The original documents are located in Box 2, folder: "Memoranda to the President, October 1-30, 1975" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OCT 2 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THRU: ROGERS C.B. MORTON

SUBJECT: BIWEEKLY STATUS REPORT

The data in this report have been advanced by one week so that it reflects conditions for the week ending 11 days ago.

For the four-week period ending September 19, imports averaged 6.16 million barrels per day, slightly below last year's 6.19 and 280,000 barrels per day below 1973. Total demand is now running 1 million barrels per day below 1974 and 1.4 million barrels per day below 1973.

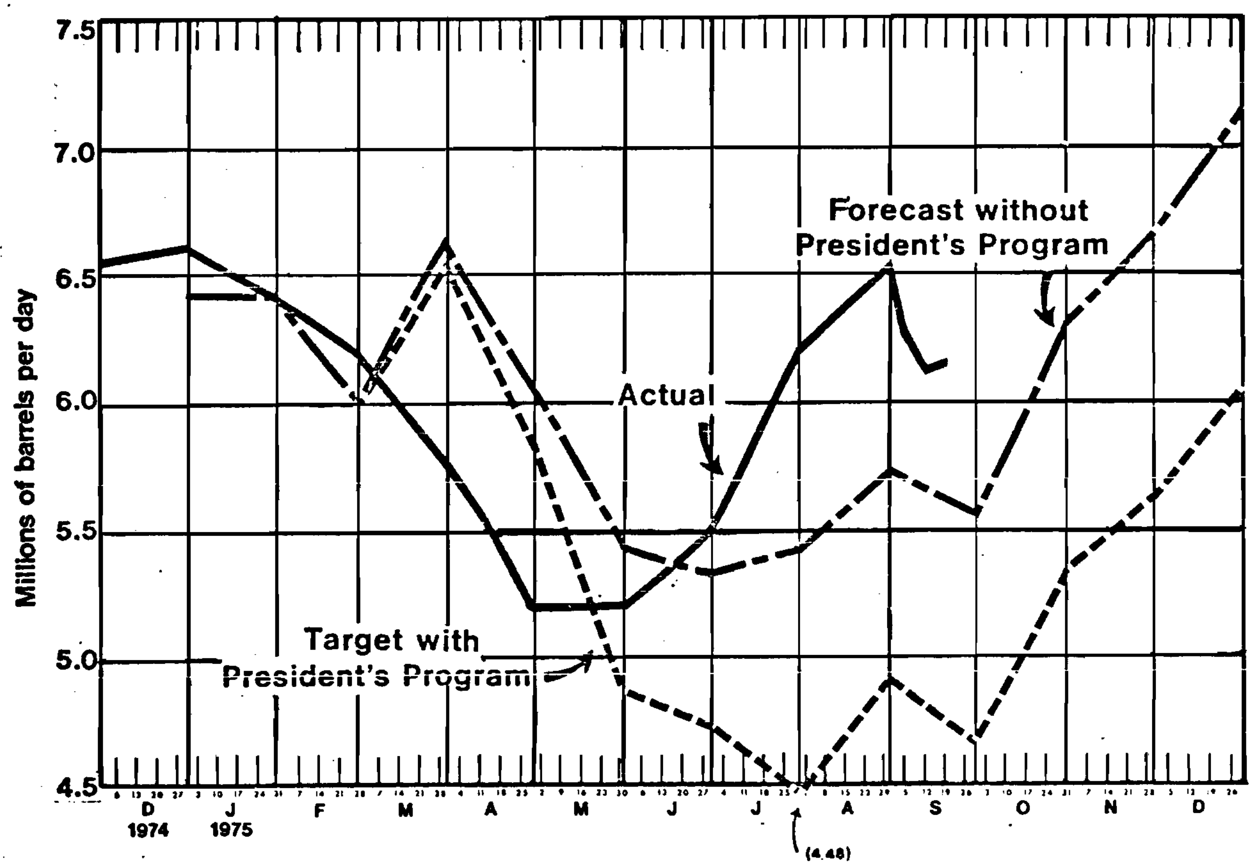
Demand for motor gasoline was about the same as the 1974 level.

Demand for residual fuel oil continues to be well below the levels of the two previous years.

Attachments

Figure 1

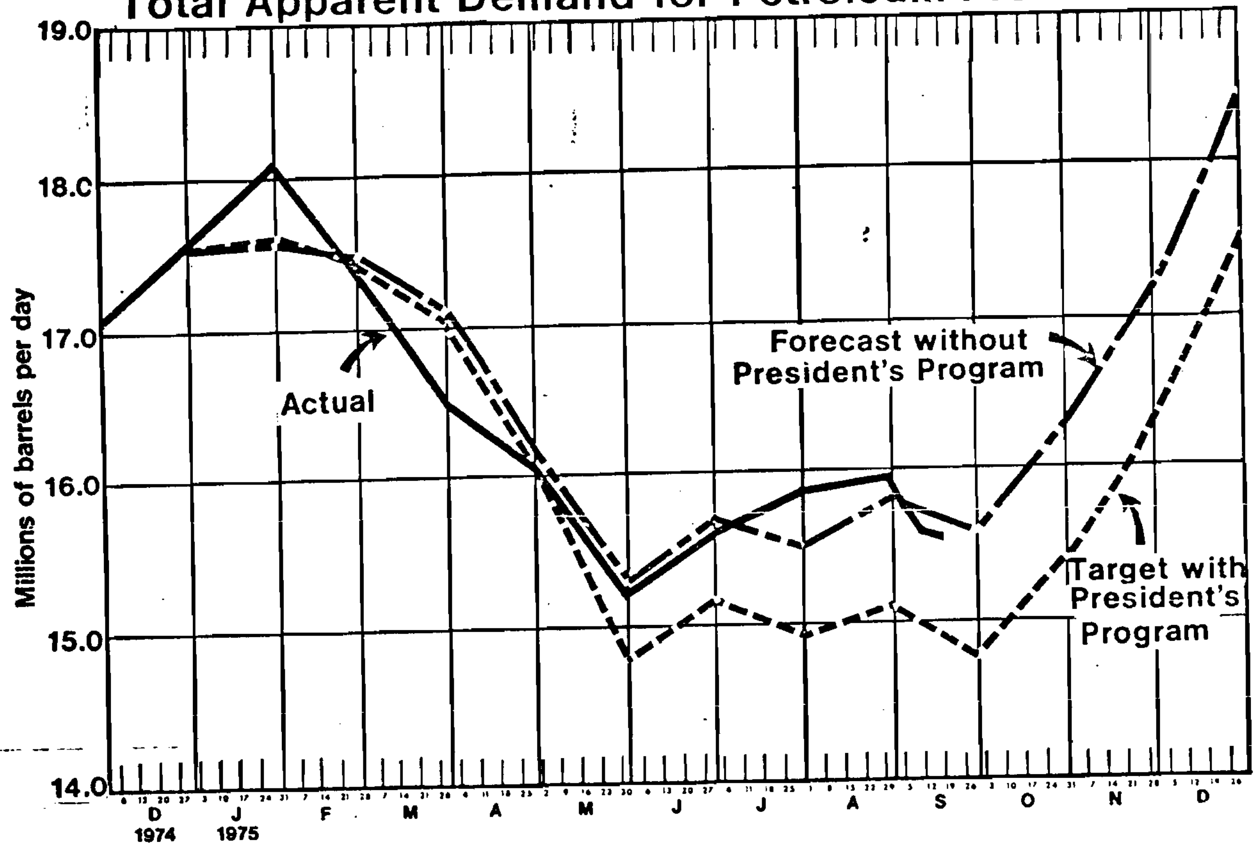
Total U.S. Petroleum Imports (Crude and Product)



o For the 4 weeks ending September 19, total imports averaged 6.16 million barrels per day, or 530,000 barrels per day above the forecast. This was about the same as last year and 280,000 below the 1973 level.

Figure 2

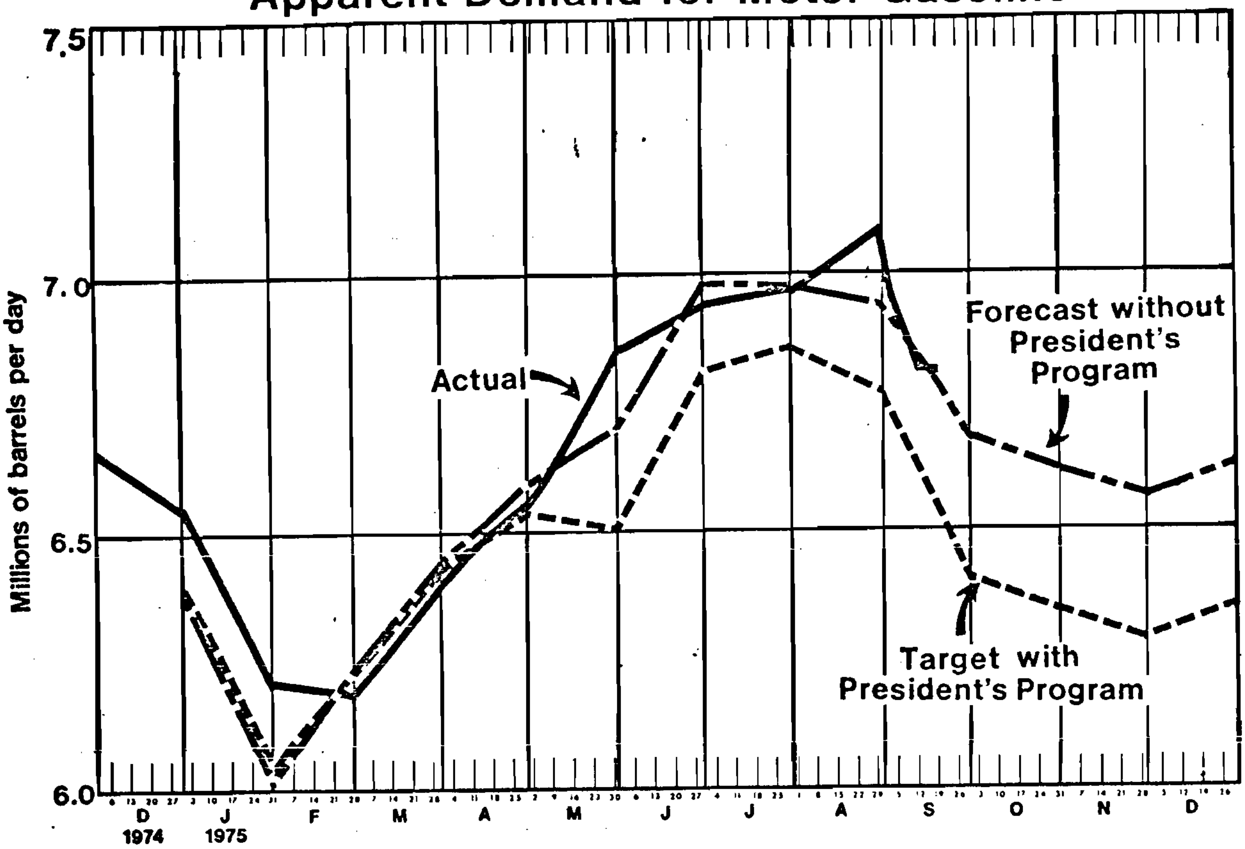
Total Apparent Demand for Petroleum Products



o Total apparent demand during the 4 weeks ending September 19 was 15.57 million barrels per day, 130,000 barrels per day below the forecast, 1,030,000 barrels per day below last year and 1,370,000 below 1973.

Figure 3.

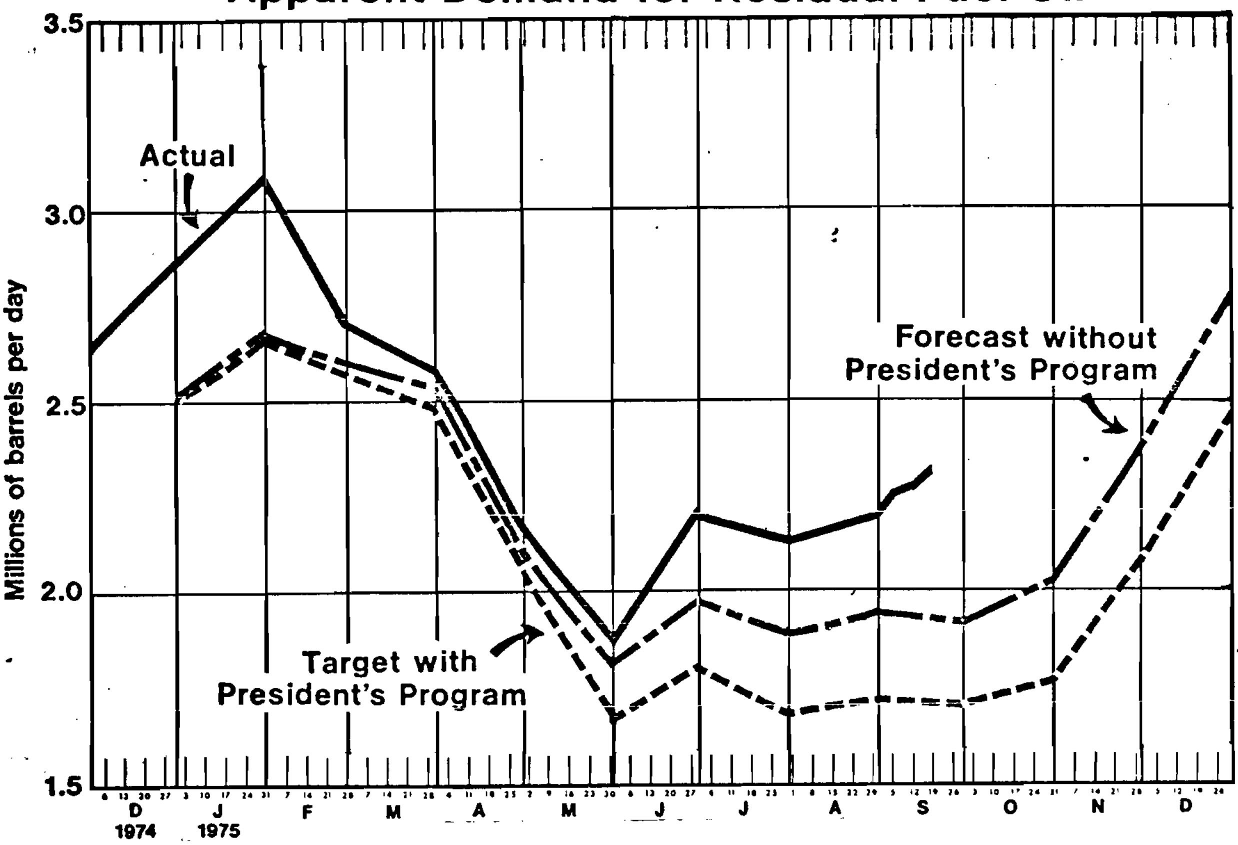
Apparent Demand for Motor Gasoline



- o Apparent demand for motor gasoline in the 4 weeks ending September 19 averaged 6.80 million barrels per day, about the same as both the forecast level and last year's level.

Figure 4

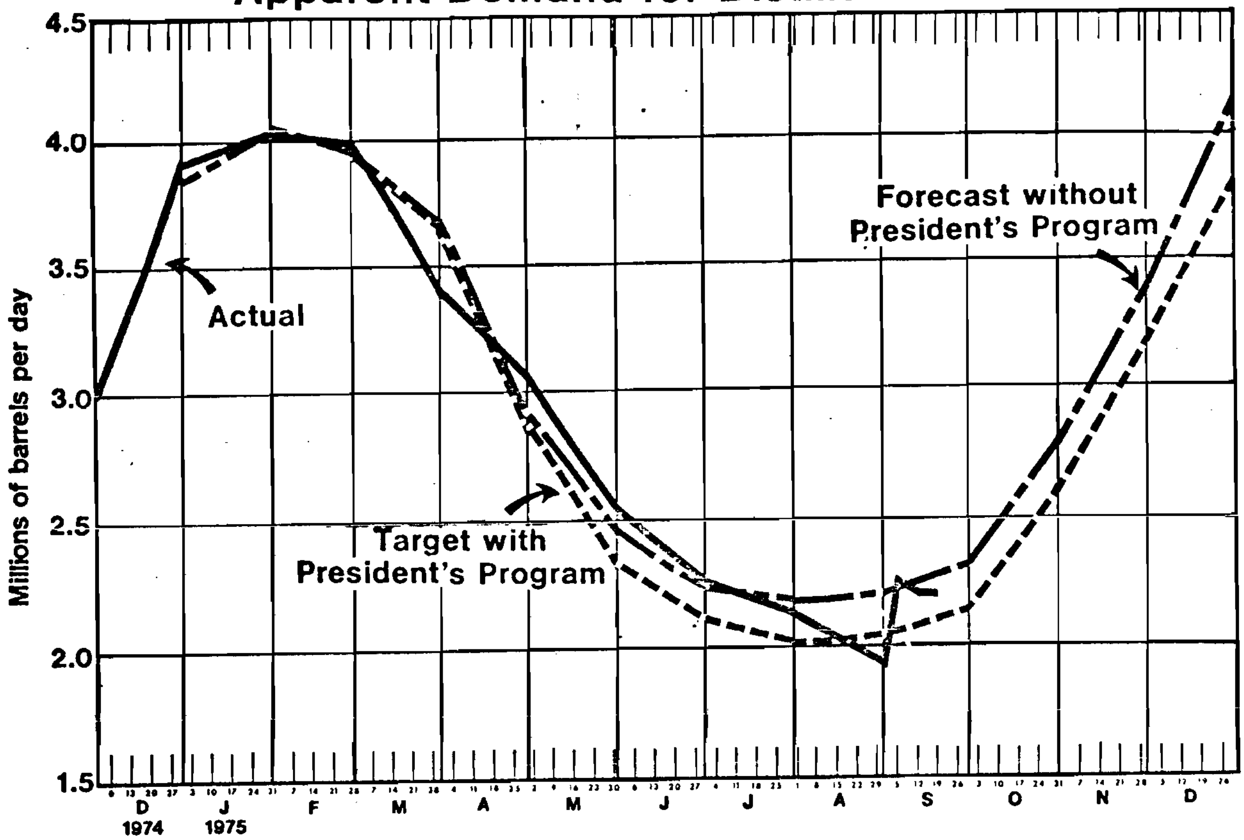
Apparent Demand for Residual Fuel Oil



o For the 4 weeks ending September 19, apparent demand for residual fuel oil was 2.32 million barrels per day. This was 400,000 barrels per day above the forecast, 390,000 below last year, and 240,000 barrels per day below 1973.

