The original documents are located in Box 8, folder "Energy Policy and Conservation Act (3)" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

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July 2, 1975

MEMORANDUM FOR: JAMES CANNON

THRU: MAX L. FRIEDERSDORF
VERN LOEN

FROM: CHARLES LEPPERT, JR.

SUBJECT: Press Release of Rep. John Dingell (D-Mich) on Decontrol of Old Oil

Attached for your information is a copy of the press release of Rep. John Dingell at his news conference on Wednesday, July 2, 1975, at 11:00 a.m.

cc: Jack Marsh
Vern Loen
Bill Kendall
Paul O'Neill
Pat O'Donnell
Mike Duval
Tom Loeffler

GERALD R. FORD LIBRARY

FILE

NEWS PACKET ON DOMESTIC
OIL PRICE DECONTROL

NOT FOR IMMEDIATE RELEASE

EMBARGOED FOR 11 A.M., EST. WASHINGTON, D.C.

CONGRESSMAN JOHN D. DINGELL, NEWS CONFERENCE

JULY 2, 1975 ROOM 2123 RAYBURN

"STUDY ON POTENTIAL EFFECTS
SUDDEN DECONTROL OF DOMESTIC
OLD OIL PRICES WOULD HAVE ON
THE ECONOMY OF THE UNITED STATES"

OFFICE OF CONGRESSMAN JOHN D. DINGELL
DEMOCRAT-MICHIGAN
CHAIRMAN, SUBCOMMITTEE ON ENERGY AND POWER
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
U.S. HOUSE OF REPRESENTATIVES

STATEMENT OF HON. JOHN D. DINGELL

CHAIRMAN, SUBCOMMITTEE ON ENERGY AND POWER

JULY 2, 1975

MANY OF YOU HERE TODAY HAVE BEEN COVERING THE ACTIVITIES OF THE SUBCOMMITTEE ON ENERGY AND POWER, AND THE FULL COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE, AS WE HAVE BEEN DEALING WITH ASPECTS OF THE COMPREHENSIVE ENERGY ISSUES WHICH CONFRONT THE COUNTRY TODAY.

THERE IS PRESENTLY PENDING BEFORE A HOUSE-SENATE CONFERENCE LEGISLATION (H.R. 4035) WHICH WOULD HAVE THE EFFECT OF EXTENDING, FOR A PERIOD OF SEVERAL MONTHS, THE AUTHORITIES CONTAINED IN THE EMERGENCY PETROLEUM ALLOCATION ACT. IF THAT ACT IS NOT EXTENDED, OR SUBSTITUTE LEGISLATION ENACTED BY AUGUST 31 OF THIS YEAR -- 60 DAYS FROM TODAY -- THIS COUNTRY WILL LOSE WHATEVER AUTHORITIES IT HAS TO REGULATE AND HOLD DOWN THE PRICE OF DOMESTIC "OLD OIL."

THE PURPOSE OF THIS MEETING IS TO ACQUAINT YOU WITH A STUDY WHICH HAS BEEN DONE FOR THE SUBCOMMITTEE ON THE EFFECTS OF THIS LOSS OF CONTROL. THE REASON FOR HOLDING THIS MEETING AT THIS TIME IS THAT WE HAVE RECEIVED STRONG HINTS OF A POSSIBLE PRESIDENTIAL VETO ON THE LEGISLATION -- WHICH IS, BY THIS TIME, THE ONLY CREDIBLE WAY OF ENSURING THAT THESE CRITICAL LEGISLATIVE AUTHORITIES DO NOT LAPSE.

AS A RESULT OF THESE WHITE HOUSE THREATS OF VETOES OF THE EXTENSION OF THE EMERGENCY PETROLEUM ALLOCATION ACT, AND THE JUST REPORTED ENERGY CONSERVATION AND OIL POLICY ACT OF 1975 FROM OUR COMMITTEE, I INITIATED THE STUDY I AM RE-LEASING TODAY, WHICH DRAMATICALLY SHOWS THE IMPACTS ON THE AMERICAN ECONOMY OVER THE NEXT TWO YEARS IF THESE TWO ENERGY MEASURES ARE KILLED BY THE PRESIDENT AND IF THE CONGRESS IS UNABLE TO OVERRIDE HIS VETO. THE AMERICAN CONSUMER WILL BE THE LOSER.

THE FIGURES THAT OUR ENERGY AND POWER SUBCOMMITTEE HAS COMPILED ARE STARTLING. THEREFORE, I FELT IT NECESSARY TO CALL THIS CONFERENCE TO REPORT THESE FIGURES, REGARDING THE IMPACT OF DECONTROL OF DOMESTIC OLD OIL PRICES ON OUR CRIPPLED ECONOMY.

THIS INFORMATION HAS TO BE MADE KNOWN TO THE AMERICAN PUBLIC AND TO THE ADMINISTRATION -- AN ADMINISTRATION WHICH IS SADLY MISLED IF IT BELIEVES THE NATION TODAY CAN STAND SUDDEN DECONTROL OF DOMESTIC OLD OIL PRICES.

TAKE FIRST THE LEGISLATION NOW IN A HOUSE AND SENATE CONFERENCE TO EXTEND THE EMERGENCY PETROLEUM ALLOCATION ACT UNTIL DECEMBER 13, 1975. THIS ACT EXPIRES AUGUST 31.

IF THE AUTHORITY OF THIS ACT WERE ALLOWED TO LAPSE AS THE RESULT OF THE PRESIDENTIAL VETO -- WHICH HAS BEEN THREATENED -- AND THE CONGRESS IS UNABLE TO OVERRIDE THAT

VETO, THE ECONOMY AND THE PEOPLE OF THIS COUNTRY WILL PAY AN UNCONSCIONABLE PRICE IN THIS GAME OF ECONOMIC BRINKSMANSHIP. THE VETO OF THIS BILL WOULD RESULT IN IMMEDIATE DECONTROL OF TWO-THIRDS OF OUR DOMESTIC OIL PRODUCTION, SENDING CURRENTLY CONTROLLED $5.25 PER BARREL OIL UP TO THE CARTEL PRICE, WHICH COULD REACH A LEVEL OF $17.50 BY THE FALL.

THE ADMINISTRATION SPOKESMEN FONDLY REFER TO THIS AS "PLAYING HARDBALL" WITH THE CONGRESS.

THEY DON'T SEEM TO APPRECIATE, OR ARE CALLOUS TO THE FACT, THAT THEY ARE PLAYING HARDBALL WITH THE LIVES AND LIVELIHOOD OF THE AMERICAN PEOPLE.

IMMEDIATE DECONTROL WOULD MOST LIKELY TURN THE EXPECTED ECONOMIC RECOVERY BACK INTO A SERIOUS RECESSION AND COST AT LEAST HALF A MILLION JOBS.

THE IMPACT OF SUCH CLEARLY IRRESPONSIBLE ACTION WOULD BE ENORMOUS. ASSUMING IMMEDIATE DECONTROL, ANOTHER $1 TARIFF INCREASE AND $4 INCREASE IN OPEC PRICES THIS FALL WOULD RESULT IN A FLATTENING OF THE ECONOMY, IF NOT A SERIOUS DOWNTURN BY LATE 1976.

SPECIFICALLY, THE ENERGY AND POWER SUBCOMMITTEE ANALYSIS SHOWED THE FOLLOWING IMPACT:

1. GROSS NATIONAL PRODUCT -- WILL EXPERIENCE CLOSE TO A THREE PERCENT REDUCTION BY THE

FOURTH QUARTER OF 1976 FURTHER AGGRAVATING THE ALREADY UNACCEPTABLE GAP BETWEEN GNP AND THE POTENTIAL OF OUR ECONOMY.

2. UNEMPLOYMENT -- A SIGNIFICANT INCREASE OF AN ADDITIONAL HALF-MILLION BY THE END OF 1976 ON TOP OF THE 7.2 MILLION EXPECTED TO BE UNEMPLOYED AT THAT TIME.

3. INFLATION -- A SUBSTANTIAL INCREASE, MOST SIGNIFICANTLY IN THE WHOLESALE PRICE INDEX, WHICH BY THE END OF 1976 WOULD BE 13 PERCENT HIGHER THAN THE BASE CASE AND OVER 18 PERCENT HIGHER BY THE THIRD QUARTER OF 1977.

4. HOUSING STARTS -- WHICH HAVE BEEN IN A RECORD SLUMP, WOULD BE 9 PERCENT LOWER OR 120,000 FEWER STARTS IN 1976.

5. AUTO SALES -- WHICH ARE ALREADY 30 PERCENT BELOW TWO YEARS AGO WILL BE 9 PERCENT DOWN OR 750,000 FEWER SALES IN 1976 THAN PROJECTED IN THE BASE CASE.

BOTH THE AUTO AND HOUSING INDUSTRIES ARE CRITICAL SECTORS OF THE ECONOMY, AND ARE COUNTED ON TO PULL US OUT OF THE CURRENT RECESSION. IF BOTH SECTORS RECEIVE THE FURTHER JOLT OF THE IMMEDIATE OR RAPID DECONTROL -- THERE MAY BE NO RECOVERY.

THE ADMINISTRATION IS FLIRTING WITH POSSIBLE ECONOMIC DISASTER AND HAS NOT GIVEN THE CONGRESS ANY ANALYSIS TO SUPPORT THE WHITE HOUSE POSITION THAT SUDDEN DECONTROL OF OIL PRICES IS GOOD FOR THE COUNTRY.

THE SUBCOMMITTEE HAS REQUESTED ON NUMEROUS OCCASIONS, MOST RECENTLY IN THE LAST WEEK, SUCH AN ANALYSIS FROM THE FEDERAL ENERGY ADMINISTRATION AND WE HAVE RECEIVED NOTHING. WHILE THE WHITE HOUSE THREATENS A LAPSE IN THE EMERGENCY PETROLEUM ALLOCATION ACT, THEY HAVE NO SPECIFIC REPORTS FOR CONGRESS ON WHAT THE IMPACT OF SUCH SUDDEN ACTIONS MAY BE ON THE NATION'S ECONOMY.

I CONSIDER THIS GROSS IRRESPONSIBILITY. I FOR ONE AM BECOMING TIRED OF THE ADMINISTRATION LINE OF "SHOOT FIRST AND ANALYZE LATER -- IF AT ALL." IT IS IRONIC THAT THE PRESIDENT VETOED THE STRIP MINING BILL BECAUSE....AS HE CLAIMED....IT COULD CAUSE THE LOSS OF 35-THOUSAND JOBS. YET, IF HE GOES THROUGH WITH HIS INDICATED PLANS TO VETO H.R. 4035, HE IS FLIRTING WITH THE POSSIBLE LOSS OF OVER A HALF-A-MILLION JOBS.

THE SUBCOMMITTEE STATISTICS WERE DEVELOPED BY USING TWO OF THE MOST POPULAR ECONOMIC FORECASTING MODELS. MAJOR RELIANCE WAS PLACED ON THE CHASE ECONOMETRIC MODEL AND ITS

FORECAST WAS VALIDATED AGAINST THE WHARTON/BCS MODEL. IT SHOULD BE POINTED OUT THAT BOTH OF THESE MODELS ARE OTHERWISE OPTIMISTIC ABOUT THE ECONOMIC RECOVERY OVER THE NEXT FEW QUARTERS, ASSUMING RELATIVELY STABLE ENERGY PRICES.

I HOPE THAT WE CAN IMPRESS UPON THE CONGRESS AND THE ADMINISTRATION THAT CONSERVATIVE ESTIMATES OF THE IMPACT OF IMMEDIATE DECONTROL ARE ENORMOUS: THEIR IMPACT UPON THE ECONOMY IS CLEARLY NEGATIVE. ONE CAN PERHAPS QUIBBLE ABOUT THE PRECISION OF THESE ADMITTEDLY IMPRECISE ESTIMATES, BUT THERE IS NO DOUBT WHATEVER OF THE DIRECTION IN WHICH THESE FIGURES POINT. ANY WAY YOU LOOK AT IT, SUDDEN DECONTROL SPELLS BAD NEWS - PERHAPS VERY BAD NEWS INDEED.

IN CONCLUSION, IF THE ECONOMY BEGINS A GOOD RECOVERY AND PRECIPITOUS OR SUDDEN DECONTROL OF DOMESTIC OLD OIL OCCURS, DECONTROL WILL IMPAIR THE RESTORATION OF HEALTHY ECONOMIC GROWTH AND DELAY THE END OF THE RECESSION, VERY LIKELY CAUSING WORSE INFLATION.

IF THE ECONOMY DOESN'T BEGIN A BETTER RECOVERY RATE AND DOMESTIC OLD OIL IS RAPIDLY OR SUDDENLY DECONTROLLED, THE RESULTING EFFECTS ON ECONOMY WOULD BE DEVASTATING.

EITHER WAY, AMERICANS ARE IN TROUBLE IF DECONTROL OF OLD OIL OCCURS RAPIDLY.

SUMMARY

With hope for a turnaround in our domestic economy looked for in the next two quarters, there are two major potential changes in domestic energy prices that have yet to be fully factored into the projections.

1. The possibility of immediate, rather than time-phased, decontrol of domestic "old oil" resulting from the expiration of the Emergency Petroleum Allocation Act on September 1, 1975, without substitute or extension legislation in place.

2. An anticipated price rise in OPEC crude prices in October.

Individually, either of these would have a significantly negative influence on our economy. Jointly, they appear capable of refiring the inflationary engines and driving the recession to new depths.

In a conservative approach, the staff has analyzed these potential impacts in extremes through the use of economic forecasting models. Our major reliance was placed on the Chase Econometric Model and its forecast was validated against the Wharton/BCS Model.

In summary, should we experience immediate decontrol of "old oil," an additional dollar tariff and a 35% increase in OPEC crude prices, we would expect:

1. Unemployment -- a significant increase of about a half million by the end of 1976 and beginning of 1977;

2. Inflation -- an increase in the rate of inflation most significantly felt in the Wholesale Price Index which shows an increasing increment to 18% over the "base" case in the third quarter of 1977 (the Model's limit);

3. Housing and Automobiles -- a deferral of economic recovery ranging from 9 months to a year.

For a graphic display of these impacts, see the attached charts which compare this extreme, but possible, projection against an extension of the status quo.

3. Housing and Automobiles The negative impact on domestic new car sales is at its maximum during the second and third quarters of 1976, where sales are down over 10%. The negative impact on housing starts, continuously unfavorable, shows an increasingly unfavorable variance from the "base" case from the fourth quarter of 1976, where it is down 7.3%, to the third quarter of 1977, where it is down 10.8%.

For a graphic display of these impacts, the attached charts compare this not unreasonable projection against the previously described "base case."

There is apparently little that can be done unilaterally within this country to deflect the OPEC nations from their announced intentions to raise the price of oil. The other variable, continuation of price controls, is more tractable to national action, if its implications are clearly understood.

If the authorities contained in the Emergency Petroleum Allocation Act of 1973 are extended, as legislation presently before a House Senate conference would provide, there will be no sudden decontrol of the type indicated in the study. The period of extension would give the Congress and the President the time necessary to develop a workable and rational national energy policy. There are, however, rumors to the effect that the President may veto this legislation, in an effort to force the Congress to adopt the White House program in its entirety. Termed "political hard ball" by some, this strategy promises to create a situation in which only the OPEC nations and the oil companies will profit.

