The original documents are located in Box 1, folder: "Memoranda to the President, March 19-31, 1975" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

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FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

March 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THRU: ROGERS C.B. MORTON

SUBJECT: NATIONAL ENERGY PROGRAM NEGOTIATIONS

Two weeks ago we reported to you that we were continuing our discussions with Al Ullman and John Dingell.

We have continued to meet with both Committee Chairmen, as well as staff, and have made only modest progress in recent days. I will meet with both Chairmen once more before recess and we will attempt during recess to work with their staffs in an effort to pull together a program which will reflect the maximum amount of compromise possible.

However, since both Chairmen are having difficulties with members of their committees, and since both are sensitive to criticism from their democratic colleagues, it is possible that we will not be able to reach agreement.

With your permission we intend to adhere to the following strategy:

1. Continue to work with both Chairmen and if areas of meaningful compromise appear we will submit them for your approval before making final commitments.

2. If an accommodation can be reached with both Ullman and Dingell we will support their efforts to get legislation onto the House floor and then support efforts to gain passage by the entire House.

3. We will simultaneously be working with Messrs. Jackson, Long, Pastore, and Magnuson to get a similar effort working on the Senate side.

4. If we are not successful in coming to an agreement we will resist attempts to report out legislation that is inconsistent with your energy goals and philosophy. Under these circumstances, neither Chairmen may be able to report out a bill, since there could be sufficient objection from our side and from dissident democrats.

5. If we do reach a point of no agreement we will recommend that you proceed to put on the second dollar tariff effective May 1 and that early in May we send up a reasonable program for deregulation of old oil. At that point in time the Congress could be sufficiently diffused, so that they may not be able to sustain legislation to remove your tariff authority and may not be able to muster sufficient strength to block a reasonable plan for decontrol. As a practical matter, many of the members at that point in time may be relieved to have the President implement a conservation program rather than have to come to grips with the problem themselves.

   We will then have to work with all appropriate committees to pick up legislation for the remainder of your program, including strategic reserves, mandatory conservation, and standby authority, etc.

There are currently 37 days left before May 1st, therefore, an early approval of this strategy is important. This memorandum has been reviewed and agreed to by Alan Greenspan, Bill Seidman, and Max Friedersdorf.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

MAR 26 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

THRU: Rogers C. B. Morton

SUBJECT: Effects of an Embargo At This Time

Background

In January you asked that we take the necessary steps to be prepared for a possible future oil disruption. The purpose of this report is to review our current status.

During last year's Arab oil embargo the oil producing nations cut exports to the United States between one and two million barrels per day (MMB/D). The major reductions were from Saudi Arabia, United Arab Emirates, and Algeria. It was estimated that the embargo, which lasted about 5 months, caused a $10-20 billion cost to GNP and resulted in about 500,000 additional unemployed.

Embargo Impact

If your proposed energy program is not enacted, our latest forecast of energy demand and economic conditions indicates that imports will average about 6.0 MMB/D in 1975, with a 4th quarter peak of 6.7 MMB/D. If economic conditions improve, a surge in imports could occur, with additional imports likely to come from OAPEC (Organization of Arab Petroleum Exporting Countries) sources, since they have excess capacity and low production costs.

OAPEC countries are the most likely to initiate and sustain an embargo; other OPEC nations -- Iran, Nigeria, and Indonesia -- could conceivably side with the more militant Arab countries. Iran would be the most likely of the non-OAPEC nations to support an embargo. Tab 1 indicates OPEC and OAPEC membership by individual countries. We currently import about 1.5 MMB/D from OAPEC nations and 1.7 MMB/D from OPEC/Moslem countries.

These estimates include not only direct imports of crude oil, but petroleum products refined from Arab crude oil in other countries, such as the Netherlands or Trinidad. Tab 2 summarizes the direct and indirect sources of our petroleum imports. In addition, Canadian cutbacks during 1975 should average about 0.3 MMB/D, which will probably be replaced by insecure sources. We looked at two possible interruption scenarios:

Scenario	Source	Level (MMB/D)
I - Probable Interruption	OAPEC	1.5
	Canadian Loss	0.3
	Total	1.8
II - Maximum Interruption	OAPEC	1.5
	Canadian Loss	0.3
	Other OPEC	1.7
	Total	3.5

It is unlikely that a new embargo could be more substantial than the lower estimate, and with leakage or production from shut-in capacity from non-embargoing suppliers, could be even lower.

The economic impact of an embargo depends upon the duration of the shortage, the cushioning measures taken (allocation, stock drawdowns, conservation, etc.), the level of disruption, and pre-embargo prices. Estimating the economic cost of an embargo is hazardous at best. However, it appears likely that an embargo now would have a greater economic impact than that we experienced in the last one because many of the easy conservation measures have already been taken. As a result, our preliminary estimate of embargo impacts are indicated below:

	Disruption (MMB/D)	Cost to GNP of 6 Month Embargo (% of GNP)	Cost to GNP of 1 Year Embargo (% of GNP)
Scenario I	1.8	$ 59B (7.9%)	$118B (7.9%)
Scenario II	3.5	$150B (20%)	$295B (20%)

Even the lowest impact scenario could result in substantial added unemployment. In all likelihood a shorter embargo would have less effect as inventories were drawn down. However after a few months, the impacts would rapidly multiply. This assessment also ignores the impact of the IEP on reducing the effects of an embargo.

In the event of an embargo the following steps could be taken immediately:

- Emergency allocation
- Movement of surplus products to inventory
- Public information conservation program
- Sunday closings of retail outlets
- Odd-even day sales
- Maximum gasoline purchase limits

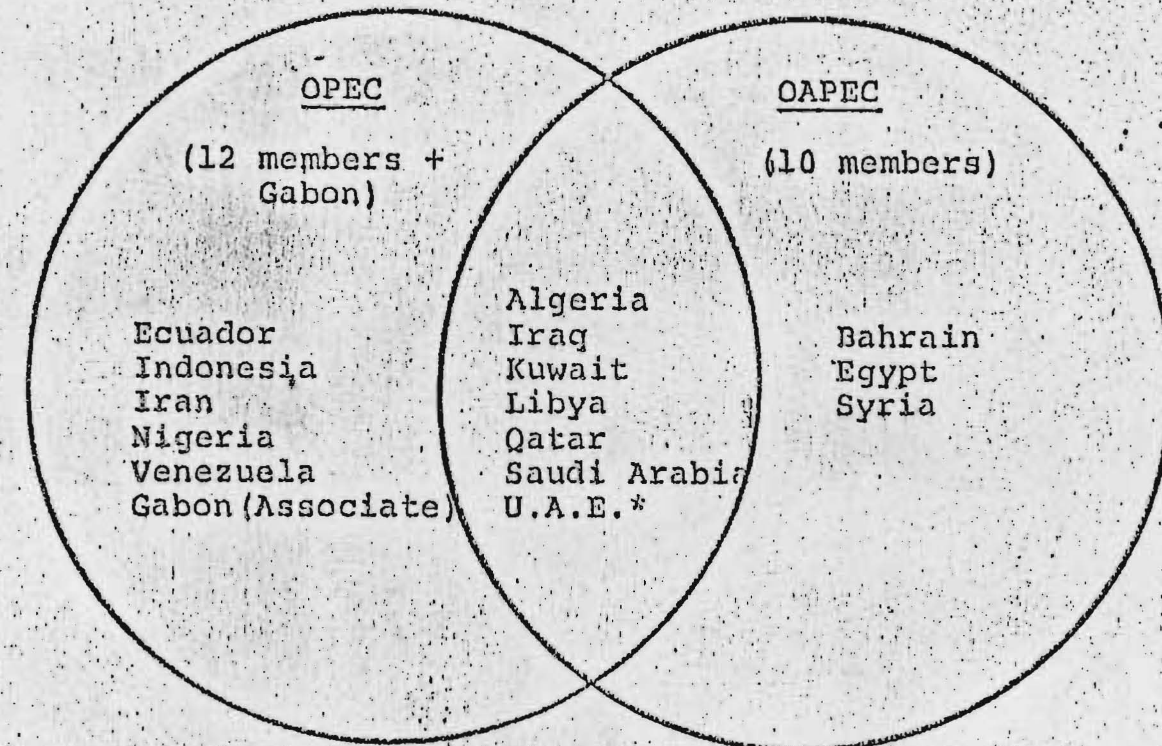
Within thirty days we could implement the following programs:

- Return to strictly controlled supplier-purchaser relationships
- Control refinery yields
- Remove existing old oil price controls
- Accelerate coal conversions
- Provide financial disincentives for electrical and natural gas consumption
- Improve management of geographic distribution of available supplies

A stand-by plan for complete gasoline rationing has been substantially completed. We could implement it within 90 days.