Figure 5

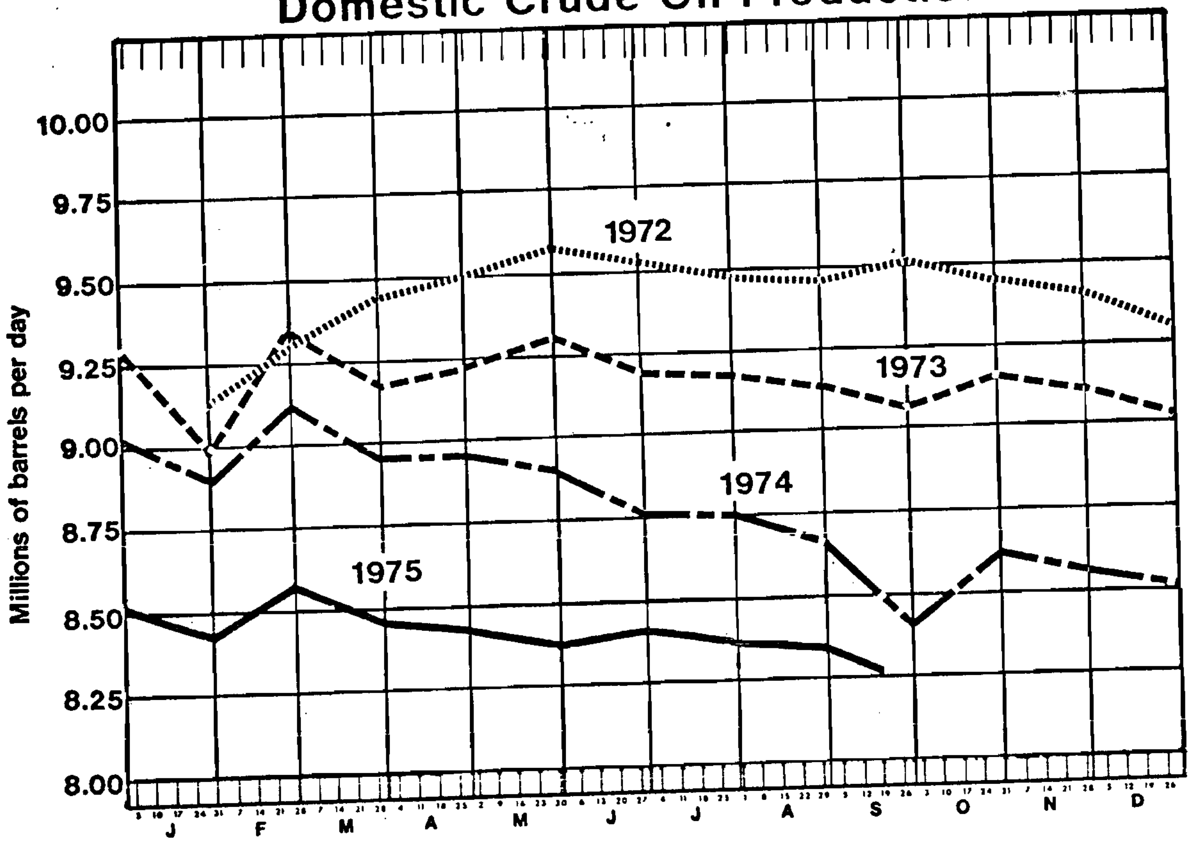
Apparent Demand for Distillate Fuel Oil



o Apparent demand for distillate fuel oil for the 4-week period ending September 19 was 2.22 million barrels per day, 80,000 barrels per day below the forecast and 40,000 barrels per day below last year.

Figure 6

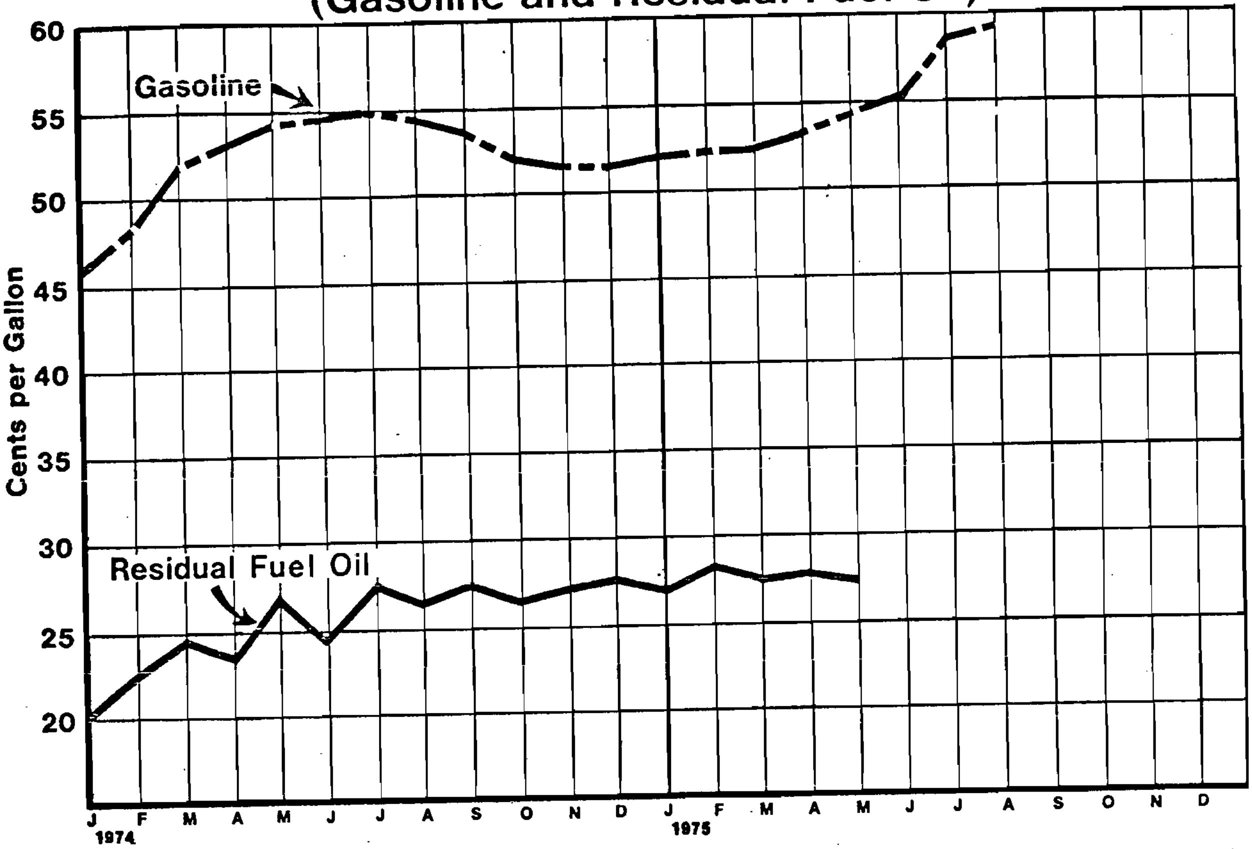
Domestic Crude Oil Production



o Production of crude oil for the 4 weeks ending September 19 was 8.33 million barrels per day, according to API estimates (revised, at FEA's suggestion, since the above graph was prepared.)

Figure 7

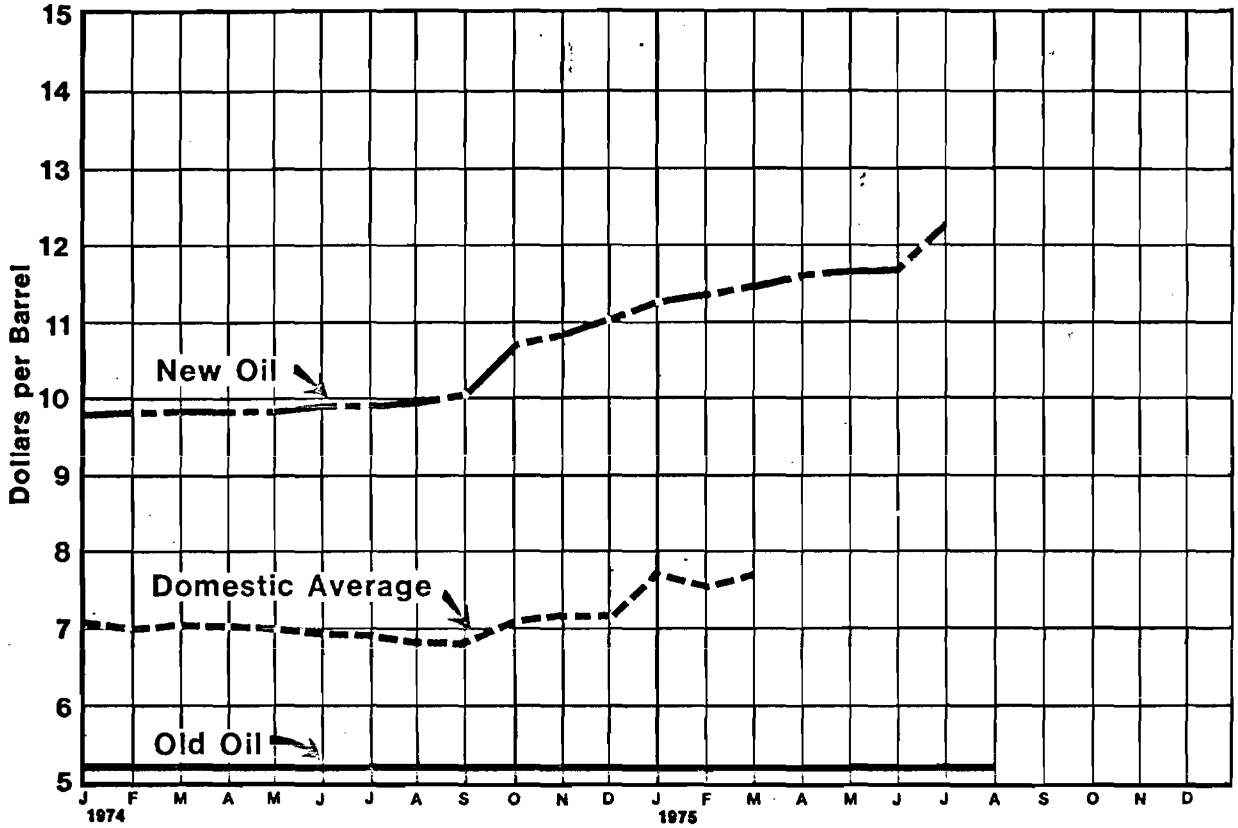
Retail Prices
(Gasoline and Residual Fuel Oil)



- o Regular Gasoline (no new data since last report).
- o Residual Fuel (no new data since last report).

Figure 8

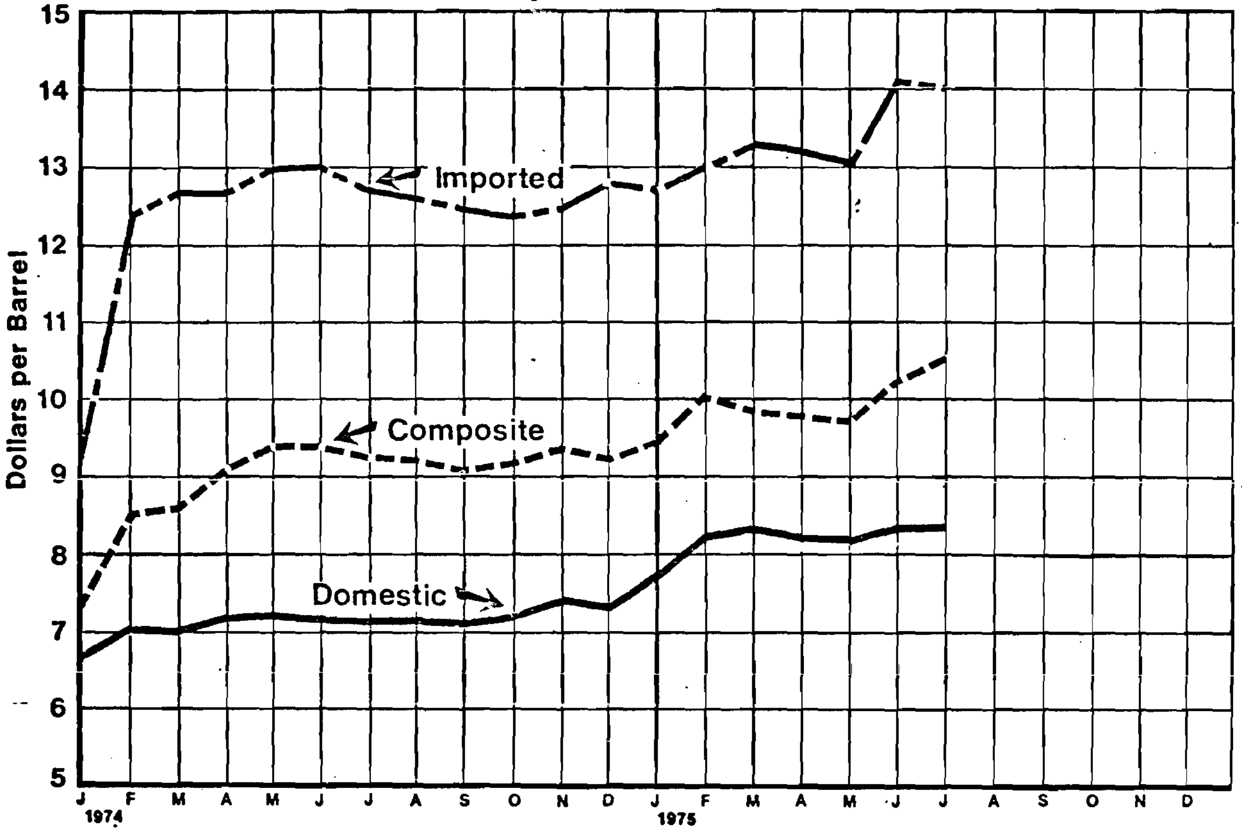
Crude Oil Wellhead Price



- During July the average "new" oil price was $12.30 per barrel, 57 cents above the June price. FEA's new regulation regarding retroactive price increases for new oil helped to delay new oil price increases from June to July. Previously, it had been a normal practice for many refiners to increase new oil prices retroactively; however, many of the retroactive new oil price increases for June which had to be rescinded were implemented in July.