TABLE I

STATE OF THE ECONOMY AS OF 1/77 UNDER THE FOLLOWING THREE SCENARIOS

	BASE CASE Continued controls, $1 tariff	CASE 2 Decontrol of old oil on 9/75 tariff increases on 6/75 and 9/75	% change	CASE 3 Case 2 plus $4.00 OPEC increase on 10/75	% change
GNP in 58 $'s (millions)	859.8	849.6	-1.2	835.7	-2.8
Consumption expenditures ($Billions)	561.4	557.7	-0.7	552.3	-1.6
Net Exports ($ Billions)	12.6	11.5	-8.8	9.1	-27.8
Housing Starts (Units in millions)	1.66	1.60	-3.6	1.54	-7.3
Domestic Car Sales (Units in millions)	8.66	8.33	-3.8	7.9	-8.7
Prices					
Consumer price index, all	178.3	179.2	0.5	180.6	1.3
Consumer price index, electricity	166.5	169.0	1.5	170.9	2.6
Consumer price index, gas & oil	163.9	177.0	8.0	188.2	14.8
Wholesale price index, all	177.6	189.8	6.9*	200.4	12.8*
Wholesale price index, refined petroleum products	244.6	287.4	17.5	325.6	33.1
Employment					
Unemployment rate	7.52	7.72	2.7	8.02	5.6
Number unemployed (millions)	7.23	7.42	2.6	7.70	6.5

* the incremental impact on the wholesale price index continues to rise under both scenarios up to the time limit of the model (third quarter '77)

The staff of the Subcommittee on Energy and Power has attempted to analyze the potential impacts on the U.S. economy of expiration of authorities contained in the Emergency Petroleum Allocation Act of 1973. The Act, which contains the only legal authority to control the price of domestic crude oil, will expire at midnight, August 31, 1975, unless it is extended by law.

If that Act is not extended, the price of domestic crude will begin to rise on September 1. Crude oil production from a property at or below 1972 levels, "old oil", other than stripper or released, is now controlled at a price of $5.25 per barrel. The May 1975 Energy Review (FEA) reports that the average refiner acquisition cost of crude consumed in the U.S. was about $10.00 in February, whereas the world wellhead price was approximately $11.50. Should old oil be deregulated, domestic prices will tend to rise to world market prices. Imposition of one or more dollars in tariffs will also raise the market clearing price accordingly. It is not at all clear how far prices will rise, but the magnitude and potential impact of the President's proposed decontrol program, coupled with a $2-$3 tariff, prompted the staff's analysis.

Against a "Base Case" incorporating continued regulation of old oil and a tariff ceiling at the pre-June level of $1/Bbl (the maximum permitted under the Ways and Means bill as passed in the House) we have tested two alternatives. "Case 2" examines the effect of a domestic policy to decontrol the price of old oil on September 1, to continue the second $1 import tariff imposed on June 1, and to add a third dollar tariff on September 1. "Case 3" assumes the same events as "Case 2" and in addition incorporates an OPEC instituted increase of $4 per barrel for imported crude oil. The Chase Econometrics macroeconomic model was the focus for our investigations, but those results were checked against equivalent simulations performed on the Wharton/BCS model.

Case 2: Decontrol of old oil and a $2 tariff increase

Relative to current $11.50 price of imported crude, a $1 additional tariff corresponds to a 9% increase. Because uncontrolled domestic production (New oil, stripper, and released) is one-third of total domestic production, a $1 tariff creates an overall 3% domestic crude price increase. Using a weighted average of imported and domestic (controlled and uncontrolled) oil consumption, each dollar of import price increase causes the average price of crude to rise by about 5%.

Old oil, if decontrolled in the face of a $2 tariff increase, will increase approximately $8.00/Bbl ($5.25 to $13.50) in price. About 40% of our crude oil consumption now comes from old oil. The composite price of crude oil consumption will therefore increase by about $3.20/Bbl, an increase of 32% over the current $10.00 composite.

The effect of the $2 tariff/decontrol program would be to phase the composite price of crude oil from $10.00 to $13.50 between June and October, 1975. Input/output analysis performed by staff at the Commerce Department indicates half of the current cost in petroleum refining is attributable to the price of crude, and this cost component necessarily increases as crude costs rise. Accordingly, we estimate that the 35% composite crude price increase in "Case 2" will result in an approximate 17.5% direct increase in the wholesale price index for refined petroleum products. The Chase model contains explicit price indices for (1) the price of petroleum imports and (2) the price of refined petroleum imports and (3) the price of domestically refined petroleum products. Model alterations to incorporate the foreign and composite price changes described above are straightforward.

Natural Gas and Coal

A reported weakness of several previous attempts to model the macroeconomic effects of oil price increases lies in their inadequate treatment of cross-elasticities between oil and other oil substitutes. The staff analysis attempts to account for the cross-impact of oil price increases on natural gas and coal. Figures compiled by the Congressional Research Service indicate that unregulated natural gas prices will tend to increase \$ .17/MCF for each dollar increase in crude oil. A \$ .17 increase is the BTU parity price increment associated with a \$1 oil fuel increment. Intra-state sales of natural gas, which are unregulated, are about half of all domestic gas production. About 30% of intra-state sales are in long-term contracts, so only 35% of total gas production is free to move toward parity. The average price increase for all natural gas will be (.35)(\$3.50)(.17), or \$0.21. This represents a 29% increase over the current composite price of \$.72/MCF and brings the price to \$.93/MCF. A 29% increase in natural gas prices is estimated by Chase Econometrics to cause slightly more than a 1% increase in energy-related elements of the composite wholesale price index. These elements, which are endogenous in the Chase model, would therefore be multiplied by 1.01 per quarter to reflect the direct cost impacts of natural gas prices.

Coal prices are assumed to rise by roughly \$4/ton per dollar of crude price. This again reflects a price trend toward BTU parity with oil. A \$3.50/Bbl oil increase will create pressure for a \$14/ton coal increase. About 30% of coal is assumed to be under long term price limiting contract which will frustrate market clearance. The average price of coal will tend to rise by (.70)(\$14) or \$9.80/ton. Current average coal price is \$18/ton, so a \$3.50 oil increase creates pressure for a short-term (0-5 year) coal price increase of 54%. Chase Econometrics estimates that a 50% coal price increase produces a 1% increase in energy-related components of the wholesale price index. To represent the combined cross-impacts of a \$3.50 crude increase on coal and natural gas prices, the Chase model wholesale price indices were raised by a factor of 1.02.

Price increases in natural gas and coal are assumed to lag crude oil price increases by two quarters. The 1.02 multiplier is phased in gradually beginning in third quarter '75, and reaches its full (1.02) value in first quarter '76. The full set of actual changes to the Chase model are contained in the Technical Appendix.

Case 3: Tariff, deregulation of old oil, plus a $4 increase in OPEC price on October 1, 1975

A $4 OPEC price increase corresponds to a 35% increase over the current import price of $11.50/Bbl. Assuming a free market in which domestic oil producers will be compelled to raise prices toward the total import price (including tariff) of $17.50/Bbl, the effect of the overall scenario described here is a $4.00 increase in the price of both and domestic crude. Rapidly rising oil prices will undoubtedly stimulate new public criticism of the actions of major domestic producers. Independent oil refiners and distributors will further articulate the perceived need to keep domestic oil prices below the world price. We introduce conservative domestic pricing into the model by increasing the wholesale price of domestically consumed petroleum products by only 15% in the face of the $4 OPEC increase. Recall that in the previous case a $3.50/Bbl increase created a 17.5% increase in the wholesale price index of refined petroleum products. Adding the $4.00 OPEC increase to "Case 2" would suggest a further increase in wholesale refined products of over 20%, or an aggregate increase of about 40%, The simulation in "Case 3" contains only a 33% increase over the base run thereby representing domestic oil refiners and distributors affirmative reaction to public urging for price restraints. The assumed 15% wholesale price increase in refined petroleum products would occur if domestic crude prices rise by $3.00 in the face of a world price increase of $4.00.

Foreign crude oil prices in the Chase model are raised an additional 35% over the tariff levels assumed in "Case 2."

Natural gas and coal prices are assumed to rise in the face of a $4.00 OPEC increase by approximately the same amount that they increased due to the $3.50 increase in "Case 2." Components of the wholesale price index were therefore raised an additional 2% over their levels in "Case 2."

Analysis

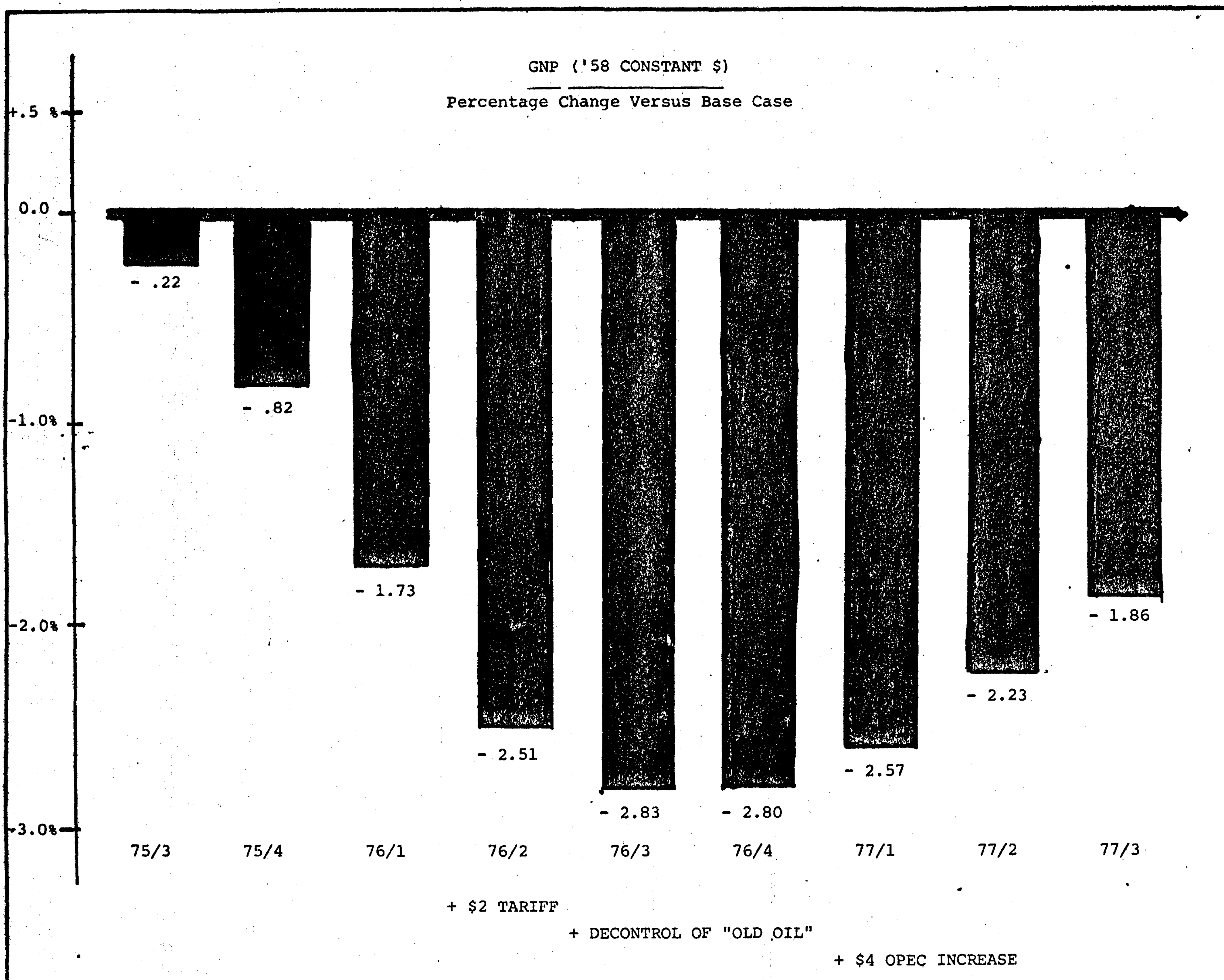
Table 1 presents a summary of outcomes. The numbers reflect conditions for the fourth quarter of 1976. Both alternative scenarios produce a drop in all major components of real GNP. Net exports worsen, due primarily to the tariff in Case 2 and the additional OPEC price in Case 3. Prices, especially at the wholesale level, rise substantially by the end of 1976. Presumably, further increases in the consumer price index should be expected beyond 1976 as wholesale prices advance toward final consumption.

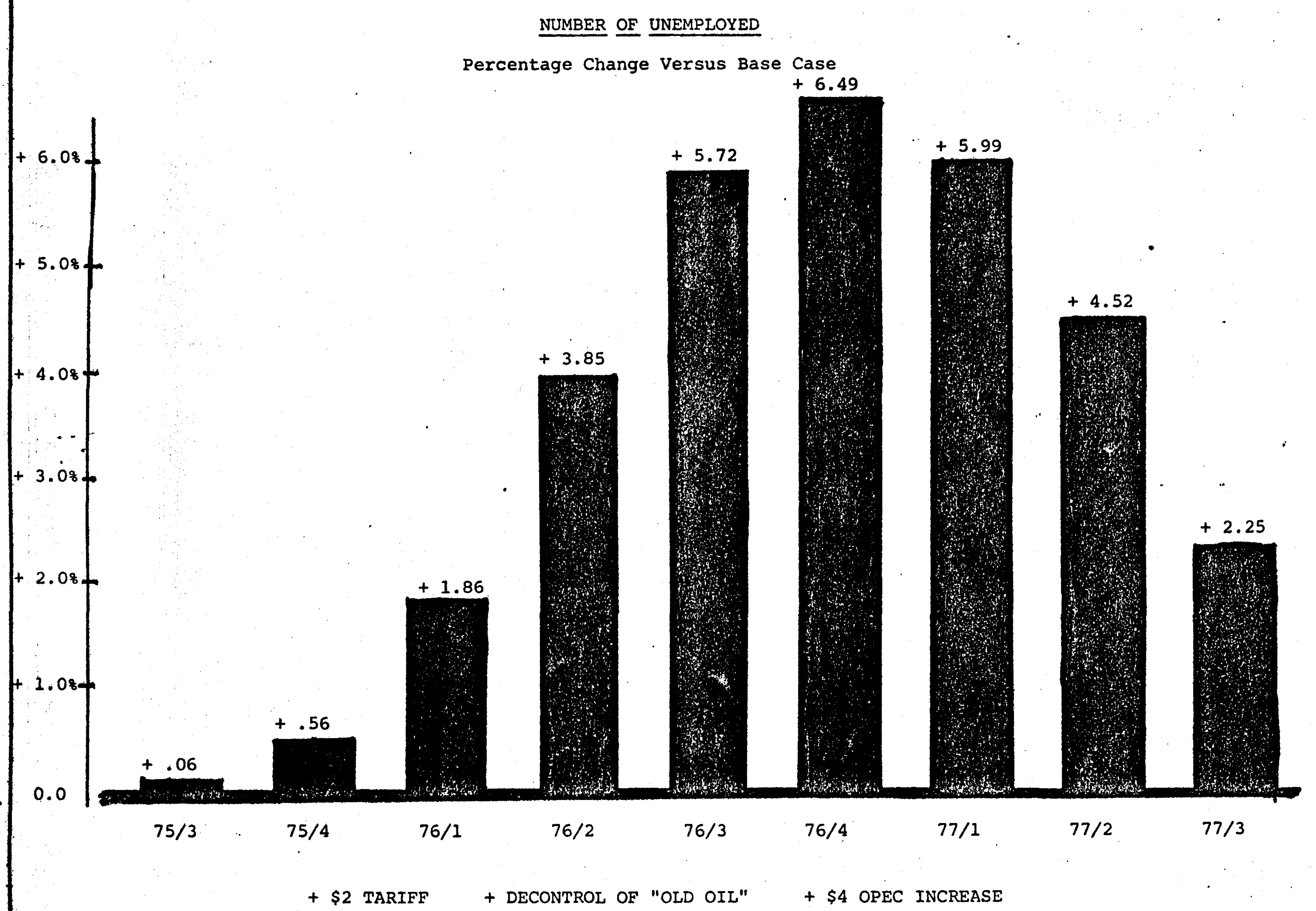
Employment conditions are strongly affected. The employment recovery which the Chase model predicts in the base run is substantially delayed and eroded in the face of sharply rising energy costs. Almost 200,000 workers will lose jobs under the $2 tariff and decontrol scenario. Should a further $4 OPEC increase occur, the number of unemployed will rise by 470,000.