Based on our experience during the last embargo, it will take about 60 days for the effect of an embargo to be felt due to loaded ships on the high seas. The industry is now in a much better position with respect to supply availability than last year, since there are now 350 million barrels on the high seas. Moreover, our current inventory position is better than it was prior to the last embargo. There will be ample time to move from our current state of readiness to operational programs whey they are needed. However, these measures would not eliminate the adverse economic impacts of an embargo.

Copies will be provided to the Department of State, NSC, and CEA.



*United Arab Emirates = Abu Dhabi, Sharjah, Ajman, Umm al Qaiwann, Ras al Khaimah, Fujairah, Dubai

TAB 1

DIRECT AND INDIRECT SOURCES OF IMPORTS
4th QUARTER 1974 DAILY AVERAGES

	Direct Source	Estimated Original Source of Crude		
Region/County	Total	OAPEC	OPEC Moslem	All Other
North America	1042	–	–	1042
Canada	1032	–	–	1032
Mexico	10	–	–	10
Central America	983	261	142	580
Bahamas	156	50	94	12
Trinidad	313	110	28	175
Netherlands Antilles	504	101	20	383
Others	10	–	–	10
South America	1286	–	–	1286
Venezuela	1232	–	–	1232
Ecuador	46	–	–	46
Others	8	–	–	8
Western Europe	111	108	–	3
Eastern Europe	37	–	–	37
Middle East	1313	890	423	–
Iran	423	–	423	–
United Arab Emirates	145	145	–	–
Saudi Arabia	672	672	–	–
Others*	73	73	–	–
Africa	1188	277	802	109
Algeria	277	277	–	–
Nigeria	802	–	802	–
Others	109	–	–	109
Far East	347	–	307	40
Indonesia	307	–	307	–
Others	40	–	–	40
TOTAL	6307 (100%)	1536 (24%)	1674 (27%)	3097 (49%)

* Egypt, Qatar, Oman, Bahrain, Kuwait, Yemen.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 28, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: ACTION ON TAX BILL

RECOMMENDATION:

That you veto the tax bill with a strong statement underscoring fiscal responsibilities and the need for the Congress to return to you a clean bill.

REASONS:

It is clear that the Congress is not prepared to act responsibly in the area of fiscal management, just as it has not been able to work with any normal degree of even-handedness in the energy area. Therefore, the Nation needs to depend upon strong leadership from the President to maintain some semblance of order in these major national policy areas.

It appears as though the only way we can get the Congress' attention is to draw the line where your fundamental principles are being violated. You have set out a principle of reasonable stimulus within the framework of fiscal responsibility. I am afraid that unless you act firmly here we will not only accept a tax bill that has major defects, but set up an atmosphere that will make it less easy to successfully stand firm on subsequent spending items.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 28, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb FZ

THRU: Rogers C.B. Morton

SUBJECT: Forthcoming Energy Decisions

Last week, we submitted to you the basic strategy we would follow in negotiating an energy compromise with the Congress. Over the next two to three weeks there will be a number of decisions needed on Congressional counter proposals or compromises which we will be submitting for your review and decision. At this time, it appears that new Presidential decisions will be needed in the following areas:

SHORT TERM PROGRAM

- Next administrative actions (e.g. re import fees and old oil decontrol) if insufficient Congressional progress by May 1.
- Additional rebates of or exemptions from fees for fishing industry, airlines and nonprofit institutions.
- Possible compromises on goals, timing and form of short term tax/tariff program.
- Allocation, quotas and purchasing authorities.

LONG TERM PROGRAM

Energy Supply:

- Possible windfall profits tax modifications to account for decontrol phasing and elimination of depletion allowance.

- Natural gas deregulation compromises.
- Additional financial assistance to electric utilities.
- Energy research trust fund.
- Miscellaneous tax incentives for coal production, transportation and conversion.

Energy Conservation:

- Auto emission standards review and 5-year recommendations.
- Auto fuel efficiency standards and taxes.

Energy Measures:

- Strategic reserves authorities.
- Standby emergency conservation authorities.

As we proceed to deal with the Committees during the recess some of these issues may be resolved or new ones developed. The ERC will provide for interagency coordination before decision memoranda are forwarded to you and on selected issues, we will request meetings (as required) with you and the involved ERC members.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461
March 28, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: FEDERAL POLICY ON ELECTRIC POWER RATES

As you know, there is considerable pressure developing for a thorough overhaul of electric power pricing. Some consumer groups, for example, are strongly advocating guaranteed low cost electricity through the implementation of "inverted" rate structures, under which the price per unit of electricity would increase with the number of units consumed. Keeping in mind your interest that the national energy program focus on the "true" cost of energy, as well as seek to achieve fairness across the entire spectrum of consumers, we have been reviewing this entire matter. We believe that a creative approach to utility rate design can yield a solution both economic and equitable. We are enclosing a brief position paper which suggests that both utilities and consumers can be served by an economically sound cost-based price structure.

Three key points must be emphasized. First, the price of electricity must be based on the cost of adding increments of capacity if greater efficiency and the lowest reasonable rates are to be achieved. Second, the cost of additional capacity today is higher than the average value of existing capacity, and in this new economic context, traditional rate structures are inappropriate. Third, peak load pricing based on the cost of incremental capacity should achieve the advantages sought by consumers through devices such as "inverted" rates without departing from the principle of cost justification.

To pursue these ideas, we are actively promoting peak pricing, load control, storage systems, and other conservation activities. We are also continuing to study new rate techniques, and plan to sponsor a major national conference on load management (rates, plus load controls) in June.

Attachment

FEDERAL POLICY ON ELECTRIC POWER RATES

The electric utility industry is in the midst of an unprecedented crisis which, although primarily financial in nature, touches upon regulatory, environmental, consumer, macroeconomic, and energy conservation issues. This complex problem is not unique to the nation's 214 investor-owned utilities, which account for nearly 80% of installed capacity and kilowatt hour output, rather it obtains to the entire electric power network, including the 554 municipal utilities, 980 rural cooperatives, and 69 Federal systems.

FEA and the Federal Power Commission have studied this matter at length, as have numerous other groups, and although there remains considerable definitive work to be done there is ample evidence to conclude that the root of the problem is essentially two-fold. Most importantly, for the first time in the history of the industry, electric power is a rising cost item, rather than declining. This unanticipated phenomenon is the consequence of recent escalation in the costs of generator fuels, capacity construction, and capital itself. Secondly, the demand for electricity is highly uneven with respect to both time of day and season, and the industry consequently utilized less than 49% of installed capacity in 1974.

The result of these several factors has been a steady increase in electric power rates. Residential rates, for example, have increased more than 33% nationally since 1972, and on some systems the rate has more than doubled. These rapid increases, in turn, have prompted consumer protests and concerted demands for cheap electricity and governmental intervention, including public ownership of the entire electric power system.

FEA agrees with FPC Chairman Nassikas that drastic Federal intervention in the utilities sector would not be productive, and that utility rates should not be set either uniformly or artificially low. Chairman Nassikas has also stated, however, that FEA--rather than regulatory agencies such as FPC--should be the key energy policy agency. FEA believes that a strong Federal policy on electric power rates and closely related issues is urgently needed at this time.

Our fundamental policy objective for electric power is to ensure the provision of adequate electric power, efficiently produced, equitably priced and prudently used. This objective must be pursued in a manner optimally consistent with other Federal priorities, particularly economic growth, energy independence, and environmental protection. FEA is confident that we can successfully accomplish this ambitious mission by focusing our efforts on redirecting the two closely related factors which have brought on this present crisis: economic incentives, i.e. rates, and demand patterns.

As a matter of explicit policy, this Administration should encourage a pattern of growth for electric power which would restrain total kilowatt-hour usage and peak kilowatt demand and bring them into a more efficient balance. Responsibly restrained and balanced growth would not only moderate the pressures for rate increases, it would simultaneously reduce the consumption of scarce fossil fuels for electricity generation, minimize the need for construction of new capacity, and improve utility revenues. It would also stabilize the industry as a basis for subsequent coal, nuclear and hydro-electrification of the economy as an alternative to direct combustion of scarce fossil fuels. Accordingly, a strong Federal commitment in this area should benefit such diverse interests as consumers, regulatory officials, environmentalists, and utility executives.

There is a very broad consensus that a gradual improvement of the capacity factor of the utilities industry, currently at an unfortunate 49%, is both desirable and attainable. An improvement to 56% by 1985, for example, is judged to be feasible with presently available technology and would reduce the need for installed capacity in 1985 by nearly 300 million kilowatts, assuming a 5% annual growth rate for kilowatt hour consumption. At $400 per kilowatt for construction of new capacity, this would mean a capital savings of $120 billion, which would be passed along to the consumer, while simultaneously achieving the myriad of related advantages discussed above.

Reaching this goal, however, will require the implementation of end-use conservation programs and two relatively simple techniques which have already been used with remarkable success in Europe, where the health of electric utilities a decade ago was far worse than our own situation at the present moment. These two techniques, which are now drawing considerable attention in the United States, are peak responsibility pricing and selective interruption of customer-approved loads.