Figure 9

Crude Oil Refiner Acquisition Cost



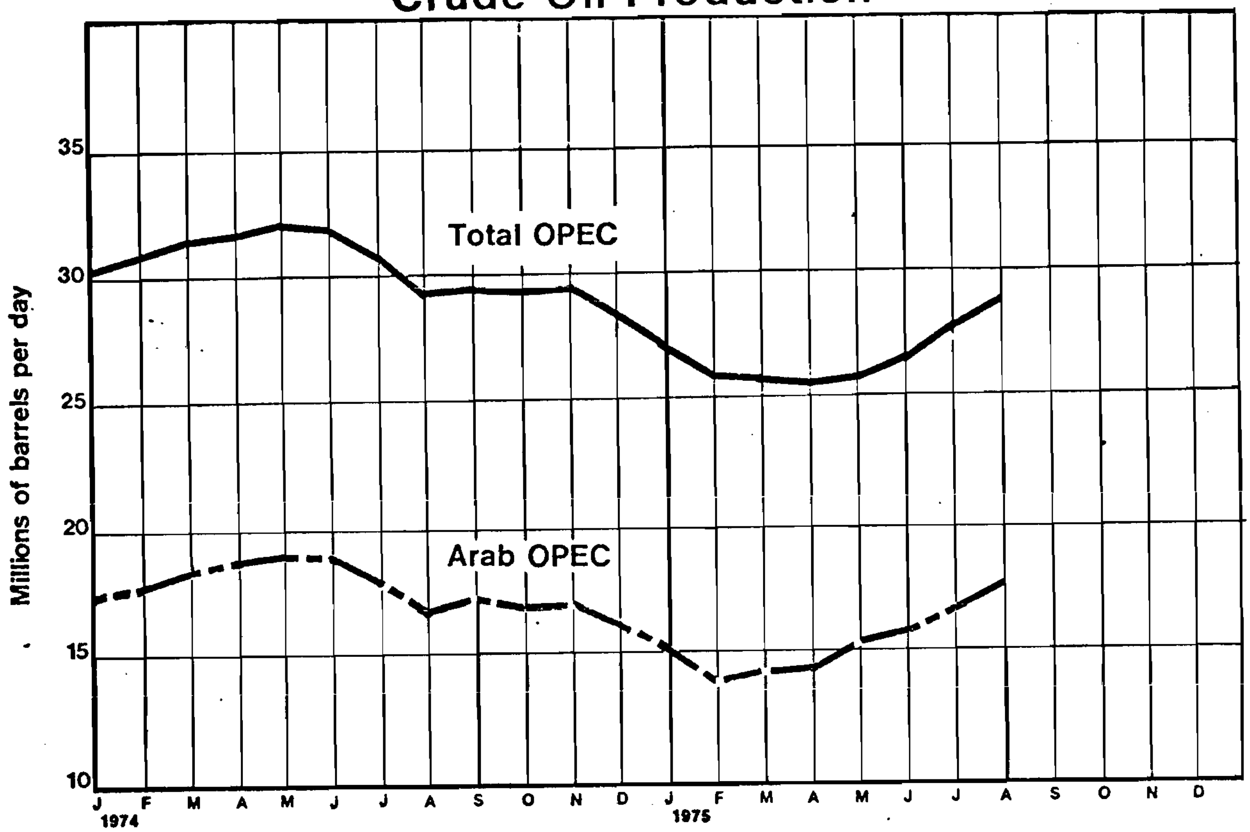
- The preliminary July estimate for the refiner acquisition cost of imported crude was $14.03 per barrel, 12 cents below the June figure. This decrease reflects in large part an increase in the portion of crude oil coming from countries charging relatively lower prices.

- The preliminary estimate for the average cost of domestic crude oil purchased by refiners during July is $8.37 per barrel, 4 cents above the revised June figure.

- The preliminary estimate for the composite cost of crude petroleum purchased by refiners during July was $10.57 per barrel, 24 cents above the revised June figure. Most of this increase was due to greater purchases of foreign crude oil by refiners.

Figure 10

OPEC Countries Crude Oil Production



o Total OPEC crude oil production rose 1.0 million barrels per day (from 27.9 to 28.9 million), with 90 percent of the increase coming from the Arab OPEC countries. This may reflect consumers' desires to stockpile oil prior to an anticipated OPEC price rise.

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries plus estimated refinery gains, plus net imports of products plus or minus net changes in primary stocks of products are used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly figures through August from FEA's Weekly Petroleum Reporting System and Monthly Petroleum Reporting System, and 4-week moving averages from the API Weekly Statistical Bulletin from 4 weeks ending September 5 for figure 1. Demand after August estimated for figures 2, 3, 4, and 5 by FEA primarily from the Bulletin. Figure 6, BOM through June, API monthly July and August, API 4-week moving averages thereafter. Figures 7, 8, 9, and 10 from FEA.

Forecast -- A petroleum product demand forecast is made, based on a projection of the economy, which would occur without the President's program, and on a projection of normal weather. The forecast is periodically revised to take account of actual weather and revised macroeconomic forecasts.

Target -- The Target incorporates reductions in consumption implicit in the President's energy policy, as given in the State of the Union Message. In addition, it is assumed that:

- domestic production increases by 160 MB/D by the end of 1975 due to the development of Elk Hills.
- petroleum demand is reduced by 98 MB/D by the end of 1975 due to switching from oil to coal.
- petroleum demand due to natural gas curtailments ceased after May 1, 1975, due to the deregulation of new natural gas at the wellhead.
- price changes due to the President's policies are held constant in real terms at their May 1975 levels.

Orig. forwarded to Jim Mitchell w/ covering memo dtd 10/3 re: FEA FY 1976 Budget Amendment

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

October 3, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: RESOLUTION OF FEA FY 1976 RESOURCE REQUIREMENTS

Over the past few months the Federal Energy Administration (FEA) has been working with the Office of Management and Budget (OMB) to develop an amendment to the FEA budget for Fiscal Year 1976. With the total cooperation of Jim Lynn's staff, we have resolved virtually all of our staffing and programmatic disagreements. We have, however, one unresolved issue which requires your attention.

This issue relates to the level of effort and degree of coverage needed for a credible compliance program. I have concluded that we need 494 more people for these activities than Jim believes are necessary. Our disagreement centers on the coverage to be achieved. As is shown below, the program I favor would provide substantially broader, more balanced audits of the industry than would be possible with the OMB recommendation which concentrates heavily on the larger companies.

	OMB	FEA
Major Refiners	100%	100%
Small Refiners	20%	60%
NG Liquid Companies	28%	43%
Crude Producers	21%	47%
Wholesalers	11%	23%
Retailers	1.5%	4%

I am convinced that substantially greater coverage of the industry to include small producers is essential, not only because of the need for a credible program but also because of the unique situation that exists today with the oil industry and with our energy policy.

- It is good public policy for the Administration to make clear to the industry and to the American people that it means what it says, and that it will administer and enforce the laws equitably and uniformly. In order to deregulate the oil industry, we must convincingly enforce those laws on the books between 1974 and the present.

- In normal times and under normal conditions it might be appropriate to operate a compliance program with a lower level of effort than I propose. The present situation regarding oil, however, is not normal. Given the oil industry's public image and the Administration's commitment to protect the consumer, extra care must be taken to insure that the compliance program is above reproach. We are facing a skeptical American public and a hostile Congress. Our program must be fully credible to them.

- Decontrol of oil prices will mean higher revenues for the petroleum industry. Given the controversies surrounding the profits of this industry and our decontrol policy, we must round out our policy with a compliance program that will assure the American people that we did not allow the oil industry to take unfair advantage of the embargo and subsequent controls to gouge consumers, and that violators have been detected and punished.

Based on my personal experience with the compliance program at the time of the embargo and a careful review of the program over the past two years, I am satisfied that the level of effort I have requested will give us the capability either to complete our present compliance program or to continue it if controls are extended beyond November 15.

In summary, I am convinced that an effective wrap-up compliance effort is the only way to establish the credibility needed to make our decontrol policy convincing to a skeptical public. Accordingly, I seek approval for my proposed agency ceiling of 3671.

ATTACHMENT:
FEA Personnel Requirements

FEDERAL ENERGY REQUIREMENTS - FY 1976
(PERSONNEL)

	FEA 2nd Appeal	FEA Position	OMB Position
HEADQUARTERS			
Administrator	32	32	32
Management and Administration	313	307	300
General Counsel (non-Regulatory)	64	64	64
Public Affairs	135	118	117
Congressional Affairs	46	43	43
Intergovernmental Regional and Special Programs	35	33	33
Policy and Analysis	430	400	400
Conservation and Environment	222	216	216
Energy Resource Development	240	235	235
Nuclear Energy	21	21	21
Natural Gas Task Force	5	0	0
Utilities Task Force	5	0	0
Regulatory Programs	280	242	186
Operations	(0)	(0)	(0)
Compliance	(176)	(138)	(100)
Regulation Development/Standby	(20)	(20)	(10)
Contingency Planning	(24)	(24)	(24)
Oil Imports	(25)	(25)	(21)
Assistant Administrator and Support	(35)	(35)	(31)
Private Grievances and Redress	46	34	34
General Counsel (Regulatory)	32	30	26
International Energy Affairs	43	43	42
SUBTOTAL HEADQUARTERS	1949	1818	1749

FEA Personnel Requirements Cont'd	FEA 2nd Appeal	FEA Position	OMB Position
REGIONAL OFFICES			
Administrator	40	40	40
Management	240	221	164
General Counsel	74	64	62
Public Affairs	20	10	10
Congressional Affairs	10	10	10
Intergovernmental	20	20	20
Data	10	10	10
Conservation	155	100	100
Resource Development	85	70	70
Allocation	0	0	0
Compliance	1636	1286	929
Private Grievances and Redress	36	22	13
SUBTOTAL REGIONAL OFFICES	2326	1853	1428
FEA TOTAL	4275	3671	3177

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

October 3, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: REMAINING ENERGY INDEPENDENCE AUTHORITY ISSUES

Clearance of the draft bill authorizing the Energy Independence Authority during the OMB interagency review has revealed a few remaining major issues. Your guidance on these issues is necessary in order to complete the legislation and transmit the bill to the Congress in the next few days.

ISSUE 1: To what extent should the Davis-Bacon Act apply to projects undertaken or funded by the EIA?

The Davis-Bacon Act requires bidders for Federal public works projects to pay laborers and mechanics wages certified by the Secretary of Labor as equal to or greater than the prevailing rates in the relevant geographic area.

Option 1. Exempt the Authority entirely from the Davis-Bacon Act.

Pros:

- Would avoid additional Federal intrusion in the private sector with a Federal wage setting procedure criticized by many for its effects.
- Would leave the Authority's actions more analogous to that of a private corporation, whose functions are not subject to this requirement.
- Would facilitate joint financing with the private sector.
- The EIA is designed to be exempt from other Federal constraints related to public buildings and contracts.

Cons:

- Would be perceived politically as anti-labor.

- Since Federal financial assistance is involved, the rationale for the Davis-Bacon Act itself would be relevant to the Authority's operations.

- The proposal was announced before the Construction Trades Meeting and billed as a positive action towards labor.

Option 2. Provide that the Davis-Bacon Act would apply to the operations of the Authority (e.g., when it constructs a facility itself with a view to its lease or sale after construction), but the Davis-Bacon Act would not apply when the only Federal involvement is financial assistance (loans or loan guarantees) made to the private sector.

Pros:

- Would be a more modest extension of the current Federal law.

- Would not create a disincentive to private sector participation in loans and loan guarantees.

- Would be some movement to a pro-labor position.

- There is precedent for a similar provision in the General Revenue Sharing Act under which Davis-Bacon applies to operations and to financing when the Federal participation is greater than 25 percent.

Cons:

- Would not be as attractive politically to labor as a complete Davis-Bacon application.

- Would be some restriction on the latitude available to the Authority, in contrast to the absence of such a requirement with respect to private corporations.

- Would probably be extended to complete coverage by the Congress anyway.

Option 3. Include a provision in the bill stating affirmatively that the Davis-Bacon Act procedures apply to any financial assistance or other actions taken by the Authority.

Pros:

- Would be the most pro-labor politically, considerably extending the reach of the current Federal law.
- With only minor exceptions, the Davis-Bacon Act always applies fully when mentioned in a statute.
- Would assure that Federal financing is not provided for projects in which laborers are paid unconscionably low wages.
- Would give the Administration credit for what the Congress will almost certainly do anyway.

Cons:

- Could be a considerable disincentive to the private sector for participation in the financial assistance provided by the Authority.
- Would be a substantial extension of a controversial Federal law into new private sector areas.
- Would be inconsistent with the concept that the Authority would generally have the same investment latitude as a private corporation.

Decision

______ Option 1 recommended by: Simon, Greenspan

______ Option 2 recommended by: Morton

______ Option 3 recommended by: Vice President, Zarb, Lynn, Train, Dunlop, Seidman

ISSUE 2: Inclusion of conservation in the scope of EIA projects.

Some of your advisors continue to strongly support the addition of conservation in the EIA's scope. There are several possible ways conservation can be included:

<u>Option 1</u>. Authorize EIA to support any conservation project meeting the general EIA conditions for financial assistance such as the inability to obtain credit elsewhere, direct relationships and significant contribution to energy independence.

<u>Pros</u>:

- Broadest flexibility for EIA.

- Potential for significant energy savings.

- Would be politically popular and will probably be added by the Congress anyway so the Administration should get the credit.

<u>Cons</u>:

- Could involve a substantial portion of EIA resources.

- May be further broadened by the Congress if the legislation starts out with such flexibility.

- Could further expand EIA's intrusion into and competition with the private sector, because all industrial sectors (e.g., processes to improve efficiency of steel production) are included.

<u>Option 2</u>. Authorize EIA support for only those projects that increase efficiency of energy use and production of energy and that involve only few technologies not yet commercially proven.

<u>Pros</u>:

- Limits scope to new technologies.

- Would enable assistance to be provided for such projects as commercialization of new more efficient engines, self-contained decentralized utilities system, fluidizied bed boilers, and possibly rail electrification.

- Avoids competition with all existing industrial sectors.

- Would be politically popular.

Cons:

- Could result in some additional competition with the private sector, such as in the production of new automobile engines.

- Will probably be broadened by the Congress anyway.

Option 3. Limit eligibility to those projects which increase efficiency of electricity generation or use.

Pros:

- Narrows authority to projects with the biggest near-term payoff and could result in substantial energy savings.

- Limits interference with industrial and transportation sector.

- Could support such projects as purchase by utilities of electrical storage systems, load control systems, time of day meters, or heat pumps; could also allow for rail electrification since most freight operations could be conducted in off-peak electrical periods.

Cons:

- No logical reason to restrict conservation to electric utilities.

- More flexible than allowing no conservation measures.

- Avoids known area of potential energy savings.

- Will not be as politically popular as Option 2.

Option 4. Exclude energy conservation from EIA scope.

Pros:

- Limits EIA's scope.

- Lessens competition with private sector.

Cons:

- Would be politically unpopular and would probably be added by the Congress.

- Eliminates a major contribution towards energy independence from EIA.

Decision

______ Option 1 recommended by: Vice President, Train, Coleman

______ Option 2 recommended by: Morton, Zarb, Greenspan, Seidman

______ Option 3 recommended by:

______ Option 4 recommended by: Simon, Lynn

ISSUE 3. Inclusion of transportation facilities other than pipelines in EIA's scope.

Although this issue has been brought to your attention before, Secretary Coleman feels strongly that all transportation facilities meeting the general conditions for EIA assistance be included.

Option 1. Include individual transportation or transmission facilities either wholly or substantially dedicated to the movement of energy.

Pros:

- By providing assistance only to pipelines, the EIA may tilt coal transportation decisions to slurry pipelines rather than railroad or other decisions away from waterways.

- Limits intrusion in the transportation sector.

- Providing assistance only to pipelines may shift present modes of coal transportation and add to current difficulties of railroads.

- No logical reasons for limiting to pipelines.

Cons:

- Further expansion of EIA's scope.

- There are other Federal programs available or proposed for railroads, although they may not be adequate.

- If EIA finances a production facility, related transportation facilities may be financable by the private sector.

Option 2. Limit transportation facilities to pipelines.

Pros and cons are the mirror arguments as in Option 1. Further, if this option is chosen, the pipelines under EIA's jurisdiction should be limited to major oil and gas pipelines that meet the other conditions for investment. Such a limitation would reduce unfair advantages for coal slurry pipelines over railroads.

Decision

______ Option 1 recommended by: Vice President, Morton, Zarb, Train, Coleman, Seidman

______ Option 2 recommended by: Simon, Greenspan, Lynn

ISSUE 4: Restrictions on investment turnover.

As currently drafted, the bill would permit the Authority to turn over its portfolio, realizing the proceeds of projects no longer financed by it and reinvesting in other eligible energy projects during its seven-year operating period. In effect, this could allow the Authority to invest in substantially more than $100 billion of projects over its lifetime.

There is disagreement as to whether the $100 billion available to the Authority for financial assistance should be "frozen," so as to only allow $100 billion of investment, or permit the Authority to dispose of assets and reinvest the proceeds in other projects during its seven years of financial activity.

Option 1. Permit the Authority to "roll over" its portfolio without restriction.

Pros:

- Would afford great flexibility to the Authority in managing its investments, particularly in providing interim financing.
- Would provide an incentive for the rapid transfer from public to private capitalization, which is one of the key objectives of the Authority.
- Would provide the Board of Directors the flexibility necessary to make a greater energy impact.

Cons:

- Despite the initial $100 billion figure, the extent of the Authority's leverage in the private sector could be significantly greater.

- The prospect of increasing the value of the portfolio by rolling over the Authority's investments might induce financing of lower-risk projects most likely to provide a return and be financed by the private sector.

- Effect of EIA on capital markets would be more difficult to measure as EIA could invest an inderminate amount.

Option 2. Limit EIA's ability to "roll-over" its portfolio.

Under this option, the Authority would be able to liquidate its investments but not reinvest them. However, any gains realized on liquidation could be used to offset losses. Also require that any funds left after establishing reserves for anticipated losses must be returned to the Treasury to retire the Authority's outstanding debt and equity.

Pros:

- Assures that the total investment in energy projects does not exceed the $100 billion ceiling.

- Provides some incentive for the Authority to liquidate profitable operations early to offset expected losses.

- No incentive to purchase less risky and easily marketable securities.

Cons:

- Does not provide the degree of flexibility that would be available to a private corporation to get more leverage.

- Reduces the potential leverage available to the Authority to accelerate capital investment in energy projects.

- May distort investment decisions.