The numbers presented in Table 1 and in the Appendix are not intended as "predictions" of the future state of the economy. No model is capable of anticipating all the changes that will occur during the next few years. Modeling is a new science with profound implications for economic policy makers. But proper use of models involves cautious interpretation and analysis. Models are particularly useful for investigating how a particular policy alternative will effect the economy over and above the performance that the economy would otherwise experience. Direction and general magnitude of change can often be derived with considerable confidence. For example, while it is difficult to predict the level of unemployment at the end of 1976, we are confident that approximately 500,000 more workers will be out of a job if "Case 3" assumptions prevail instead of those in the "Base Case." Similarly, exact magnitudes of price increases are unclear, but prices will no doubt raise faster if domestic and foreign crude prices rise substantially over their current levels.

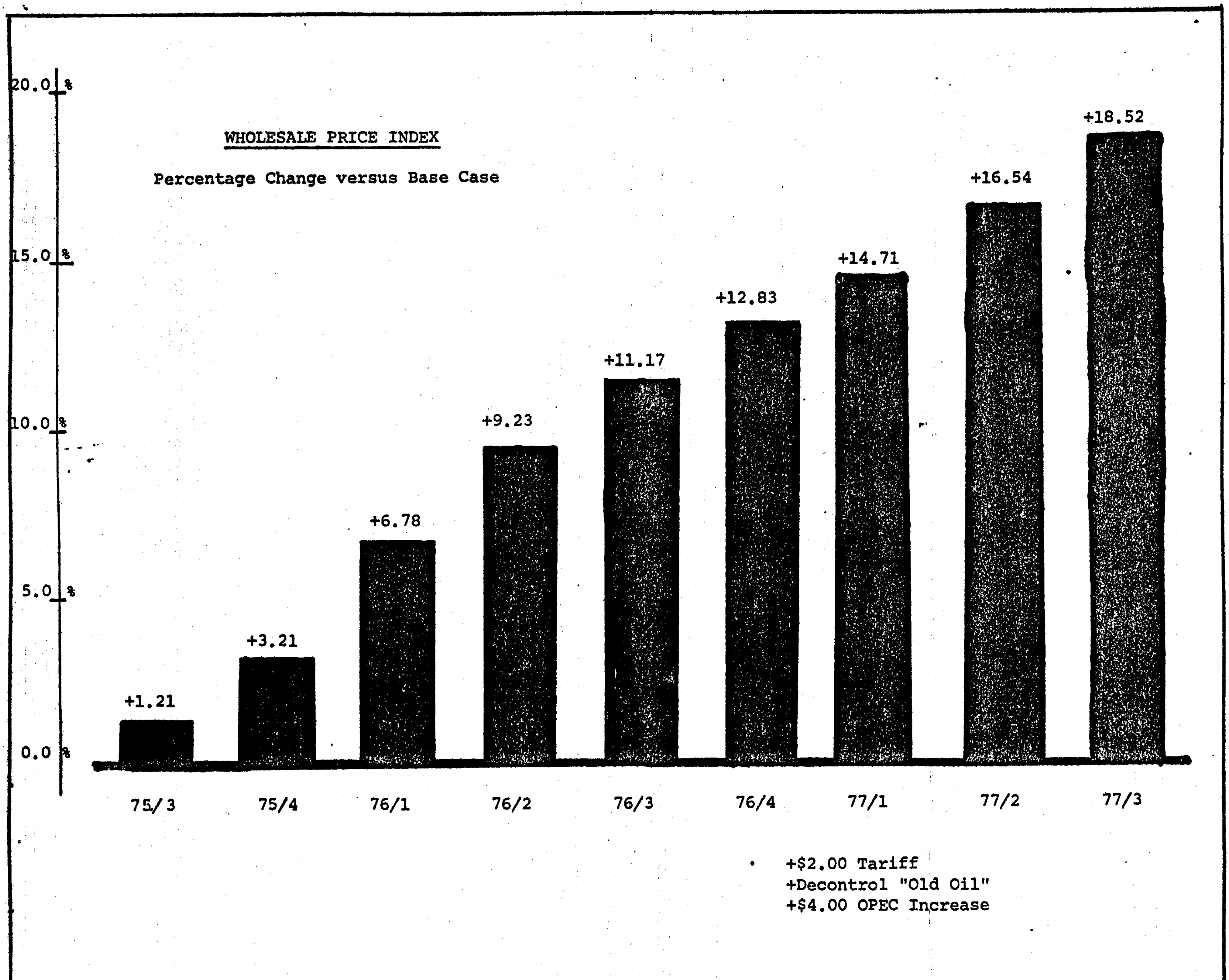
While an OPEC price increase is often regarded as completely independent of domestic activity OPEC has continually cited the actions of oil consuming nations as one justification for any price increases they may impose. If the U.S. considers it necessary to impose a $2 or $3 tariff, OPEC sees this as a signal that their own prices are too low. In a sense, "Case 2" and "Case 3" are not independent; decontrol and tariffs will raise rather than lower OPEC incentives for price increases.

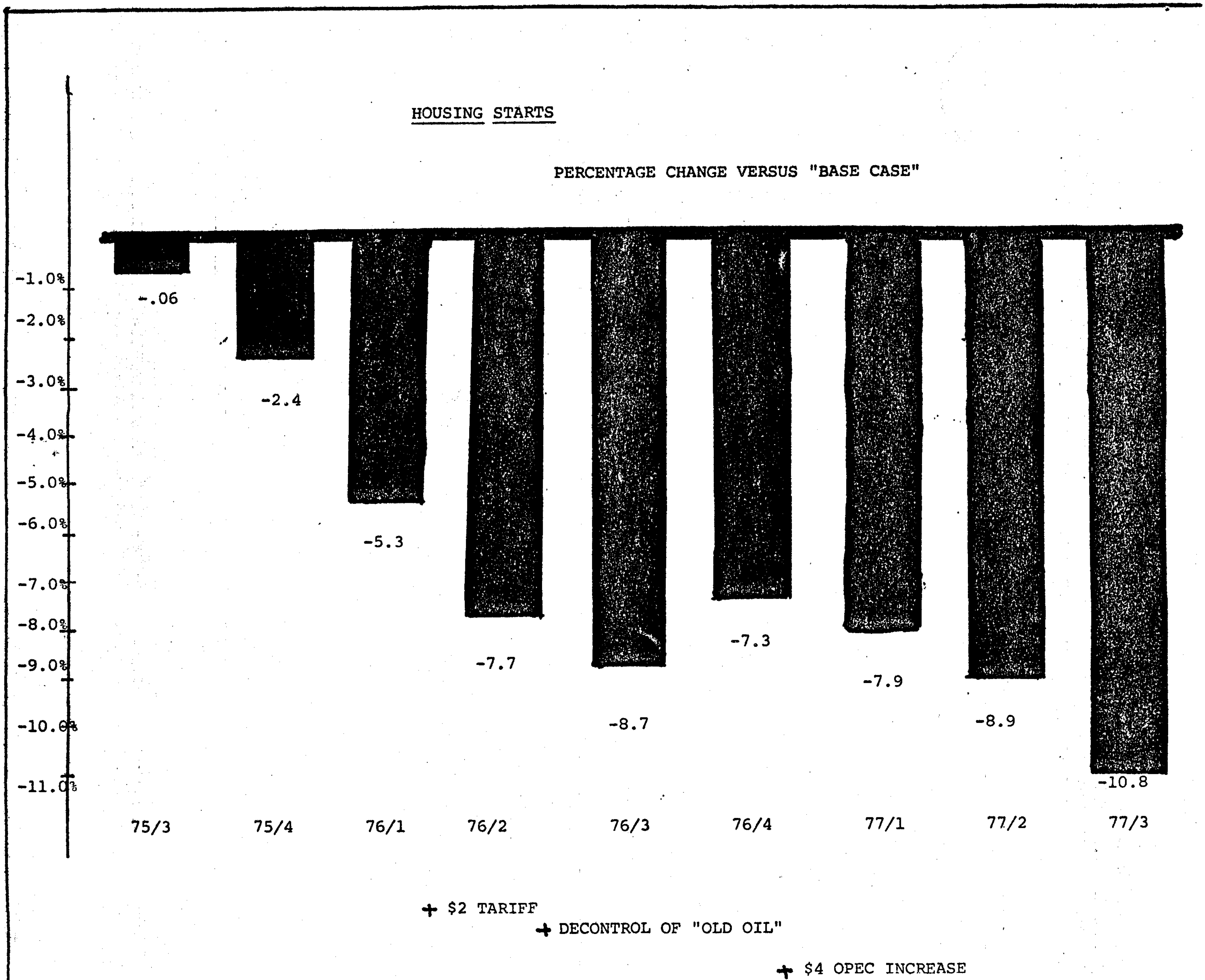
These scenarios intentionally represent the extreme limits of tariff and OPEC changes which have been recently proposed. Actual Changes in oil price over the next two years are likely to lie somewhere between "Case 2" and "Case 3." A substantial OPEC price increase will, for example, tend to create pressure for reducing tariff levels. But so long as old oil is decontrolled, "Case 2" serves as an approximate lower bound on the impacts of current oil pricing alternatives.


GNP ('58 CONSTANT $)
Percentage Change Versus Base Case
+.5 %
0.0
-1.0%
-2.0%
-3.0%
- .22
- .82
- 1.73
- 2.51
- 2.83
- 2.80
- 2.57
- 2.23
- 1.86
75/3
75/4
76/1
76/2
76/3
76/4
77/1
77/2
77/3
+ $2 TARIFF
+ DECONTROL OF "OLD OIL"
+ $4 OPEC INCREASE

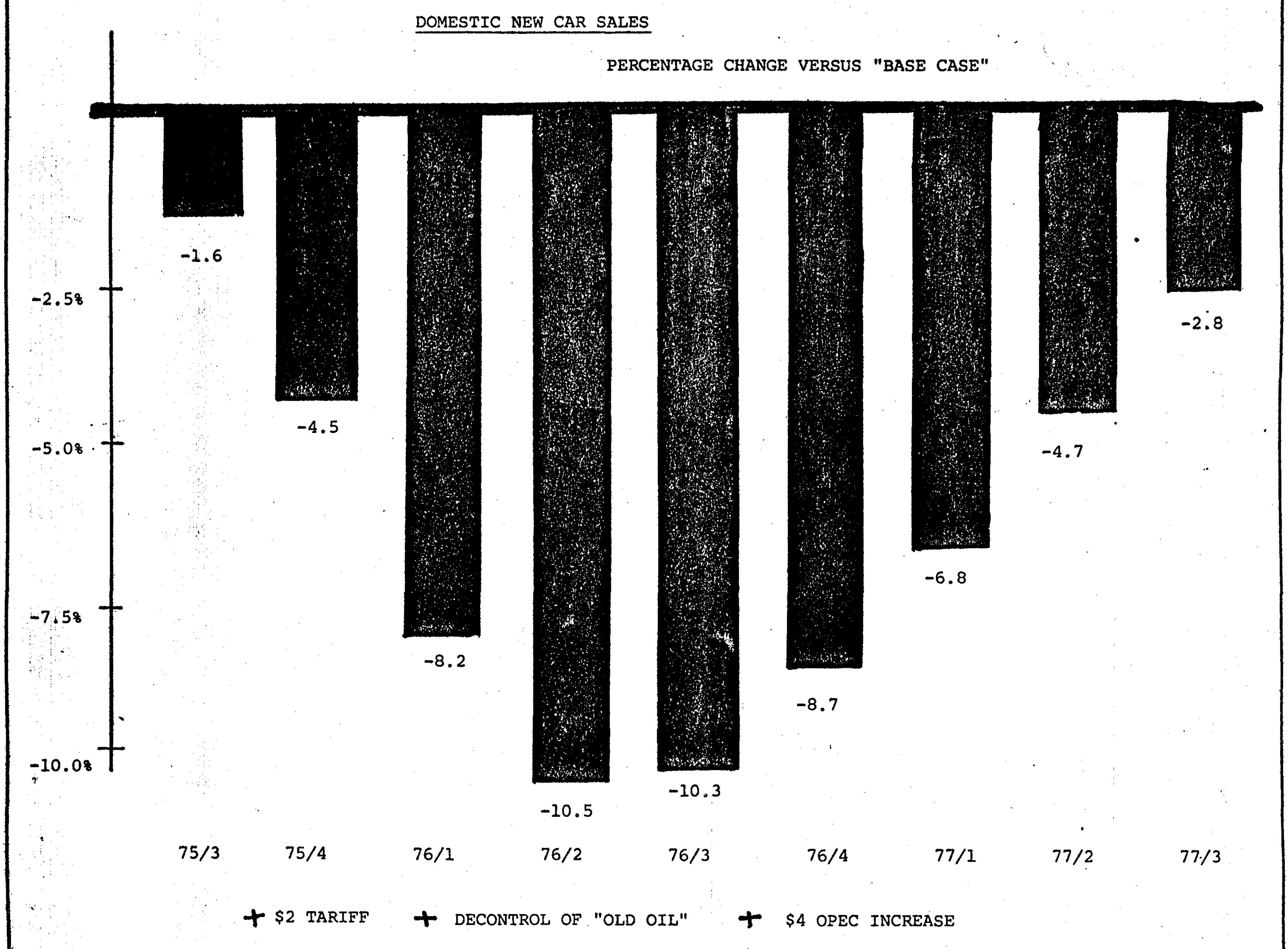


NUMBER OF UNEMPLOYED
Percentage Change Versus Base Case
+ 6.0%
+ 5.0%
+ 4.0%
+ 3.0%
+ 2.0%
+ 1.0%
0.0
+ .06
+ .56
+ 1.86
+ 3.85
+ 5.72
+ 6.49
+ 5.99
+ 4.52
+ 2.25
75/3
75/4
76/1
76/2
76/3
76/4
77/1
77/2
77/3
+ $2 TARIFF
+ DECONTROL OF "OLD OIL"
+ $4 OPEC INCREASE


WHOLESALE PRICE INDEX
Percentage Change versus Base Case
20.0 %
15.0 %
10.0 %
5.0 %
0.0 %
+1.21
+3.21
+6.78
+9.23
+11.17
+12.83
+14.71
+16.54
+18.52
75/3
75/4
76/1
76/2
76/3
76/4
77/1
77/2
77/3
+$2.00 Tariff
+Decontrol "Old Oil"
+$4.00 OPEC Increase



HOUSING STARTS
PERCENTAGE CHANGE VERSUS "BASE CASE"
-1.0%
-2.0%
-3.0%
-4.0%
-5.0%
-6.0%
-7.0%
-8.0%
-9.0%
-10.0%
-11.0%
-.06
-2.4
-5.3
-7.7
-8.7
-7.3
-7.9
-8.9
-10.8
75/3
75/4
76/1
76/2
76/3
76/4
77/1
77/2
77/3
+ $2 TARIFF
+ DECONTROL OF "OLD OIL"
+ $4 OPEC INCREASE



DOMESTIC NEW CAR SALES
PERCENTAGE CHANGE VERSUS "BASE CASE"
-2.5%
-5.0%
-7.5%
-10.0%
-1.6
-4.5
-8.2
-10.5
-10.3
-8.7
-6.8
-4.7
-2.8
75/3
75/4
76/1
76/2
76/3
76/4
77/1
77/2
77/3
+ $2 TARIFF
+ DECONTROL OF "OLD OIL"
+ $4 OPEC INCREASE

July 3, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

THRU: VERN LOEN

FROM: CHARLES LEPPERT, JR.

