has contracted with outside consultants to study each of the ten industries and propose goals - which, of course, FEA can accept or modify.

Because of the complexity of the chemical industry, FEA initially had difficulty getting an appropriate contractor to take on the job. However, thanks in part to MCA's interest in having a qualified contractor take on this responsibility, Battelle Memorial Institute finally undertook it, with Chem Systems as subcontractor. The engineering and technical subcommittee of the Energy Conservation Committee worked closely with the contractors, aiding them individually and collectively in their demanding task, and contributing their expertise in methodology. The contractors have submitted their report, and it will be published in the FEDERAL REGISTER in late September, with public hearings in October.

It is quite possible that consumer and environmental groups may testify in opposition to any proposed reasonable target for our industry, so MCA must be prepared to testify in its own behalf. Internal studies carried on by the Committee indicate that the industry can meet a target in the neighborhood of 15%.

In further conformity with EPCA requirements, FEA must identify the top energy-consuming companies in each of the ten already-identified industries - either the 50 highest-ranking companies or those using over a trillion BTU's in energy per year, whichever number is smaller. Some 60 companies reporting through MCA have listed energy purchases of over a trillion BTU's a year, and there may be other such companies reporting through the Fertilizer Institute, etc. It therefore seems likely that the cut-off point for chemical companies will be somewhat over a trillion BTU's per year.

Under EPCA provisions and regulations, companies reporting through industry programs such as MCA's may be exempted from individual reporting, even if it would otherwise be required of them. The criteria for acceptable industry programs will be published in the FEDERAL REGISTER. However, because FEA is falling behind its EPCA timetable, there remains a 50/50 chance that companies may have to file at least one mandatory individual report in early 1977.

Another section of EPCA provides for the encouragement and subsidy of state energy programs. Here MCA's prime interest is in exempting major industries like ours from reporting to the various states, since they already report to Federal agencies. If, however, some states insist upon industrial energy conservation reporting, we would urge them to adopt the same system already in effect for Federal reporting. After monitoring two regional hearings on state programs, MCA testified to this effect at the plenary hearing in Washington in July.

(Another area of FEA concern outside of EPCA is its program to promote fuel conversion from oil and gas to coal. The future issues subcommittee of the Energy Conservation Committee has monitored the questionnaires to be sent out to companies in this area, and has made recommendations which have been persuasively relayed to FEA through a task force of the Industrial Energy Users Forum. ly A genuine success was realized in modifying some unreasonable requests - e.g. obtrusive financial questions in the Major Fuel-Burning Installation questionnaire.

The Energy Conservation Committee has four subcommittees: engineering and technical; state relations; fuel types; and future issues. It has also established fruitful liaison with three other MCA standing Committees: Government Relations, Legal Advisory, and Public Relations.

(Government Relations contacts have been useful in dealing with legislation going through the Congress concerned in one way or another with energy conservation. Public Relations have helped in the explanation of the effect on energy conservation of the relatively low capacity at which the industry was functioning in calendar 1975 - and our presentation in this regard was welcomed by the Department of Commerce and the Federal Energy Administration as supportive of their reports to the public. Furthermore, Public Relations assembled and distributed internal and external publications by member companies designed to promote energy conservation. We shall look to Legal Advisory liaison for advice in preparing testimony for the various public hearings which will be scheduled as part of the EPCA program.

APPENDIX - ENERGY SITUATION UPDATE

● TOTAL ENERGY

Total energy demand declined, 35.3 to 33.6 MM B/D COE¹⁾ (-2.5% AAI²⁾) over the period 1973-75. During the first half of 1976 energy demand increased sharply and the year-end demand is expected to near 1973 levels. Post-1976 energy demand is projected to grow at 2% to 3% AAI.

● OIL

Oil products demand declined from 17.3 to 16.6 MM B/D (-3.0% AAI) during 1973-75. During the first half of 1976 oil products demand increased sharply, nearing the 1973 levels.

Domestic crude oil production declined at about -4% AAI (1973-75), although the first half of 1976 showed a slowing of this decline.

Imports (crude oil and products) reached a record level near 7 MM B/D (41% of oil consumed, up from 36% in 1973) during the first half of 1976 and are expected to approach 10 to 11 MM B/D by 1985.

North Slope crude oil is expected to provide about 2 MM B/D by the early 1980's and reverse the decline in domestic production through the 1980's.

The Trans-Alaskan pipeline is about a month behind schedule and completion could be delayed even further due to welding defects (current target completion date is December, 1976).