Decision

______ Option 1 recommended by: Vice President

______ Option 2 recommended by: Morton, Zarb, Train, Greenspan, Simon, Lynn, Seidman

After you make these decisions, our plans are to have the legislation ready for transmittal to the Congress by Tuesday morning. We will check with you on our plans for press, Congressional, and other briefings.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

October 9, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

The attached study on public views concerning energy seem to support the conclusion that the views of Congress have not yet caught up with the thinking of the people.

Attachment

11/14 - to Carol
* Called Ofc of Stat Anal at 143 for pickup.
Picked up by Dean McShuder

FEDERAL ENERGY ADMINISTRATION
OCT 14 1975

Office of the Administrator

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

THRU: ROGERS C.B. MORTON

SUBJECT: BIWEEKLY STATUS REPORT

For the four-week period ending October 3, petroleum imports averaged 6.44 million barrels per day, 170,000 barrels per day less than last year and 190,000 below the 1973 level for the same period. Total demand is now running 1.2 million barrels per day below 1974 and 1.7 million barrels less than in 1973.

Domestic crude oil production averaged 8.34 million barrels a day for the four weeks ending October 3, four percent below production in September 1974. The data plotted in figure 6 suggest that the rate at which domestic production is declining may be slowing down.

Attachment

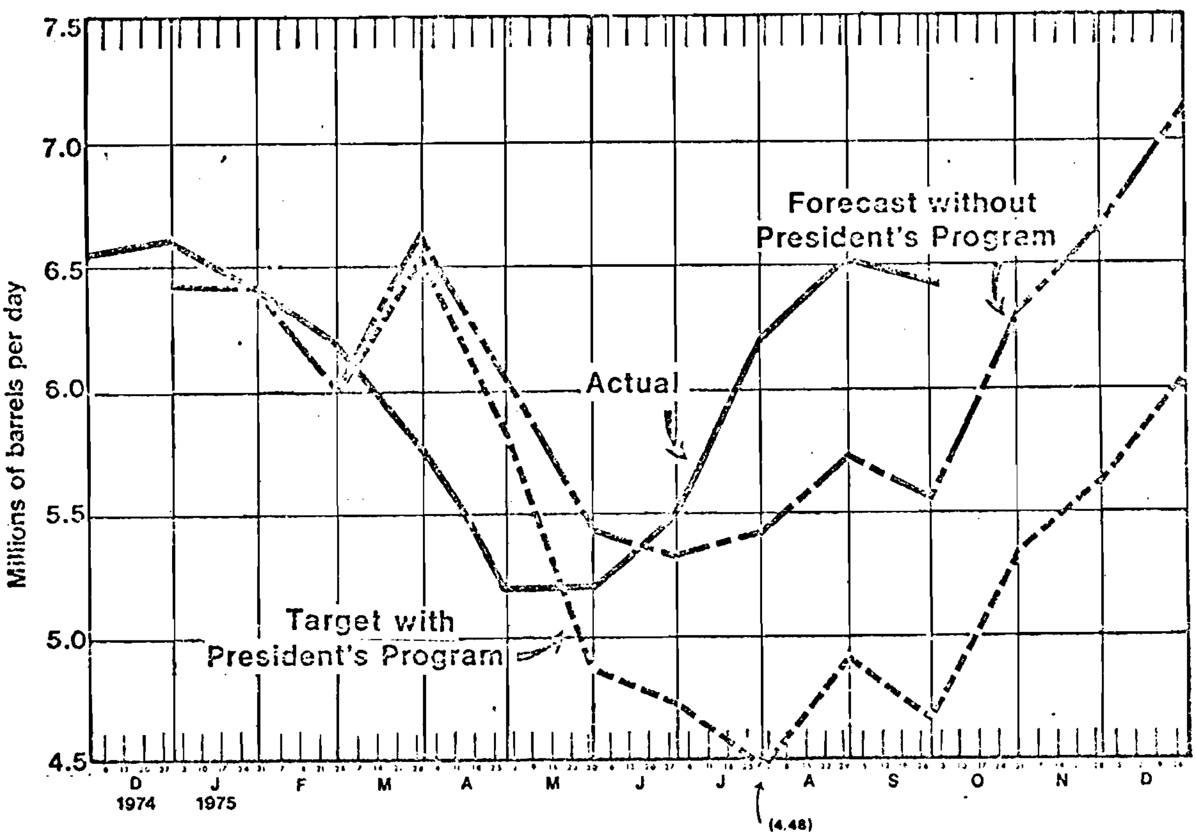
P:OSA:O&GS:CJDwyer:jmr:Rm8202P, x48705,20/M:10-10-75
cc: Official
Chron
Zausner
Rathbun
Curtis OSA Chron

	CONCURRENCES							
SYMBOL	PtA							
SURNAME	CJR		Sm					
DATE	10/10/75		10.14	10/14	10/14			

FEA-F-47 GPO 882-088 OFFICIAL FILE COPY

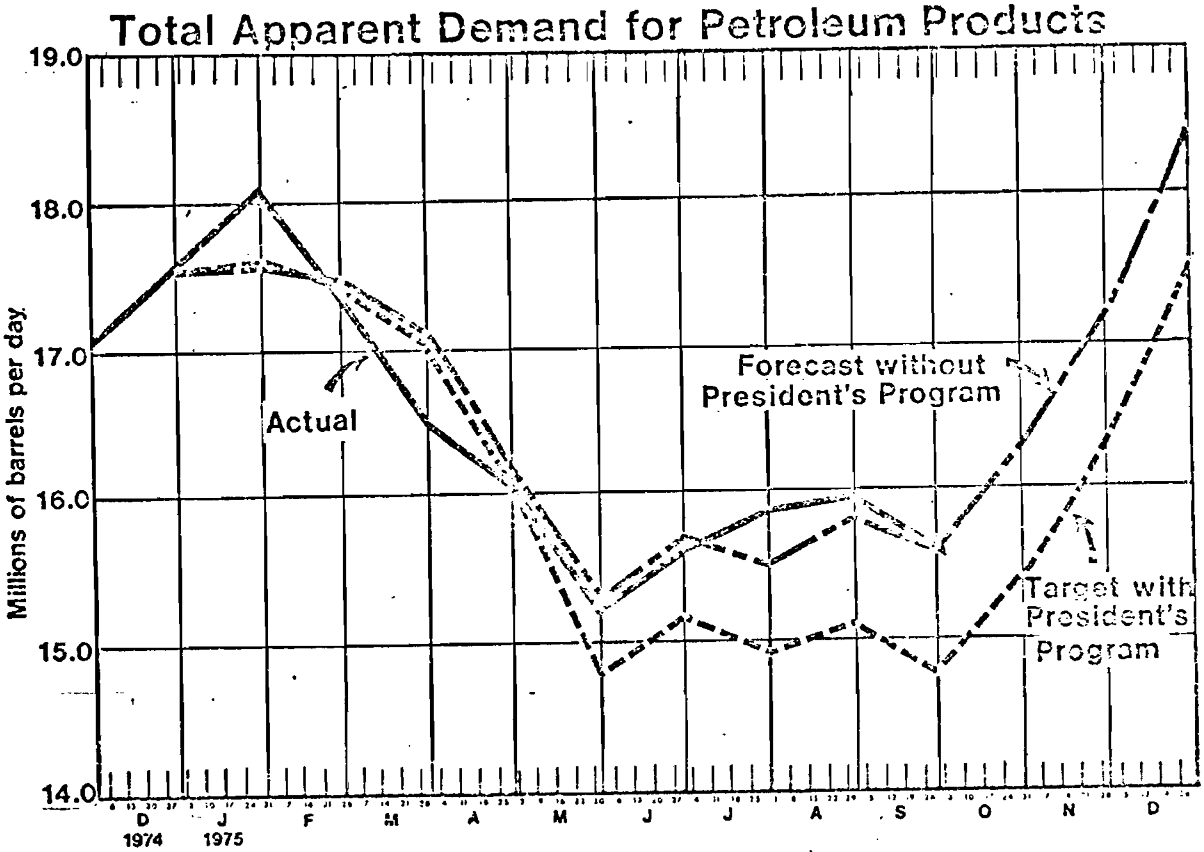
Figure 1

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



o For the 4 weeks ending October 3, total imports averaged 6.44 million barrels per day. This was 170,000 barrels per day above the 1974 level, but 190,000 below 1973.

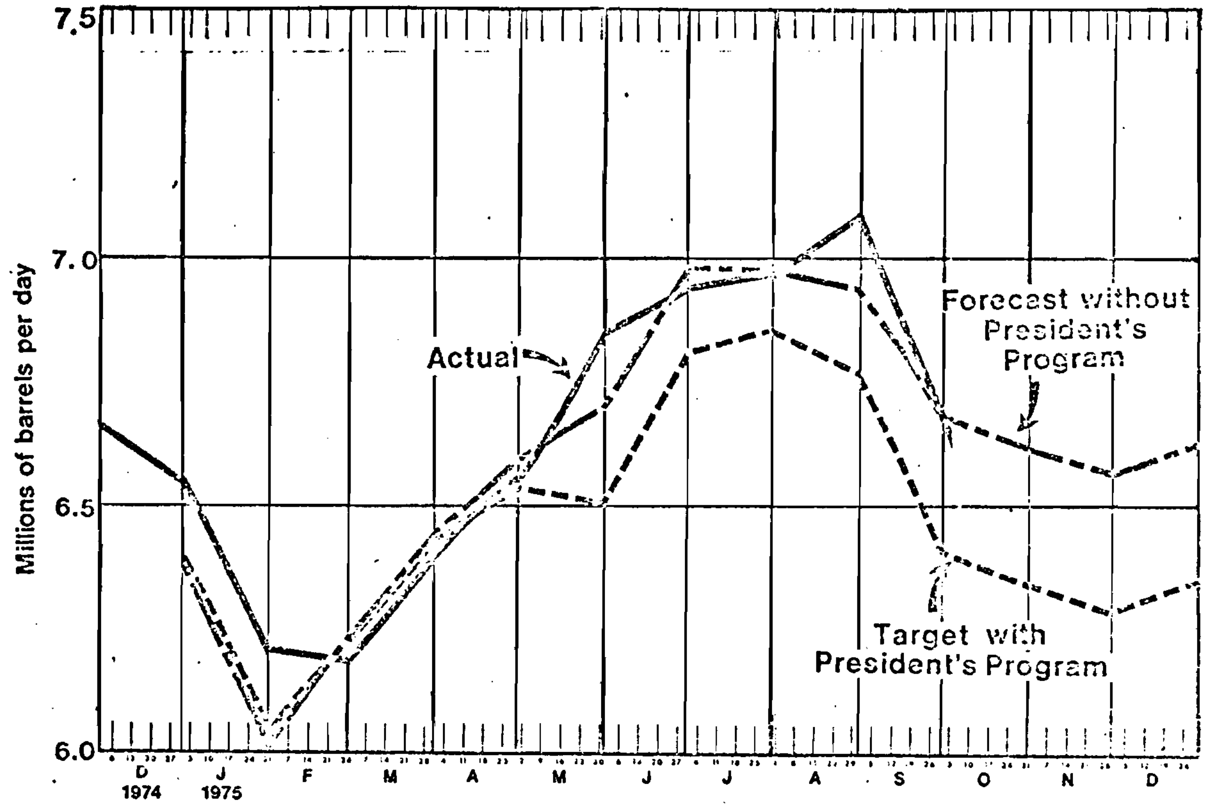
Figure 2



o Total apparent demand during the 4 weeks ending October 3 was 15.59 million barrels per day, 1,210,000 barrels per day below last year and 1,710,000 below 1973.

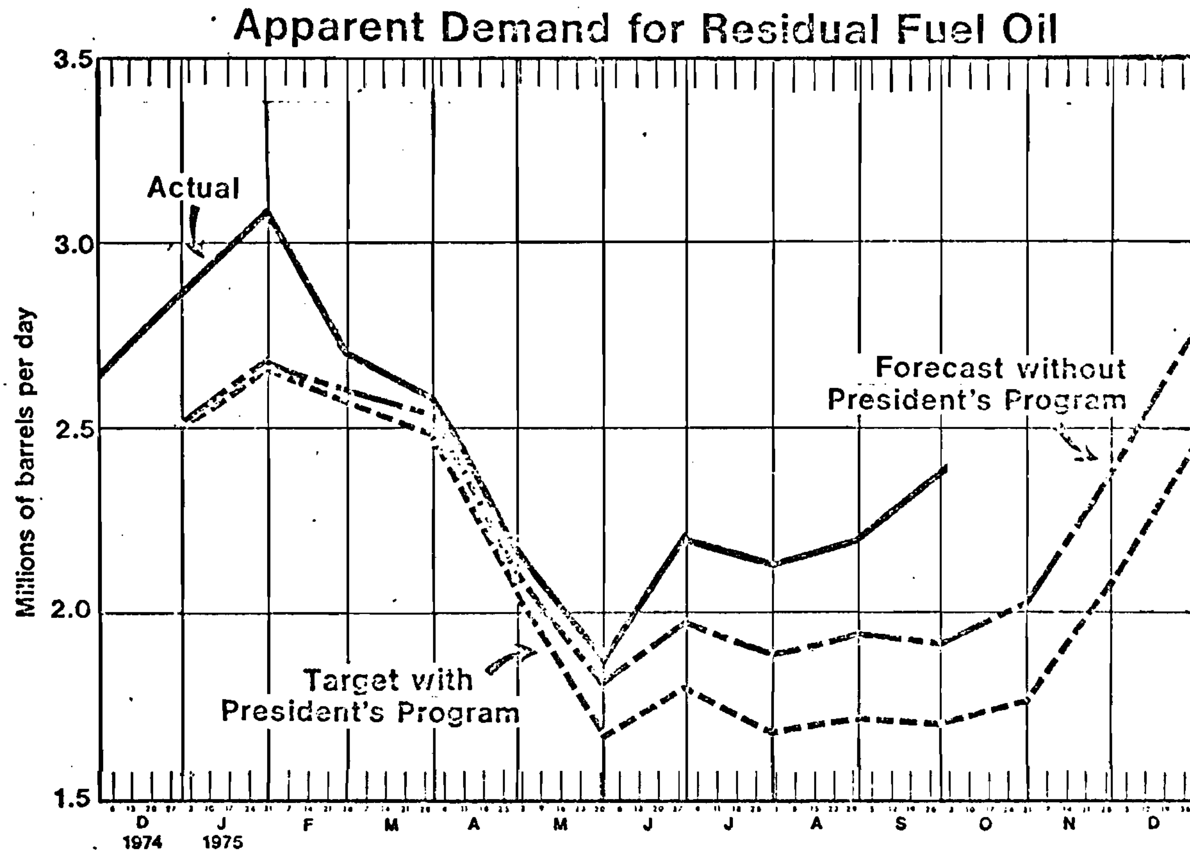
Figure 3

Apparent Demand for Motor Gasoline



o Apparent demand for motor gasoline in the 4 weeks ending October 3 averaged 6.64 million barrels per day, about the same as last year, and 100,000 barrels per day below 1973.

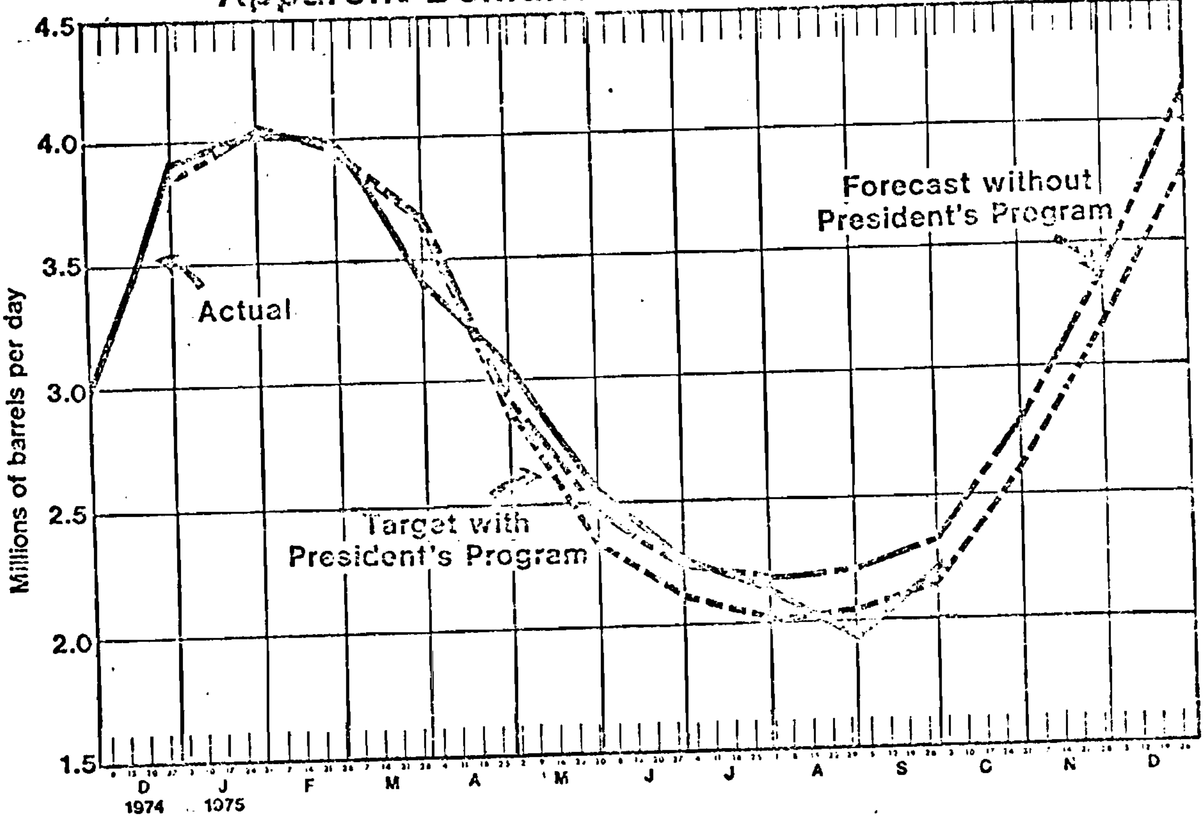
Figure 4



o For the 4 weeks ending October 3, apparent demand for residual fuel oil was 2.40 million barrels per day. This was 260,000 barrels per day below last year, and 320,000 below 1973.