SUBJECT: H.R. 7014 and Brown (R-Ohio) Substitute

Rep. Bud Brown (R-Ohio) is planning to offer a substitute to H.R. 7014, the Dingell Energy bill during consideration by the House of Representatives. The bill is now tentatively scheduled for the House floor during the week of July 14.

Brown tells me that FEA is assisting him in preparing the language of the substitute bill but asked that he receive White House cooperation and support on the "bottom line" of what should or should not be the language and contents of the substitute bill.

cc: Tom Loeffler

GERALD R. FORD LIBRARY

Energy Conservation & Oil Policy Act

THE WHITE HOUSE

WASHINGTON

July 15, 1975 - 1:50 p.m.

Referred the following message to Max (per N.K.)

Rule on H.R. 7014 was adopted by vote of 261 to 78

with 1 voting present.

Neta

TK

Chas.

FORD

[Sept. 1975]

ADMINISTRATION POSITION ON H. R. 7014

The administration is opposed to H. R. 7014 as ordered reported by the House Committee on Interstate and Foreign Commerce on June 24, 1975, for the following reasons:

1. The oil pricing provisions which roll back the price of new oil and continue controls on old oil for five years are counterproductive and would make this Nation more dependent upon foreign sources.

2. The standby emergency provisions are so inflexible that they do not provide the authorities necessary to respond to an embargo.

3. By indefinitely extending the Emergency Petroleum Allocations Act, the bill continues in effect unnecessary regulatory intrusions into the marketplace, thereby inhibiting production and exacerbating present inequities under the Act.

4. The bill mandates a gasoline shortage at a time when this government should be encouraging industrial growth.

5. Unworkable Federal oil purchasing authorities, opposed by the Administration, remain in the bill despite their recent defeat on the Floor of the House.

6. Many of the other problems with the bill pointed out by the Administration were kept in the bill and some were even made worse.

7. Important amendments were adopted by the Committee with a maximum of two minutes debate, many of which were not even the subject of hearings; and such hasty decisions do not belong in a bill dealing with such important subject matter.

NINETY-FOURTH CONGRESS

HARLEY O. STAGGERS, W. VA., CHAIRMAN

TORBERT H. MACDONALD, MASS.
JOHN E. MOSS, CALIF.
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CARLOS J. MOORHEAD, CALIF.
MATTHEW J. RINALDO, N.J.

W. E. WILLIAMSON, CLERK

Congress of the United States
House of Representatives
Committee on Interstate and Foreign Commerce
Room 2125, Rayburn House Office Building
Washington, D.C. 20515

September 15, 1975

Dear Colleague:

H.R. 7014, the Energy Conservation and Oil Policy Act, is on the calendar for Wednesday, September 17. We have closed debate on Title III and there is pending a motion by Congressman Clarence Brown to strike sections 301, 302, and 303, the pricing sections. We strongly urge that this motion be defeated.

Admittedly, the pricing provisions contained in H.R. 7014 are controversial. Members have strongly held and widely divergent views on this matter. Yet we can all agree that it is of fundamental importance that the Congress devote its full capacities to a resolution of our points of difference and complete work on a truly comprehensive national energy program.

If we should not retain a price policy determination in the bill, we would be subject to the justifiable criticism of having passed two emasculated bills. We will have neither bargaining position with the President nor credibility with the public if we do not spell out a complete energy program for the country, the best that we can devise.

It is of the utmost importance, therefore, that the House complete its work on H.R. 7014 promptly and commit this bill to a conference with the Senate. Because the Senate passed bill S. 622, upon which we will confer with our colleagues in the Senate, contains no sections related to pricing policy, it is essential that pricing provisions remain in our bill. Otherwise, the matter would be outside the scope of the conference and

Not true re: 622 It does contain a TP section

§ 107 – $7.50 of old
§ 123 – Jan 31, 1975 for new

we would lose the means for developing with the Senate a congressionally defined pricing policy. Should the Brown motion to strike sections 301, 302 and 303 succeed, we would strip from the bill the very vehicle for compromise that all parties to this debate so strongly hope for.

Sincerely,

Harley O. Staggers

Harley O. Staggers, Chairman
Interstate and Foreign
Commerce Committee

John Dingell

John Dingell, Chairman
Energy and Power Subcommittee

R. FORD

NINETY-FOURTH CONGRESS

HARLEY O. STAGGERS, W. VA., CHAIRMAN

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W. E. WILLIAMSON, CLERK

Congress of the United States
House of Representatives
Committee on Interstate and Foreign Commerce
Room 2125, Rayburn House Office Building
Washington, D.C. 20515

September 15, 1975

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Sincerely,

Harley O. Staggers

Harley O. Staggers, Chairman
Interstate and Foreign
Commerce Committee

John Dingell

John Dingell, Chairman
Energy and Power Subcommittee

PHILIP E. RUPPE
11TH DISTRICT, MICHIGAN

COMMITTEES:
MERCHANT MARINE AND FISHERIES
INTERIOR AND INSULAR AFFAIRS

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House of Representatives
Washington, D.C. 20515

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September 17, 1975

Dear Colleague:

This afternoon the House will resume consideration of H.R. 7014, the Energy Conservation and Oil Policy Act of 1975, reported out of the Commerce Committee on July 9.

Section 304 of H.R. 7014 revises current Federal oil, gas, and coal leasing arrangements to require the commencement of production and sale of these energy resources no later than two years after the date of discovery or the date of granting the lease (whichever is later) absent permission for a delay by the Administrator of FEA upon a finding of reasonable justification.

While we commend the Committee for seeking to assure that future Federal leases include requirements designed to maximize exploration, development and production of our energy resources, we feel compelled to point out that the two-year production requirement is unrealistic as it relates to coal mining because of the long leadtimes required for procurement of mining equipment by operators. Leadtime for delivery of draglines, used in surface mining, is two to four years.

Several years are required to achieve all the necessary permit approvals, mining plan approvals, the ordering and delivery of equipment, and the construction of the mine and the necessary processing and shipping facilities, most of which time intervals are outside the control of the operator. To impose a real potential for forfeiture upon an operator under such circumstances will present a business risk no prudent operator can afford to take.

In addition to the problems encountered with equipment leadtimes and obtainment of permits, the two-year requirement could severely hamper the Nation's effort to produce synthetic fuel from coal. It is simply not possible to obtain the huge amounts of capital needed for coal gasification plants -- as much as $400 million -- if the company involved must begin coal production on all Federal tracts within two years or face forfeiture of the leases. The fuel supply for the life of the plant must be secure before the operator can obtain financing. The result may well be that coal gasification plants could not be constructed in the face of such risks.

We believe the revision of the Federal leasing laws should be considered by the Committee on Interior and Insular Affairs, which has before it in Full Committee mark-up H.R. 6721, relating specifically to coal leasing, and which traditionally considers legislation dealing with the subject of mineral leasing activities on Federal lands.

We intend to raise a jurisdictional point of order against consideration of Section 304 on the Floor this afternoon. Should the point of order be overruled, we are prepared to offer an amendment to delete all references to coal in Section 304 so that the Interior Committee might have time to report its Coal Leasing bill.

We ask your support of this amendment.

Sincerely,

Joe Skubitz
Ranking Minority Member
Committee on Interior
and Insular Affairs

Phil Ruppe
Ranking Minority Member
Subcommittee on Mines
and Mining

LEB
JB

September 1 , 1975

Dear Colleague:

Yesterday I received from Congressmen Staggers and Dingell a "Dear Colleague" letter with which I would like to take some specific exceptions. Their letter was written to support the Staggers pricing provision in H. R. 7014 which I seek to strike when the House resumes its consideration of the energy bill today.

The Staggers-Dingell letter suggested that there could be no Conference consideration of the pricing issue if the pricing sections were taken out of H. R. 7014, because S. 622 does not contain pricing provisions. The truth of the matter is, however, that S. 622 does have pricing provisions. Section 107 of S. 622 would permit the price of "old" oil recovered by secondary and tertiary techniques to rise to $7.50, and Section 123 rolls back the price of "new" oil to that price generally prevailing on January 31, 1975, which was an average price of $11.28 per barrel. Therefore, striking the pricing sections out of H. R. 7014 would not preclude the consideration of the pricing issue in Conference.

The removal of the pricing provisions from H. R. 7014 would not emasculate the bill. There are seven other major titles in the bill. These include: standby authorities for energy conservation in case of a severe supply interruption; the establishment of a civilian petroleum reserve of one billion barrels of oil; a mandatory gasoline allocation program; an industrial energy conservation program; automobile fuel efficiency standards; appliance fuel efficiency standards; the expanded use of coal as an alternative fuel; and audits of the entire petroleum industry from the major oil company to the corner gasoline station. These provisions are not inconsequential, and most of them are quite controversial. In fact, the very complexity and controversy of these other provisions argue for separate consideration of the pricing issue. These provisions will only serve to cloud and delay resolution of the pricing question.

Therefore, I continue to urge you to support my amendment to remove the pricing provision from H. R. 7014 and proceed separately to an agreement between the Congress and the Administration on the pricing issue.

With best wishes,

Sincerely,

Clarence J. Brown, M.C.

R. FORD

Done 11/18/75

THE WHITE HOUSE
WASHINGTON

11-18-75

Neta:

Pls. make copies for MF, VL, TL, BK + POD — + me. Send to them w/ my buck slip.

Chas.

November 13, 1975

ENERGY POLICY AND CONSERVATION ACT

Final agreement was reached by House and Senate conferees on November 12, 1975 on the Energy Policy and Conservation Act. This legislation establishes a comprehensive national energy policy to:

(1) maximize domestic production of energy supplies and provide for strategic storage reserves for petroleum products;

(2) reduce consumption through energy conservation programs;

(3) set an oil pricing policy that will encourage domestic production in a manner consistent with economic recovery and price stability; and

(4) authorize emergency standby measures to minimize the impact of disruptions in energy supplies.

In the short term, this legislation will reduce our vulnerability to increases in import prices, and will insure that available supplies will be distributed equitably in the event of disruptions in petroleum imports.

For the long run, this legislation will decrease our dependence upon foreign imports, enhance national security, achieve the efficient utilization of scarce resources, and guarantee the availability of domestic energy supplies at prices consumers can afford.

I. MEASURES TO INCREASE DOMESTIC SUPPLY

The legislation takes direct action to increase domestic oil production and promote the development and use of alternatives to petroleum and natural gas. The measures agreed to will:

- extend the authority of the Federal Energy Administrator to direct powerplants, and other major fuel burning installations, to convert to the use of domestic coal;
- authorize the FEA to guarantee loans to increase coal production by encouraging new market entry;
- increase competition in the oil industry by limiting joint venture bidding by major oil companies in the development of crude oil or natural gas on the Outer Continental Shelf;
- promote the use of recycled oil;
- authorize the President to restrict exports of energy supplies and energy-related materials under certain circumstances; and
- authorize the President to require the production of crude oil and natural gas from designated fields at the maximum efficient rate of production or the temporary emergency production rate.

II. ENERGY CONSERVATION PROGRAMS

The Energy Policy Act establishes agressive and effective programs for energy conservation designed to achieve security of energy supply and the maximum efficient utilization of our energy resources.

This legislation contains provisions that:

-- establish mandatory average fuel economy performance standards for new passenger automobiles and new light duty trucks;

-- require energy labeling of major home appliances and certain other consumer products, and authorize energy efficiency standards for major appliances;

-- authorize block grants-in-aid for states to assist in the development and implementation of state-administered energy conservation programs; and

-- establish a program to encourage increased efficiency of energy use by American industry.

These provisions are premised on the belief that energy efficiency can and must be accomplished by orderly conservation programs rather than through steep price increases that would hamper the Nation's economic recovery, increase unemployment, contribute to the inflationary spiral and impact regressively on consumers.

The following are the major features of the key energy conservation measures approved by the conference committee:

Fuel Economy Performance Standards

Mandatory fuel economy performance standards are established for passenger automobiles and other light duty highway vehicles. Standards for passenger automobiles would be applicable in model year 1978 and thereafter.

Each manufacturer or importer of passenger automobiles would be required to achieve the following fleet average fuel economies: 18 mpg in model year 1978, 19 mpg in model year 1979, 20 mpg in model year 1980 and 27.5 mpg in model year 1985 and thereafter.

Standards for model years 1981-84 would be set by the Secretary of Transportation at the maximum feasible level. The Secretary would also set standards for vehicles other than passenger automobiles at the maximum feasible level for each model year.

If a manufacturer or importer failed to meet the required average fuel economy standard, he would be liable for a civil penalty, which could be waived or modified under certain conditions.

A labeling program for new passenger automobiles and other new light duty highway vehicles would also be instituted, as would a program to test the fuel economy improvement potential of retrofit devices -- devices capable of being added to existing vehicles to increase their gasoline mileage.

2

Appliance Labeling

The Energy Policy Act would require test procedures for, and energy efficiency labeling of, major home appliances and certain other consumer products using more than 100 kilowatt-hours of energy per year. This will provide consumers with information essential to making an informed judgment in the purchase of appliances.

The label must include representative annual operating costs associated with the use of these products unless the FEA determines that labeling would not be feasible or would not be likely to assist consumers in making purchasing decisions.

If the FEA prescribes a labeling rule for a class of major household appliances and then finds (1) that labeling will not suffice to induce manufacturers to produce (or consumers to purchase) products of that class which achieve the maximum energy efficiency which is technologically feasible, and (2) that the benefits of increased energy efficiency outweigh any increased consumer costs and any decrease in utility of the product, the FEA is authorized to prescribe an energy efficiency performance standard for that class of product. The FEA would be required to exercise this authority in certain cases where industry is unable to achieve energy efficiency improvement targets which would be set by the FEA for major home appliances. These targets would be set at the maximum level which would be economically and technologically feasible, and would require at least a 20 percent overall improvement in energy efficiency for new major home appliances in 1980, in comparison to 1972 levels.

State Energy Conservation Programs

This legislation authorizes a $150 million Federal grant-in-aid program to assist States in developing and administering State energy conservation programs. These programs will have as a target a 5% reduction in energy consumption by 1980 below levels projected for that time.

The legislation identifies conservation measures to be implemented by the States, but calls for administration of the programs on the State and local levels.

