FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

January 2, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Summary Status of Energy Program

The following is a summary of the steps we are taking in the energy area following enactment of the Energy Policy and Conservation Act.

- Implementation of the Energy Policy and Conservation Act:

  - Meetings have been held with key representatives of the oil industry to discuss the regulatory program and how FEA intends to implement the program. The meetings were constructive, with the industry expressing a strong willingness to work with the agency to insure a smooth transition into the new price control scheme and out of controls downstream from the refinery.

  - Rulemaking regarding the regulatory program are underway, with initial proposals going public January 5 and final regulations scheduled for February 1 and March 1.

  - Meetings with all Federal agencies with responsibilities under the Act have been scheduled and a tracking system for all programmatic requirements are underway.

  - We are working with Jim Lynn to secure the budget resources necessary to implement the mandatory and high priority sections of the Act.

- Further legislative activities:

  Although the Energy Policy and Conservation Act contained a number of your legislative initiatives, several important items still await final action in the Congress. We have prepared a separate strategy for each of these actions, and will be working with Congress as soon as they return from their recess.

Of these initiatives, the most important are:

- natural gas deregulation
- production from the Naval Petroleum Reserves
- building standards
- insulation tax credit and weatherization assistance for low income persons
- synthetic fuels
- uranium enrichment, and
- the Energy Independence Authority.

Floor action on natural gas is scheduled in the House before the end of January and we are cautiously optimistic that a bill similar to that passed by the Senate will be approved. The NPR's, building standards, and weatherization assistance program are in Conference committee. Action on these bills could be completed by mid-February.

o <u>Additional energy initiatives</u>:

In addition to the initiatives outlined above, there may be additional legislative requirements to round-out a truly comprehensive energy program prior to the election, particularly in the areas of nuclear energy, conservation and coal. I will be shortly initiating an Energy Resources Council effort to examine programs that fall in this category and make any recommendations to you that are deemed to be appropriate.

[ca. 1/5/76]

FORD, GERALD

FEDERAL ENERGY ADMINISTRATION

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: 28,000 ENGINEERS AND SCIENTISTS PETITION WHITE HOUSE ON THE NEED FOR COAL AND NUCLEAR ENERGY

At a brief ceremony in the Roosevelt Room on November 14, 1975, I accepted in your behalf, petitions bearing approximately 28,000 signatures of professional engineers and scientists.

Salient points of the petition include:

- Expansion of domestic gas and oil production cannot be counted upon to preclude energy shortages.
- Conservation will be minimally contributive to demand reductions for some time.
- A "momentum of antagonism" impedes the orderly development of our indigenous coal and uranium resources.
- Alternative technologies are as yet undeveloped.
- Negligible progress has been made in the last two years toward energy independence; i.e. electrification, construction of coal and uranium fueled generation.
- Federal and State Executive and Legislative Branches must redirect efforts toward regaining energy independence through increased use of our solid fuels.

The petitions were presented by H. E. Bovay, Jr. and Melvin Feldman, respectively, President of the National Society of Professional Engineers and the American Nuclear Society.

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cc: Exec Comm (2)
Paul Dragoumis

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FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

CONNOR, JIM

January 6, 1976

MEMORANDUM FOR JIM CONNOR

FROM: FRANK G. ZARB

SUBJECT: PRESIDENTIAL TALKING POINTS FOR JANUARY 7th CABINET MEETING

Background

- Goal was $9.5 million.
- Almost $9.6 million reported December 18, 1975.
- Approximately $400,000 is expected to be contributed between then and final audit in March, 1976 bringing total to $10 million.
- 37 Agencies and Departments exceeded their assigned goals.
- Congress (House and Senate) contributed $18,000 more than ever before but reached only 7% of its goal.
- Executive Departments reached 94% of their goal, contributing $6,383,366. Departments of Agriculture, Defense, State and Treasury exceeded their goals as of December 18, 1975.
- Final audit should show this campaign to be the most successful in CFC's history.

Talking Points

- I just wanted to thank each of the Members of the Cabinet who worked hard to make certain that we achieved our goal.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ASSISTANT ADMINISTRATOR

January 6, 1976

MEMORANDUM FOR FRANK G. ZARB

FROM: John D. Askew
Deputy Assistant Administrator
Regulatory Programs

SUBJECT: Presidential Comments on CFC for Tomorrow's Cabinet Meeting

At your request, I have prepared the attached comments for the President's use in commending Cabinet officers for their outstanding support of our 1976 Bicentennial Combined Federal Campaign

It has been a choice opportunity to be associated with you in this worthy and rewarding effort.

Attachment

Comments for Presidential Cabinet Meeting

"Spirit of '76" Combined Federal Campaign

-Almost $9.6 million reported at Final Report Luncheon on Dec. 18

-Approximately $400,000 is expected to be contributed between then and final audit in March 1976, based on prior campaign results.

-Average contribution--$37.24 (more than two dollars greater than last year's average contribution).

-At Final Report Luncheon, 255,639 Federal Employees in the Metropolitan area had participated in the campaign.

-37 Agencies and Departments exceeded their assigned goals.

-Congress (House and Senate) contributed $18,000 more than ever before but reached only 7% of its goal.

-Executive Departments reached 94% of their goal, contributing $6,383,366. Departments of Agriculture, Defense, State and Treasury exceeded their goals as of December 18.

-Final Audit should show this campaign to be the most successful in CFC's history.

-The breakdown of goals attained by each Cabinet Department follows:

Executive Branch	Goal	% of Goal
State	$ 275,000	103
Defense	2,613,072	102
Agriculture	402,023	100
Treasury	461,649	100
H.E.W.	695,747	96
Interior	283,452	94
Commerce	587,245	93
Labor	205,203	92
Transportation	502,751	81
H.U.D.	167,152	76
Justice	373,361	62
Executive Office of the President	71,157	88
Independent Agencies	3,108,978	85
Judicial Branch	36,097	60
Legislative Branch	779,506	54

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

January 6, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB
ALAN GREENSPAN

Attached is a summary of our views related to bilateral transactions with oil producing countries.

We have reviewed the content with Charles Robinson. He has agreed to pursue further with us the concept raised on page 7, paragraph 2. That is the possibility of negotiating a 500 million barrels contract with Iran for the purpose of filling our strategic reserves. The basis for this transaction would be to negotiate a price well below market, i.e., $7.50 and $9.00 with the understanding that the oil purchased would not be permitted in the marketplace but rather committed to National storage.

We are preparing a separate paper to describe the mechanisms of such a transaction and will submit it by c.o.b. Thursday, January 8.

Attachment

SECRET (State Derivative)

DISCUSSION PAPER

BILATERAL OIL AGREEMENTS

Issue

In recent months, a number of opportunities have developed for the U.S. Government to enter into bilateral oil purchase agreements with oil exporting governments. Iran, the UAE and the USSR are among identified partners.

The proposed agreements have evolved largely for political reasons. The purpose of this paper, however, is to address the economic and energy aspects of the agreements. More specifically: If the USG is to enter into serious negotiations for bilateral oil agreements, what are the economic and energy principles that should determine negotiating guidelines?

Background

The current interest in bilateral oil agreements is set against a background of weakened demand in the major consuming countries, reflecting depressed economic activity; and significant (25 to 30 percent) excess productive capacity in the major oil exporting countries (OPEC). A number of the producers (particularly Iran, Venezuela, Nigeria and Indonesia) have ambitious

SECRET

development plans, dependent on increased oil revenues, which are being placed in jeopardy. They might be interested, therefore, in bilateral agreements assuring offtake at fixed prices. Finally, the role traditionally played at the international oil industry is changing as governments, both producing and consuming, implement varying control measures. Consuming countries are also implementing supply development and demand conservation programs, but the immediate impact will be slight. At the same time, success in bilaterals might suggest relaxation in domestic plans which are aimed at reducing import dependence.

Potential Benefits and Problems

Proponents and opponents of bilateral oil agreements can identify a number of supporting factors on which they take opposing sides.

1. Economic Benefit - It is argued that if the USG were the sole importer or a substantial trader in meeting US demands, the size of the market would result in significant price competition by producer countries facing the loss of access to the United States market. Opponents suggest that the OPEC cartel can easily

function as a single seller. Moreover, the USG would enter into an activity, sole or significant oil importer, that has been traditionally and ably performed by private industry. The smooth functioning logistical system supplying hundreds of refineries around the world with the right crude at the right time, supplying product deficits and disposing of product surpluses, could not be duplicated in government efficiently.

2. Cartel Dissolution - Proponents of bilaterals suggest the temptation by OPEC nations "to cheat" to gain market share in the United States would undermine OPEC. Opponents suggest that the functioning of the cartel is really dependent on several key countries, principally Saudi Arabia, and that a sole buyer for the US market would alleviate rather than increase the problem of cartel maintenance. If, in addition, the USG were to include some sort of indexation provision as part of a bilateral agreement, OPEC countries would have achieved another of its objectives, escalating prices to maintain purchasing value of foreign exchange.

3. Embargo Protection - Proponents of bilaterals suggest that the United States would be insured against the economic impact of potential future embargoes.

Opponents, while granting that countries such as Venezuela, Indonesia, Nigeria and Iran maintained or increased exports to the US during the embargo of 1973-74, suggest that this type of insurance would require the US to "contract" virtually all of the exports of Venezuela, Indonesia and Nigeria, thereby tying the US to these countries. Greater security of supply can be had within the international oil system itself, where many buyers and sellers provide flexibility and diversity which would be denied in bilateral agreements.