The peak responsibility pricing concept, already used for telephone service, holds that those individual power loads which comprise the system peak load, and therefore force expansion of capacity, should bear the cost of such expansion. This means that the cost of electricity used during the peak demand periods would be substantially higher than for off-peak usage and that special meters (now economically justified) would be required. The cost per unit, then, would vary according to peaking coincidence, rather than with volume of consumption. This rate poses a sharp contrast to the traditional declining block rate structure, under which the price per kilowatt hour decreases with the number of kilowatt hours used. Declining block structures, which were partially justified during the earlier period of declining costs, now tend to encourage excessive use in general, and provide no incentives to shift demand into off-peak periods.

The selective power interruption concept, which would require special control devices (also economically justified now), holds that nonessential loads should be temporarily shed during peak periods, and that a favorable rate should be offered for this benefit. The major nonessential residential load at the moment is hot water heaters, which draw heavy wattage and could--because of heat retention--be shut off for relatively long periods of time without seriously interrupting hot water availability. In addition, the implementation of peak load pricing would tend to spur development and adoption of other "buffering" technologies, such as heat storage, "cool" storage and solar collectors, which allow loads to be shed from a utility system without seriously impairing the end service.

The combination of peak responsibility pricing, based on long-run incremental costs, and selective power interruption should form the cornerstone of Federal policy on electric power rates. Although they must be specifically tailored to individual utility systems, both techniques have been essentially validated and represent available state-of-the-art technology.

Further, they abolish the most objectionable features of traditional declining block rates without substituting in their stead equally dysfunctional structures, e.g., "Life-line rates", which would continue to overlook the critical importance of peak responsibility, and which would continue to lack the economic incentives needed to encourage efficiency in all phases of the electric power system. Moreover, analysis of the Lifeline concept by FPC's Office of Energy Systems and economists employed by the Environmental Defense Fund indicates that peak load pricing based on long-run incremental costs would achieve the advantages of Lifeline without the disadvantages, which are substantial.

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FEDERAL ENERGY ADMINISTRATION

March 31, 1975 Office of the Administrator

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb Z

THROUGH: Rogers C. B. Morton

SUBJECT: Biweekly Status Report

Legislative Status

On March 18, the House Ways and Means Committee began mark up sessions on its energy tax plan. The Committee staff will work through the Easter Recess to allow Committee action on the bill in early April and the legislation should reach the House Floor by the end of April.

The Rules Committee granted a rule to the bill, HR 4035, which would restrict the President's authority to decontrol domestic crude oil. Similar legislation in the Senate, S 621, has been ordered reported by the Senate Interior and Insular Affairs Committee. No floor action has been scheduled yet in either chamber.

The House passed surface mining legislation, HR 25, on March 18. The Senate passed a similar measure, S 7, on March 12. A House-Senate Conference Committee is expected to meet during the week of April 7.

Status of One Million Barrel Savings Program

Data on imports, apparent demand, prices and crude production are presented in Tab C. The following trends are significant:

- The cost of crude petroleum purchased by refiners from domestic producers jumped in January by 31 cents per barrel. There were two reasons for the large increase: (1) Prices of uncontrolled oil rose and (2) the percentage of controlled oil (old oil) declined. The decline in the relative importance of old oil, the more important factor, was due to the long term decline in output from older fields and low production in the January 1972 base period.

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Ford, Gerald R.

CONCURRENCES

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- Gasoline prices during February remained relatively stable, increasing by only 0.1 cent per gallon. This increase was caused mostly by the smaller independents raising their prices, following a 0.4 cent per gallon price increase in January by the majors.

- Apparent domestic demand for all petroleumpproducts, which has been steadily declining since the end of January, was essentially equal to the target level of 17.14 million barrels per day for the four weeks ending March 14.

- For the same period, imports of crude and products, averaging 5.91 million barrels per day, were 110,000 barrels per day below the target. Imports have been steadily dropping since the first of the year. This is a normal seasonal trend, and we still expect imports to reach about 6.7 million barrels per day by the last quarter of 1975.

Major International Development

Abu Dhabi settled its dispute with the companies and promised no nationalization through 1975 above the present 60 percent. Total OPEC crude oil production continued a downward trend with the general fall-off in world demand. At 26 million barrels per day, production is 21 percent below the pre-embargo high of September 1973. TAB D provides additional information on international developments.

TAB A

Congressional Action

- On March 26, the House and Senate passed a $22.8 billion tax cut bill which the President signed on March 29. This legislation includes increases in the investment tax credit (denying credit for drilling rigs outside of the northern half of the Western Hemisphere), the corporate surtax exemption and a reduction for 1975 in the corporate normal tax rate on the first $25,000 of net income. The bill also provides for a small producer exemption from the repeal of the 22% depletion allowance for oil and gas. The exemption of average daily production of 2,000 barrels of crude oil or 12 million cubic feet of natural gas is to be phased down gradually, but not eliminated. Limitations were placed on the percentage of creditable taxes from foreign oil extraction. The House-Senate Conference deferred consideration of tax incentives for insulation and solar energy equipment expenditures which are areas being considered by the Ways and Means Committee.

- On March 18, the House passed the Surface Mining bill, HR 25, by a vote of 333-86. House-Senate Conference will not be held until after the Easter recess, probably during the week of April 7. The House version contains more constraints on coal production than the Senate version.

- The House Rules Committee granted an open rule and one hour of debate on HR 4035, a bill which would restrict the President's authority to decontrol domestic crude oil. Similar legislation on the Senate side, S 621, has been reported out of the Senate Interior and Insular Affairs Committee and is pending floor consideration.

- The House Ways and Means Committee is in the process of marking up its energy tax bill. The following are the components of the bill:

Title I:	Quotas, Allocations and Strategic Reserves
Title II:	Gasoline Conservation Program
Title III:	Other Transportation Energy Programs
Title IV:	Energy Conservation and Conversion Trust Fund
Title V:	Deregulation of Oil and Natural Gas; Windfall Profits
Title VI:	Revision of Capital Incentives for Extraction in Producing Industries
Title VII:	Industrial Conversion

- Land use legislation was the subject of hearings before the Energy and Environment Subcommittee of the House Interior Committee during the weeks of March 17 and March 24. Administration spokesmen testified against two bills pending before the subcommittee: HR 3510 (Udall) and HR 634 (Meeds). The Senate Interior Committee has scheduled hearing for Land Use-Energy Facilities Siting Bill (S 984) for April 22-24.

- Hearings were held during the week of March 17 by the Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee regarding the Crude Entitlements program. The hearings were held in response to charges that major oil companies were cutting back on old oil production in order to circumvent the entitlement program. The Subcommittee has asked the major oil companies involved to justify their old oil calculations and has requested an audit of these calculations by FEA.

- Department Operations, Investigations and Oversight Subcommittee of the House Agriculture Committee held hearings during the week of March 18 on the availability and requirements of energy for food and fibers. Administration witnesses testified.

- Democratic members of the Public Lands Subcommittee of the House Interior and Insular Affairs Committee have accused the Administration of mismanagement of procurement priorities for scarce equipment which slowed construction efforts of the Trans-Alaska pipeline.

- In reaction to a recent study done by the Office of Technology Assessment of the Congress, a number of questions are expected to raised by members of the House Science and Technology Committee as to the Administration's energy research and development funding recommendations.

- The Senate Public Works Committee held hearings on the Clean Air Act with Administration witnesses testifying. The Committee will resume hearings April 21. The Health and Environmental Subcommittee of the House Interstate and Foreign Commerce Committee held hearings on this issue during the week of March 17.

- Special Subcommittee on Oil and Gas Production of the Senate Commerce Committee completed hearings on natural gas legislation (S 692) introduced by Senator Hollings. The full Committee has begun mark up sessions which will continue after the Easter recess. Senator Stevens (Alaska) has introduced a substitute measure of phased deregulation of new natural gas over a three year period as opposed to S 692 which presently contains a five year price freeze of 40-75 cents per Mcf for both interstate and intrastate natural gas.

- The Senate Commerce Committee concluded hearings on S 323, which provides for procedures to regulate commerce and to protect franchise dealers of petroleum products. Mark up sessions may be held after the Easter recess.

- On March 18, the Senate Commerce Committee's National Ocean Policy Study Group and the Committee on Interior and Insular Affairs Committee continued joint hearings on legislation to change the present system of managing resources of the Outer Continental Shelf. Further hearings will continue after Easter recess.

- On March 20, the Senate Interior and Insular Affairs Committee began hearings on S 740, a bill to establish a National Energy Production Board. Further hearings may resume after the Easter recess.

- The Permanent Investigations Subcommittee staff of the Senate Government Operations Committee is gathering testimony from service station dealers to probe allegations that major refiners are using pressure tactics to keep service stations open and to lower prices.