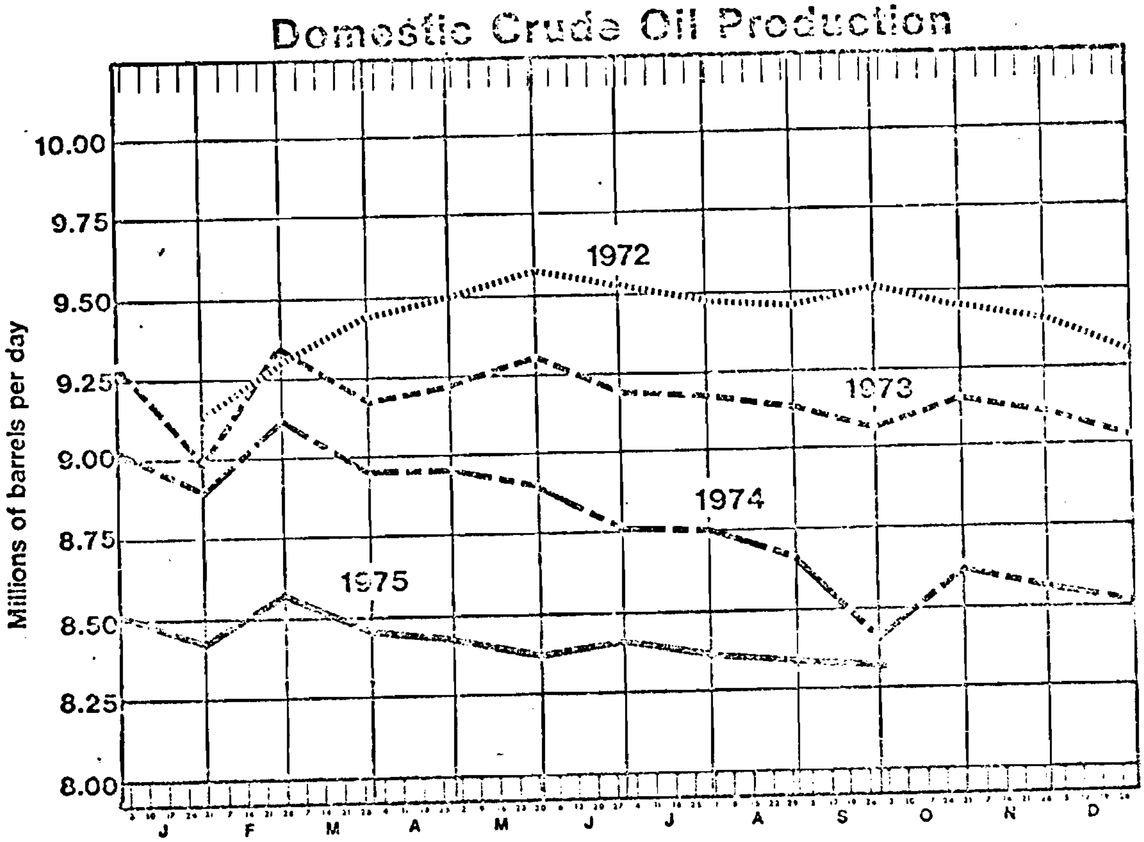
Figure 5

Apparent Demand for Distillate Fuel Oil



o Apparent demand for distillate fuel oil for the 4-week period ending October 3 was 2.24 million barrels per day, 320,000 barrels per day less than last year and 360,000 below 1973.

Figure 6

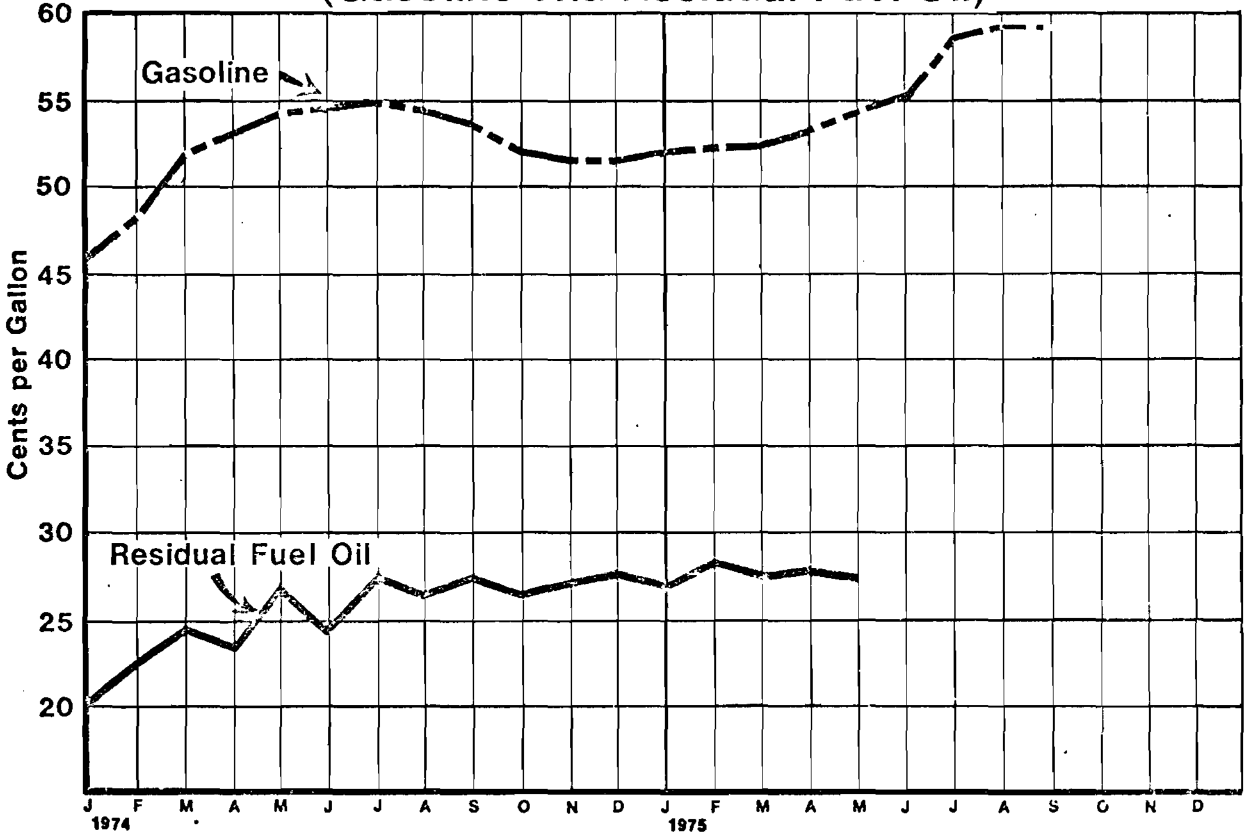


o As briefly noted in the Biweekly Report of September 29, FEA was able to call to API's attention an under-reporting of Louisiana crude oil production which resulted in a revision of API statistics, raising national averages by 80,000 barrels per day during September. As a result, the 4-week average for the week ending October 3 was 8.34 million barrels per day.

o Although the situation is not yet clear, the data seem to indicate that the decline rate in domestic production is slowing down.

Figure 7

Retail Prices
(Gasoline and Residual Fuel Oil)

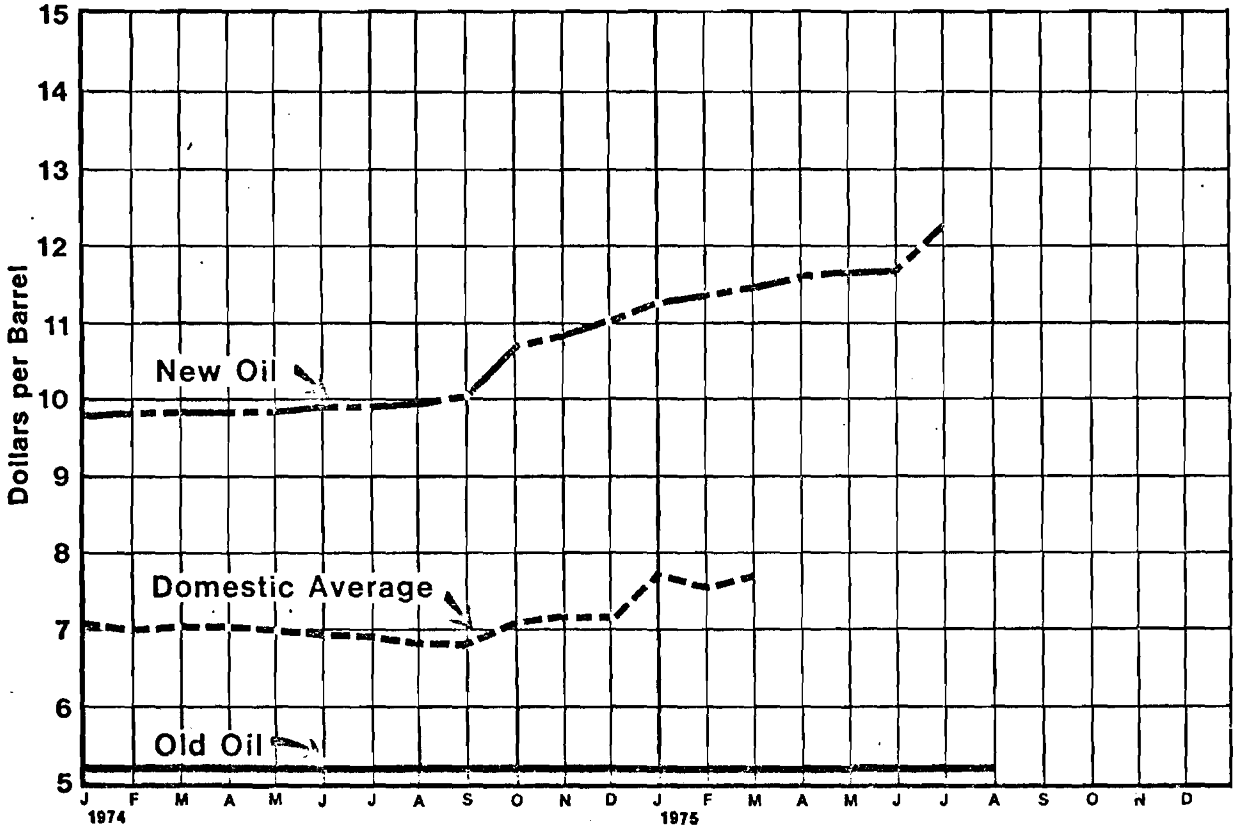


o During September the average retail selling price for regular gasoline increased slightly by .1 cent per gallon to 59.3 cents.

o Residual Fuel (no new data since last report).

Figure 8

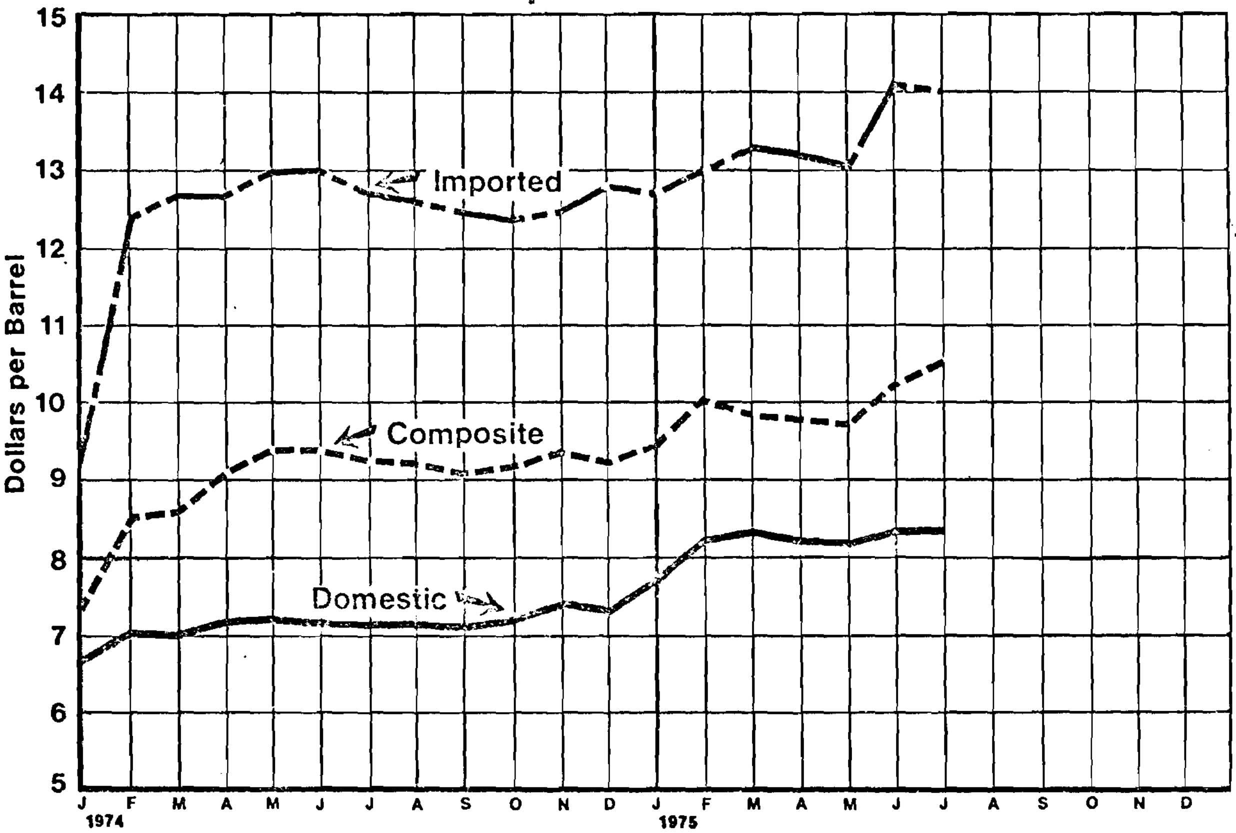
Crude Oil Wellhead Price



(No new data since last report).

Figure 9

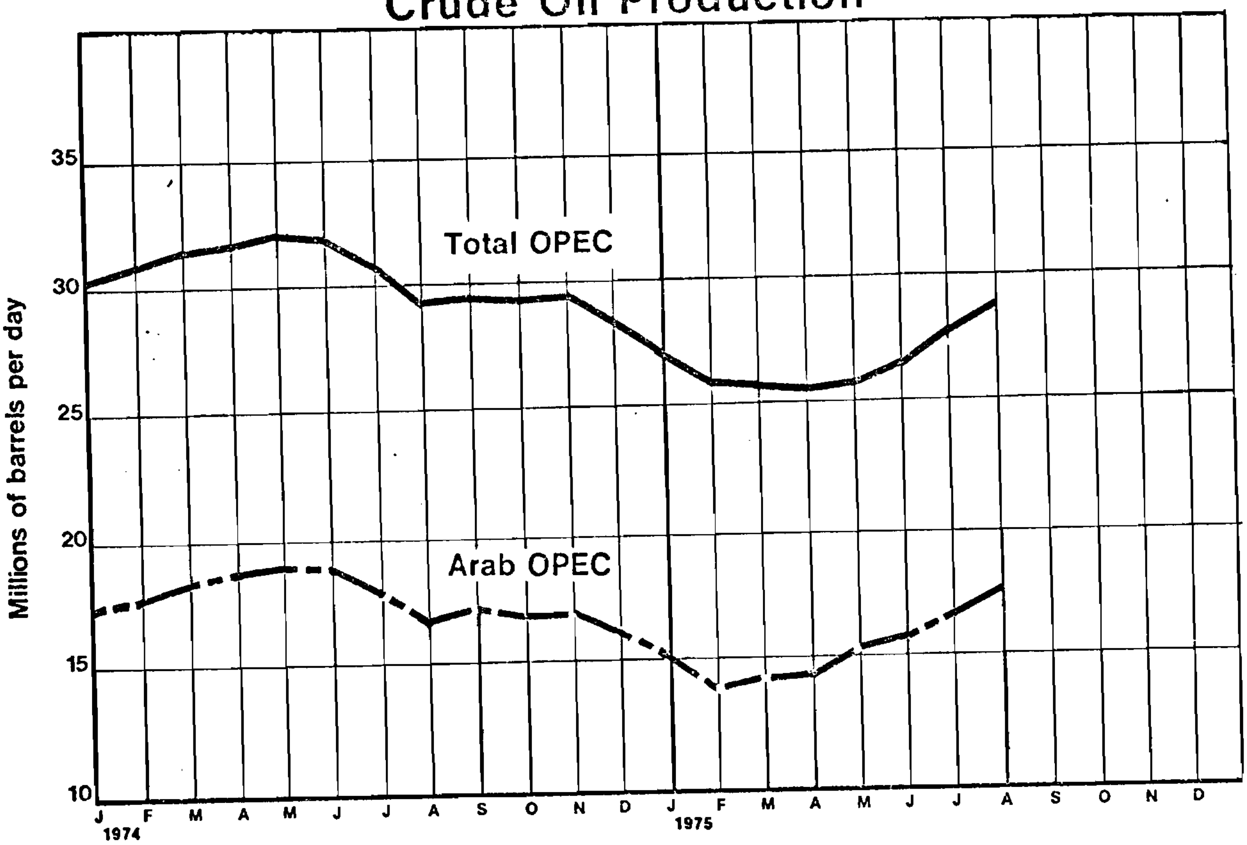
Crude Oil Refiner Acquisition Cost



(No new data since last report).