Options

The existence of bilateral oil agreements places the United States Government or one of its instruments in the role of a major importer -- a role that easily may be expanded to one of monopoly importer. Proposals to achieve this end have been introduced in Congress and have achieved substantial support. Three possible approaches exist:

1. Sole Importer -- The Energy Policy and Conservation Act of 1975 (P.L. 94-516) provides the President with discretionary authority, with Congressional approval, to establish the USG as an oil importer, either exclusive or partial. A monopoly importer of oil would have unparalleled

power over the entire energy industry because at present, and for the forseeable future, imported oil is the marginal energy source. The price at which imports would be sold thus will set the domestic price of energy, and the quantity that is imported can determine whether shortages necessitating rationing will occur. A government agency would be under recurring pressure to use the leverage thus obtained to achieve by subterfuge or misdirection social goals which might not be accepted if presented forthrightly. The consequence would be a centralization of power, the use of which could lower economic welfare as well as pervert established governmental processes.

2. Selective Importer - The USG could, for its own account or for resale, conclude bilateral agreements with selected oil exporting countries. For reasons given above, however, pressures to move to sole importer status will be difficult to resist.

3. Industry Partnership - The USG could support, through means which may be identified in FEA's present investigation under the provisions of the Energy Act, industry in its attempts to import oil into the US at lower than prevailing prices. (This option has not been developed at this stage.)

Principles and Negotiating Guidelines

If the USG is to enter into serious bilateral oil negotiations, the following principles are suggested as negotiating guidelines:

1. Price - A significant discount -- say $2.00 per barrel -- is desired, either directly as a discount or "net" through credit, freight or other differential. The discount must be "visible", in order to exert maximum influence on OPEC members and to be accepted politically in the US.

2. Supply - If no significant price discount can be negotiated, no firm contract by the USG to lift should be entered into. If "competitive" price provisions are all that is attainable, an "option" to buy is all that the USG should agree to. Quantities contracted should not be so great that the United States becomes dependent upon just a few countries for such a vital resource. Countries outside of the Middle East, for political and transportation reasons, are probably preferred sources of supply.

3. Economic Benefit - The agreement should be of significant economic benefit to both parties. For example,

if Iran would agree to supply a substantial quantity of oil -- say, 500 MBD -- at a significantly reduced price -- say $7.50 per barrel -- the USG could agree to hold the oil as part of the strategic oil reserve instead of putting it on the market, except in the event of an embargo. The US would benefit obviously, and Iran would benefit from immediate revenue without disrupting the market.

4. Industry Relationship - So long as the USG is not the sole importer, US oil firms should not have to accept whatever terms the USG may agree to for their own purchases from the same suppliers.

Chron

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

January 9, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB /s/ Frank G. Zarb

SUBJECT: NATURAL GAS SHORTAGES

Background

In October the FEA reported projected natural gas curtailments for 21 key States of 1.2 trillion cubic feet (Tcf) this winter, about 300 billion cubic feet (Bcf) greater than last winter.

In December, we updated our October report to take into account the unseasonably warm weather the Nation experienced in November and early December. The update showed projected curtailments reduced to 1.0 Tcf for the 21 States, or only 140 Bcf greater than last winter.

In revising our original projections, we noted that the bottom line gas supply situation for the remainder of the winter would in large part depend on the weather.

Current Situation

In recent days, an extreme cold spell has hit the Midwest and parts of the South and Southwest, which in addition to normal supply cut-offs to interruptible gas customers which occur in such instances, has put a particular strain on certain gas distributing companies.

More specifically:

--The Arkansas-Louisiana Gas Company, Shreveport, La., lost some short-term production from some wells that froze over. They asked school districts they serve in East Texas, Arkansas, Oklahoma, Louisiana and Kansas to voluntarily close for two days in order to build up sufficient gas pressure in its pipeline system to meet the extraordinarily high home heating demand due to the cold weather.

--The Arkansas-Oklahoma Gas Company of Fort Smith, Arkansas also faced supply difficulties due to the cold weather. It did not have the pipeline capacity to serve its industrial customers and at the same time serve its residential heating demand and was forced yesterday to cut service to 60 customers, throwing four to five thousand people out of work for one day.

Indications are that in both these cases, supply interruptions would have been worse were it not for the gas conservation which took place in November and early December.

The outlook for the remainder of the winter is still worse than last winter, although better than we originally projected, with the bottom line depending on how cold the weather becomes and how long it remains cold.

We are continuing to monitor the situation and to work with local officials to mitigate emergencies. I will keep you informed of the gas supply situation on a regular basis.

1/7 - to Gail
1/8 - PAH picked up to make corrections
1/8 - to Gail (4:15 pm)

FORD, GERALD

FEDERAL ENERGY ADMINISTRATION

JAN 9 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

THROUGH: ROGERS C.B. MORTON

SUBJECT: BIWEEKLY STATUS REPORT

Apparent demand for motor gasoline for the 4 weeks ending December 26 averaged 6.77 million barrels per day, 210,000 barrels per day (3.2 percent) above last year and 580,000 barrels per day (9.4 percent) above 1973 during the oil embargo.

Residual fuel oil demand continued to be below the forecast. Demand was 2.69 million barrels per day, or 340,000 barrels per day below 1974. Residual imports have decreased even more than demand, falling 570,000 barrels per day, or 31.1 percent from last year.

Distillate demand, at 3.72 million barrels per day, was 1.4 percent above the preceding year.

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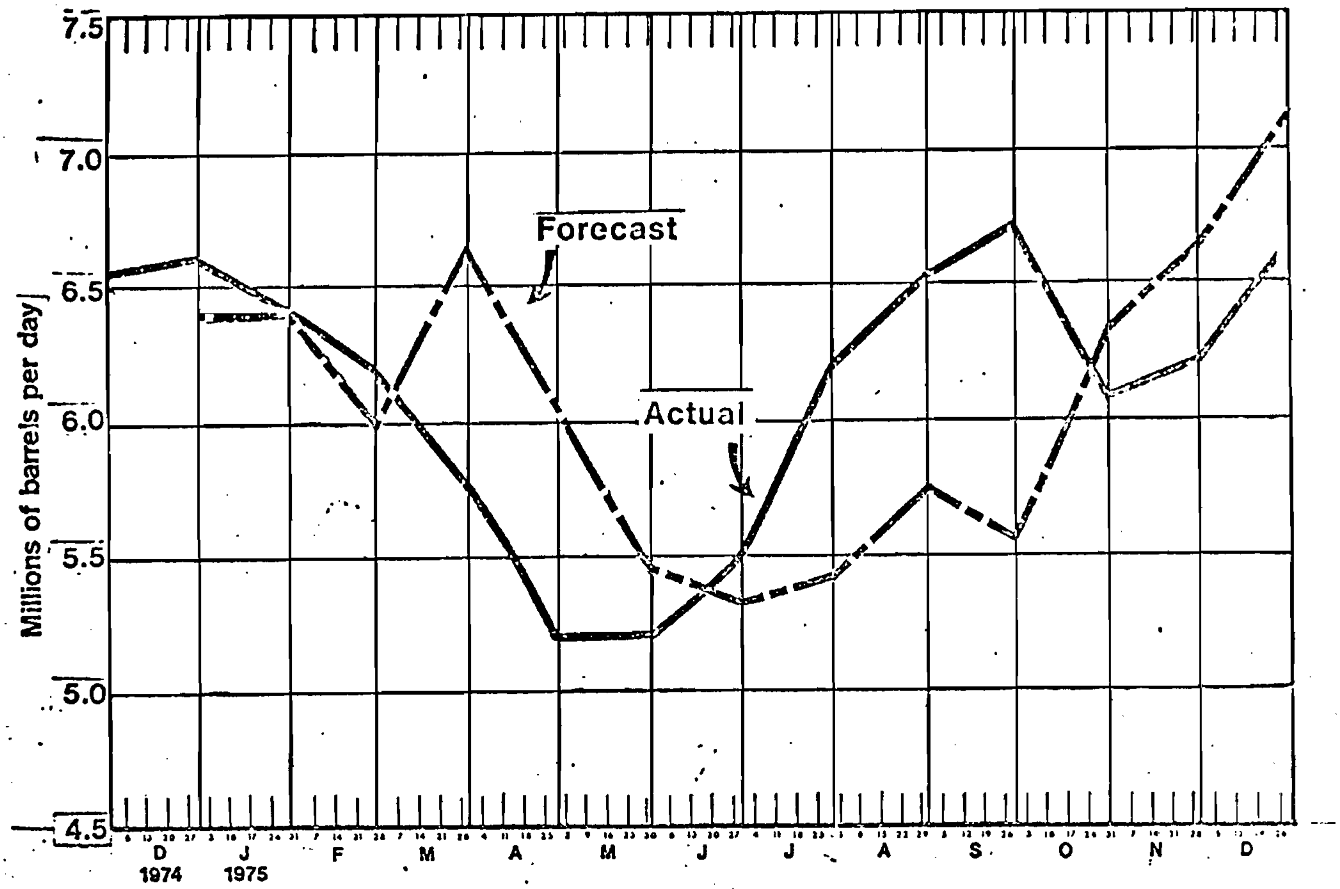
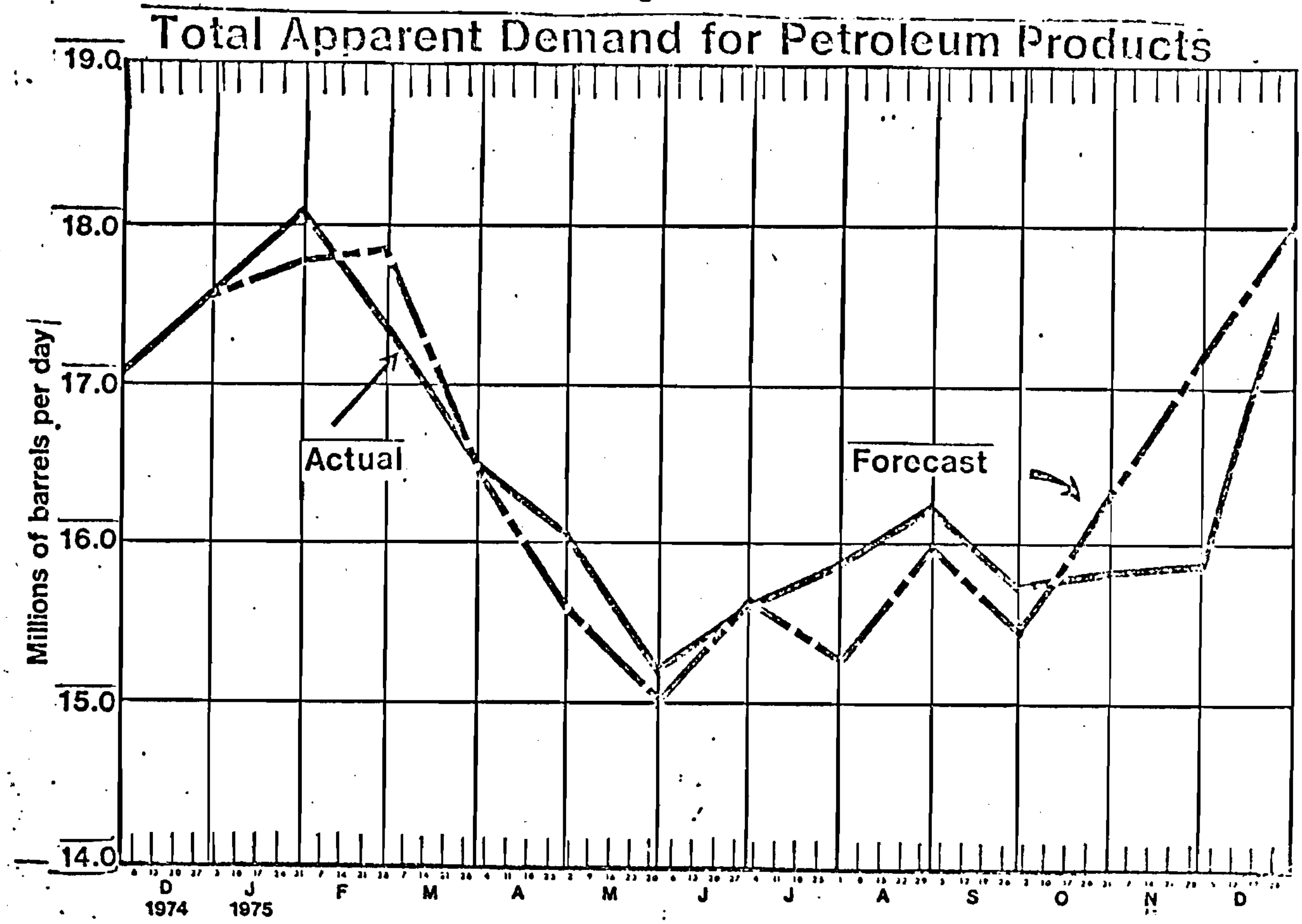
Total U.S. Petroleum Imports (Crude and Product)