- In its annual report, the Joint Economic Committee charged that the Administration's economic and energy proposals, if enacted, could cause a loss of $1.5 trillion in national output between now and 1980.

- The Joint Committee on Atomic Energy has created a special ad hoc committee to review the liquid metal fast breeder reactor programs. The special subcommittee will be chaired by Representative Mike McCormack, Democrat, of Washington.

PROGRESS OF ENERGY LEGISLATION: March 18 - 31

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION		SIGNIFICANT CONGRESSIONAL ACTION
		HOUSE	SENATE	
A. OMNIBUS ENERGY BILL (HR 2633, HR 2650, S 594) Title I - Naval Petroleum Reserve Development/ Military Strategic Reserve Title II - National Strategic Petroleum Reserve	Administration witnesses testified March 24-26 before the Subcommittee on Investigations of House Armed Services Committee relative to HR 49.	On March 18 Interior and Insular Affairs Committee reported HR 49, which would authorize the transfer of the management of the Naval Petroleum Reserves to the Department of the Interior. The bill has been referred to the Subcommittee on Investigations of the Armed Services Committee where three days of hearings were held beginning March 24.		
Title III - Natural Gas Amendment	Administration witnesses testified before the Senate Commerce Committee on March 18.		Commerce Committee concluded hearings on S 692 (Hollings), on March 18. Mark-up sessions have begun. The Committee hopes to report the bill out by mid-April.	

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION HOUSE	CONGRESSIONAL ACTION SENATE	SIGNIFICANT CONGRESSIONAL ACTION
Title IV - Energy Supply and Environmental Coordination Act of 1974 Extension	Administration witnesses testified before the Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee on March 20. In related action, Administration witnesses testified before the Subcommittee on Environmental Pollution of the Senate Public Works Committee on March 19 and 20.	Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee held a hearing on Title IV on March 20.	In related action, the Subcommittee on Environmental Pollution of the Public Works Committee held hearings on March 19 and 20.	
Title V - Clean Air Act Amendments Title VI - Significant Deterioration	Administration witnesses testified before the Subcommittee on Environmental Pollution of the Senate Public Works Committee on March 19 and 20. Administration witnesses testified before the Subcommittee on Health and Environment of the House Interstate and Foreign Commerce Committee on March 19, 20 and 26. In related action, Administration witnesses testified before the Subcommittee on Energy and Power of the House Interstate and Foreign Commerce Committee on March 18.	Subcommittee on Health and Environment of the Interstate and Foreign Commerce Committee held hearings during the weeks of March 17 and March 24. In related action, Subcommittee on Energy and Power of the Interstate and Foreign Commerce Committee held a hearing March 18 regarding auto fuel economy and efficiency standards.	Subcommittee on Environmental Pollution of the Public Works Committee held hearings on March 19 and 20.	

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION HOUSE	CONGRESSIONAL ACTION SENATE	SIGNIFICANT CONGRESSIONAL ACTION
Title VII - Utilities Act of 1975	Administration witnesses are scheduled to appear before the Energy and Power Subcommittee of House Interstate and Foreign Commerce Committee in April. Administration witnesses are scheduled to appear before the Subcommittees on Intergovernmental Relations and Reports, Accounting and Management of the Senate Government Operations Committee.	Energy and Power Subcommittee of Interstate and Foreign Commerce Committee has tentatively scheduled hearings beginning April 28.	Subcommittees on Intergovernmental Relations and Reports, Accounting and Management of the Senate Government Operations Committee will hold hearings on April 14, 15, and 17. Administration witnesses expected to testify on April 14.	
Title VIII - Energy (S 619) Facilities Planning and Development	Administration witnesses are scheduled to appear before the Energy and Power Subcommittee of House Interstate and Foreign Commerce Committee in April. Administration witnesses are scheduled to testify before the Subcommittee on Environment and Land Resources of the Senate Interior and Insular Affairs Committee on April 22.	Energy and Power Subcommittee of Interstate and Foreign Commerce Committee has tentatively scheduled hearings beginning April 28.	Subcommitee on Environment and Land Resources of Interior and Insular Affairs Committee will hold 3 days of hearings beginning April 22. The discussions will be in conjunction with action on Jackson's Land Use Bill, S 984.	
Title IX - Energy Development Security	Administration witnesses have discussed this issue before various committees.	Referred to Ways and Means Committee for consideration.	Referred to Finance Committee for consideration.	

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION		SIGNIFICANT CONGRESSIONAL ACTION
		HOUSE	SENATE	
Title X - Building Energy Conservation Standards Title XI - Winterization Assistance	Administration witnesses will testify before the Subcommittee on Housing and Community Development of the House Banking, Currency and Housing Committee in April. Administration witnesses will appear in April before the Senate Government Operations Committee hearing on energy conservation.	Subcommittee on Housing and Community Development of the Banking, Currency and Housing Committee will hold hearings in April.	Subcommittee on Housing and Urban Affairs of the Senate Banking, Housing and Urban Affairs Committee held hearings on both Titles on March 18, 20. A related hearing on energy conservation has been scheduled by the Government Operations Committee in April.	
Title XII - National Appliance and Motor Vehicle Energy Labeling	Administration witnesses testified before the Energy and Power Subcommittee of the House Commerce Committee on March 19.	Hearings were held by the Energy and Power Subcommittee of the Commerce Committee on March 19.		
Title XIII - Standby Authorities Act (S 620)	Administration witnesses testified before the Subcommittee on International Trade and Commerce of the House Foreign Affairs Committee on March 25 and 26.	Subcommittee on International Trade and Commerce of the Foreign Affairs Committee held hearings on March 25 and 26.	Interior and Insular Affairs Committee reported on S 622 on March 5. The report number is 94-26.	Senate discontinued debate on S 622 on March 12 and will resume floor consideration after the Easter recess.

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION HOUSE	SENATE	SIGNIFICANT CONGRESSIONAL ACTION
B. OTHER BILLS - SUPPLY Surface Mining Legislation (HR 3119, S 652)		Interior and Insular Affairs Committee reported HR 25. The report number is 94-45.	Interior and Insular Affairs Committee reported on S 7. The report number is 94-28.	The House passed HR 25 on March 18 by a margin of 333-86. On March 12, the Senate passed S 7 by a margin of 84 to 13. A House-Senate Conference is expected to begin during the week of April 7.
Nuclear Licensing and Siting Bill	Comments from appropriate agencies are expected to be completed and returned to OMB during the week of March 30.			
Nuclear Insurance Bill	Comments from appropriate agencies are expected to be completed and returned to OMB during the week of March 30.			

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION HOUSE	CONGRESSIONAL ACTION SENATE	SIGNIFICANT CONGRESSIONAL ACTION
C. TAX PROPOSALS 1. Windfall Profits Tax 2. Petroleum Excise Tax and Import Fee 3. Natural Gas Excise Tax 4. Uniform Investment Tax Credit 5. Higher Investment Tax Credit 6. Preferred Stock Dividend Deductions 7. Residential Conservation Tax Credit	Administration maintaining ongoing communication with House Ways and Means Committee during its drafting sessions.	Ways and Means Committee began mark-up sessions on March 18 after two weeks of hearings. Staff work will continue during the Easter Recess.		The House and Senate passed a $22.8 billion tax cut bill. Included among its provisions are: Increase in the investment tax credit. Increase in the corporate surtax exemption. A reduction for 1975 in the corporate normal tax rate. Small producer exemption from the repeal of the 22 percent depletion allowance for oil and gas. House and Senate Conferees deferred consideration of tax incentives for insulation and solar energy equipment expenditures to the Ways and Means Committee.

TAB B

TAB B - Progress Report on Administrative Actions
Within the President's Energy Program

Administrative Activity	Lead Agency	Status	Next Steps
Near Term Program			
1. Crude Oil Decontrol	FEA	S 621 has been reported out of the Senate Interior Committee. HR 4035 has been reported out of the full House Commerce Committee. No floor action has yet been scheduled in either House.	Action will depend on evolving a compromise on the overall energy Program.
2. Energy Conservation	FEA	Draft guidelines for using energy conservation "mark" have been completed. Legislation has been drafted regarding the use and protection of the "mark".	Will await approval of legislation by OMB before submitting to Congress.
3. Coal Conversion	FEA	Review of testimony and written comments on programmatic Environmental Impact Statement is continuing and expected to be completed by April 18.	Final Environmental Impact Statement to be published April 11. Final regulations expected to be published in Federal Register during the next reporting period.
4. Import Fee Implementation	FEA	On March 4 the President vetoed legislation restricting his authority to raise fees. He has agreed to postpone further increases for 60 days.	Further action will depend on evolving a compromise on the overall energy program.