Figure 10

OPEC Countries Crude Oil Production



(No new data since last report).

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries plus estimated refinery gains, plus net imports of products plus or minus net changes in primary stocks of products are used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly data through August from FEA's Weekly Petroleum Reporting System and Monthly Petroleum Reporting System, and 4-week moving average from the API Weekly Statistical Bulletin for 4 weeks ending October 3 (figure 1). Demand after August estimated for figures 2, 3, 4, and 5 by FEA primarily from the Bulletin. Figure 6, BOM through June, API monthly July and August, API 4-week moving average for period ending October 3. Figures 7, 8, 9, and 10 from FEA.

Forecast -- A petroleum product demand forecast is made, based on a projection of the economy, which would occur without the President's program, and on a projection of normal weather. The forecast is periodically revised to take account of actual weather and revised macroeconomic forecasts.

Target -- The Target incorporates reductions in consumption implicit in the President's energy policy, as given in the State of the Union Message. In addition, it is assumed that:

- domestic production increases by 160 MB/D by the end of 1975 due to the development of Elk Hills.

- petroleum demand is reduced by 98 MB/D By the end of 1975 due to switching from oil to coal.

- petroleum demand due to natural gas curtailments ceased after May 1, 1975, due to the deregulation of new natural gas at the wellhead.

- price changes due to the President's policies are held constant in real terms at their May 1975 levels.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

October 18, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THROUGH: ROGERS C. B. MORTON

SUBJECT: STATUS OF H.R. 7014 CONFERENCE COMMITTEE

As you are aware, a Conference Committee of 22 Senators and 7 Representatives has been deliberating on five energy bills that involve many elements of your own comprehensive program -- oil pricing, conservation, strategic reserves, and contingency measures. A brief status report is given below:

- The Conferees' basic strategy is to accommodate many of our major objections in the strategic reserve, standby authorities, coal conversion, and conservation sections and then attempt to negotiate oil pricing. This strategy could make it more difficult to sustain a veto.

- The Committee bill probably will not reach you until after November 1, even though price controls expire November 15.

- The Committee is almost certain to include a price ceiling on domestic oil (less than $11 per barrel, although possibly adjusted for inflation), no phase out or a very slow phase out of old oil controls (probably about 45 months). Removal of the $2 import fee will probably be part of any compromise.

- The Committee appears to be reluctant to vote for any price increase, and would prefer to allow you to send up a decontrol plan which they fail to disapprove.

- The basic alternative outcomes are:

  - No compromise and price controls expire November 15.

  - Agreement on a price ceiling initially of about $10 and rising over about 3-4 years with new Administration flexibility to raise old oil prices from $5.25 to the ceiling price.

  - A legislated solution including a phased decline of controlled oil in the next 40-48 months.

  - Submission of an Administrative control plan similar to the 39 month plan if all efforts at a legislated compromise fail.

A more detailed discussion of the status of the Committee and the merits of the above outcomes is contained in the attachments.

Attachments

TAB A: 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. Although the bills being considered contain many elements of your own comprehensive energy program (e.g., 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), most 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 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.

In general the Committee has been relatively receptive toward 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 15 to 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 be 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 will 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:

Alternative 1 - The Congress legislates a ceiling on domestic oil prices for a specified period (up to 45 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 the $10 ceiling on domestic oil were legislated with an inflation adjustment factor, and you administratively remove the $2 fee, and let old oil prices rise to the $10 cap level immediately, the impacts on prices and imports would almost equal the 39 month decontrol proposal, if it were submitted now.

<u>Pros</u>:

- 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 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.

<u>Cons</u>:

- 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; judicial review could block the approach.

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

- Most oil 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.

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 reduction of 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 (really a 49 month program).

- 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 reasonably 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 than anything the Congress would approve.

Cons:

- 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.

TAB B: 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.

MARGINALLY 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.

MARGINALLY UNACCEPTABLE: Definitions are acceptable, but early indications of mandatory standards being considered for 1985 are not acceptable and flexibility to change them is unclear now.

10/25/75

THE PRESIDENT HAS SEEN....

C. F.

FEDERAL ENERGY ADMINISTRATION NR 6-1

WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Status of Naval Petroleum Reserves

As you know, the Senate and House both passed legislation authorizing production from the Naval Petroleum reserves several months ago. Conference action on the bills has been delayed however for a variety of reasons, the most important of which center on the jurisdictional issue of Navy versus Interior.

The Senate bill leaves the reserves in Defense while the House bill transfers them to Interior as part of Interior's overall land and mineral management program. Senate and House sponsors have been unwilling to go to conference until they could find a way around the jurisdictional issue that would avoid an impasse on this legislation in the conference committee.

We have been working with the sponsors and the Departments of Defense and Interior to find a solution and it appears that we are close. The basic thrust of the emerging compromise would be to leave Naval Petroleum Reserves 1, 2 and 3 in Navy (which already has an on-going program in these fields) but transfer NPR 4 (which is not developed) to Interior. Navy would go into full scale production in NPR's 1, 2 and 3 and Interior would manage NPR 4 as it does the OCS and other Western lands owned by the Federal Government.

Although Defense would like to hold on to NPR 4, they could live with this compromise. It also appears that it is generally acceptable to members of the conference committee in that they have finally scheduled conference action the week of November 3.

I will keep you apprised of further action on this legislation as the conference begins its mark-up.

THE WHITE HOUSE

WASHINGTON

October 27, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Telephone Call to Chairman Staggers Regarding Energy Legislation

John Dingell has indicated that his subcommittee (Energy and Power) will begin mark-up this week on emergency natural gas legislation. The sessions will be at night in order to allow Dingell and other subcommittee members to participate in the conference committee sessions on H.R. 7014 - S. 622 "Comprehensive Energy" Bill.

There are potential problems in both areas -- natural gas and the energy bill -- that Harley Staggers could help resolve if he could be persuaded to our point of view:

1. Dingell is strongly opposed to any natural gas legislation that focuses on the long-run. In his view, the House should only pass legislation that deals with our short-term emergency and resist legislation such as that passed by the Senate this week that also provides for the deregulation of new natural gas in the future. Although several members of Dingell's Subcommittee will try to achieve a bill similar to Pearson-Bentsen, a major effort will have to be launched if we are to overcome Dingell's strong feelings on this subject. As per your direction, we are going to attempt to be sure that a change to a Dingell bill will be in order on the floor.

2. We are down to the wire on the energy bill and the pricing issue in that the Conference Committee intends to complete its work by Wednesday or Thursday. Although some progress is being made on the price issue, there is still a possibility that we will not achieve a compromise that is acceptable to

both the Administration and Democratic majority. Jackson clearly has the lead, but Staggers could play a major role of trying to persuade Jackson to put partisan politics aside and work for an acceptable compromise. The problem we have here, however, is that Staggers is not that familiar with the price issue, even though he will be taking a lead role on the price issue in these final hours to allow Dingell more time to concentrate on natural gas.

We think it would help our chances if you could call Chairman Staggers Tuesday to indicate your views on these issues and the need for cooperation on these bills as we move into the final, critical stages of debate. I have attached talking points for the phone call if you agree with this recommendation. Max Friedersdorf concurs in this recommendation.

Attachments

TALKING POINTS

CALL TO CHAIRMAN STAGGERS ON ENERGY LEGISLATION

H.R. 7014 (The Energy Bill)

1. I understand that the conference committee is in the final stages of mark-up on H.R. 7014 and the four other bills before the committee.

2. I appreciate the effort you and others on the committee have made to respond to some of my concerns and objections in working with Frank Zarb and his staff.

3. Although there are some provisions in the bill at this point which I find troublesome, progress is being made on resolving our differences, and I hope that progress will continue. We have a real chance in this conference of achieving the major part of a comprehensive energy program.

4. The price issue however is key. You know how I feel on this issue, Harley. I firmly believe that we need to phase out controls, if we are going to mazimize production from domestic sources -- if we are going to reduce our imports and vulnerability. If we don't get it from home, we will have to buy it from abroad -- and at even higher prices than decontrolled domestic oil.

5. I am willing to work on a compromise. I have compromised several times already. Although I do not believe that I can go too much beyond my 39 month plan in terms of imports, I do think we can find a way to make that basic plan acceptable to both sides.

6. I hope you will work with Frank Zarb on this so we don't reach an impasse. We also need your help in keeping narrow, partisan political interests out of this issue or others in the bill, or we may see months of work come to naught.

NATURAL GAS

1. As you know, the Senate passed a comprehensive natural gas bill last week that would take care of this winter's emergency and deregulate new ga[s] over time.

2. Although this bill is not everything I asked for, its basic thrust is acceptable. I would also imagine that the Senate definition of

new deregulated gas has been so restricted from my original bill that it should be acceptable to most of the members in the House. The price effect of the bill will be very small and very slow in coming -- but it will turn around the current path we are on of declining domestic production.

3. I know that John Dingell is starting mark-up this week on an emergency natural gas bill. He is not inclined at this point, however, to work on the long-term problem of deregulation as part of this effort.

4. I need your help in trying to convince John of the need to not only pass emergency legislation this year, but also to take care of the long-term problem. If we don't do it now, we will need emergency legislation again next year.

5. If we could get something out of the House that is similar to the bill passed by the Senate, we could solve the gas problem once and for all and get this problem behind us. Coupled with other bills that are coming along, we could end the year with a record we would all be proud to take to the voters regarding a comprehensive energy program.

6. I hope you will talk to Frank about this and help us convince John Dingell of the opportunity we have now that the Senate has acted.

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10/28 - to Cara
Called Ofc of Stat analysis for pickup
1:08

FEDERAL ENERGY ADMINISTRATION

OCT 28 1975

Office of the Administrator

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

THRU: ROGERS C.B. MORTON

SUBJECT: BIWEEKLY STATUS REPORT

For the four-week period ending October 17, petroleum imports averaged 6.26 million barrels per day, 190,000 barrels per day less than last year and 400,000 below the 1973 level for the same period. Total demand is now running 1.2 million barrels per day below 1974 and 1.6 million barrels less than in 1973.

Domestic crude oil production averaged 8.33 million barrels per day for the four weeks ending October 17, 2.5 percent less than in the same period of 1974, but 9.1 percent below the corresponding 1973 level.

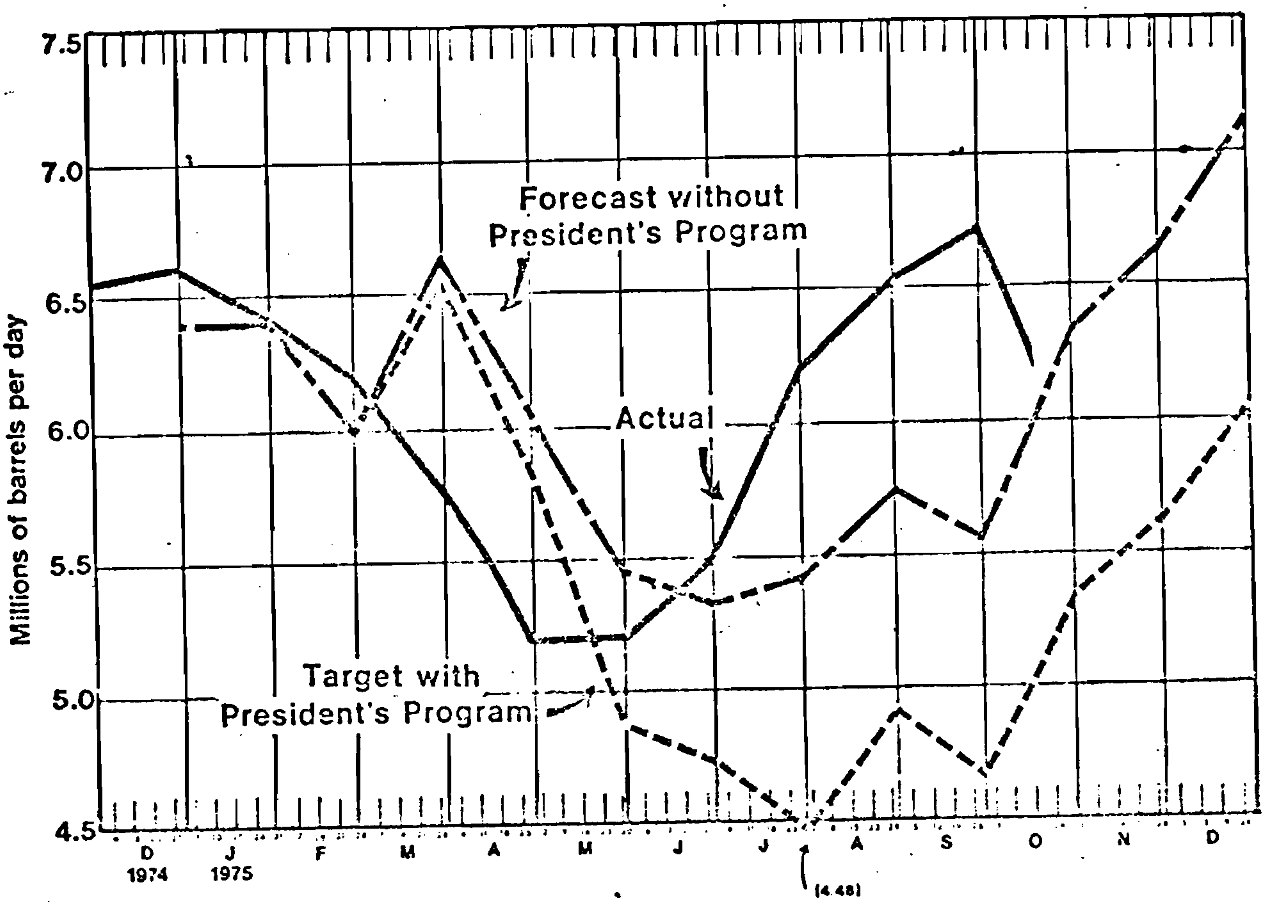
Attachment

P:OSA:O&GS:CPelto:bll:Rm8202O,x48705,20/M:10-24-75
cc: Official (AE2)
Chron (O&GS)
Chron (OSA)
Zausner
Rathbun
Curtis

CONCURRENCES									
SYMBOL	O&GS	OSA	P&A						
SURNAME	Pelt	Gum	Linden						
DATE	10/24/75	10/24/75	10/24/75						

Figure 1

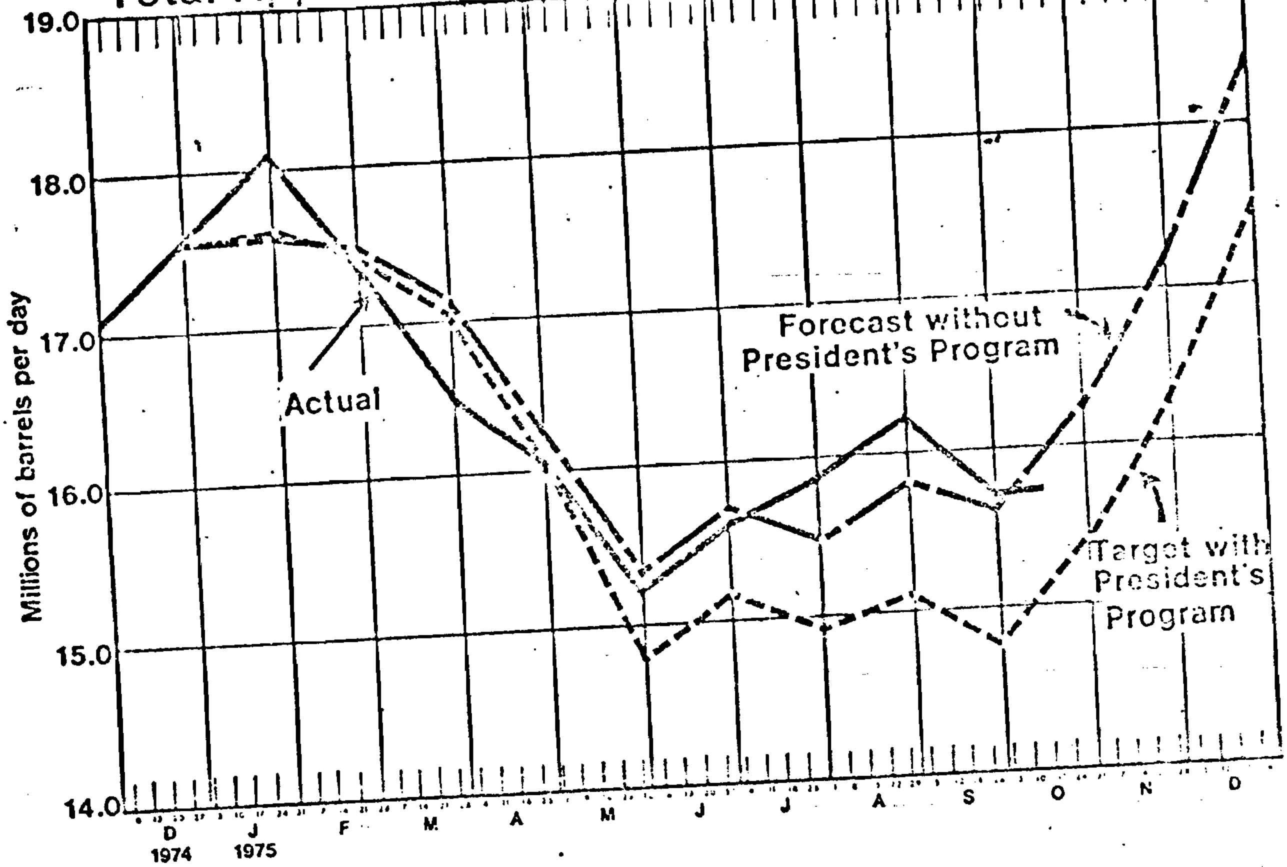
Total U.S. Petroleum Imports (Crude and Product)



o For the 4 weeks ending October 17, total imports averaged 6.26 million barrels per day. This was 190,000 barrels per day below the 1974 level,and 400,000 below 1973.