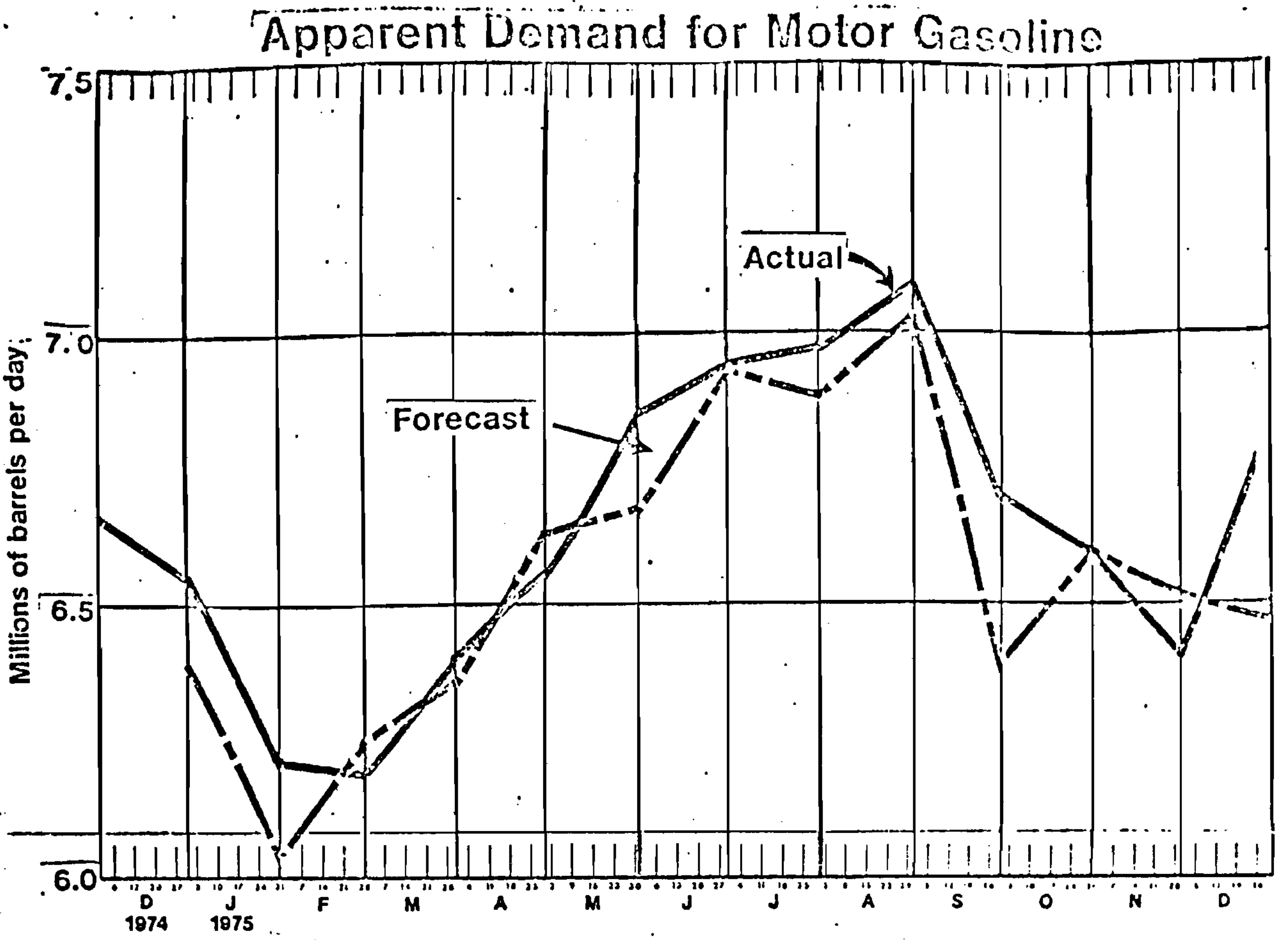
- For the 4 weeks ending December 26 total imports averaged 6.60 million barrels per day. This was 340,000 barrels per day below the 1974 level but 810,000 (14.0 percent) above 1973--during the embargo.

Figure 2



o Total apparent demand during the 4 weeks ending December 26 was 17.48 million barrels per day, 740,000 barrels per day (4.1 percent) below last year but 80,000 above 1973.