State programs would include the following energy conservation measures:

- lighting efficiency standards and restrictions on hours of public buildings;
- programs to promote carpooling, vanpooling, and public transportation systems;
- energy efficiency standards for public buildings; and
- thermal efficiency and insulation requirements for new and remodeled buildings.

Within these federal guidelines, States would establish conservation programs in a manner tailored to local economic geographic and climatological conditions. This legislation thus provides impetus, direction and financial assistance for energy conservation while protecting the States' interest in self-determination and local control.

Federal Energy Conservation Programs

In addition, all Federal agencies would be required to develop a ten-year plan for energy conservation. This plan would deal with lighting standards, construction guidelines, restrictions on hours of operation, thermostat settings and other conditions related to the operation of Federal buildings.

Industrial Energy Efficiency

The goal of the industrial efficiency program is to increase the national average industrial energy efficiency by the maximum feasible amount by January 1, 1980. The Energy Policy Act recognizes that industry must share responsibility for attaining the goals of energy independence and wise utilization of scarce resources. The Project Independence Blueprint estimates that the energy equivalent of 400,000 to 600,000 barrels of crude oil per day can be saved in the industrial sector in the 1980's.

Industrial energy efficiency targets would be set for the ten most energy-intensive industries. Each target would represent the maximum possible improvement in industrial efficiency which a particular industry could achieve by January 1, 1980. The 10 most energy-intensive industries would be required to report annually on their programs in attaining energy-efficiency targets.

III. OIL PRICING

The Energy Policy Act establishes a pricing formula for domestically-produced crude oil which provides for an initial oil price rollback and authorizes gradual increases in the prices received by domestic producers over a 40-month period. The new oil price policy:

-- establishes a domestic composite price of $7.66 per barrel. This represents a rollback of $1.09 from the current domestic average estimated by FEA at $8.75 per barrel. In combination with the removal of the $2 per barrel import tariff, this program will result in a significant reduction in current petroleum prices.

-- grants the President broad flexibility to administratively set prices for various categories of oil production so long as the average domestic price does not exceed the composite price of $7.66 established by the Act;

-- permits upward adjustment in the domestic composite price to take account of inflation, and, if the President finds it necessary, to provide an additional increase in the composite price of no more than three percent per year as an incentive for the development of high-cost and high-risk production or to encourage the application of enhanced recovery techniques. The sum of these two adjustments may not exceed 10% per year unless further authority to modify the upward adjustment rate is obtained;

-- allows the President to submit to the Congress at three month intervals following enactment, proposals to modify the 3 percent incentive adjustment and the 10 percent ceiling on adjustments if the President finds that such a modification is likely to result in an increase in domestic production. These proposals would take effect unless disapproved by either House of Congress under expedited review procedures;

--directs the President to submit to Congress on February 15, 1977, an analysis of energy supply, demand and import relationships that have evolved under the Act;

--directs the President to submit to the Congress on April 15, 1977, a report on the impact of anticipated Alaskan oil production levels and prices on domestic oil prices and on incentives to increase and maintain production in the lower 48 states. The President may then propose, subject to Congressional review, the exclusion of up to two million barrels per day of Alaskan production from the composite price ceiling and the establishment of a separate ceiling for this production not to exceed $11.28 per barrel as adjusted for inflation;

--converts the oil price control authority described in the Act to standby status at the end of 40 months; and

--provides that the standby authority terminates after five years.

IV. STANDBY ENERGY AUTHORITIES

This legislation grants standby energy authority to the President, subject to Congressional approval in certain instances, to develop and implement regulations mandating the conservation of energy and the rationing of fuels in the event of a severe energy supply interruption. These provisions enable us to prepare now for any future severe energy supply interruptions.

The provisions authorize the President during periods of acute energy shortages to take specific actions to conserve scarce fuels, to alleviate fuel shortages and to increase domestic energy supplies.

The legislation provides for energy conservation, rationing and contingency plans to be developed to reduce non-essential energy consumption and assure the continuation of vital services in the face of severe energy shortages.

The conference substitute contains the following standby powers:

--to prescribe energy conservation plans (including rationing plans);

--to authorize actions necessary to carry out U.S. obligations under the International Energy Program;

--to authorize persons in the oil industry to develop and carry out voluntary agreements for international oil allocation. The Attorney General could grant limited antitrust immunity with respect to such agreements;

--to authorize the President to transmit information to the International Energy Agency.

The energy conservation authorities may be exercised if:

(1) a contingency plan for the exercise of the authorities has been approved by concurrent resolution of the House and Senate;
(2) the President has determined that implementation of the contingency plan is required by a severe energy supply interruption or the International Energy Program.

In addition, a plan which provides for rationing cannot take effect if either House of Congress disapproves the President's request to implement the contingency plan.

The authority respecting international voluntary agreements and the international information exchanges may be exercised at any time in order to carry out the International Energy Program.

V. GENERAL PROVISIONS

The legislation sets forth provisions of general applicability relating to procedural requirements for agency actions, judicial review, and enforcement.

Disclosure of Financial Interests

Among the more important provisions, employees and officers of the Federal Energy Administration and the Department of the Interior who perform regulatory or policy-making functions under this legislation are required to disclose their financial interests in oil, natural gas, or coal. This provision insures that the legislation will be administered in an even-handed, disinterested fashion, and that no one group or special interest will benefit at the expense of others forced to assume unequal burdens.

Verification Audits of Energy Information

The legislation also authorizes the Comptroller General to conduct verification examinations to verify the accuracy of energy and financial information filed with Federal agencies.

This provision will permit independent and objective evaluation of energy data from which realistic projections can be made and on which future energy policy decisions will be based.

4

[Dec. 1975?]

Barber Conable (R.-N.Y.)	Stated that many Republicans will be very upset with the President's decision to sign the Energy Bill.
Joe Waggonner (D.-La.)	Feels the President's decision to sign the Energy Bill was the wrong decision. Nevertheless, he stated that he would not publicly criticize this decision. In addition, he strongly urges that if the President is predisposed to do so he should at the time of announcing his energy decision state his intention to veto Common Situs. Congressman Waggonner believes that this simultaneous announcement would serve to ameliorate the conservatives who desire that the President veto both Energy and Common Situs.
Jim Broyhill (R.-N.C.)	Office was notified.
John McFall (D.-Calif.)	Was out to lunch. Informed Irv Sprague and Irv stated the Congressman would be most pleased with the President's decision.

THE WHITE HOUSE

WASHINGTON

September 25, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF
VERN LOEN
BILL KENDALL
PAT O'DONNELL
CHARLES LEPPERT
BOB WOLTHIUS

FROM: TOM LOEFFLER T.L.

SUBJECT: H.R. 7014

Attached is the fact sheet on H. R. 7014 as passed by the House which Frank Zarb distributed during the GOP Leadership meeting on Wednesday, September 24.

Attach.

September 24, 1975

ADMINISTRATION POSITION ON H. R. 7014

The Administration is strongly opposed to H.R. 7014 in its current form for the following reasons:

1. The oil pricing provisions, which roll back the price of new, released and stripper oil, continue controls on all oil indefinitely, and establish a 5-tier pricing system, are counterproductive and would make the Nation more dependent upon foreign sources.

2. The standby emergency provisions are too inflexible to provide the authorities necessary to respond to an embargo.

3. By indefinitely extending the Emergency Petroleum Allocation Act, the bill continues unnecessary regulatory intrusions into the marketplace, thereby inhibiting production and exacerbating present inequities under the Act.

4. The bill mandates a gasoline shortage that would cause gas lines, adverse economic impact and possibly force rationing.

5. The Federal oil purchasing authorities are unworkable, have been opposed by the Administration, and were previously defeated on the Floor of the House in connection with another energy measure.

6. The vesting of direct information gathering authority in the General Accounting Office duplicates accounting verification procedures created by the Securities Act of 1933. It also interferes with an existing program to achieve uniform accounting standards that has the backing of the SEC, the accounting profession and the business and academic communities.

7. Many other problems pointed out by the Administration were kept in the bill and some were even made worse, such as mandatory auto efficiency standards which do not take adequate account of emission standards.

8. Other poorly-conceived provisions were added during floor debate, such as rigid prohibition of certain mineral leasing joint ventures, and "banked costs" provisions, inappropriate in a statute.

September 24, 1975

H. R. 7014
Summary of Major Provisions and Major Problems

Standby Energy Authorities - Title II(A)

Contains standby rationing, conservation, and international oil allocation authorities.

Problems:

- Cumbersome requirements for Congressional approval
- Unworkable antitrust immunity re voluntary agreements
- Absence of standby emergency allocation authority

National Strategic Petroleum Reserve - Title II(B)

Provides for early and long-term storage programs, with adequate authorities once plans are approved and sufficient authorization for 3 years.

Problems:

- No special fund provision for NPR revenues (even if authorized by other legislation)
- Either House veto of early storage programs and decision to use reserve in emergencies
- Authorization should extend for more than 3 years

Oil Pricing and Decontrol--Titles III and XIII

Establishes a five-tier oil price system by rolling back prices of new, stripper and released crude to $7.50, setting ceiling of $10.00 on "high cost" oil, setting ceiling of $11.50 on 3,000 B/D production by independents, and maintaining $5.25 ceiling on "old oil". Imports are the fifth tier. Also includes allocation of materials and export restrictions.

Problems:

- Increases demand, reduces production, increases imports, and will cut back on exploration and tertiary recovery
- Establishes five-tier pricing system ($5.25, $7.50, $10.00, $11.50, imports)
- MER and export restrictions only necessary on standby basis

Amendments to Emergency Petroleum Allocation Act - Title IV(A)

Extends EPAA indefinitely and adds new provisions, including mandated gasoline shortage.

Problems:

- Indefinite extension
- Discretionary Federal exclusive oil (imports) purchasing authority

Auto Fuel Efficiency Standards - Title V(A)

Provides civil penalties for manufacturers and importers, equal to $50.00 per car manufactured times the number of miles per gallon below standard. Standard starts at 18.5 MPG in 1978 and goes to 28.0 MPG in 1985.

Problems:

- Mandatory standards are themselves objectionable, particularly in light of the commitments and progress in the voluntary program

Labeling - Title V(B)

Requires energy efficiency labels on selected classes of products, and vests all authority in the Federal Trade Commission.

Problems:

- Mandatory performance standards are authorized if labeling does not induce production of energy efficient products

Coal Conservation - Title VI

Extends ESECA authorities and makes additional installations subject to prohibition orders, as requested by Administration. Authorizes loan guarantees for small producers of low sulfur coal.

Problems:

- Loan guarantees will subsidize inefficient operations; market mechanism offers adequate incentives

General Provisions - Title VII

Procedural provisions, including special procedures for Congressional approval of exercise of certain authorities.

Problems:

- Requirement for Congressional approval impinges on the Executive's ability to properly respond to an emergency situation

Anti-Busing - Title VIII

Prohibits use of gasoline or diesel fuel to transport children to a school other than the one closest to home in the relevant school district.

Data Base - Title IX

Authorizes General Accounting Office directly to collect energy information, audit energy producers' financial records, and set uniform accounting standards.

Problems:

- Interferes with existing procedures for achieving uniform accounting practices
- Unnecessary additional government intrusion into private sector

Banked Costs Recoupment - Title X

Under price controls, any permissible cost increases not immediately passed through but "banked" would have to be passed through within 60 days of accrual or be lost.

Problems:

- Locks in by statute a regulatory scheme that should not be legislated
- May result in abruptly higher consumer costs

Civil and Criminal Penalties - Title XI

Increases the civil or criminal penalties that can be levied for violation of regulations under the Allocation Act and sets levels by categories:

Criminal Penalties

Producers -- increased from $5,000 to $40,000
Distributors -- increased from $5,000 to $20,000
Retailers -- increased from $5,000 to $10,000

Civil Penalties

Producers -- increased from $2,500 to $20,000
Distributors -- increased from $2,500 to $10,000
Retailers -- unchanged at $2,500

Joint Venture Prohibition -- Title XII

Prohibits "major producers," those who produce in excess of 1.65 million barrels per day of oil, from entering into joint ventures with each other for the purpose of exploring or drilling of Federal lands; excludes existing joint ventures.

Problems:

- As an inflexible statutory prohbition, might limit exploration of high risk tracts or those that are difficult to develop
- Interior has the power to do it administratively

Independent Producers Exemption -- Title XIII (also discussed with Title III)

Independent producers can exclude from regular price controls the first 3,000 barrels per day of new crude, which can be sold at $11.50 plus inflation factor.

Problems:

- Adds a fifth tier to an already complex price control scheme

Retroactive Effectiveness -- Title XIV

All amendments to the EPAA contained in the bill are to be retroactive, to September 1, 1975.

Problems:

- Retroactive application of five-tier price system not in effect on August 31, 1975

B. Pasternack
10/17/75

File
HR 7014

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THRU: ROGERS C.B. MORTON

SUBJECT: STATUS OF H.R. 7014 CONFERENCE COMMITTEE

BACKGROUND

The Conference Committee on H.R. 7014 ("Dingell Bill") and four related Senate energy bills has been deliberating for about two weeks. The bills being considered contain a variety of energy supply, conservation, contingency planning, strategic reserves, and oil price control provisions, most of which are unacceptable in their original form. The Conference Committee consists of 22 Senators and 7 Representatives and is led by Senator Jackson and Congressman Staggers.

We have been working closely with the staff of the Committee to improve the bills wherever possible. Their basic strategy has been to delay resolution of the oil price control issue until all other sections of the bill have been voted upon. Under this strategy, they hope to make the bill harder for you to veto, by accommodating many of our major objections.

The bill could ultimately include many of the measures that are a part of your comprehensive energy bill such as: authority to implement a strategic storage system, standby authorities in the event of another embargo, extension of FEA's coal conversion authority, appliance efficiency labeling, and automobile fuel efficiency standards. The Democratic Conferees also seem intent on legislating many actions we have already taken administratively. It may also be the only vehicle for compromise on oil price controls.

A summary of the major actions taken by the Committee to date is attached at Tab A. In general the Committee has been relatively receptive towards our suggested changes and the bills have improved. While there has been significant movement towards compromise on non-price issues, pricing is the most difficult question and a compromise may not be possible.

TIMING

The Committee has yet to consider the following major items: mandatory gasoline shortage, automobile efficiency standards, labeling, standby Federal import purchasing authority, and oil price decontrol. The Committee will meet Monday-Thursday of this week, then recess for Veterans Day. Even if all decisions could be reached this week, the earliest a bill could arrive for your signature would be about November 10 -- and the 60 day Allocation Act extension expires November 15. Further, if this optimistic schedule is not met, the bill could be delayed until December since the Congressional Thanksgiving recess is from November - December 3. Thus, you may be faced with yet another expiration of controls while compromise discussions are in process.

PRICE DECONTROL ALTERNATIVES

The Committee Staff has related some fundamental principles held fairly strongly by the Conferees. They are:

- A ceiling on all domestic prices will be a part of any Congressional compromise offer. The ceiling will be no higher than about $11.00 per barrel and there is considerable pressure for a lower cap, but possibly could be linked to an inflation or GNP adjustment factor to rise over time.

- Any ceiling on either uncontrolled oil or any price controls on new oil will have to phased out over a period of at least three years and more likely, about 45 months.

- The Conferees are extremely reluctant to vote for any increase in the price of old oil, but may be willing to allow you to send up a decontrol plan and not disapprove it.