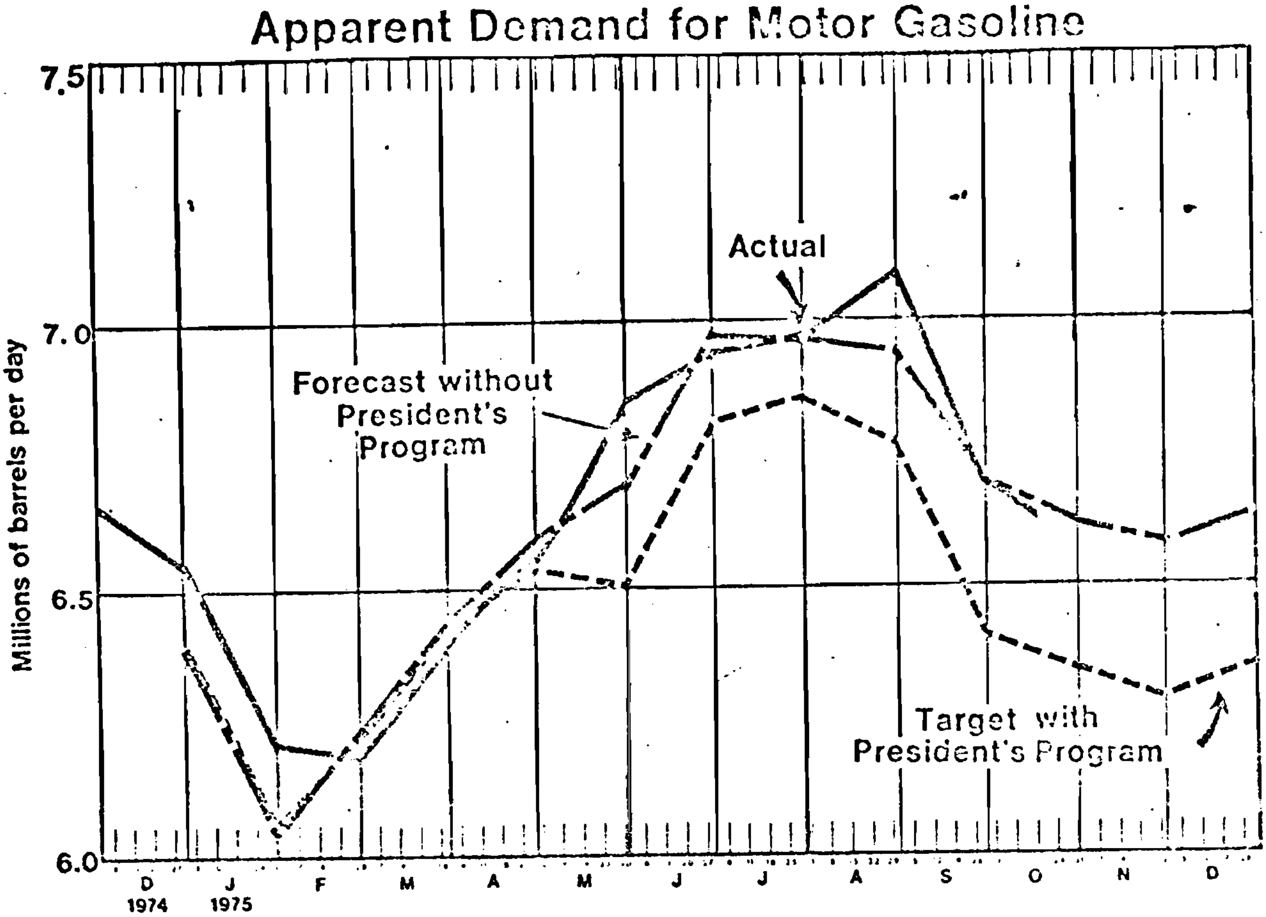
Figure 2

Total Apparent Demand for Petroleum Products



o Total apparent demand during the 4 weeks ending October 17 was 15.78 million barrels per day, 1,220,000 barrels per day below last year, and 1,630,000 below 1973.

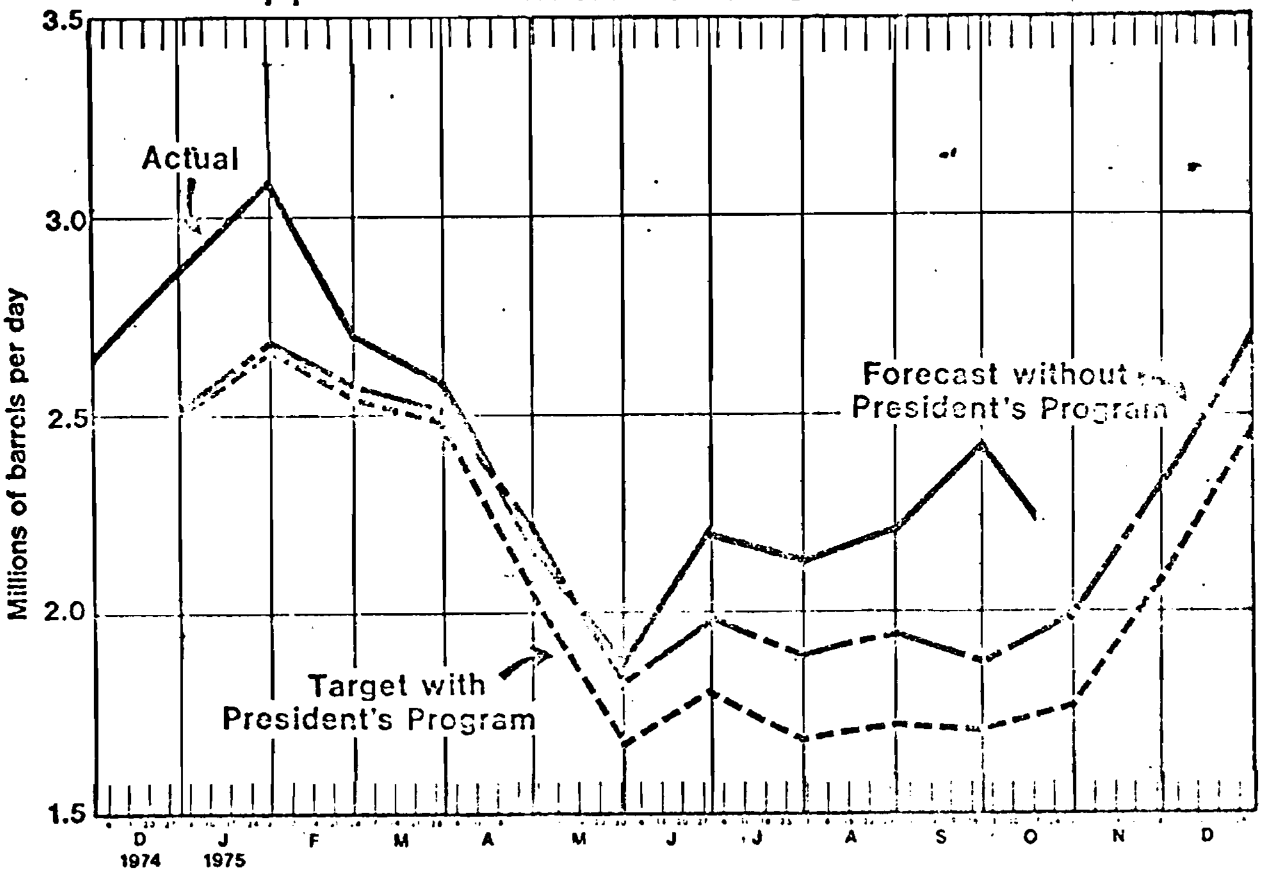
Figure 3



o Apparent demand for motor gasoline in the 4 weeks ending October 17 averaged 6.64 million barrels per day, 18,000 barrels per day below last year, and 150,000 barrels below 1973.

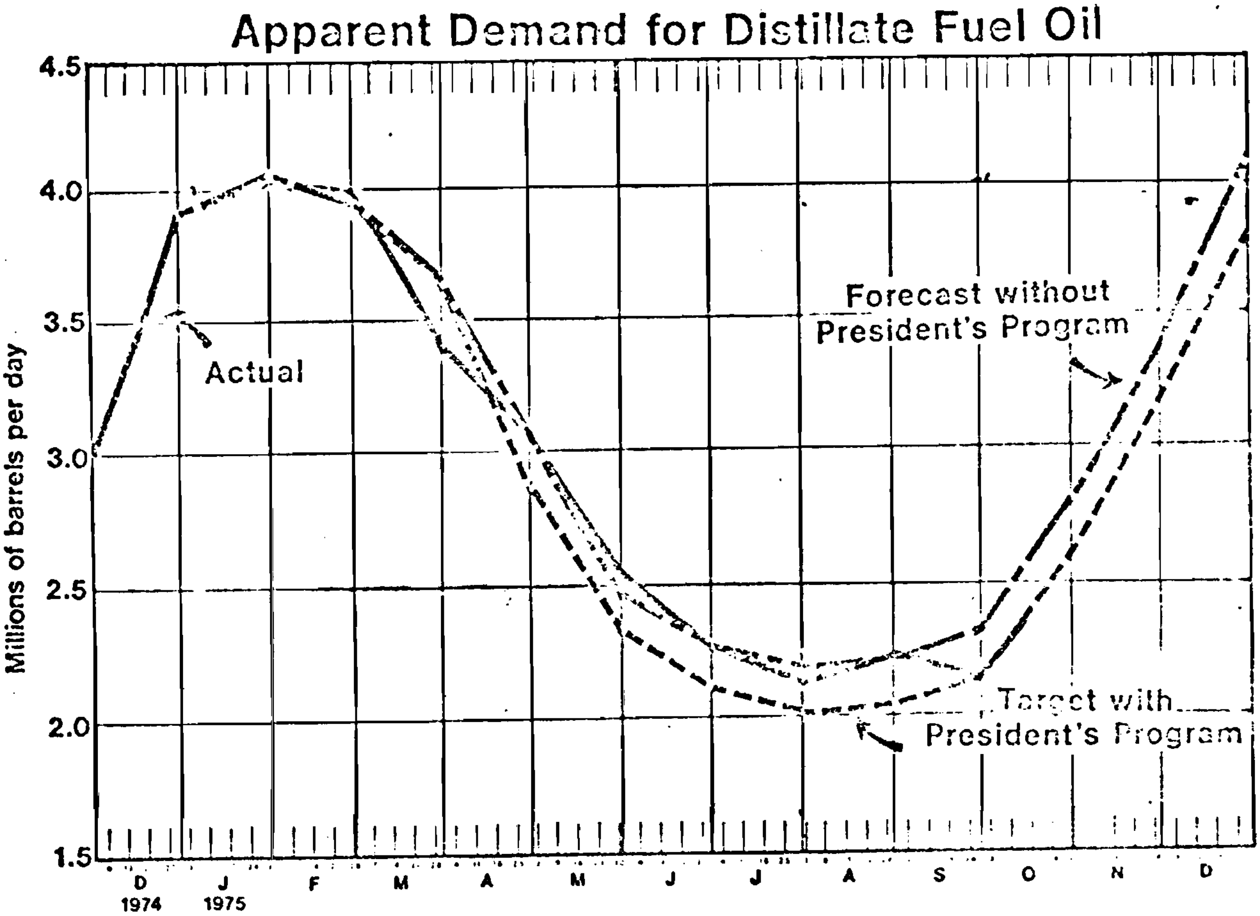
Figure 4

Apparent Demand for Residual Fuel Oil



o For the 4 weeks ending October 17, apparent demand for residual fuel oil was 2.25 million barrels per day. This was 400,000 barrels per day below both 1974 and 1973.

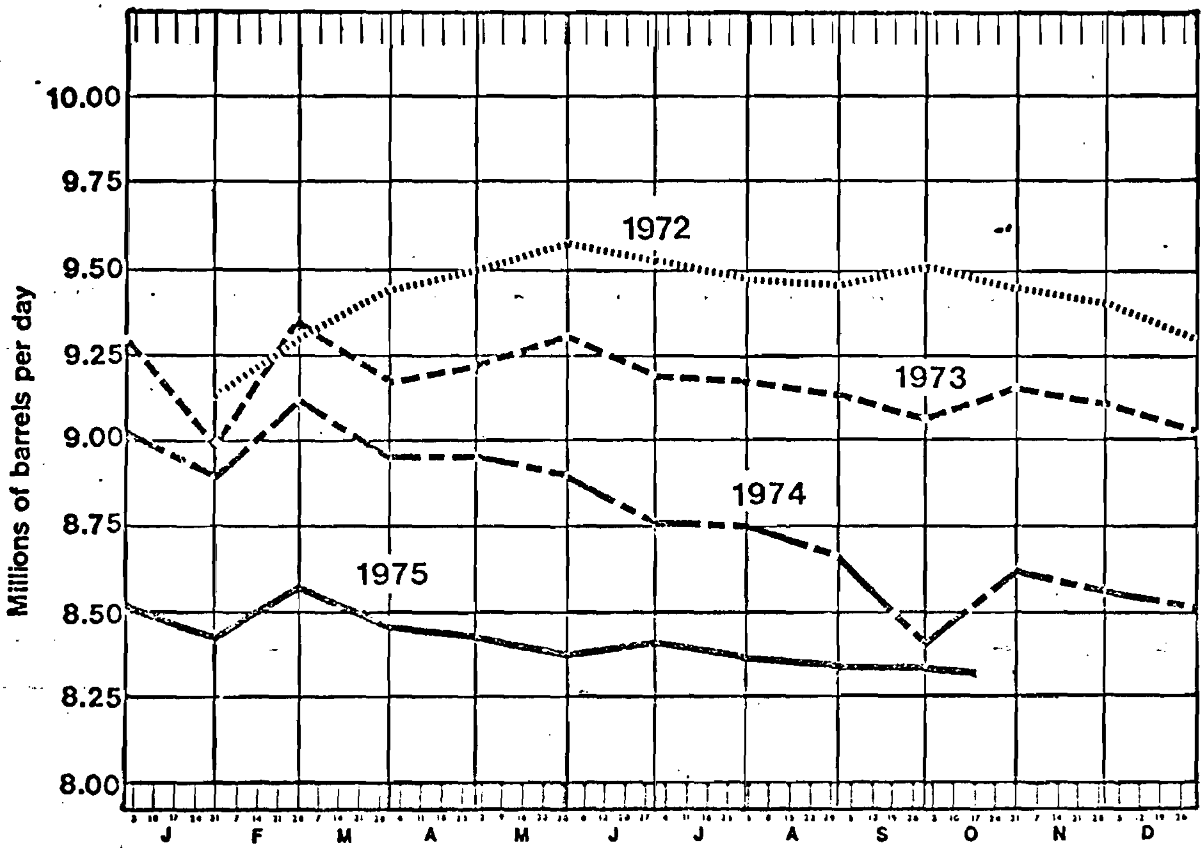
Figure 5



- Apparent demand for distillate fuel oil for the 4-week period ending October 17 was 2.40 million barrels per day, 380,000 barrels per day less than last year, and 390,000 below 1973.