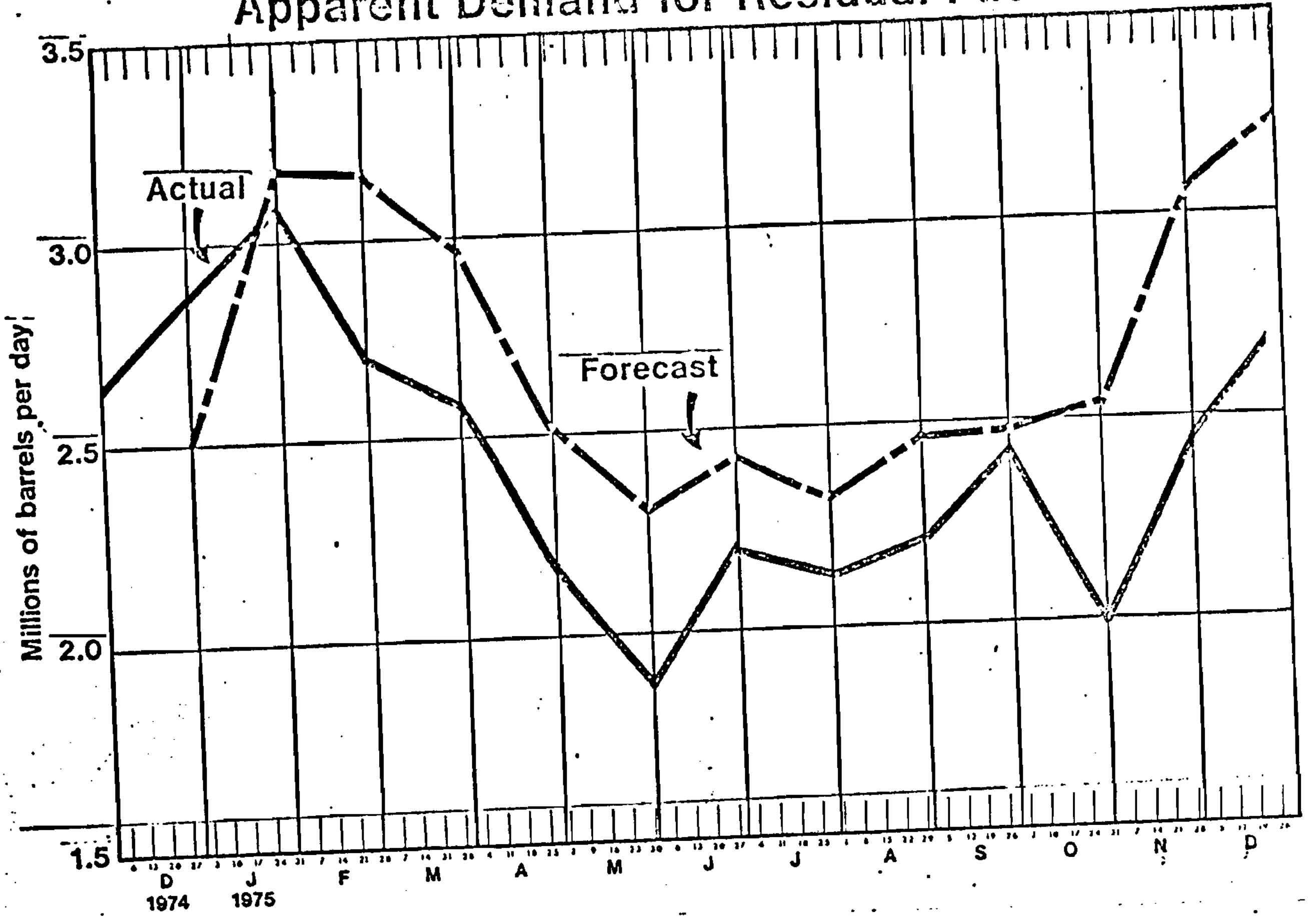
Figure 3



o Apparent demand for motor gasoline during the 4 weeks ending December 26 averaged 6.77 million barrels per day, 210,000 barrels per day (3.2 percent) above last year and 580,000 (9.4 percent) above 1973 during the embargo.

Figure 4

Apparent Demand for Residual Fuel Oil

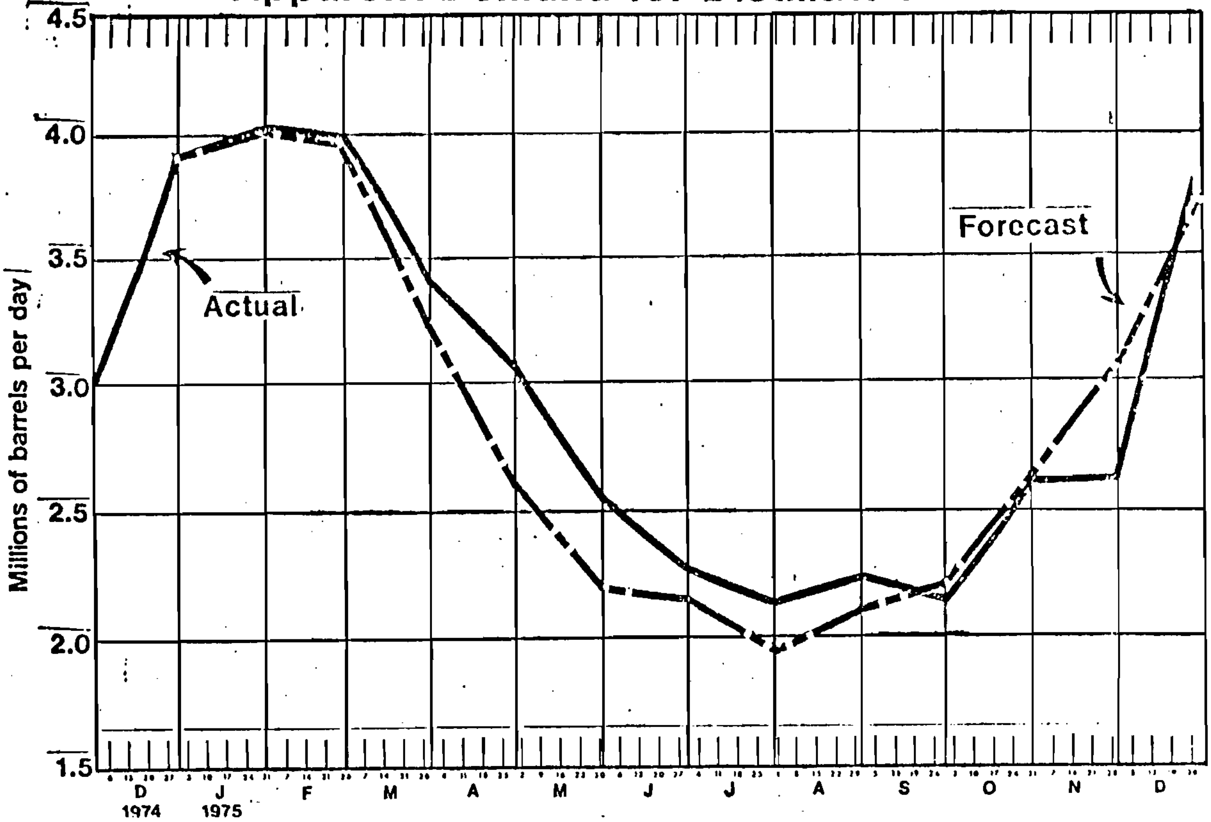


o For the 4 weeks ending December 26 apparent demand for residual fuel oil was 2.69 million barrels per day. This was 340,000 barrels per day below last year and 270,000 below 1973.

Domestic refinery production of residual averaged 1.34 million barrels per day, up 49,000 barrels per day (3.8 percent) from 1974, while imports, at 1.26 million barrels per day, were down 570,000, or 31.1 percent.