- As part of a program where the old oil price was raised administratively, the Conferees would probably be willing to simplify procedures under the Emergency Petroleum Allocation Act (EPAA) so we could avoid review of any decontrol plan every 90 days and more easily remove allocation controls on most petroleum products.

- The Conferees regard removal of the $2 import fee as an important part of any compromise.

After exploring a number of options for decontrol with the Committee staff, it is clear that if you wish to avoid immediate decontrol on November 15, your compromise could only be reached in one of three ways. These basic alternatives are discussed briefly below including a description of how they currently look to us:

<u>Alternative 1</u> - The Congress legislates a ceiling on domestic oil prices for a specified period (up to 48 months) and provides considerable flexibility for administrative action to decontrol old oil.

Under this option, the flexibility for old oil decontrol could be either with respect to volumes controlled or the price of old oil. Thus, the Administration could release from price controls all oil produced from secondary and tertiary recovery techniques (about 50 percent of current production) or could raise the old oil price from $5.25 per barrel to the domestic ceiling price.

The degree of flexibility that would be provided remains an open issue. The Conferees may agree to allow administrative decontrol to occur with no Congressional right of disapproval after appropriate inflation impact statements are filed and could limit the right of judicial review or provide language to make judicial denial more difficult.

If a $10 ceiling on domestic oil were legislated with an inflation or GNP adjustment factor, and you administratively remove the $2 fee, and let old oil prices rise to the $10 cup level immediately, the impacts on prices and imports would almost equal the 39 month decontrol proposal, if it were submitted now.

Pros:

- Provides a way for the Congress to save face, yet accomplishes most of your objectives with the 39 month plan.

- A single price for domestic oil greatly simplifies administrative and compliance problems and makes the old oil entitlements program easier to operate.

- Would result in a reduction in prices through early 1977, as compared to current controls.

- Provides sufficient incentive for secondary recovery projects; tertiary recovery, which usually costs $10 or more per barrel, needs 3-5 years before production commences and by that time all controls would be removed.

Cons:

- If Congress insists on the right of disapproval of the Administration's plans, it would be cause for veto.

- Places the burden for higher old oil prices on you and gives Congress the credit for reducing prices and lessening the impact of OPEC price hikes.

- There is no cost justification for increasing old oil or secondary recovery prices to $10 per barrel.

- Represents a rollback of currently uncontrolled prices upon which investment decisions were made.

- Most old oil is produced by major oil companies who would benefit from these price increases; most small and independent companies produce currently uncontrolled oil and their prices would be rolled back.

- A 45 month program is really equivalent to 49 months when compared to the 39 month program submitted in July, since four months will have passed before decontrol begins (program would last through August 31, 1979).

Alternative 2 - Agree upon a completely legislated solution.

Under this option, the best we are likely to achieve would be something like a 45 month phaseout of controls, with an $11 ceiling, and no import fees.

Pros:

- Places onus on the Congress, as well as the Administration, for higher prices.
- Provides a statutory decontrol program.
- Assures decrease in economic impacts of oil prices in the next two years.

Cons:

- Such a program could increase imports by almost 500,000 barrels per day in 1977 as compared to a continuation of current controls.
- Keeps controls until August 31, 1979.
- Rolls back new oil prices and import fees for little in return.

Alternative 3 - There is no acceptable Congressional action and we submit an administrative decontrol plan to the Congress after November 1.

Under this alternative, we could submit a plan similar to the 39 month proposal and subject it to possible Congressional disapproval within five days. However, the plan would have to be very similar to the 39-month plan or else new hearings would be required and the process could not be completed by November 15.

Pros:

- Congress may be more willing to allow the plan since it will not vote approval, but merely avoid voting disapproval.
- Likely to be closer to our objectives then anything the Congress would approve.

<u>Cons</u>:

- Without a legislated solution, the plan would be subject to possible disapproval every 90 days.

- Less likely to reduce rhetoric and finger-pointing by the Congress.

No decision is needed at this time as we are still exploring the likelihood of any of these alternatives and the positions of the key Conferees.

ACTIONS TAKEN ALREADY BY CONFEREES

SUPPLY AVAILABILITY

Energy Supply and Environmental Coordination Act (ESECA)

- Extends recently expired authorities to convert facilities from gas or oil to coal until June 30, 1977, and extends authority to enforce orders until December 31, 1984.

ACCEPTABLE

Coal Loan Guarantees

- Authorizes $750 million for guarantees of loans to small coal producers.

UNACCEPTABLE: This provision will have a small effect on coal production, but will result in large expenditures.

Prohibitions on Exports

- Prohibits exports of all oil and gas produced in the United States, but the President may waive requirement if he finds it in the national interest or it is required by treaty, executive agreement, or interests of the foreign policy of the Nation.

- President has discretionary authority to restrict exports of energy materials.

- President directed to restrict exports of coal, refined petroleum products, fossil fuels and petrochemical feedstocks as necessary to achieve objectives of the EPAA. An exemption is provided for historical trading relationships with Canada and Mexico.

MARGINALLY UNACCEPTABLE: While it is discretionary, it sets several precedents.

Materials Allocation

- Requires President to allocate supplies of materials and to require the selective performance of contracts if he finds that supplies are scarce, critical and essential to maintaining or furthering exploration and production, and that these objectives cannot be "reasonably accomplished" without exercising such authority.

- Also requires report to Congress within 60 days on how the authorities will be administered.

UNACCEPTABLE: Should not be mandatory and reporting times are too short.

Leasing Policy for Oil, Natural Gas, and Coal on Public Lands

- Staff was directed to draft language incorporating Senate legislation (not part of the Conference) on OCS oil leasing and coal leasing into the House language. These would include expeditious timetables for production.

UNACCEPTABLE: OCS provisions contain measures to delay leasing and production. Coal timetables are too short.

Production at Maximum Efficient Rates (MER) and Utilization

- The Secretary of Interior is directed to establish MER on all Federal lands, which may be mandated in non-emergency situations; and to establish temporary rates that may be mandated only in emergencies.

- The Secretary may mandate increased production during emergency situations on State lands only if State has established MER's or temporary rates.

- President is given discretionary authority to require the utilization of production of any oil and gas producing properties on Federal lands.

MARGINALLY UNACCEPTABLE: The Secretary of Interior already has authority to require production at MER's; authorities create enormous administrative burden.

Joint Ventures

- Incorporates the recent Interior Department OCS joint venture regulations into law, but grants exceptions with respect to high-risk areas and where necessary to permit more efficient development.

- Directs Interior to report to the Congress on the feasibility of extending such regulations to on-shore oil and gas, oil shale and coal.

MARGINALLY ACCEPTABLE: Interior already has authority, but it is flexible.

Recycled Oil

- Promotes the use of recycled or re-refined oil and directs the Federal Government to encourage procurement of such oil.

ACCEPTABLE

Strategic Reserves

- Establishes policy to create a reserve not less than between 560 million barrels and 1 billion barrels, but does not mandate size or a schedule.

- No-year budget authorization of a specific amount (not yet determined) which would be sufficient to construct and fill the Early Storage Program (150 million barrels) and to construct facilities for the long-range program.

- Authorizes the Early Storage Program, with a plan to be submitted within 90 days.

- Construction of facilities for the long-range problem is subject to the presentation of an overall plan within one year. The plan is subject to an either-House disapproval within 45-60 days. Filling of the long-range program facilities is subject to additional authorizing legislation.

MARGINALLY ACCEPTABLE: About as good as we can get.

STANDBY EMERGENCY AUTHORITIES

- Both rationing and conservation plans would be sent to Congress within 180 days. Such plans would have to be approved in 60 days.

- When a supply emergency exists, conservation plans may be implemented without further Congressional action, but rationing plans could be implemented only if either House does not disapprove within 10 days.

- Contains no International Energy Agreement (IEA) trigger and all standby authorities would expire June 30, 1985.

MARGINALLY ACCEPTABLE: There are a few minor objections that can probably be cleared up in the final drafting.

ENERGY CONSERVATION MEASURES

Motor Vehicle Fuel Efficiency

- Coverage includes all passenger automobiles and trucks 6,000 pounds or less, with discretion to add more vehicles.

- Fuel economy standards for automobiles will be in effect for the model year 1979 and thereafter.

ACCEPTABLE: Definitions are acceptable, but early indications of mandatory standards being considered for 1985 are not acceptable and flexibility in standards due to environmental controls is unacceptable.

Assume no w/f profits Tax -

Base - current controls (+) $200 fee

DEMAND IMPACTS VS. CURRENT CONTROLS
(000 B/D)

SCENARIO	1976	1977	1978	1979
39 MONTH PROGRAM	+ 60	+ 84	+ 42	-226
$9 Cap increasing @ 15¢/mo and no fee (uniform price)	+ 46	+ 32	- 33	-126
$10 Cap increasing @ Old 10¢/mo and ~~new fee~~ secondary Tertiary / Rest of old w/stay at $5.25	+ 1	- 15	- 48	- 82
Release S & T w/$10 Cap increasing at 10¢/mo	+ 96	+155	+173	+161
Release S & T w/$12 Cap increasing @ 10¢/mo and no fee	+ 1	- 28	- 82	-158

SUPPLY/CONSERVATION FACTORS

	1976	1977	1978	1979
Elk Hills	200	275	300	300
Coal Conversion	160	200	200	200
Insulation Credit	65	110	110	110
Auto Efficiency	100	170	200	250
SUB TOTAL	525	755	810	860
increased oil supply	100	200	250	330
TOTAL	625	955	1060	1190

THE WHITE HOUSE

WASHINGTON

December 2, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

THROUGH: VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: House Republican Policy Committee Draft Position on the Energy Conservation and Policy Act, S. 622/HR-7014

The House Republican Policy Committee has not officially adopted this draft position. However, it is likely that once the conference report is filed the House Republican Policy Committee will adopt a position very similar to that embodied in the attached draft.

Attach.

cc: Vern Loen
Charlie Leppert

DRAFT DRAFT DRAFT

S.622 - ENERGY BILL: BAD POLITICS, BAD POLICY

The Energy Conservation and Policy Act, S. 622 (originally H.R. 7014 in the House) as reported by the House-Senate Conference, embodies bad politics and disasterous energy policy. The House Republican Policy Committeee opposes this legislation in its final version.

The 94th Congress has been working on a national energy policy for over eleven months. While the Majority Democrats have succeeded only in avoiding the realities of our energy situation, the Republicans have consistently advocated adherence to several underlying principles: We must provide incentives for domestic oil production accompanied by a mechanism to prevent undue windfall profits, we must encourage energy conservation, we must discourage imports of expensive and strategically-vulnerable foreign oil, and we must create a system of sufficient permanence to allow producers and consumers alike to anticipate the future. (See 1975 Policy Statements #2, 10, 13, 15, 17.)

Unlike the Democrats, we believe that a sound energy policy at realistic fair prices now is good politics for the future. The Majority, however, continues to seek the mirage of bargain-basement pre-election energy prices combined, impossibly, with future abundant energy supplies and no-pinch conservation measures. The Conference Report on S. 622, to be voted on shortly by the Congress, represents this flawed Majority political logic.

The worst part of the bill is the pricing provision. The price rollback in one stroke negates all the basic principles of a sound energy policy. It will discourage domestic oil production, encourage consumption, require more expensive foreign imports and result in shortages at the gas pumps. Instead of moving gradually and systematically toward decontrol, it imposes a situation that is actually worse than the complex red-tape of existing controls. ? These controls, unwieldly as they are, offer at least a modicum of incentive for development of domestic oil resources. S. 622 is a step backward that will widen the gap between artifically low controlled prices and the costs of agressively developing new oil supplies, thereby making decontrol much more difficult and possibly even precluding it altogether.

It was unclear!!

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Ironically for those who seek political, if not energy, benefits from this meas the pricing mechanism probably will not mean the lower gas pump prices ballyhooed in election-oriented rhetoric -- certainly not the 3½ cents per gallon the Democrats advertise. Cutbacks in oil-producers' revenues will discourage the huge investments needed to assure future domestic oil sufficiency. But between the producers and the gas pump, the effects of the rollback will be absorbed as refiners and marketers are required in the bill to claim and pass along to consumers the foregone "banked costs" allowed them under the intricacies of the existing system.

S. 622 continues the already tiresome "cat-and-mouse" game between the Executive and Legislative Branches. The pricing mechanism contains several we wanted them "loopholes" to allow the President to increase oil prices to compensate for inflation, expensive recovery methods, and needed incentives for exploration. But these "loopholes" are subject to veto by either House of Congress, a situation that only prolongs the political manipulation of energy policy and dims the chance for an energy policy based on reality rather than election-day politics.

Perhaps because domestic shortages will result, the bill provides onerous bureaucratic controls over the energy industry. At a time when the merits of less government interference and bureaucracy are being stressed, S. 622 substantially extends the Federal Energy Agency's (FEA) authorities over the oil industry to include refinery yield control authorities, controls on inventories held by refineries, prohibitions on so-called "hoarding," prohibitions and limitations on refiners passing through cost increases, and limitations on the manner in which these price increases may be spread among refinery products. The FEA will be changed from a temporary emergency-oriented agency into a gigantic, monolithic bureaucracy sprawling over and stifling the entire oil industry.

Similarly, the bill's expansion of the Government Accounting Office's authority to include verification examinations of books and records of the entire energy industry from exploratory ventures to neighborhood service stations will increase the snarl of red-tape tangling the energy industry without yielding tangible benefits. This penchant for over-regulation extends even further -- to mandatory industrial conservation reporting provisions, efficiency targets based on government determinations

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and mandatory efficiency standards for domestic automobiles. The weight of all these bureaucratic intrusions may well prove heavier than the energy shortage that led to them in the first place.

Gradual, phased decontrol accompanied by a windfall profits tax remains our preferred energy policy. This bill, S. 622, gets the prize as the worst possible energy policy yet devised by the Congressional Majority. Even sudden total decontrol or a continuation of the current controls would be preferable.

Sound energy policy is not a question of liberal or conservative politics. It is a question of taking the steps necessary to assure adequate energy supplies in the future. This counterproductive legislation should be vigorously opposed, first in the Congress and then, if required, at the White House. Republican Members should plan to vote against the Conference Report on S. 622 and be prepared, if necessary, to sustain a veto.

our only real choice

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THE WHITE HOUSE

WASHINGTON

December 5, 1975

MEMORANDUM FOR: L. WILLIAM SEIDMAN

THROUGH: MAX FRIEDERSDORF
VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Request by Chairman George Mahon (D.-Texas)

During a meeting Wednesday evening, Chairman Mahon asked that I make available for your review and analysis the attached critique of the Energy Policy and Conservation Act of 1975 prepared by Mr. Charles D. Fraser of the First National Bank of Midland, Midland, Texas.

Chairman Mahon has also presented this critique to John Hill for review by FEA.

Enclosure

cc: Alan Greenspan
Charlie Leppert

THE WHITE HOUSE

WASHINGTON

December 5, 1975

MEMORANDUM FOR: ALAN GREENSPAN

THROUGH: MAX FRIEDERSDORF
VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Request by Chairman
George Mahon (D.-Texas)

During a meeting Wednesday evening, Chairman Mahon asked that I make available for your review and analysis the attached critique of the Energy Policy and Conservation Act of 1975 prepared by Mr. Charles D. Fraser of the First National Bank of Midland, Midland, Texas.

Chairman Mahon has also presented this critique to John Hill for review by FEA.