Figure 6

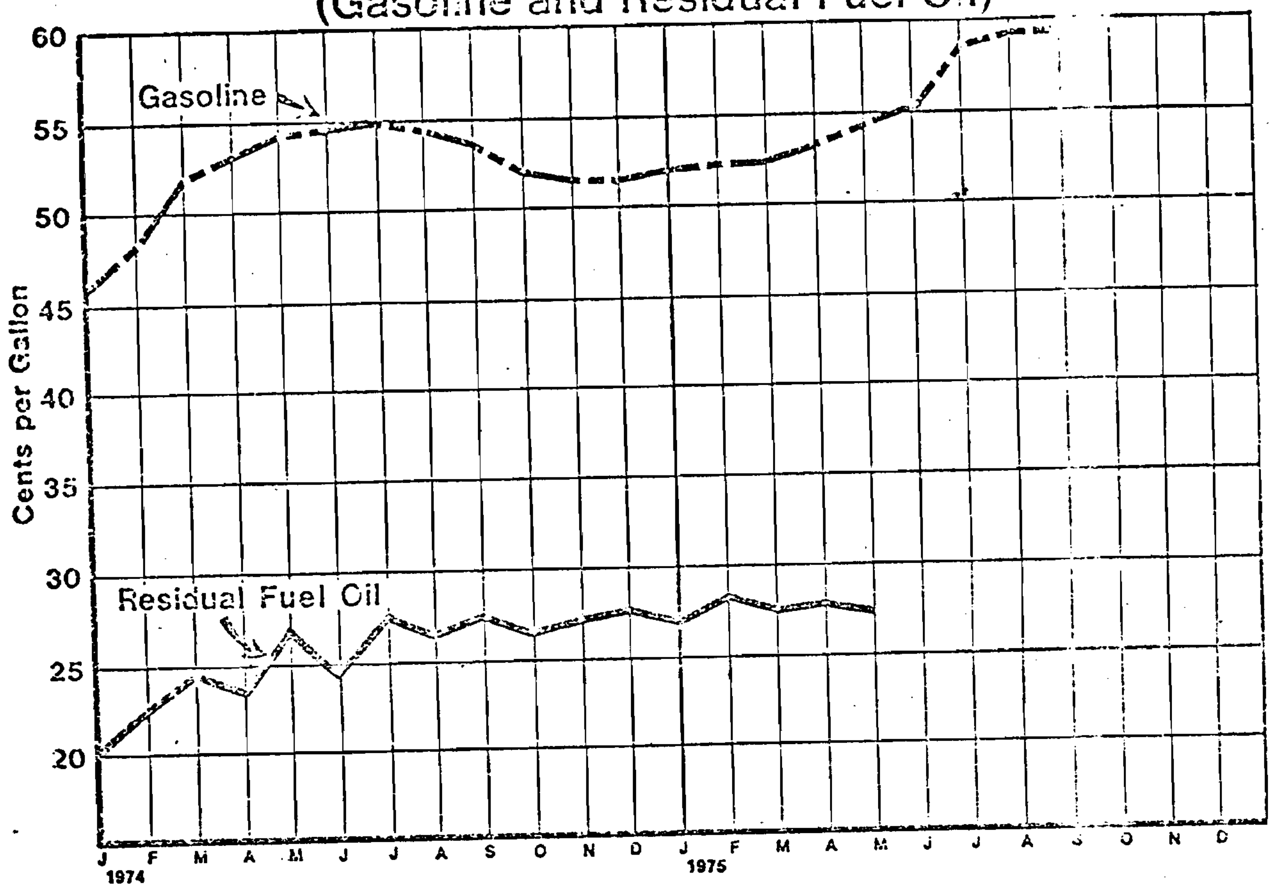
Domestic Crude Oil Production



o Production of crude oil for the 4 weeks ending October 17 was 8.33 million barrels per day according to API estimates, 2.5 percent and 9.1 percent below the corresponding 1974 and 1973 BOM estimates.

Figure 7

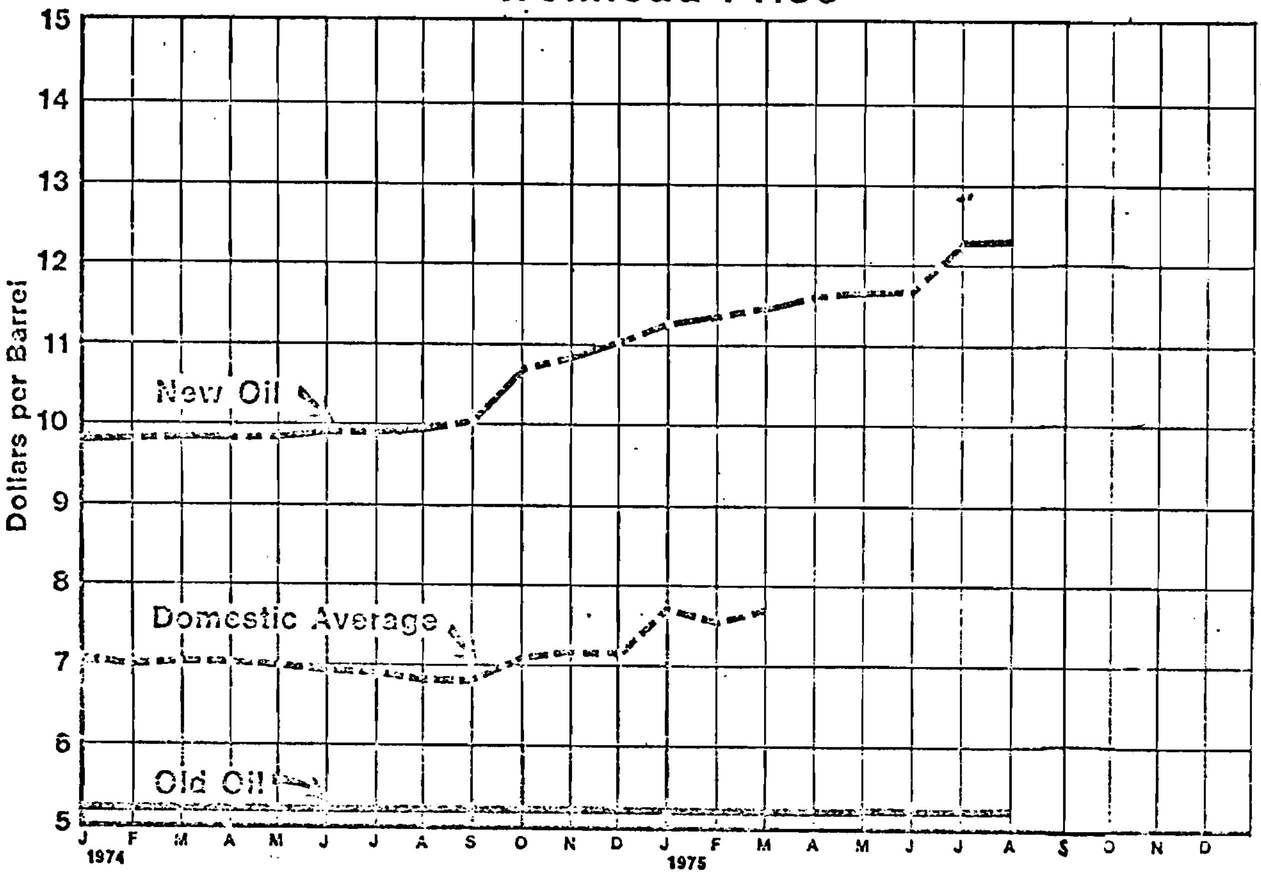
Retail Prices
(Gasoline and Residual Fuel Oil)



o Regular Gasoline (no new data since last report).

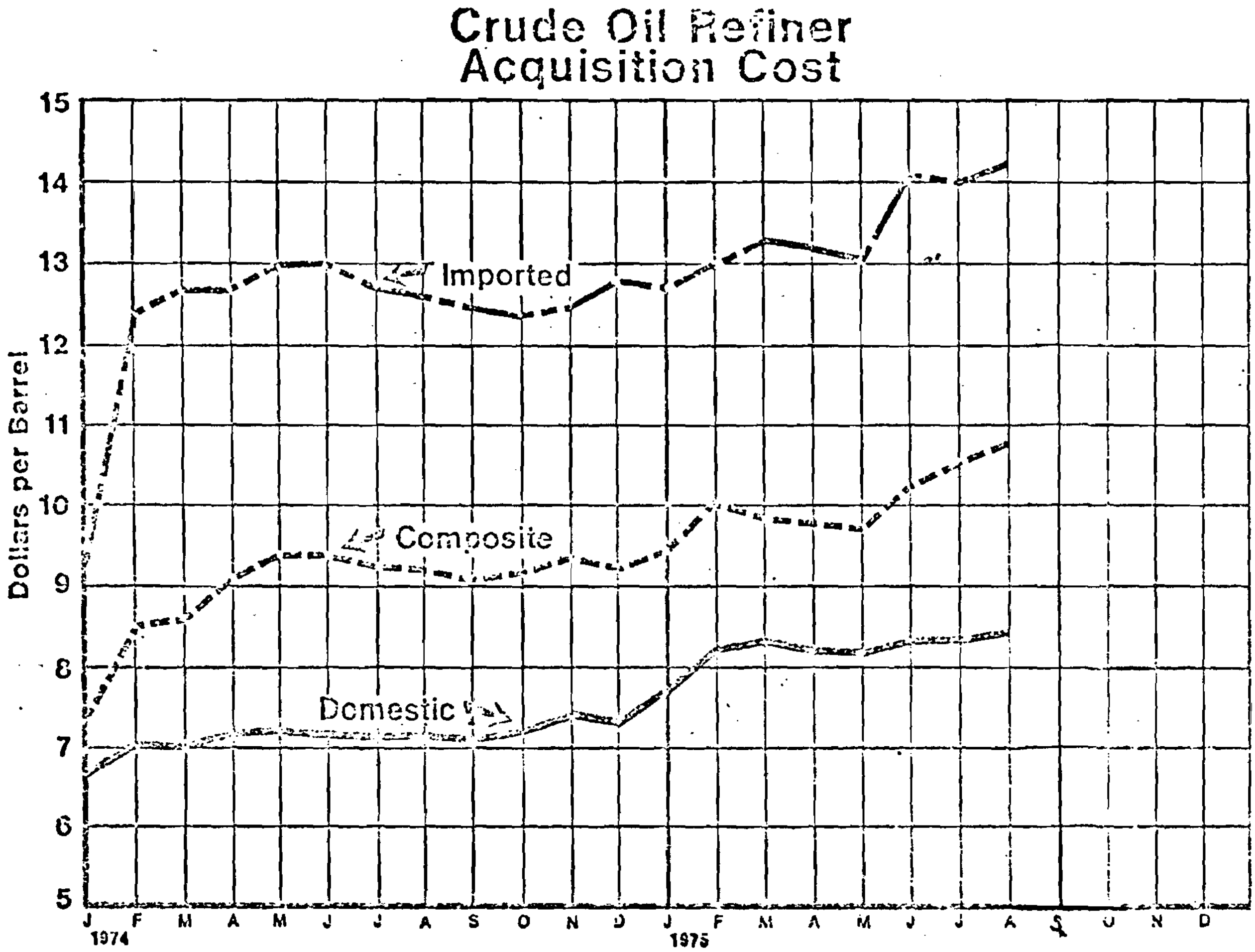
o Residual Fuel (no new data since last report).

Figure 8
Crude Oil
Wellhead Price



o During August the average "new" oil price was $12.38 per barrel, 8 cents above the July price.

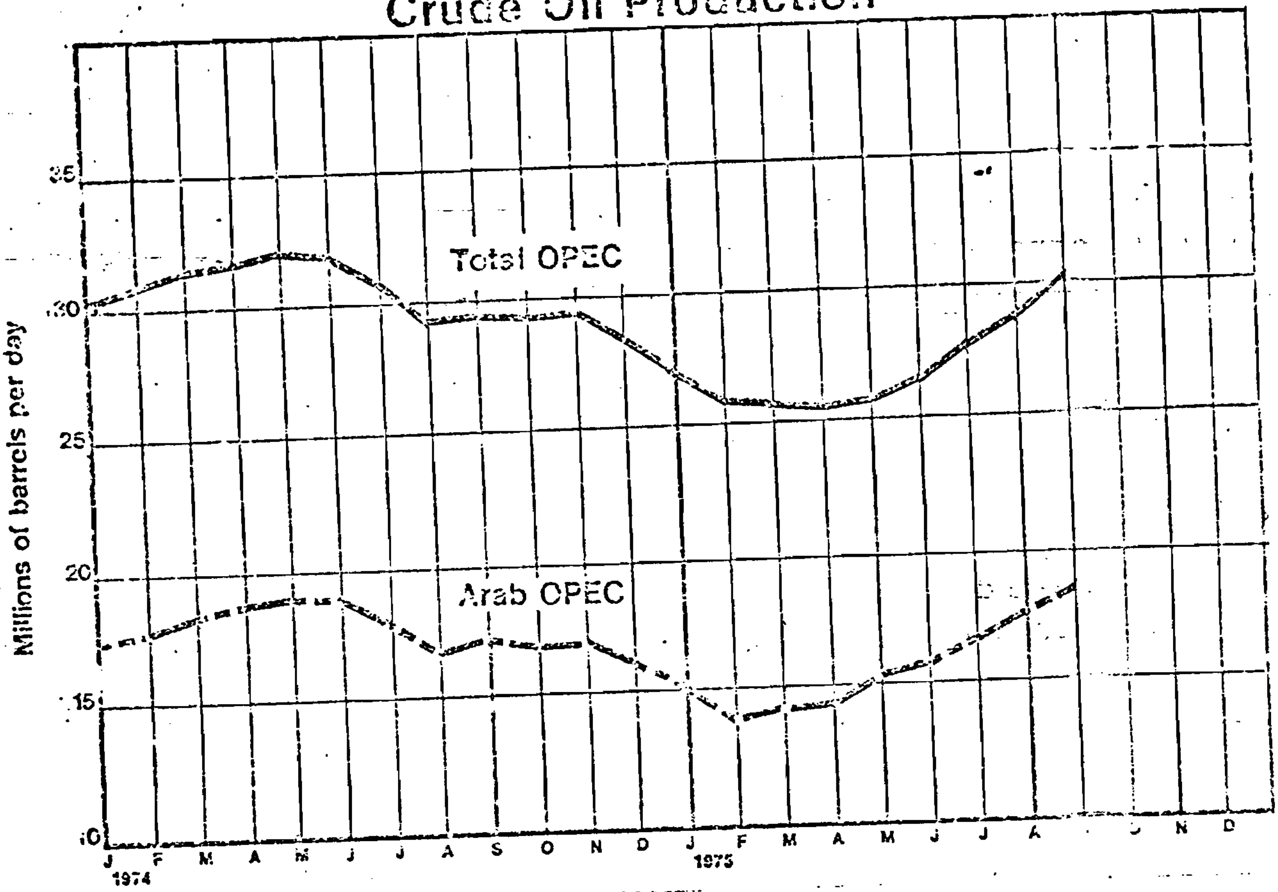
Figure 9



- During August the refiner acquisition cost of imported crude was $14.25 per barrel, 22 cents above the July figure.
- The average domestic refiner acquisition cost was $8.48 per barrel, 11 cents above the July figure.
- The composite cost of crude petroleum to refiners was $10.81 per barrel, 24 cents above the July figure. This increase probably reflects increased purchases by refiners of foreign crude before the OPEC price increase October 1.

Figure 10

OPEC Countries Crude Oil Production



- OPEC crude oil production averaged 30.4 million barrels per day in September, 5.3 percent higher than in July. The gain in production is probably related to the anticipated increase in prices by OPEC member governments set for October 1.

- Production by Arab members of OPEC increased 4.0 percent to 18.4 million barrels per day.

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries plus estimated refinery gains, plus net imports of products plus or minus net changes in primary stocks of products are used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly data through September from FEA's Weekly Petroleum Reporting System and Monthly Petroleum Reporting System, and 4-week moving average from the API Weekly Statistical Bulletin for 4 weeks ending October 17 (figure 1). Demand after September estimated for figures 2, 3, 4, and 5 by FEA primarily from the Bulletin. Figure 6, BOM through June, API monthly July, August, and September, API 4-week moving average for period ending October 17. Figures 7, 8, 9, and 10 from FEA.

Forecast -- A petroleum product demand forecast is made, based on a projection of the economy, which would occur without the President's program, and on a projection of normal weather. The forecast is periodically revised to take account of actual weather and revised macroeconomic forecasts.

Target -- The Target incorporates reductions in consumption implicit in the President's energy policy, as given in the State of the Union Message. In addition, it is assumed that:

- domestic production increases by 160 MB/D by the end of 1975 due to the development of Elk Hills.
- petroleum demand is reduced by 98 MB/D by the end of 1975 due to switching from oil to coal.
- petroleum demand due to natural gas curtailments ceased after May 1, 1975, due to the deregulation of new natural gas at the wellhead.
- price changes due to the President's policies are held constant in real terms at their May 1975 levels.