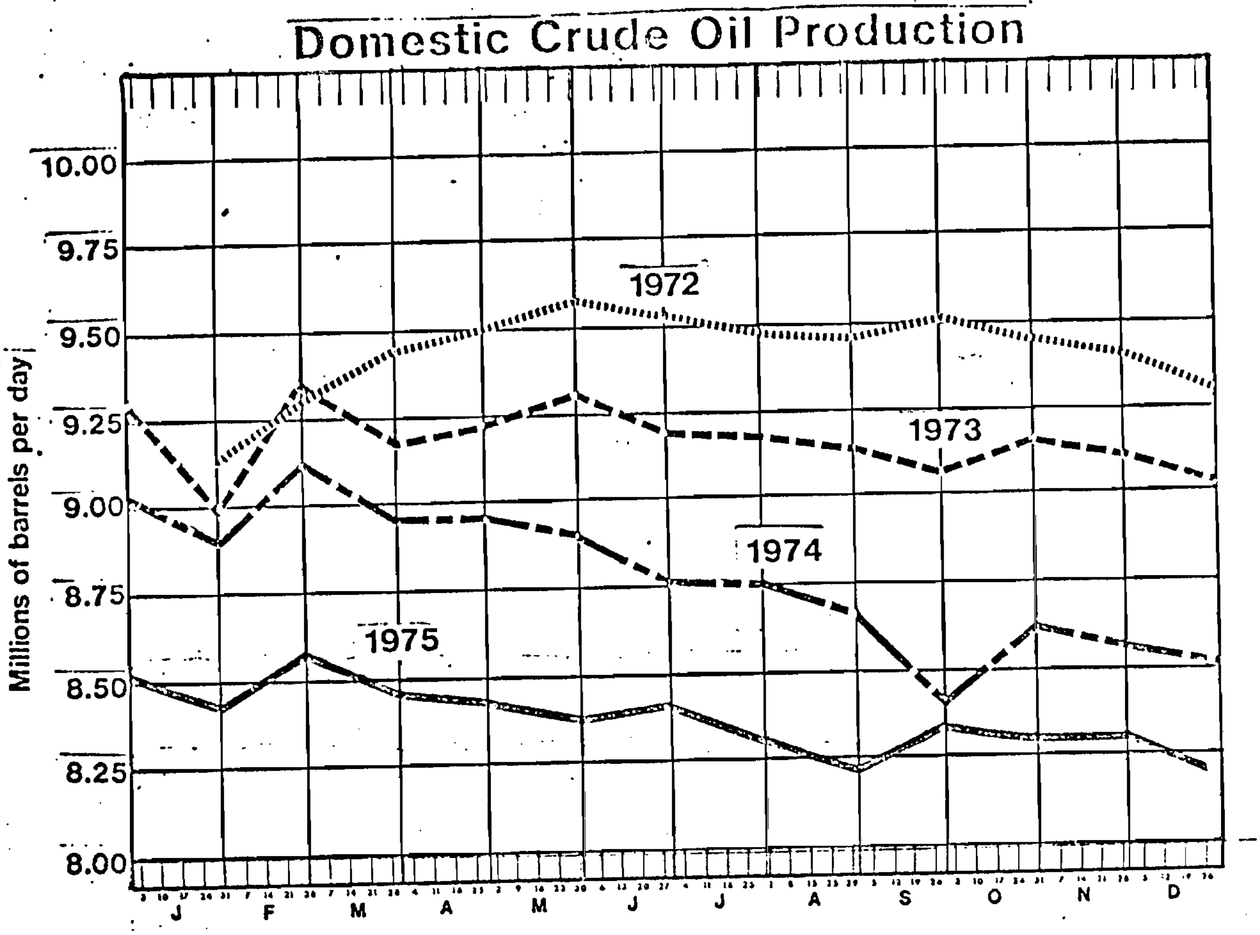
Figure 5

Apparent Demand for Distillate Fuel Oil



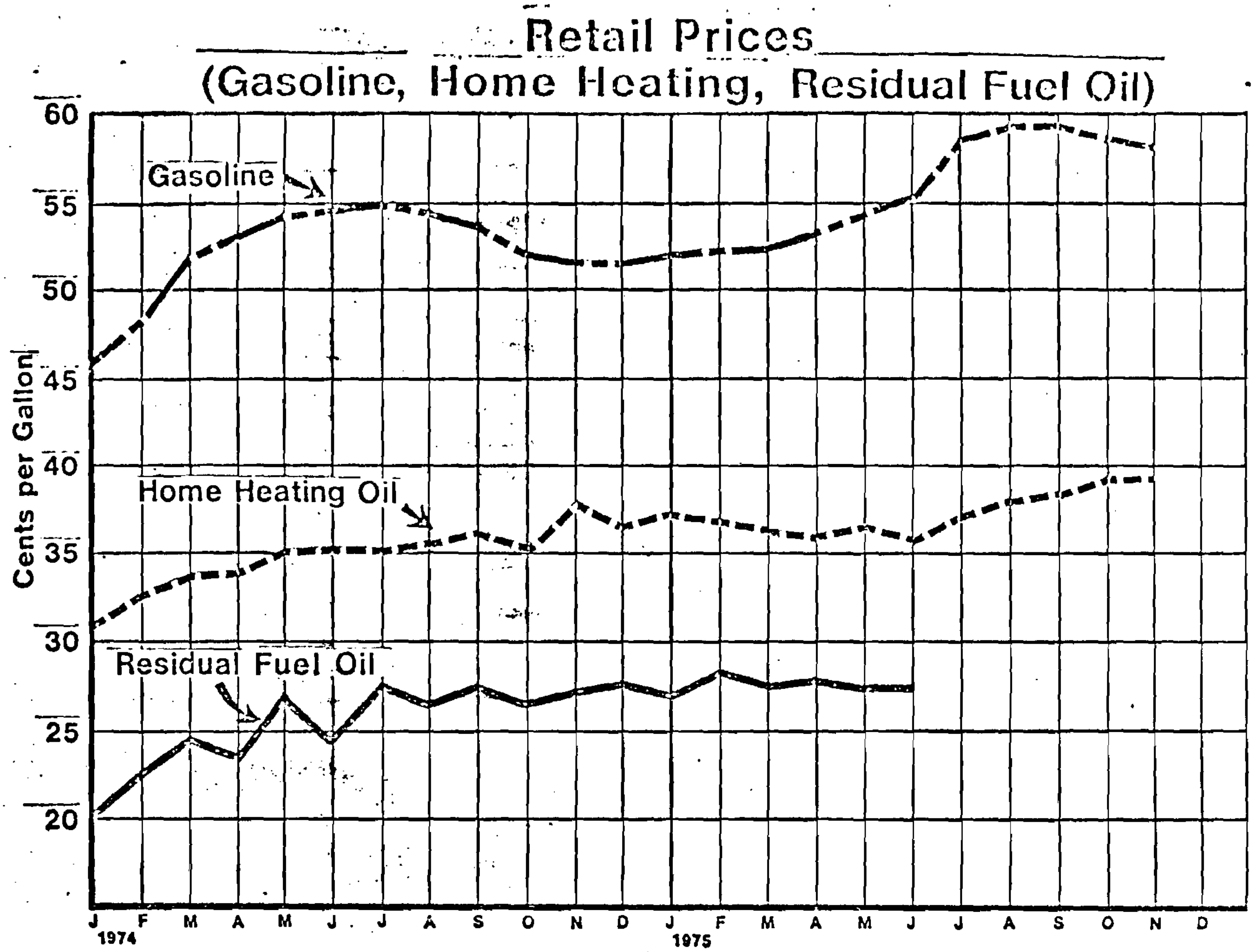
o Apparent demand for distillate fuel oil for the 4 week period ending December 26 was 3.72 million barrels per day, 53,000 barrels per day more than last year and 170,000 above 1973.

Figure 6



o Production of crude oil for the 4 weeks ending December 26 was 8.22 million barrels per day, according to API estimates, 3.5 percent and 9.4 percent below the corresponding 1974 and 1973 BOM figures.

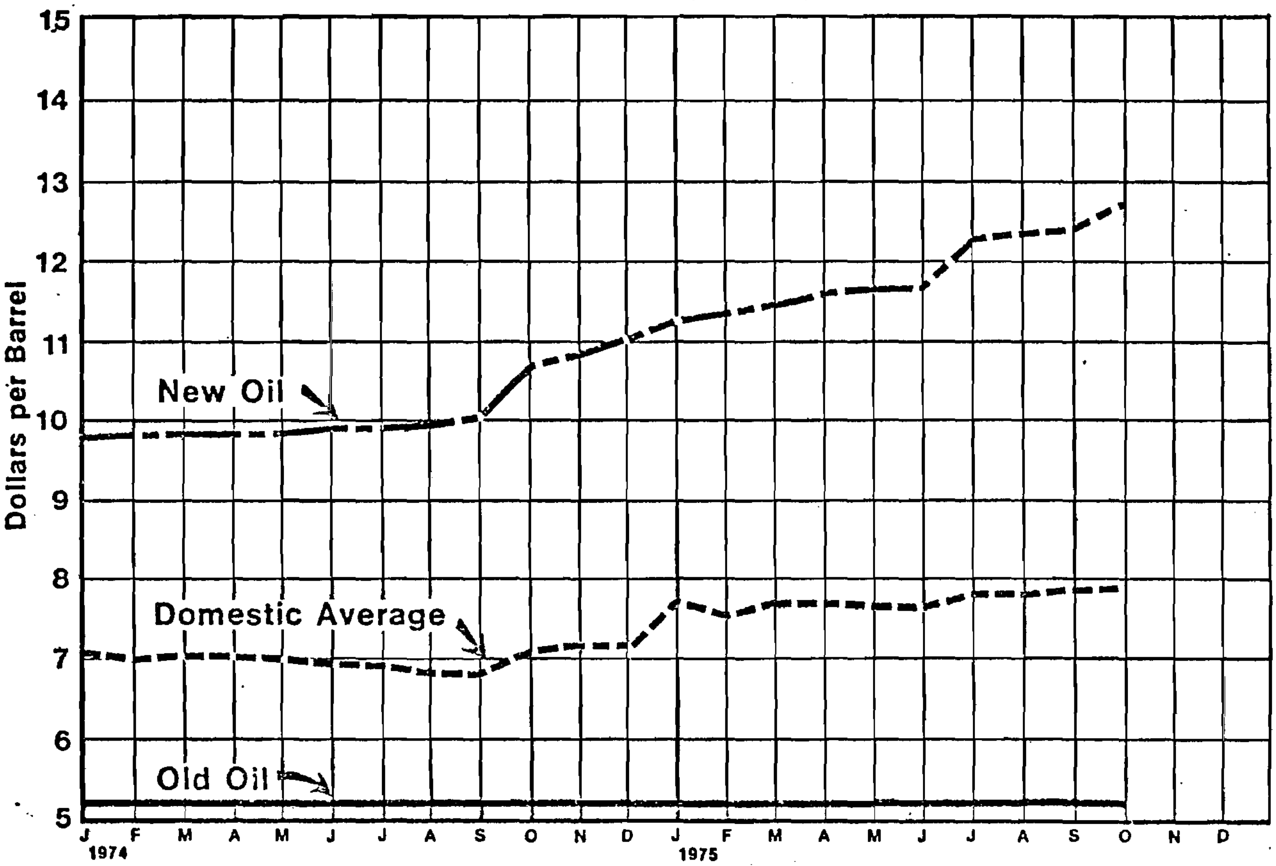
Figure 7



o During November, the average retail selling price for regular gasoline decreased 0.5 cent to 58.4 cents per gallon. This change reflected price decreases in late October by several of the nation's largest marketers of gasoline.