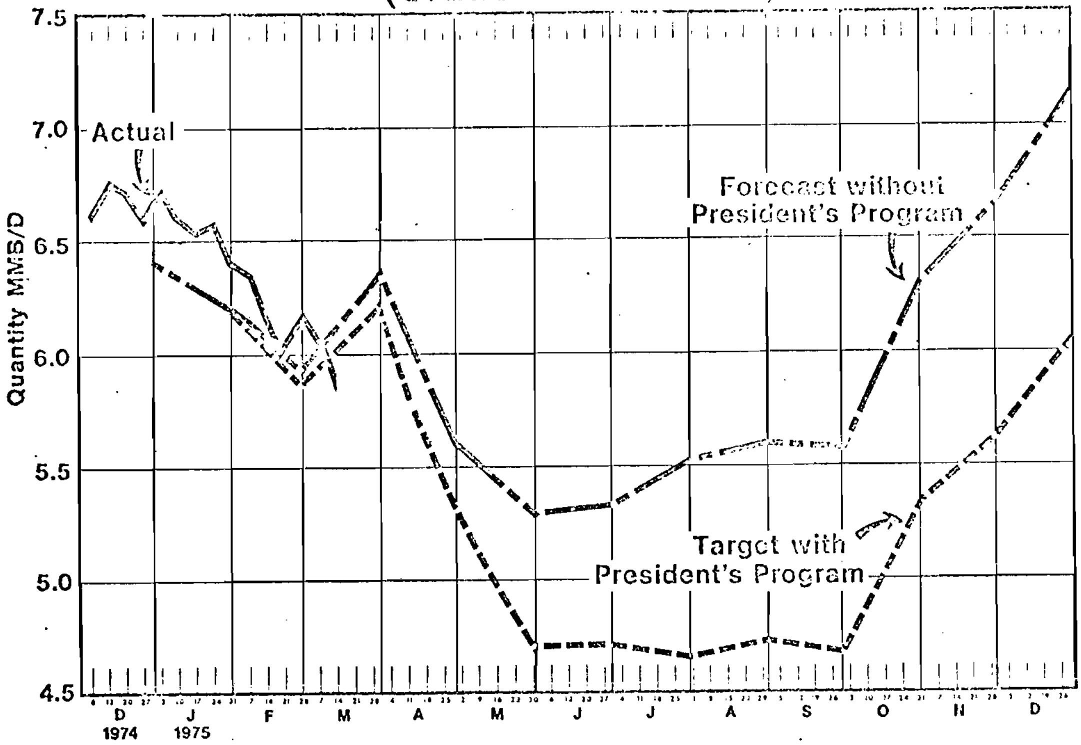
Administrative Activity	Lead Agency	Status	Next Steps
Mid Term Program			
1. OCS Leasing	Interior	Comment period for ban on joint bidding by major oil companies ended March 25. Comments from 12 parties were received. Call for nominations for Mid-Atlantic tracts was issued March 25. Nominations due by June 2.	Comments to be reviewed and issuance of final rulemaking targeted for April 30. ? - Double check with Hemphill!
2. Emission Controls	EPA	EPA Administrator suspended statutory standards for 1977 and set interim standards. New standards through 1982 have been recommended.	Under OMB leadership, papers on air quality, energy impacts, health effects, and economics of EPA recommendations are being prepared. ~~Public hearings co-~~sponsored by FEA, ~~DOT and~~ EPA ~~are likely~~ week of March 31.
3. Auto-Efficiency Agreements	DOT	The four major automobile manufacturers have agreed in principle to the monitoring process.	Quarterly production reports and semi-annual sales reports to be submitted by the manufacturers.
4. Appliance Standards	NBS	Technical meetings have been scheduled to discuss standards for individual appliances.	Draft program on appliance standards is scheduled for publication in the Federal Register by April 30.

Administrative Activity	Lead Agency	Status	Next Steps
5. Emergency Storage	FEA	FEA task force has been organized. Structure of a first phase analysis and specification of data requirements are being formulated.	Prepare Purchase Requests for contract support.
6. Utility Study	FEA	Analysis of financial problems of utilities has been distributed to ERC for comment.	Await ERC recommendation
~~7. Price Floor on Petroleum Imports~~	~~FEA~~	~~Paper being redrafted for FEA.~~	~~Scheduled for entry into issue process March 27, 1975.~~

TAB C

Table 1

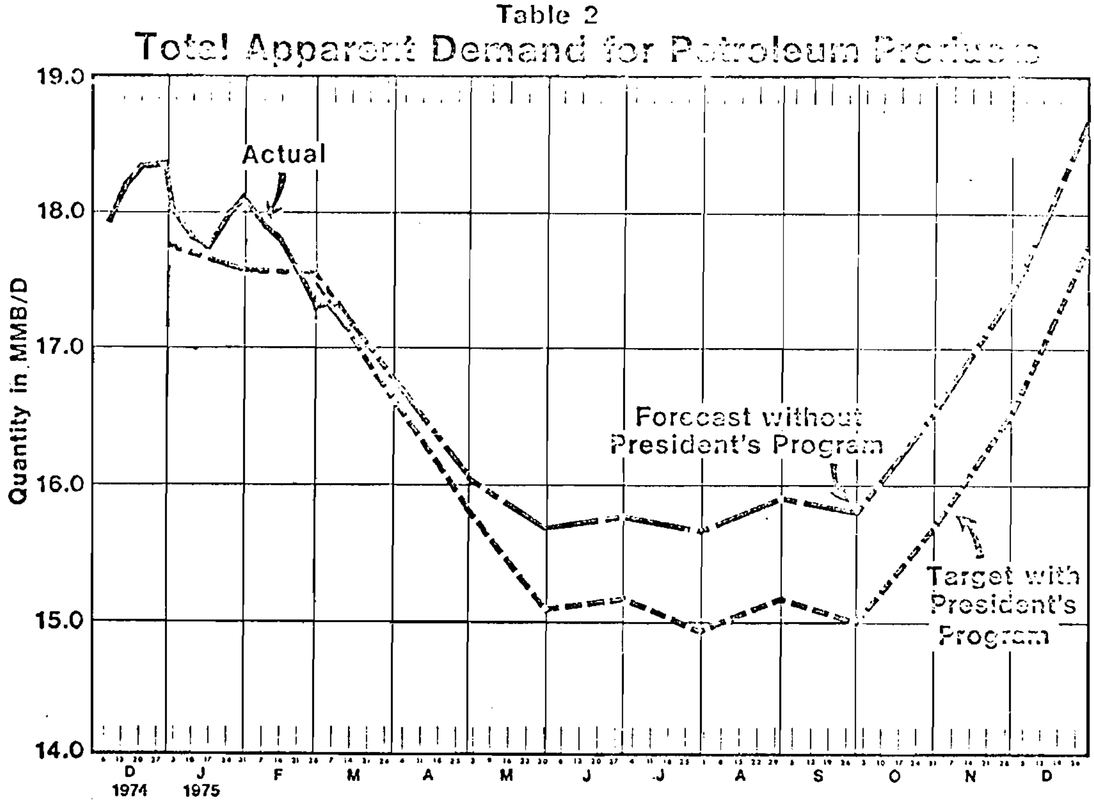
Total U.S. Petroleum Imports
(Crude and Product)



o Imports of crude oil and petroleum products for the four weeks ending March 14 were 5.91 million barrels per day, 110,000 barrels per day below the target of 6.02 million barrels per day.

o At 3.86 million barrels per day, imports of crude continued to comprise about two-thirds of total imports.