Enclosure

cc: L. William Seidman
Charlie Leppert

R. FORD

THE FIRST NATIONAL BANK OF MIDLAND MIDLAND, TEXAS

- CRITIQUE -

THE ENERGY POLICY AND CONSERVATION ACT

OF 1975

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BY: Charles D. Fraser
Charles D. Fraser
Senior Vice President
and Petroleum Engineer

December 2, 1975

The Energy Policy and Conservation Act of 1975, if enacted into law, will condemn our Nation to a "NO WIN" energy policy. This bill must be vetoed by The President and his veto must be sustained; otherwise, the domestic oil industry is doomed to Congressional control with the predictable certainty that oil policy will be as ridiculous as political control of natural gas prices at the wellhead has been and with the same miserable "benefit" to the American People. What is wrong with this proposed legislation? Consider the following:

1. The effect of this act will be to reduce oil industry revenue by about three billion dollars ($3,000,000,000) in 1976. Reference to IPAA data reveals that the expenditure by industry in 1973, (latest available), to drill and complete 26,244 wells, was $3,074,532,000.00. THIS ACT WILL REDUCE OIL INDUSTRY REVENUE BY AN AMOUNT EQUAL TO THE TOTAL EXPENDITURE FOR DRILLING AND COMPLETION COSTS IN 1973! MORE THAN TWO BILLION BARRELS OF NEW CRUDE OIL RESERVES WERE FOUND IN 1973, EXCLUDING ALASKA!

2. The value of a barrel of new, domestic crude oil is immediately reduced by a minimum of $2.00 per barrel or about 15%.

3. Any subsequent decrease in the volume of "old" oil must cause an additional decrease in the value of "new" oil assuming continuation of a two tier system.

4. Any substantial increase in new oil production will force the price for existing new oil down; viz., why should anyone explore for new oil knowing that SUCCESS WILL REDUCE THE VALUE OF EXISTING PRODUCTION?

5. The virtual certainty that oil from the north slope of Alaska will be included in the composite for domestic pricing devalues all other domestic oil prospects which might otherwise be developed in the interim.

6. The concept that the initial $7.66 price per composite barrel can increase by the lesser of 7% per annum or the GNP deflator insures that the real purchasing power of income

from domestic oil production will decline in the face of accelerating costs of oil field equipment and services which costs have been and will certainly increase faster than the national rate of inflation.

7. The possibility of a 3% per annum incentive price increase above the maximum 7% per annum inflation factor is taken away by granting either House of Congress veto power over the President.

8. Enactment will vest future control of the oil business in Congress; viz., the industry will be effectively Congressionalized leaving but one short step to be taken before nationalization. Who really believes that Congress will relinquish control of the oil industry after 40 months?

9. Authorizing the President to require maximum rates of production of crude oil and natural gas from designated fields coupled with the requirement that employees and officers of FEA and the Department of Interior "disclose their financial interest in oil, natural gas, and coal" in an effort to legislate "objectivity of administration" will insure ultimate waste of hydrocarbon reserves by taking authority over producing rates away from eminently qualified State agencies and placing same in the hands of unqualified, politically motivated, neophytes.

Considering the above, The Energy Policy and Conservation Act of 1975 should be renamed THE ENERGY DEPENDENCY ACT OF 1975.

There are certainly additional arguments to be made against The Energy Policy and Conservation Act; however, those made above should suffice to elicit and sustain a veto provided one can demonstrate that existing policy is working in a demonstrably superior manner. Readily available statistics reveal the following:

1. The domestic oil and gas industry began to revitalize in the second quarter of 1973, in response to increasing prices for domestic crude oil. Active rotary rigs increased

in number from 812 in March 1971, to 1760 in November 1975.

2. Domestic crude oil and condensate production declined steadily from a peak rate of about 10,000,000 bbl per day in 1970, to the present rate of about 8,250,000 bbl per day. The peak rate of decline in domestic production was about 7.0% per year over the period from August 1973, to April 1975; however, the decline trend began to flatten in April 1975, and DOMESTIC PRODUCTION OF CRUDE OIL AND CONDENSATE HAS BEEN ALMOST CONSTANT AT ABOUT 8,250,000 BBL PER DAY FOR THE LAST THREE MONTHS. <u>WE HAVE ARRESTED THE DECLINE TREND!</u>

3. Each attempt to enact punitive legislation against the oil and gas industry has been reflected immediately in decreased rig activity and has delayed our recovery effort. Examples are:

   a. Emergency Energy Act of 1974 - price rollback to $4.00 per barrel - passed Congress, vetoed, and veto sustained - <u>RIG COUNT DROPPED AND STAYED FLAT FOR FOUR MONTHS</u>.

   b. <u>Tax Reform Act of 1975</u> - allowance for percentage depletion eliminated for most of industry and severely restricted for all of industry - <u>RIG COUNT DROPPED AND STAYED FLAT FOR SEVEN MONTHS</u>.

4. Our dependence on foreign supply for crude oil was clearly shown by the OPEC Embargo which caused THE ENERGY RECESSION OF 1974-1975. THE UNITED STATES CANNOT PERMIT ITS <u>ECONOMY TO BE DOMINATED BY FOREIGN GOVERNMENTS.</u>

5. The Tax Reform Act of 1975, the proposed price rollback of 1974, the current attack on tax treatment of intangible drilling and completion costs, and the pricing features proposed in The Energy Policy and Conservation Act of 1975, represent a continuous succession of illogical proposals on National energy policy which suppress our oil industry as graphically evidenced by available statistics.

ATTACHMENT I presents the five year statistical history upon which the above arguments are based. We conclude that the oil industry is responding to our need to maximize domestic crude oil supplies despite the hindrances already imposed by Congress. What will happen if this new act becomes law? ATTACHMENT II is a graphical presentation of our forecasts assuming decontrolled prices versus controls proposed by this act. Key conclusions are:

1. <u>RIG ACTIVITY WILL DECREASE:</u> We estimate a drop in the activity rate of about four hundred rigs per year. This prediction results from our estimate that a $6,700,000 investment will be required by industry to sustain the activity of one rig for a full year in 1976; thus, a three billion dollar loss of revenue converts to ~~44%~~ 448 err fewer active rigs per year.

2. Based on 1974 statistics, we estimate that one rig over a year's time found about 740 bbl per day of new crude oil productive capacity. If this energy act becomes law, we project a productive capacity loss of:

   (1) 106 million barrels per year by 1-1-77

   (2) 252 million barrels per year by 1-1-78

   (3) 427 million barrels per year by 1-1-79

   (4) 630 million barrels per year by 1-1-80

3. Stating argument (2) differently, passage of this act is forecast to result in loss of domestic crude oil productive capacity totaling 1,730,000 barrels per day by 1980.

4. Assuming that OPEC increases oil prices by no more than 10% per year, we will be paying about $18 per barrel for imported oil by 1980, and this act will have reduced our capacity to produce our own oil by about 630 million barrels per year. The rate of cost for the additional imports necessitated by passage of The Energy Policy and Conservation Act of 1975 will exceed eleven billion dollars per year in 1980.

5. Based on 1973 and 1974 additions to crude oil reserves (IPAA), this act will prevent future additions to reserves in the approximate amount of one billion barrels annually.

The specific numbers quoted above are subject to debate; however, we may well have erred on the conservative side. For instance, U.S. demand for crude oil is assumed to be the same whether domestic crude oil prices are controlled or decontrolled. This surely results in a minimum estimate of import dependency recognizing that a rollback in domestic prices encourages consumption; furthermore, we assume that Congress and The President will not decide to penalize our industry further by forcing capitalization of intangible drilling costs as proposed by the House Ways and Means Committee. Perhaps we are overly optimistic! Whether or not our numerical estimates can be explicitly defended is immaterial, the overall conclusion that enactment of The Energy Policy and Conservation Act will do irrevocable harm to this Nation's efforts to gain energy self-sufficiency is irrefutable. Just suppose another Prudhoe Bay or East Texas Field lies beneath Atlantic coastal waters. Can we permit this "energy act" to discourage the search?

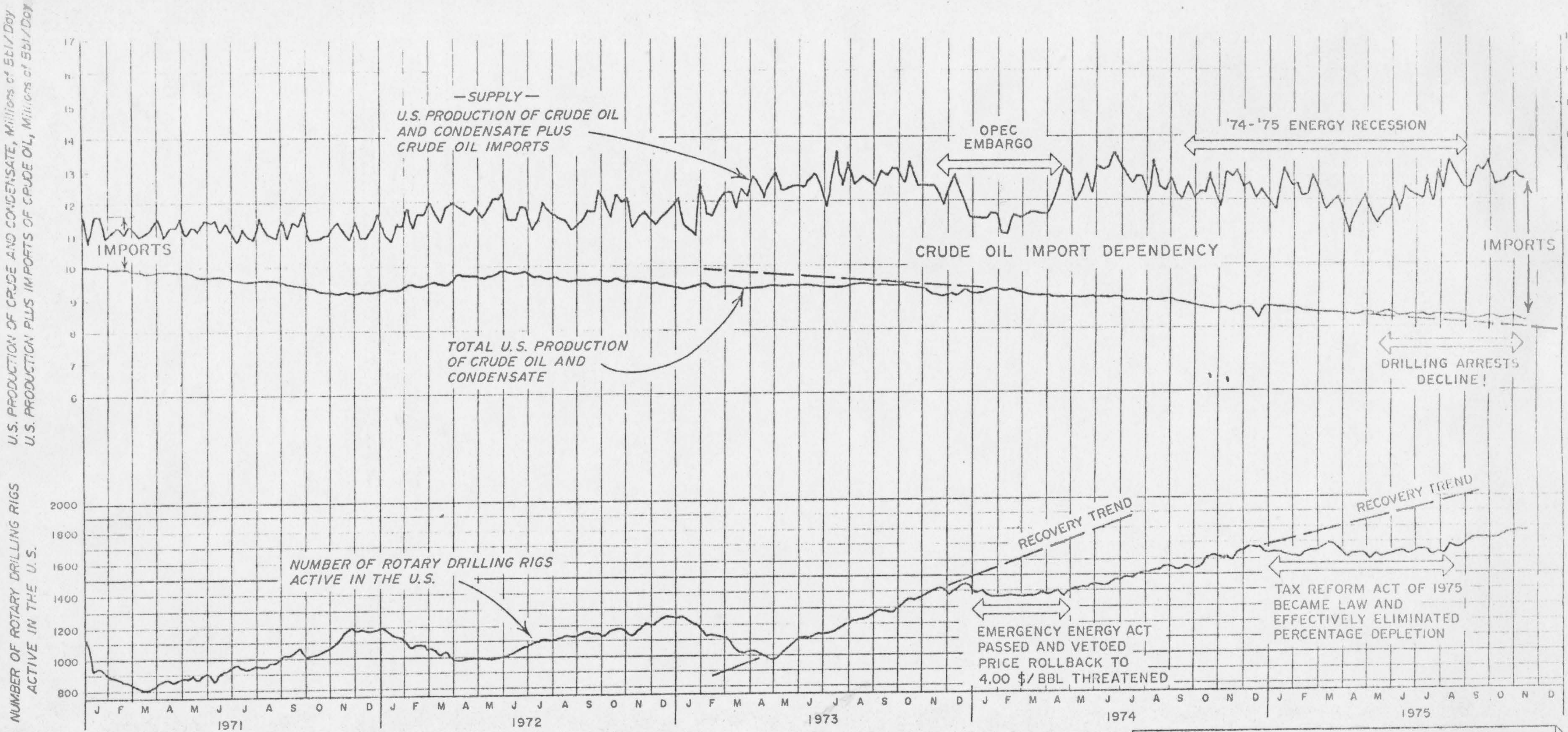
The arguments presented above can be summarized by three questions.

1. <u>IS IT IN OUR NATIONAL INTEREST TO INSURE SUCCESS FOR THE OPEC CARTEL?</u>

2. <u>IS IT IN OUR NATIONAL INTEREST TO KILL INDUSTRY EFFORTS TO RE-BUILD DOMESTIC PRODUCTIVITY AND RESERVES OF CRUDE OIL?</u>

3. <u>IS IT IN OUR NATIONAL INTEREST TO BUY OPEC OIL WHICH WE COULD HAVE PRODUCED OURSELVES PARTICULARLY CONSIDERING THE FACT THAT, IF OUR DOMESTIC OIL INDUSTRY RECEIVED THE SAME PRICE AS OPEC FOR THESE NEW BARRELS, THE CONSUMER COST WOULD BE IDENTICAL?</u>

The Energy Policy and conservation Act dictates a <u>yes</u> answer to each question! This is a "NO WIN" policy! We believe the American people would counter with a positive <u>no</u> if their elected representatives will explain the simple facts of our energy dilema and quit using the situation for political gain at the expense of our Nation's future!



TOTAL UNITED STATES
CRUDE OIL PRODUCTION, CRUDE OIL SUPPLY
AND ACTIVE ROTARY DRILLING RIGS
1971 THROUGH 1975

THE FIRST NATIONAL BANK OF MIDLAND
MIDLAND, TEXAS

BY: C.D. Fraser
DATE: 11-26-75

DATA SOURCE: Oil & Gas Journal

ATTACHMENT I

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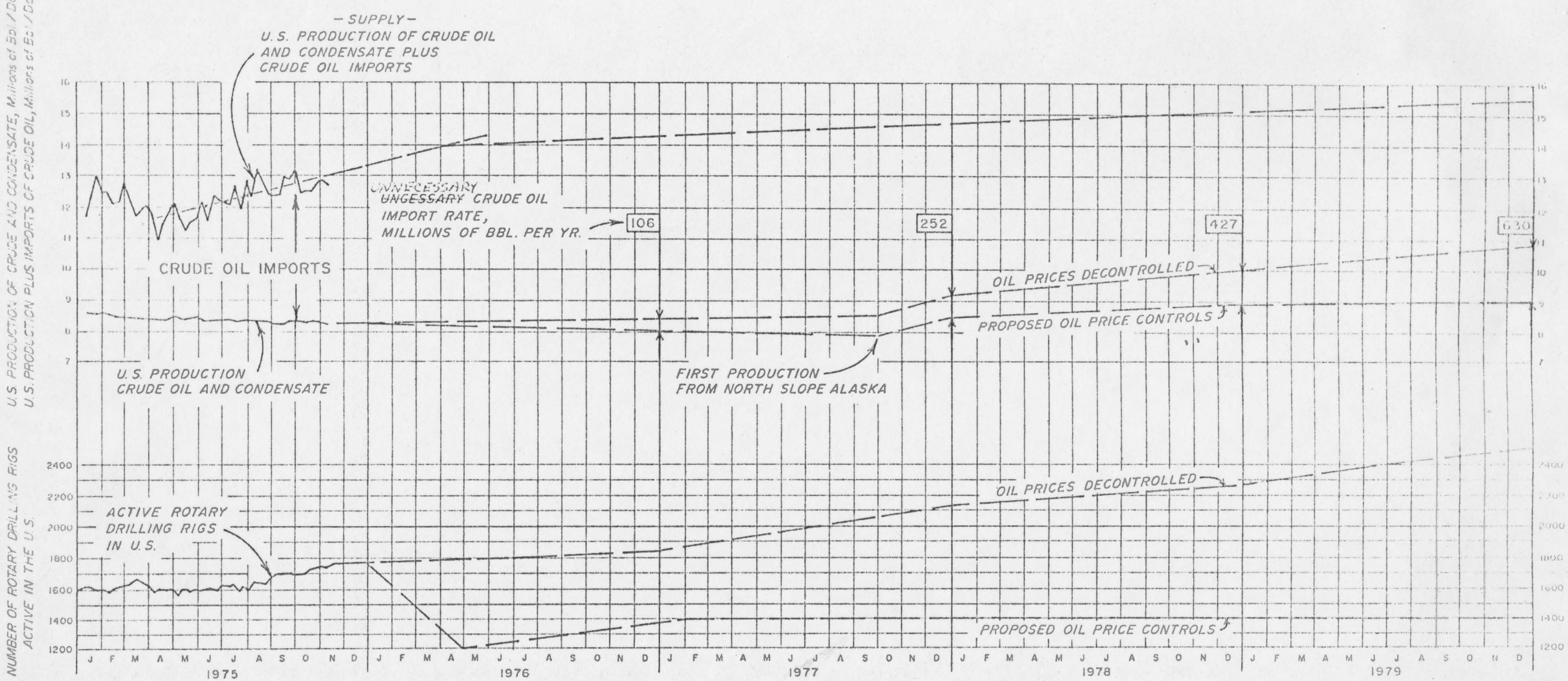

PROJECTED UNITED STATES
CRUDE OIL PRODUCTION, CRUDE OIL SUPPLY
AND ACTIVE ROTARY DRILLING RIGS
1975 THROUGH 1979

THE FIRST NATIONAL BANK OF MIDLAND
MIDLAND, TEXAS

BY: C. D. Fraser
DATE: 11-30-75

DATA SOURCE. Oil & Gas Journal
IPAA

ATTACHMENT II

GERALD R. FORD LIBRARY

THE WHITE HOUSE

WASHINGTON

December 5, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

THROUGH: VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Request by Chairman George Mahon (D.-Texas)

Chairman Mahon is extremely interested in the effects of the Energy Policy and Conservation Act of 1975. On Wednesday evening I met with the Chairman and his constituents who are active in the oil and gas industry in and around Midland, Texas.