Figure 8

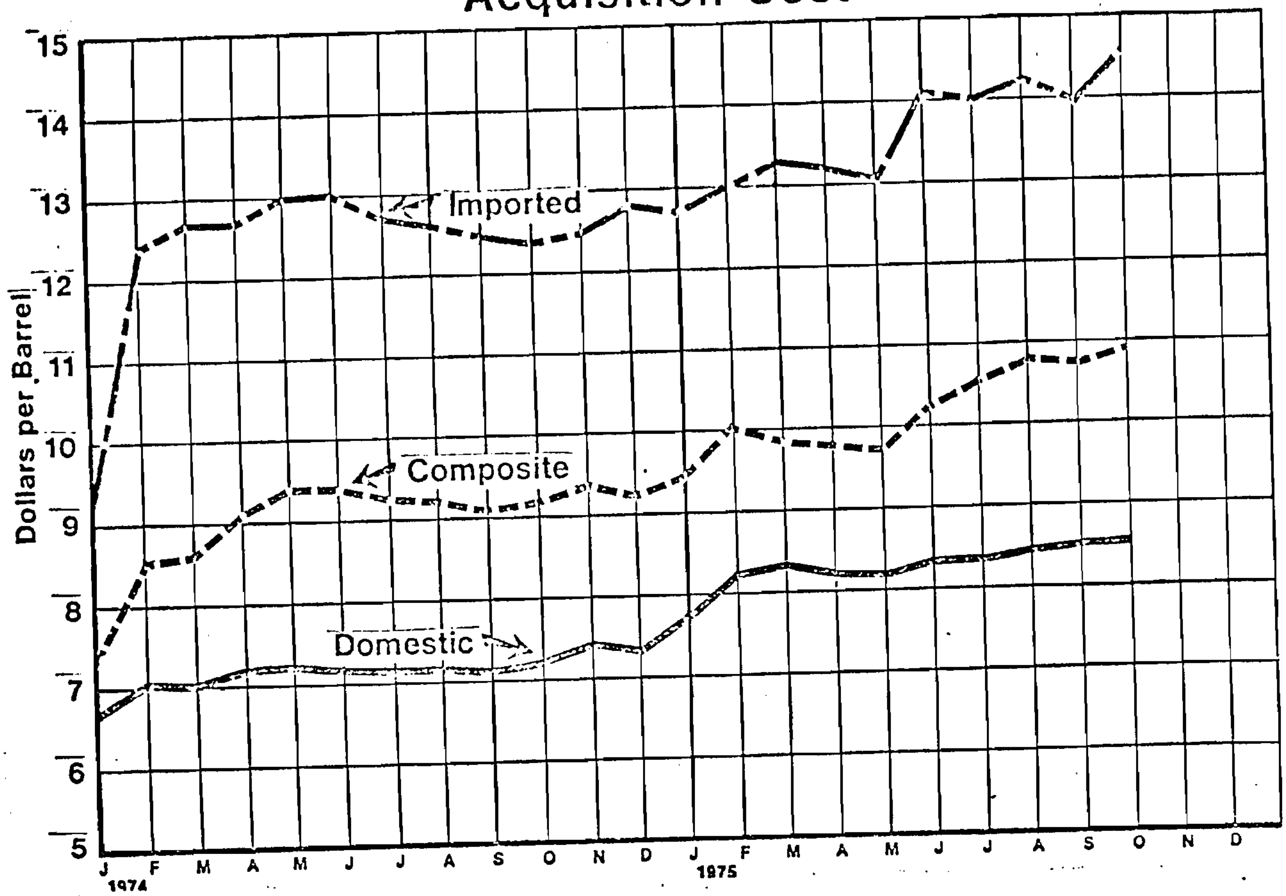
Crude Oil Wellhead Price



o During October, the average domestic "new" price was $12.73 per barrel, 27 cents above the September price.

Figure 9

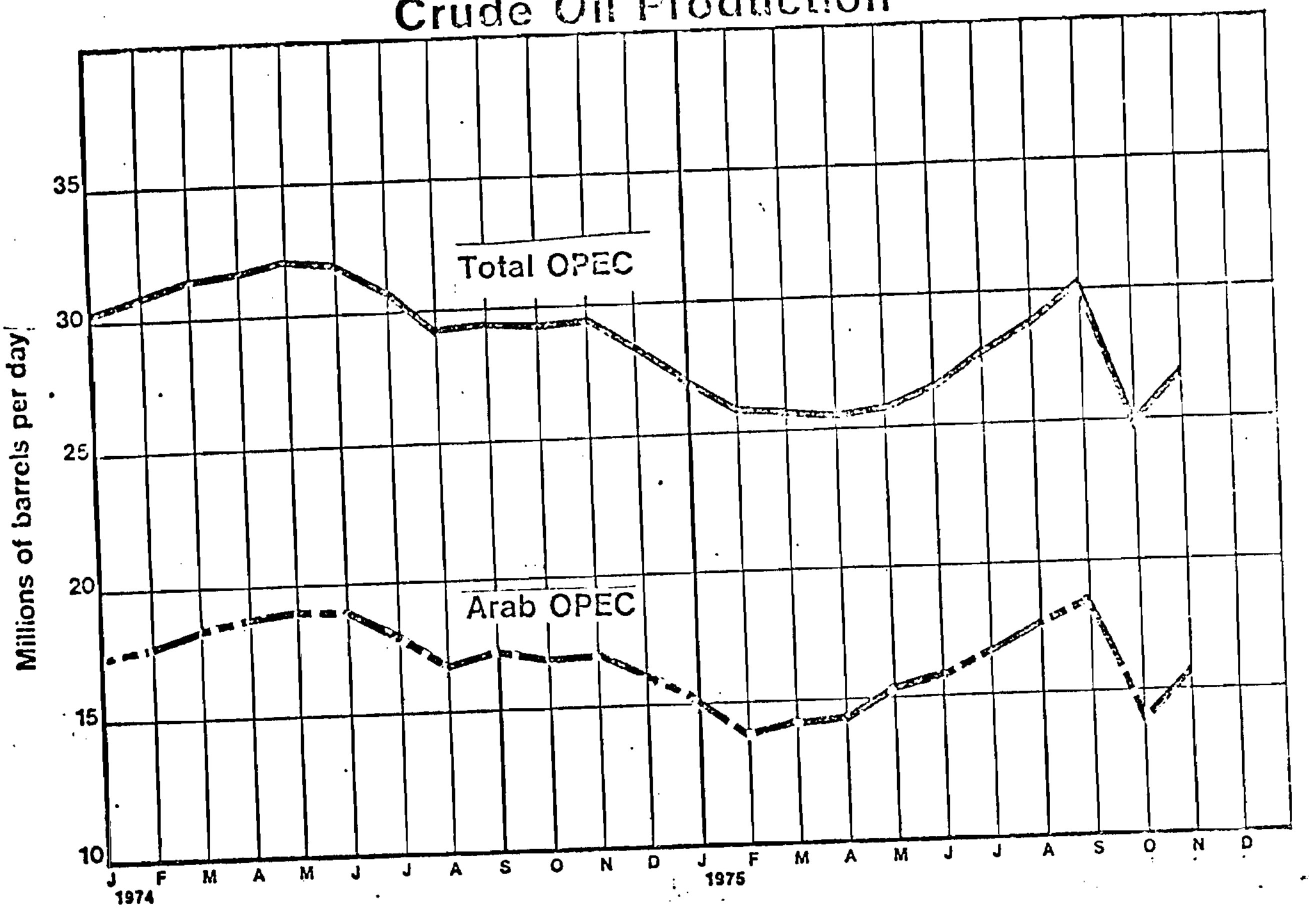
Crude Oil Refiner Acquisition Cost



(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 November from FEA's Monthly Petroleum Reporting System, and 4-week moving average from the API Weekly Statistical Bulletin for 4 weeks ending December 26 (figure 1). Demand after November estimated for figures 2, 3, 4, and 5 by FEA primarily from the API Bulletin. Figure 6, BOM through August, 1975; API monthly for September, October, and November API 4-week moving average for period ending December 26. Figures 7, 8, 9, and 10 from FEA.

Forecast -- A petroleum product demand forecast is made, based on a projection of the state of the economy, without implementation of the President's conservation program (except for retention of the crude oil import tariff) and on the expectation of normal weather. Petroleum product prices reflect the import tariff. The forecast is periodically revised to take account of actual weather and revised macroeconomic forecasts.

1/12 DISPATCHED

FORD, G. R.

FEDERAL ENERGY ADMINISTRATION

JAN 12 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

SUBJECT: COMPLIANCE WITH THE BIOLOGICAL WEAPONS CONVENTION

As requested by memorandum from Brent Scowcroft, dated December 23, 1975, I hereby certify that as of December 26, 1975, the Federal Energy Administration does not have any biological agents or toxins, and that it has no weapons, equipment, or means of delivery designed to use biological agents or toxins.

1/9/76.

1/10

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FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

January 13, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

SUBJECT: U.S. Government Oil Purchase Agreement

Proposal

The USG has the opportunity to negotiate with Iran an agreement for the purchase of 500 MB/D of crude oil for a period of five years, at prices below OPEC levels and with price adjustments tied to changes in the U.S. wholesale price index. The State Department proposes to negotiate for a firm discount of at least 50 cents per barrel with further savings anticipated on periodic price adjustments. Defense and FEA believe a firm discount of at least $1.00 per barrel is necessary to minimize the risk of short-term loss by the USG in reselling the oil. Iran's interest in the agreement reflects anticipated financing difficulties in meeting its development and military needs and the low level of demand for Iranian crude in the currently depressed market.

Mechanics

The USG would purchase the oil directly from Iran and resell it to U.S. companies for delivery to the U.S. The Technical Purchasing Authority (TPA) provision of the Energy Policy and Conservation Act (EPCA) would provide enabling legislation, although the required appropriations legislation would be enacted only after the Congress had the chance to review the proposal. (A more detailed paper developing the mechanics of the proposal is attached.)

Advantages and Disadvantages of Proposal

The principal advantages of the proposal identified by the interested agencies are essentially international and political.

. The relationship between the U.S. and Iran would be strengthened, and a possible severe cutback in Iranian purchases of U.S. military equipment and industrial goods could be averted.

. A measure of instability would be introduced into the international oil market by Iran's violation of OPEC agreements, and the doubling of Iran's share of the U.S. market at the expense of other OPEC countries. These factors could weaken the OPEC cartel's ability to unilaterally establish prices and production levels.

. The U.S. would switch about 8 percent of its oil imports to a cheaper and a politically more secure (i.e., non-Arab) source. An estimated annual savings of $180 million--assuming an average $1.00 per barrel discount--versus a total import oil bill of over $28 billion would result.

The principal disadvantages of the proposal identified by Defense, CEA and FEA focus on the energy and economic aspects and the domestic political implications.

. Involving the USG in the business of buying and selling oil would encourage those proponents of greater governmental involvement in the oil industry generally and of nationalization of imports more specifically.

. The amount of savings to be gained is not significant and the benefits to consumers would not be identifiable.

. The 500 MB/D lifted from Iran would displace some liftings from Saudi Arabia, which probably would threaten the US/Saudi relationship.

. The size of the discount would not significantly undermine OPEC's strength, and the indexation feature would represent an unfortunate precedent, not only with respect to Iran, but also with respect to other oil producers and raw materials exporters in general.

. The market and revenue pressures on Iran that have caused Iran to seek a bilateral agreement with the U.S. represent precisely the OPEC vulnerability to market forces that consuming countries are trying to encourage.

. The nature of the advantages preclude their being discussed publicly with Congress, either because of the political sensitivity of the issue or because the economic advantage would not be deemed to be significant.