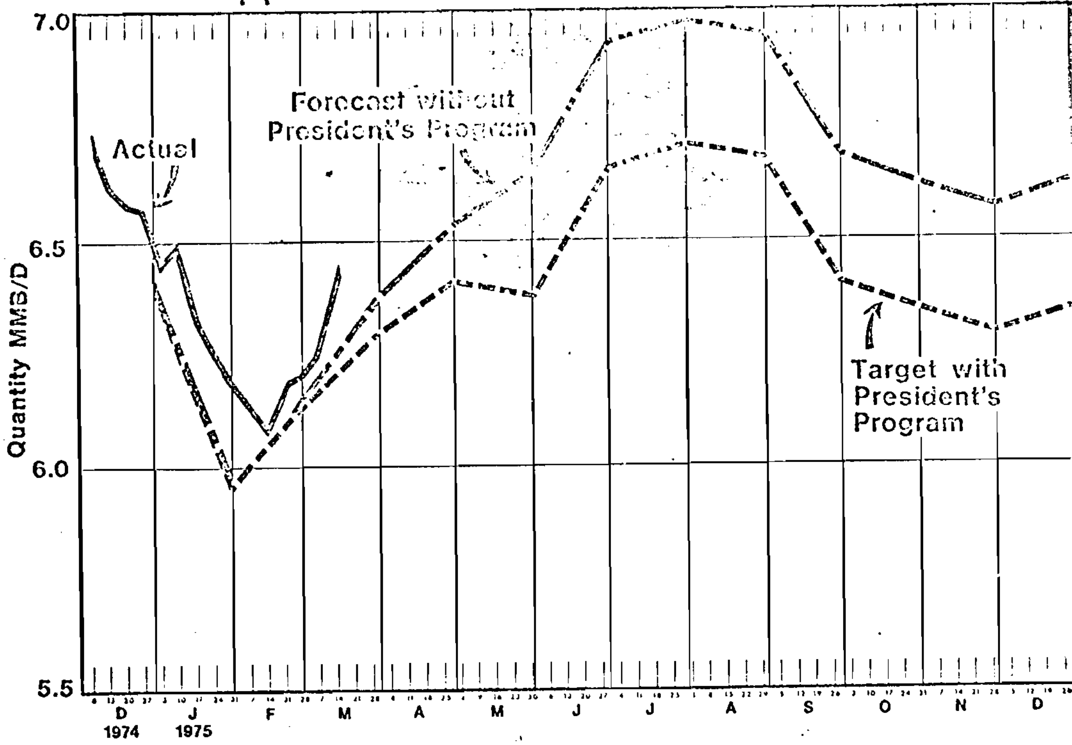
Table 2



- o Total apparent demand during the 4 weeks ending March 14 was 17.18 million barrels per day, essentially equal to the target of 17.14 million barrels per day.

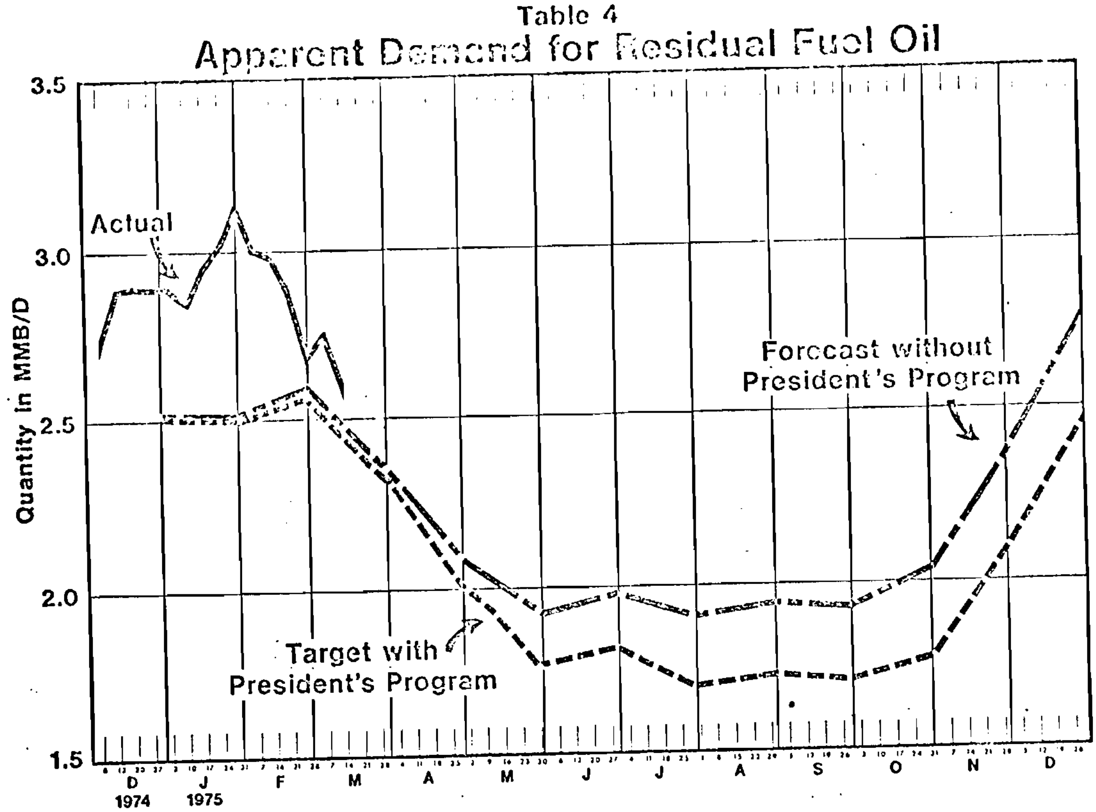
Table 3

Apparent Demand for Motor Gasoline



- Apparent demand for motor gasoline for the four weeks ending March 14 was 6.45 million barrels per day, which is 240,000 barrels per day above the target level of 6.21 million barrels per day.

Table 4

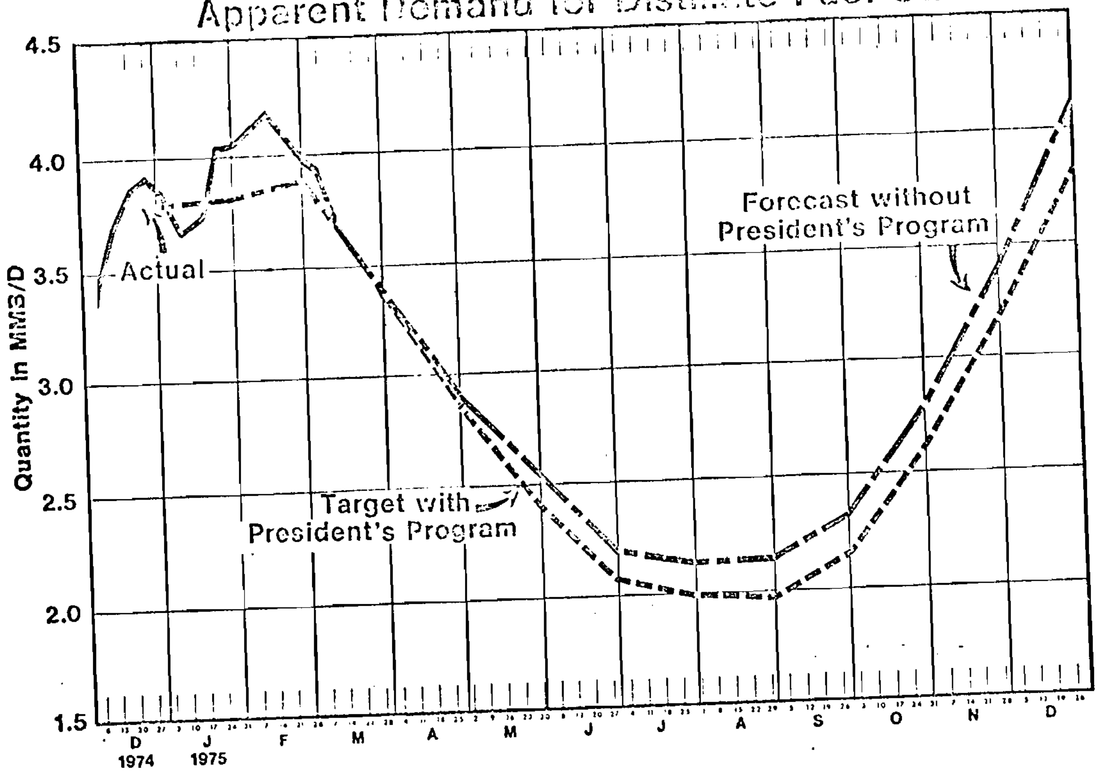


- Apparent demand for the four weeks ending March 14 was 2.60 million barrels per day, which is 140,000 barrels per day above the target of 2.46 million barrels per day.

- Imports of residual fuel oil in February decreased by 219,000 barrels per day from January, a 14.3 percent decrease, and this downward trend continued for the first two weeks in March.