One of the participants in the meeting, Mr. Charles Fraser, has prepared a critique of the energy pricing legislation. Pursuant to the Chairman's request, we have assisted in making this critique available to FEA, Bill Seidman, and Alan Greenspan.

During the course of this meeting the Chairman strongly indicated his desire to meet in the near future with the President concerning the energy pricing legislation.

THE WHITE HOUSE

WASHINGTON

December 8, 1975

MEMORANDUM FOR: FRANK ZARB

THROUGH: MAX FRIEDERSDORF
VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Request by Rep. Joe Waggonner, Jr. (D.-La.)

Congressman Joe Waggonner asked that the attached letter be made available for your consideration. While the Congressman is aware of time limitations, he felt the recommendations embodied in the letter may prove to be beneficial.

Attach.

cc: Bill Seidman
Alan Greenspan
Jim Lynn
Charles Leppert
Bill Kendall
Pat O'Donnell

LAW OFFICES
GROOM AND NORDBERG
SUITE 500
1701 PENNSYLVANIA AVENUE, N. W.
WASHINGTON, D. C. 20006
(202) 965-2080

THEODORE R. GROOM
CARL A. NORDBERG, JR.
ROBERT A. BLUM
LOUIS T. MAZAWEY
MICHAEL F. KELLEHER

December 4, 1975

The Honorable Joe D. Waggonner
House of Representatives
United States Congress
221 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Waggonner:

During a recent airplane trip, Mr. John Ross, General Manager of Taxes for Gulf Oil Corporation, had occasion to discuss with you an alternative to the oil pricing proposal announced by the Conferees on the Energy Policy and Conservation Act. Mr. Ross requested that I submit his alternative proposal to you, and offer to provide you with any additional information you might request regarding this alternative proposal.

In our view, the "oil pricing" provisions contained in the November 12, 1975 Conferees' agreement on the Energy Policy and Conservation Act are objectionable on a number of bases. These include the extent of authority granted to the President; the complexities of the "composite price" concept; the unpredictability of future prices; the unworkableness created by continued Congressional review; and the inadequacy of adjustments permitted as incentives for the development of high-cost and high-risk production or to encourage the application of advanced recovery techniques.

In lieu of the oil pricing provisions agreed to by the Conferees, the following is suggested:

(1) Extend the existing program for a period of 15 months:

(2) Remove the $2 per barrel import tariff;

(3) Rollback the price of new oil to $11.50 per barrel and freeze that price for 15 months; and

(4) Increase the price of old oil to $7.00 per barrel (to compensate for inflation since December 1973) and freeze that price for 15 months.

Clearly, this alternative proposal would be vastly superior to the Conferees' proposal, primarily because of the simplicity and predictability it provides. Admittedly, this proposal would represent an initial composite price of $8.20, rather than the $7.66 proposed by the Conferees; but it is our understanding that on January 1, 1976, the Conferees' composite price could be increased to approximately $8.42, due to the permissible 10% adjustment feature. The composite price resulting from this alternative would remain at $8.20. It should also be noted that the composite price resulting from the proposed alternative ($8.20) would be below the current $8.75 average price estimated by the FEA. It could be contended that this 15 month proposal resolves the problem for too short a period of time, but we believe that such a contention fails to recognize that the Conferees' proposal, with its quarterly adjustments and Congressional review, will require that the Congress constantly devote attention to this problem. At least the alternative proposal resolves the problem for 15 months.

We recognize that it may very well be too late to interject a new alternative into the oil pricing issue at this late date, but since the Conference Report has not been approved, we felt it would be advisable to make this alternative available to you. Mr. Ross recalls that you indicated the possibility of seeking the views of the Administration on this alternative. We would, of course, be most interested in receiving the views of the Administration.

Sincerely,

Carl A. Nordberg, Jr.

Carl A. Nordberg, Jr.

THE WHITE HOUSE

WASHINGTON

December 15, 1975

GREET CHAIRMAN GEORGE H. MAHON (D.-TEXAS)

Tuesday, December 16, 1975
11:00 a.m. (5 minutes)
The Oval Office

Via: Max Friedersdorf
From: Tom Loeffler T.L.

I. PURPOSE

Opportunity for Chairman Mahon to present the President a memorandum which manifests the views of oil and gas producers from the Midland-Odessa, Texas area and strongly recommends a Presidential veto of the Energy Policy and Conservation Act of 1975.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

1. Chairman Mahon is extremely concerned over the effects of the Energy Policy and Conservation Act of 1975 if enacted into law. The Chairman strongly opposes this legislation and heartily recommends that the President give very serious consideration to vetoing this bill.

2. Chairman Mahon has been in close contact with constituents who are active in the oil and gas industry in the Midland-Odessa, Texas area. As a result of these contacts, the Chairman wishes to present the President with a memorandum setting forth the views of those persons involved in the production of oil and gas.

B. Participants:

The President
Chairman George Mahon
Tom Loeffler (staff)

C. Press Plan — Announce to press
White House photographer only

III. TALKING POINTS

1. As you know, last January I submitted to Congress a comprehensive energy plan which would rely upon the free market system to return this nation to a position of sufficient domestic energy supplies.

2. I am hopeful that we, the Congress and the Executive, will soon have in place an energy plan for the American people which will in the most effective and equitable manner decrease demands for energy, increase domestic supplies and ultimately achieve energy independence for this country.

RED TAG

THE WHITE HOUSE

WASHINGTON

S1/22/76

December 11, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

THROUGH: VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Request by Rep. Joe Waggonner, Jr. (D.-La.)

Pursuant to a telephone call from Congressman Waggonner this morning, he asked that we convey to the President his desire that the President veto the energy pricing legislation. It is his opinion that a Presidential signature to the energy bill would in the end mandate a significant increase in this country's reliance on vulnerable foreign imports. In the final analysis, the Congressman, however, believes that such a veto would be overridden by Congress. He hastened to underscore the fact that in no way would he publicly criticize an ultimate decision by the President to sign the legislation.

He further stated he wanted us to assure the President that he would strongly support not only a veto of the energy legislation, but also a veto of legislation concerning common situs picketing and a simple extension of personal income tax reductions notwithstanding the President's decision on energy.

He asked that the President be informed that he is aware of the difficult Presidential decisions which must be made in the next two weeks and that the President be assured the Congressman will stand behind the President's final determinations.

EMBARGOED FOR RELEASE
UNTIL 12:00 NOON EST

DECEMBER 22, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

ENERGY POLICY AND CONSERVATION ACT (S. 622)

THE PRESIDENT TODAY:

- Signed the Energy Policy and Conservation Act, S. 622, which establishes a modified system of crude oil price controls that would be phased out in 40 months and provides four major elements of the comprehensive energy legislation he requested last January.
- Announced that he was removing, effective today, the $2 per barrel import fee on crude oil that he previously imposed to reduce imports and stimulate action on energy independence legislation.
- Indicated he was urging Congress to move immediately on other pending energy legislation after its current recess.
- Directed the Administrator of FEA to take the necessary steps to remove allocation and price controls (other than those on crude prices) from a major segment of the petroleum industry as soon as possible, in order to return much of the industry to a free market.

BACKGROUND

- In his State of the Union Message last January, the President announced specific goals to achieve energy independence.
- Also in January, the President proposed comprehensive legislation to conserve energy, increase domestic energy production, and provide strategic reserves and standby authorities to cope with any future embargo.
- Beginning in February, the President imposed a fee on imported oil to reduce imports and stimulate Congressional action on national energy policy legislation.

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- During the past year, the President frequently met with Congressional leaders on his proposed energy program. At the request of Congressional Leadership, he delayed implementation of planned import fees and approved temporary extensions in the existing allocation and price control authority in order to give Congress more time to develop acceptable energy legislation.

- In addition to the new legislation, progress toward the President's energy independence goals include:

  - oil imports are about one million barrels per day less than estimated one year ago, due primarily to conservation actions by consumers and industry and better than expected weather conditions.

  - near final action in the Congress on other Administration proposals, including production from Naval Petroleum Reserves, deregulation of new natural gas prices, establishing thermal efficiency standards for new buildings, and weatherization assistance for low-income persons.

PRINCIPAL PROVISIONS OF THE BILL

The principal provisions of the Energy Policy and Conservation Act (S. 622) are:

- Pricing Provisions (amends Emergency Petroleum Allocation Act)

  - Under the existing system of price controls, "old" crude oil is subject to an average limit of $5.25 per barrel, and new oil is uncontrolled.

  - Under the new system, the average price for all domestic crude oil is subject to a composite price limit of $7.66, which can be adjusted upward. Assuming old oil is controlled at $5.25, new oil would be controlled initially at $11.28 per barrel.

  - The $7.66 composite price can be increased monthly at the President's discretion:

    - To adjust for inflation.

    - To provide a production incentive of not more than three percent per year.

    The two adjustments together may not exceed 10% per year.

  - In addition, each 90 days following February 1, 1976, the Administration may take steps to adjust upward the 3% production incentive and the 10% overall adjustment limitation. This is subject to disapproval by either House of Congress within 15 days.

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- To continue any production incentive after February 15, 1977, the Administration must make a recommendation to Congress which is also subject to disapproval by either House within 15 days.

- After April, 1977, Alaskan oil can be excluded from the composite price calculation upon a recommendation from the Administration that is not disapproved by either House within 15 days.

- The mandatory control program converts automatically to a discretionary program at the end of 40 months.

- The President is directed to review the current regulatory system and to dismantle as much of the current program (other than crude oil prices) as possible. This includes the price and allocation controls on wholesalers and retailers, which are the bulk of those currently controlled by FEA. Each such deregulation action is permanent, if not disapproved by either House of Congress within 15 days.

Other Provisions

. The other provisions of S. 622 contain several elements of the President's comprehensive energy program. These include:

  - Strategic petroleum reserves similar to the program proposed by the President. This program will establish storage of at least 150 million barrels of petroleum within three years and up to 400 million barrels in seven years. Although not tied directly to production from the Naval Petroleum Reserve (NPR) #1 (Elk Hills, Calif.), it is expected that NPR legislation now before the Congress will make the important connection between revenues from NPR-1 and the strategic petroleum reserves.

  - Standby energy emergency authorities that provide most of the standby authorities requested by the President to deal with severe energy emergencies that may arise in the future. The President must develop contingency plans in six months, which will be reviewed by the Congress prior to implementation.

  - International energy authorities which are necessary to allow the United States to participate fully in the International Energy Program.

  - Coal conversion authorities to permit the conversion of oil and gas fired utility and industrial boilers to coal. An extension of this authority was requested by the President in January.

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- Appliance labelling provisions that will require appliance manufacturers to provide energy efficiency information to consumers on major appliances and set voluntary energy efficiency targets for the industry.

- Automobile efficiency standards for 1980 agreed to on a voluntary basis earlier this year are made mandatory in this bill. In addition, the bill sets mandatory standards for 1985. These standards will have to be evaluated for technological and economic feasibility, and changes will be submitted to the Congress, if appropriate.

The bill contains several other provisions including:

- General Accounting Office audits giving the Comptroller General authority to audit the records of persons and companies who are now required to submit energy data to the Federal government.

- Industrial energy conservation targets are established for the ten leading energy consuming industries and are to be monitored by FEA.

- Coal loan guarantees providing financial assistance to companies opening new coal mines that cannot obtain credit from private markets.

- Conservation grants to the States to assist in the development and implementation of energy conservation programs.

- Export controls and material allocation authorities to enhance the Federal government's ability to respond to energy emergencies.

- Mandatory conservation standards for Federal agencies to further improve the energy practices of the Federal government.

IMPACTS OF THE BILL

. The bill will initially reduce the average price of domestic crude oil by about $1.00 per barrel. This change could reduce retail prices by as much as approximately 1 cent per gallon from today's levels. By way of contrast, immediate decontrol could have raised prices at the retail level by about 5 - 6 cents per gallon.

. Compared to imports projected under the current price control program:

  - imports probably will increase by approximately 150,000 barrels per day by the end of 1976, due to lower initial prices.

  - imports probably will be about 200,000 barrels per day less after three years, due to future price increases allowed by the bill.

. Removal of price controls at the end of 40 months should increase domestic production by more than one million barrels per day by 1985 and reduce imports by about three million barrels per day.

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- Other provisions of the bill will further reduce the Nation's dependency on foreign oil. The automobile efficiency standards, appliance labelling provisions, and extension of the coal conversion authorities could reduce imports by almost two million barrels per day by 1985. The strategic petroleum reserve and standby authorities in the bill will enable the Nation to withstand a future embargo of about four million barrels per day.

NEXT STEPS

- Current oil price controls will remain in effect until FEA promulgates a rule to implement the new composite price control system. The new rule must be effective no later than February 1, 1976.

- FEA contemplates continuation of a basic two-tier pricing system for domestic oil with new oil prices high enough to insure adequate incentive for exploration and development of new fields. The final structure of domestic prices will be determined through a rule-making procedure to allow all interested parties an opportunity to express their views on the best pricing program.

- The price program that FEA envisions for the entire 40 month program, including the monthly application of the price escalators allowed in the bill and the distribution of these escalators among various categories of oil, must be in place by March 1, 1976.

- FEA will take steps to remove price and allocation controls on those parts of the petroleum industry that are downstream from the refinery, primarily product wholesalers and retailers. The objective of this effort will be to once again allow the marketplace to operate so that consumers are not penalized by an unnecessary regulatory program.

# # # #