Consideration of a Possible Alternative

If it is decided not to pursue the proposal currently under consideration, the possibility of entering into a sizable oil purchase agreement to fill the strategic reserves mandated by the EPCA may warrant consideration. Since the USG, under such an arrangement could commit the oil to reserves and therefore obviate any market impact, a potential supplier might consider a deep enough discount, providing sufficient economic benefit, to override domestic political considerations. Such a proposal could be evaluated in the context of the Early Storage Program and the Strategic Storage Program presently being developed in the Federal Energy Administration.

Conclusion

State discounts the disadvantages outlined above and argues that the advantages far outweigh them. However, in view of the positions taken by Defense, CEA and FEA, State accepts their conclusion that a decision on the proposal should be deferred for further evaluation of the likely responses of the oil market and of the Congress.

DISCUSSION PAPER

MECHANICS OF OIL PURCHASE AGREEMENT

Basic Assumptions

The USG will purchase from Iran for a period of five years 500 MB/D of crude oil. The USG will resell the oil F.O.B. Persian Gulf, in the form of "rights to lift" to U.S. companies operating refineries in the U.S. or at offshore locations with the resultant product destined for the U.S.

Mechanics

A basic contract between the Governments of Iran and the United States would commit Iran to sell and the USG to buy 500 MB/D of crude oil (light and heavy) for a period of five years. On a monthly basis, or for longer periods if desired by the USG, rights to lift would be issued by Iran which would in turn be sold by the USG to American companies. The USG would not physically possess the oil at any time. Transfers to U.S. companies would be effected F.O.B. Persian Gulf. The USG would pay Iran on a monthly basis for the basic amount contracted. Special arrangements would be made for the "start-up" period.

The USG has two basic options in transferring the rights to lift to U.S. companies.

1. An auction could be held by the USG of the rights to lift at the prices contracted between Iran and the USG. Potential buyers would submit bids reflecting their determination of the value of the particular rights. An auction provides a market test and is the preferred option.

2. Tickets may be issued or sold to all U.S. refiners/importers in proportion to refinery runs or imports in the total amount of 500 MB/D. Tickets would entitle the holder to purchase the available crude at prices determined by the USG, either the full amount of the discount received from Iran, or some lesser

amount adequate to entice buyers to lift all the oil (i.e., "clear the market"). A ticket system could benefit the majors which may be politically unacceptable to the U.S., and would probably not be welcome by the Iranians who want liftings by companies other than the majors who are members of the consortium.

A "market" for rights to lift would be established in which tickets could be bought and sold or exchanged by holders not wishing to lift Iranian crude. In either of the two approaches mentioned above, a small refiner "set aside" could be arranged. In addition, length of contracts and quantities of rights to lift could be varied to meet market demands.

Legal Authority

There are two possible authorities for such purchases and resales:

1. Title III of the Defense Production Act; and

2. the Technical Purchase Authority of the Energy Policy and Conservation Act (EPCA).

Action under either would still require appropriations by Congress (and perhaps an authorization under the DPA if a revolving fund is used). Action under the Technical Purchase Authority would be subject to a one-House veto within 15 days of submission of the proposed regulations to the Congress.

If the Defense Production Act were used, the Government would have to relate the purchase to the relevant purposes of the DPA, and the necessary factual finding could be difficult to make and vulnerable in litigation. Congress has also indicated its general disfavor for an expanded use of the DPA. Findings under the Technical Purchase Authority would be considerably easier to make since the proposal is consistent with the intent of Congress in the EPCA.

Under the Technical Purchase Authority, it would be possible either to auction new oil or to allocate it on an input basis to all refiners as long as such allocation is done so as not to provide a "subsidy or preference to any importer, purchaser, or user." The DPA would require any oil to be resold at market prices, thus an auction or market sale would probably be required. The Technical Purchase Authority is the preferred option.

Purchasing Price

Under the terms of the proposal, the purchase price of oil sold by Iran to the USG would consist of two major elements:

1. A discount equivalent to normal credit terms available in the market. Since the USG would be paying for oil before the oil was resold, a price discount would be granted by Iran equivalent to 60 days credit (effective 75 days since normal contracts call for "60 days end of month"). The discount would be about 15 to 20 cents per barrel in today's market.

2. A negotiated discount of at least $1.00 per barrel, which would be fixed for the term of the contract.*

The Base Price, off which discounts would be granted, would be established at the beginning of the contract and relate to market price, not to the OPEC posted or buyback price. Price indexation related to U.S. wholesale index prices would be provided for. Under no circumstances would the Base Price be permitted to rise above market price. The discounts off Base Price, as adjusted, would remain firm.

USG Selling Price

Assuming the USG received a discount of $1.00 per barrel in addition to the credit discount, a determination of the amount necessary to clear the market must be made. It is assumed normal credit terms would be accorded U.S. companies by the USG. The USG would offer a discount in the range of 30 to 50 cents per barrel to companies in order to sell the oil. The U.S. market, excluding the majors, is sufficient to absorb 500 MB/D. If it is found that the market will not "clear" the oil, a deeper discount might be needed to entice majors into the

*State believes a firm discount above 50 cents is not negotiable.

marketplace. Majors would have economic and political problems with other producing countries if significant volumes were shifted from one country to another. It is, therefore, advisable to negotiate at least a $1.00 discount from Iran. This amount would also provide sufficient margin to cover USG administrative costs.

Length of contracts, individual credit terms and cargo lot sizes factors could all be accommodated within the marketplace through an auction system.

FEDERAL ENERGY ADMINISTRATION

1/14/76

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB /S/

SUBJECT: ALASKAN GAS TRANSPORTATION ISSUE PAPER

Enclosed is an issue paper on possible alternatives to expedite delivery of Alaskan gas to the lower-48 states. Substantial quantities of gas could be available by the early 1980's if construction and the regulatory process proceed on schedule.

The issue paper describes possible legislation to expedite the decision process and limit litigation. This legislation could be announced in the State of the Union Message or subsequent Energy Message.

Enslosure

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cc: Exec Sec. (2)
Zausner
Pasternack (2)
Chron

CONCURRENCES

SYMBOL	P&A							
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DATE	1/14/76							

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ISSUE: ALASKAN GAS TRANSPORTATION SYSTEM

What action(s) should the Administration take to expedite selection and approval of one of the two competing Alaskan Gas Transportation Systems?

BACKGROUND

The Nation's need for additional supplies of natural gas necessitates that the gas reserves in Alaska's North Slope be developed and transported to the Lower-48 States at the earliest practicable time and in an economical and environmentally sound manner.

Two proposals for transporting Alaskan Gas to the U. S. are now before the Federal Power Commission (FPC). A recent report by the Department of Interior indicates that either of these systems would be economic and that delays in construction could inflate the ultimate cost of the systems. The two systems are (see Fig. 1):

(1) The Trans Alaska or El Paso proposal (this proposal involves shipment of liquefied natural gas to the West Coast from the Southern Alaska terminus of a pipeline).

(2) The Trans Canada or Arctic Gas proposal.

The Interior study and environmental impact statements have identified some important issues which have to be addressed and resolved:

- There are significant uncertainties with both systems which may delay or even prevent their construction. The Arctic Gas consortium will be heavily resisted by environmentalists and will have to await resolution of Canadian concerns. The El Paso system is dependent on the concept of displacement and will have to overcome possible California objections.*

- The cost to the regional gas consumers will vary between the two systems and may, because of current regulations or pricing practices, burden one group of regional consumers over another. Thus, the final decision may involve revised pricing procedures to distribute equitably the costs of the system.

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* Displacement involves replacing the natural gas transported from the Gulf Coast to the West Coast with Alaskan Gas and re-routing the displaced Gulf Coast gas to the East Coast and Midwest.