Table 5

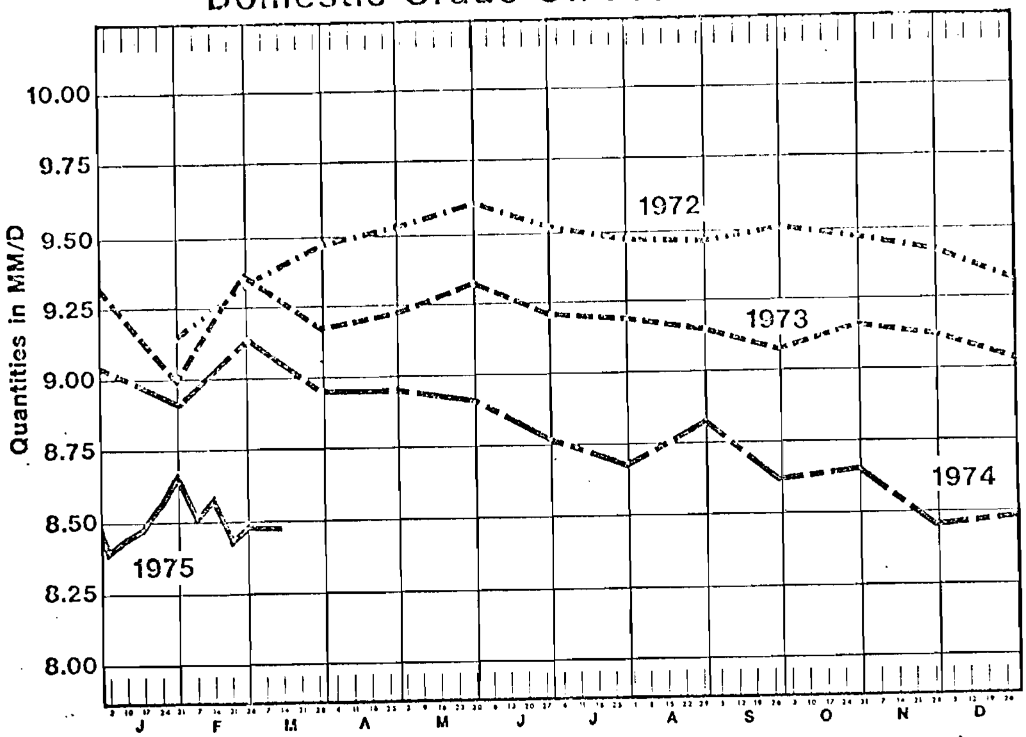
Apparent Demand for Distillate Fuel Oil



- o Apparent demand for distillate fuel oil for the four weeks ending March 14 was 3.71 million barrels per day, roughly equal to the target level of 3.69 million barrels per day.

Table 6

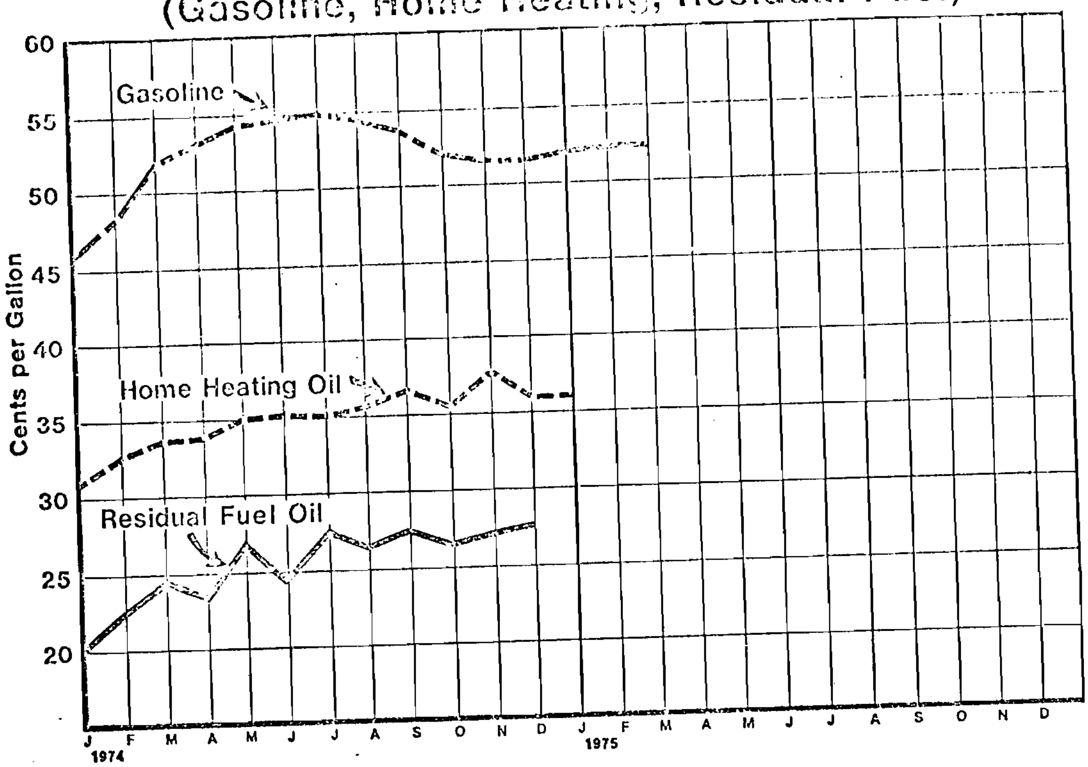
Domestic Crude Oil Production



o Production of crude oil for the four weeks ending March 14, at 8.48 million barrels per day, is 6.1 percent below the same period of 1974 and 9.3 percent below the same period in 1973

Table 7

Retail Prices
(Gasoline, Home Heating, Residual Fuel)

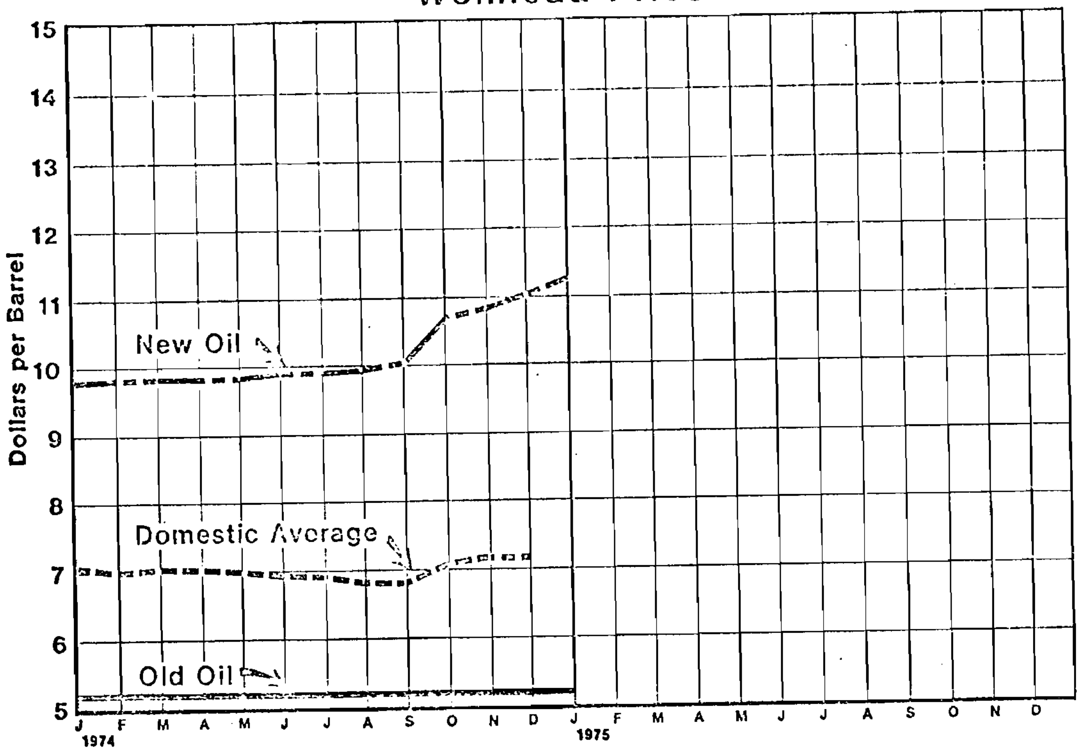


o Gasoline prices during February remained relatively stable, increasing by a mere 0.1 cent per gallon. In January there was a 0.4 cent per gallon increase in the national average price, caused by increases by most of the larger retailers. In February most large retailers held prices steady, but smaller independents raised prices, causing the small increase in the national average.

o The average price of heating oil sold to residential users decreased slightly in January by 0.1 cent per gallon, reflecting ample supplies in the market.