Outer Continental Shelf lease sales have been held for Alaska, California, and Atlantic (the development schedule for these leases is undecided).

The Energy Policy and Conservation Act (December 22, 1975) established a new crude oil pricing mechanism (initial crude oil price rollback plus maximum 10%/year price increases) and required review of oil product price decontrol [to date, residual fuel oil, distillates, naphthas (except SNG plant feedstock) and gas oils have been decontrolled]. EPCA required FEA to develop a plan for the maintenance and storage (equivalent of 3 months of imports) of readily available inventories of crude and products for use during energy shortages. EPCA also established efficiency standards for automobiles and efficiency targets for major appliances and major industries.

1) Millions of crud oil equivalent barrels per day.

2) Average Annual Increase

- NATURAL GAS

Domestic production continued to decline (-6.3% AAI 1973/75) with 1976 production estimated at about 19 trillion cubic feet. No reversal of the downward trend is expected through 1985.

A new pricing program was recently proposed by FPC for escalating the price of three "new" gas (post-1/1/73) classifications. This program is currently subject to litigation and possible Congressional legislation. Classification III new gas (sale to interstate commerce initiated on or after 1/1/75) is raised from about \$0.52/Mcf. to \$1.42/Mcf. and escalated at \$0.01/Mcf./quarter starting 10/1/76.

- COAL

Production has increased at about 3 to 4% AAI since 1973 with 1976 production estimated at about 660 MM tons. Interior's freeze on coal leasing in the western states is expected to be lifted early in 1977; however, FEA's objective of doubling coal production by 1985 is considered optimistic.

Related developments: Sierra Club vs. Kleppe suit has been settled - no extended regional impact statement is required; Coal Leasing Act has been enacted over Presidential veto - sets rules for leasing federal lands; Interior Department surface mine reclamation rules have been established; proposed federal strip mining legislation has been vetoed twice in the last two years.

- ELECTRIC UTILITIES

Electricity sales, which grew at about 7.5% AAI (1973/75) leveled off during 1974, increased about 2% in 1975 and showed about a 5% gain during the first half of 1976. Post-1976 sales growth is expected to be 5 to 6% AAI.

FEA coal burning orders are now in effect for 30 of the 74 new power plants earlier designated by FEA for coal burning facilities. Besides the remaining 44 new power plants an additional 48 new power plants have also been designated for coal burning facilities. During 1975, 74 existing power plants were issued orders to convert to coal.

Nuclear electricity generation reached about 9% of total generation during the first half of 1976 and is expected to increase to about 30% by 1985.

Court rulings held that: the environmental effects of the complete nuclear fuel cycle should be considered in individual license applications (concerned the Vermont Yankee Plant - in operation since 1972); and, energy conservation should be considered as an alternate to building a nuclear plant.

Legislation was recently enacted in California which requires an extensive study of nuclear power plant feasibility and poses further delays for new nuclear plants in that state. Although the California anti-nuclear initiative did not pass, at least five other states have similar initiatives on the November ballot.

● AMENDMENTS TO THE CLEAN AIR ACT

No-significant deterioration of air quality regulations published by EPA were upheld by a recent court decision and Congress is seeking to establish its own standards.

New amendments to the Act have been passed by the Senate and the House is currently debating their version. Both bills include: tightening of the no-significant deterioration requirements for "clean" areas; some relaxation of the automotive emission standards; compliance date extensions for industrial and utilities emission sources; and, additional controls for "polluted" areas.

● ENERGY TECHNOLOGY

ERDA has developed a National Plan for multi-billion dollar development and commercialization of new technologies (enhanced oil and gas recovery, oil shale, geothermal, solar, nuclear, synthetic fuels...) and conservation (energy efficiency) technologies.

● INTERNATIONAL

World crude prices remain steady with the decision by OPEC members in May to postpone further price increases; however, some price increases may be forthcoming after the December, 1976 meeting.

The International Energy Agency has just approved a detailed guide for sharing all available oil in case of a new oil embargo. To reduce its members' dependence on foreign oil, IEA also has a long-range program which includes: tough conservation policies, incentives such as guaranteed minimum prices to stimulate other, indigenous energy resources, and stepped up research on new energy sources such as solar power, hydrogen, and fusion.

OPEC production increased from 27.1 MM B/D in 1975 to 28.2 MM B/D during the first quarter of 1976 which reduced shut-in capacity from 10.7 to 9.6 MM B/D.