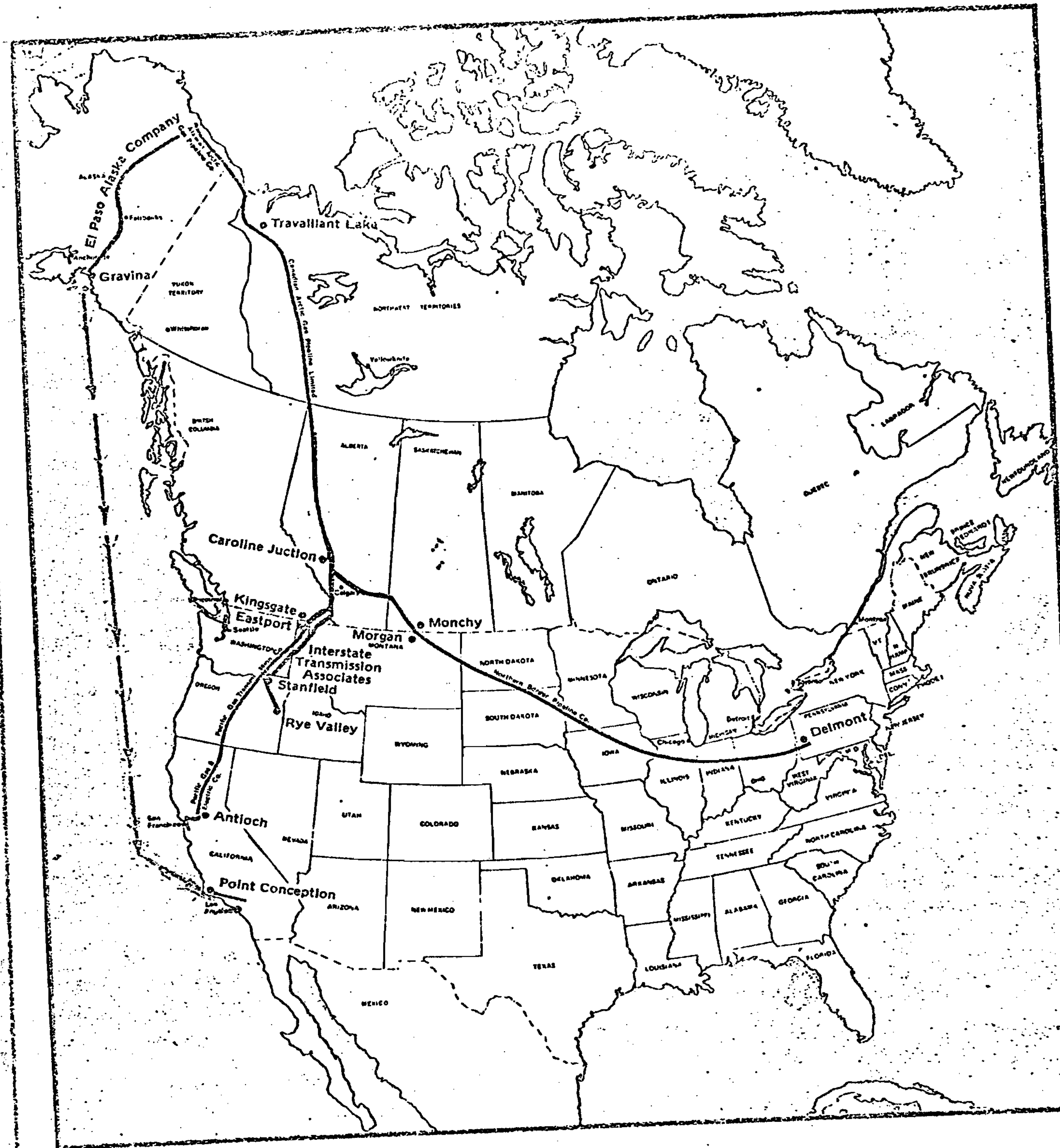

Figure I Proposed Pipeline Routes for the Alaska Natural Gas Transportation Systems.

Innovative regulatory procedures (such as allowing full cost of service pass-through) and broad participation by those parties benefiting most directly from the project will likely be required if a completely private financing is to be arranged for either of the systems. However, the possibility still exists that Federal financial assistance might become necessary.

Only one of these systems will receive approval.

The current selection procedure will require about one year for FPC approval, and, possibly, several years of litigation on environmental and other grounds. The experience with the Trans-Alaskan Oil Pipeline, in which there was a delay of several years, is an indication of the kind of delays that could evolve (although the environmental impact statement process has improved since then).

In the legislation on the Trans-Alaska Oil Pipeline, Congress directed that all Federal agencies issue the appropriate permits and other certificates and also provided that Federal actions concerning approvals were not subject to judicial review under the National Environmental Policy Act or any other law.

The following Agency actions are expected to be necessary; they illustrate the numerous areas of possible delay:

Federal Power Commission

- Issue a certificate of public convenience and necessity for the construction and operation of the transportation system (including the allowable tariff).
- Authorize gas sale by Prudhoe Bay gas producers.
- Issue certificates of construction of related pipelines by other companies for distribution of gas in the lower-48 States.
- Approve agreements, including quantities and price, between parties affected by proposed displacement if the El Paso proposal is chosen.

Interior Department

- Permits for rights-of-way over Federal land both in Alaska and the lower 48 States.

EPA (and State)

- Permits for discharge of liquid waste into waters of the State -- if relevant.

Corps of Engineers

-- Permits for river crossings and for dredging of river bottoms.

Coast Guard

-- Various approvals regarding construction and operation of LNG tankers for El Paso project.

Other Federal Agencies

-- FMC, Public Health Service, Maritime Administration, FCC.

Individual State Approvals

-- Alaska authorization on the Natural Gas Maximum Efficient Rates (MER) of production. Any other State authorization or permits regarding roads, sewage, coastal zone impacts, etc. Some States may institute additional certification requirements to minimize adverse effects or to influence the selection process.

Congressional Situation

To date, several legislative proposals have been introduced in both Houses which would either expedite approval or mandate the selection of one of the competing proposals. At present, it does not appear that there is sufficient Congressional support now for legislation to select either of the alternative routes.

Informal discussions with Senate Commerce Committee staff members indicate some interest in process legislation, but there appears to be no consensus on a particular approach. They also indicate that the Committee members will probably want to hold hearings prior to taking any action on a bill.

Both the FPC and the Interior Department have issued draft Environmental Impact Statements (EIS) on the two proposed systems.

OPTIONS

Option 1. Take no action at this time.

Under this option, no legislative action would be proposed and the current process will be allowed to proceed. It is possible that the Administration could propose legislation after the FPC decision is made, but a decision on this would be deferred.

PROS:

- Allows the current regulatory process to continue and to clarify technical, environmental and economic problems that are now unknown. The additional time may help define the type and scope of legislation needed.

- To propose legislation at this time would provide Congress with an opportunity to add provisions unwanted by the Administration.

CONS:

- May result in greater delay in the final decision, since even if legislation is proposed after the FPC decision, it will have to be considered by a new Congress and will take some time to enact.

- Lack of Administration initiative may allow Congress to seize the initiative and either propose expediting legislation or actually select one of the competing proposals.

Option 2. Propose Legislation to Expedite the Decision Process.

Propose legislation setting forth the procedures for review and approval of the selected system, and expediting the decision process.

There are three sub-options:

Sub-option 1

Establish a process in which the FPC would be allowed one year to complete the decision and issue a certificate of convenience and necessity. Certain designated Federal agencies would submit reports to the FPC concerning various aspects of the decision-making process (e.g., EPA on environment; DOT on tanker safety; State on U.S.-Canadian relations, etc.), and FPC would consider the findings in the reports in making its decisions. The Congress would then be given a certain number of months to review and disapprove of the decision. Failure to disapprove the decision would allow the project to proceed and preclude judicial review. In addition, jurisdiction of the courts to review other Federal actions would be removed in the same fashion as in the Trans-Alaskan Oil Pipeline Act, previously described.

PROS:

- FPC has established procedures and expertise for deciding such issues.
- FPC is an independent regulatory agency, and by involving other agencies, it could reduce Congressional resistance to the process.
- Avoids Presidential involvement in a controversial decision.

CONS:

- Since the FPC is an independent agency, it would not necessarily have to take into consideration broader executive agency economic, foreign policy, and political considerations.
- FPC's ability to consider some important issues, such as the environmental impacts, financing requirements or U.S.-Canadian relationships, is limited.
- Would result in a major decision being made by an independent agency, that is not a part of the Administration.

Sub-option 2

Set a period of one year for the FPC and other designated Federal agencies to submit recommendations to the President, who would then make a final recommendation to the Congress. The Congress would have a similar right of disapproval as in Sub-option 1, and judicial review would be limited in the same fashion.

PROS:

- Allows the President a role in the decision-making process on this important issue.
- Allows better consideration of those issues which FPC may not be equipped to handle.
- Allows completion of the FPC process.

CONS:

- Could be subject to greater Congressional resistance because of the larger role of the Administration.
- Is a more cumbersome procedure.
- Will require a controversial decison from the President, which will create ill-will regardless of the outcome.

For both Sub-options 1 and 2, the Congressional review could be either a one-House veto within a specified period of time (60-90 days) or would require a concurrent resolution to disapprove. Congress would probably prefer the one-House veto, as concurrent resolution would make disapproval more difficult.

If Congress disapproves a Presidential or FPC recommendation, there are various possibilities of future action: 1) the FPC would begin its decision-making process again, 2) Congress or the Administration could recommend another proposal within a specified period of time (perhaps 90 days), or 3) the recommendation would remain in effect, but would be subject to normal judicial review, or perhaps expedited judicial review as outlined in Sub-option 3, below. The actual process, in the event of disapproval, would be defined in the legislation.

Sup-option 3

FPC Determination and Expedited Judicial Review

Instruct the FPC to (1) choose between the two systems and make all necessarily related decisions by a specified date and (2) consider the input of interested executive branch agencies which would be required to submit views by a specified earlier date.

The Legislation would also establish an expedited judicial review procedure whereby all interested parties would have to file any suits against the decision within a limited time period (e.g., 60 days), to a specific court (either an existing court or a special court). Judicial review of the non-FPC decisions could either be coordinated in this same court or removed from judicial review altogether as with the Alaska Pipeline legislation, previously described.

PROS:

- Allows the final governmental decision to be made by the entity that has the most expertise on most of the technical issues.
- Takes the decision out of the political process, thus limiting political conflicts which would otherwise ensue.
- Puts all interested parties (governmental and private) on notice that they would have only a limited period in which to participate in the decision-making process and to litigate the FPC determination.

CONS:

- If the court does not allow the FPC decision to stand or refer the issue back to the FPC for reconsideration, the transportation of Alaskan natural gas to the lower 48 States would be considerably delayed (unless Congress intervenes at that point to dictate a prompt decision).
- By taking the decision entirely out of the political process, it does not allow the Executive Branch adequate input to the decision-making process.
- Since there would be no time limit on when a judicial decision may be rendered (as opposed to when suits must be filed), a final decision could be considerably delayed; possibly one year or more beyond the FPC decision.

AGENCY RECOMMENDATIONS

- Option 1 - No action at this time: CEA, OMB, EPA.
- Option 2 - Expediting legislation:

  Sub-option 1: No agencies support this sub-option.

  Sub-option 2: FEA, State, Treasury, Commerce, Interior, CIEP.

  Sub-option 3: No agencies support this sub-option.

PRESIDENTIAL DECISION

Option 1 ___

Option 2

Sub-option 1 ___

Sub-option 2 ___

Sub-option 3 ___