Table 8

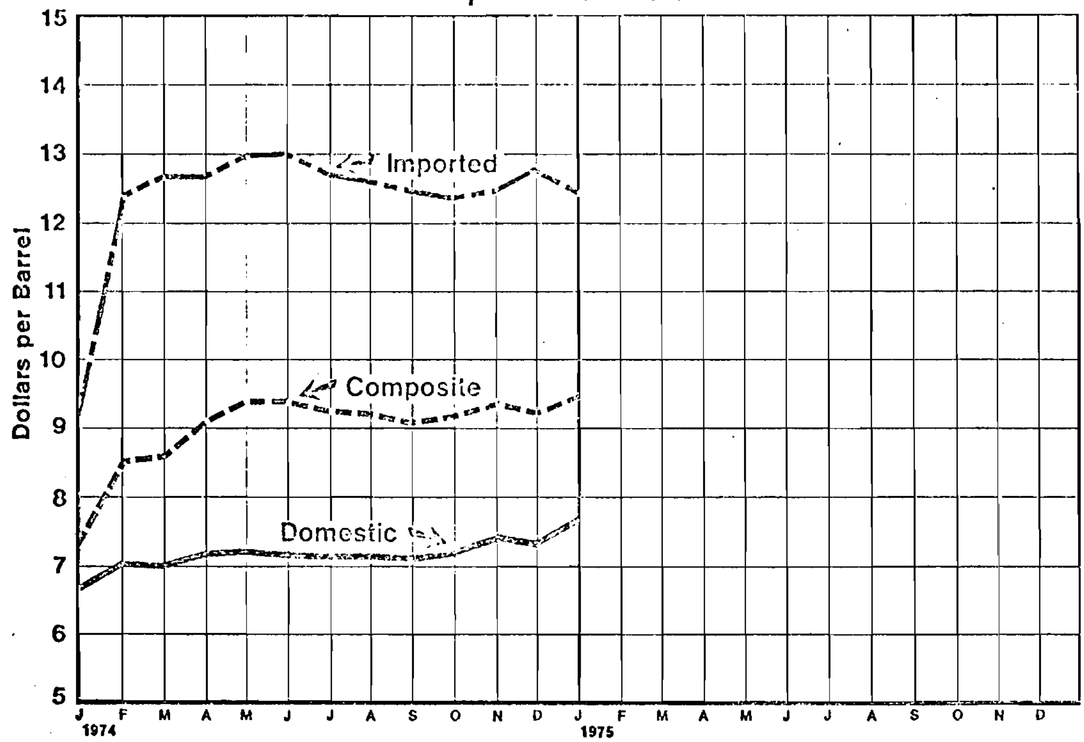
Crude Oil Wellhead Price



o During January prices of uncontrolled oil increased by approximately 20 cents per barrel, continuing the upward trend that began in September. FEA telephone surveys of producers indicate that new oil prices continued to increase through March. The FEA will not know the exact magnitude of the recent increases until final reports are received from producers.

Table 9

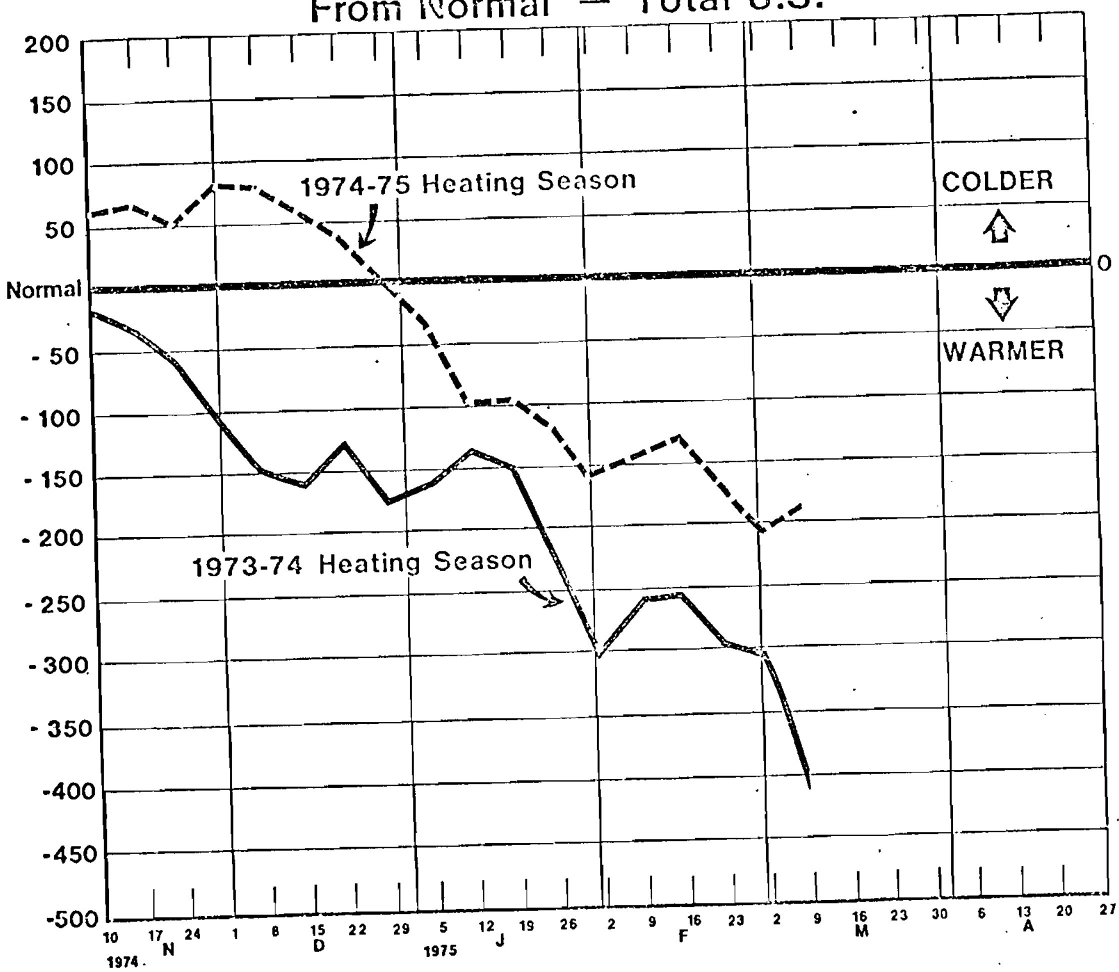
Crude Oil Refiner Acquisition Cost



o The cost of crude petroleum purchased by refiners from domestic producers jumped in January by 31 cents per barrel. There were two reasons for the large increase: (1) Prices for uncontrolled oil rose and (2) the percentage of controlled oil (old oil) declined. The decline in the percentage of old oil was the more important factor.

o The percentage of old oil declined primarily because there was a change in the base production control level used in computing old oil which is the production in the corresponding month of 1972. Since January 1972 production was low compared to December 1972 production, the result is that in January 1975, with about the same total production but with a lower base than for December 1974, there was a smaller percentage of old oil.

Table 10
Departure of Cumulative Distillate Heating Oil Degree-Days From Normal — Total U.S.



o For the 1-week period ended March 9, 1975, the distillate heating oil degree-days for the continental United States are 10.0 percent above normal (colder weather).

o So far in the 1974-75 heating season, distillate heating oil degree-days for the U.S. are 4.6 percent below normal; a year ago, the distillate heating oil degree-days for the 1973-74 heating season were 10.0 percent below normal.

o Through March 9, the West Coast has accumulated less degree-days this heating season than last heating season, while the Rocky Mountain area has accumulated about the same number as the previous heating season and the rest of the Nation has accumulated more degree-days than last heating season. The percentage changes are as follows: +6.1 percent in PAD I (East Coast); +6.7 percent in PAD II (Mid-Continent); +15.3 percent in PAD III (Gulf Coast); no change in PAD IV (Rocky Mountain); and -3.3 percent in PAD V (West Coast).

TAB D

TAB D

- o Bahrain (current production 65 thousand barrels per day) announced that it will take 100 percent (now 60 percent) participation in the Caltex operation, effective immediately. Details must still be worked out.

- o Abu Dhabi settled its dispute with the companies, allowing production to rise from its recent low of 700 thousand barrels per day to 1.5 million barrels per day. The government promised no nationalization above the present 60 percent through 1975, and provided some small price incentives to increase offshore production.

- o Iran and Iraq settled their border dispute and the issue of Iranian support for the Kurdish rebels. Iran gained a small piece of territory which secures the route from its major refining center at Abadan to the Persian Gulf.

- o Total OPEC crude oil production continued a downward trend with the general fall-off in world demand. In February the drop was 1.4 million barrels per day to 26.0 million barrels per day. This amount is 21 percent below the pre-embargo high of September 1973 and 18 percent below the post-embargo high of May 1974. February production is about 68 percent of estimated installed production capacity. Saudi Arabia absorbed most of the fall in February, declining 1.1 million barrels per day. Abu Dhabi's February production was down to about one-half its 1974 average, however, by mid-March production rate was 30 percent higher than that of February.

- o Growing disenchantment with the U.S. dollar spread among OPEC countries in mid-March. Saudi Arabia suspended trading of the Saudi Riyal and Kuwait placed an interim ban on all U.S. dollar transactions. These followed similar actions by Iran in February. All three countries are expected to link their currencies to International Monetary Funds' Special Drawing Rights (SDR) which are valued against a composite of the 16 leading world currencies.

- o Japan's trade ministry (MITI) plans to present legislation to the Diet calling for a $5 billion program to increase oil stockpiles from 60 days supply to 90 days over a 5-year period. Cost of storage maintenance to the industry is estimated to about $1.50 per barrel per year. Objections from citizens groups are expected because of recent tank-farm spills.

- o A group of U.S. companies has been awarded a "production-sharing service contract" covering the offshore area of Syria. The group is composed of subsidiaries of City Investing Co. (40%), American Express Co. (20%), and two small independents, Reserve Oil & Gas Co. (20%) and Tripco Petroleum Co. (20%). This is the first time since the 1950's that a western or U.S. company has concluded a petroleum exploration contract with Syria.

OPEC Countries
Crude Oil Production