The original documents are located in Box C30, folder "Presidential Handwriting, 11/11/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

11/14

Jim -

No indication on this piece of outbox material if the President made a decision. Should I call Zarb?

Trudy

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE
WASHINGTON

Dick -

Frank Zarb says the President should see this prior to departure.

Also, Frank needs 5 mins w/ the President and you to discuss the conference results.

T.

THE PRESIDENT HAS SEEN....

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

November 7, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: RECOMMENDATIONS ON ENERGY BILL

SUMMARY OF PRICING PROVISION ADOPTED BY CONFEREES

The Senate Conferees adopted a pricing provision Thursday evening that does not meet the minimally acceptable criteria that you conveyed to Paul Rogers and several other Members. The major provisions of the pricing program, which passed the Senate by a vote of 15-9 and was accepted by the House Conferees by a vote of 4-3, are as follows:

- Establishes a $7.55 per barrel average domestic price that can be escalated at a rate of 10% per year as per Presidential findings. With old oil held constant at $5.25, this level implies a roll-back of the new oil cap to $11.00.

- Although the Conferees accepted our version of the Presidential findings, they rejected the stripper well exemption you proposed to Paul Rogers (even though the House initially voted to accept the exemption).

- In addition to the rejection of the stripper well exemption, the program prohibits the escalator unless your tariff is removed and requires the Congress to approve a continuation of the escalator every year (by failure to disapprove a Presidential recommendation to continue the escalator). Neither of these provisions were a part of your agreement with Paul Rogers.

In its current form, the provision is inadequate in terms of reducing our imports. It further provides virtually no certainty to industry to plan investments in exploration and development. (See Table 1)

There are, as you know, a number of other problems in the bill not related to pricing, including mandatory conservation reporting requirements for industry, GAO audit and inspection authorities regarding industrial books and records (both producers and users) that would give GAO and Members of Congress virtually free access to proprietary information without sanctions against dissemination, overly rigid auto efficiency standards, and an unnecessary codification of OCS leasing regulations. Our ability to improve these provisions may be lessened by the Conferee's agreement on price. These items, of course, must also be balanced against the positive provisions in the bill from the standpoint of your own energy program -- strategic storage, emergency stand-by authorities, and coal conversion.

THE BASIC DECISION

The basic decision that must be addressed is whether or not to veto the bill.

- Arguments In Favor Of A Veto Include:

  - the increased level of imports that would result from the bill's pricing provisions;

  - other objectionable provisions in the bill that may not get changed;

  - the fact that signing could be perceived by many as a victory for Jackson on the pricing issue since the present bill clearly would represent a step back from your previously announced goals;

  - the elaborate new regulatory apparatus mandated by the bill that would add further complications to an industry already tied up by government regulation; and

  - the fact that the bill will result in a major reduction in incentives for investment in new high cost oil production.

- Arguments Against A Veto Include:

  - the possibility of immediate decontrol and the resulting higher prices that will occur;

  - continuing confrontation with the Congress on the energy issue, whether or not the veto is sustained; and

  - the desirable features of the bill that could begin to be implemented immediately.

In evaluating the pros and cons of a veto, consideration would also have to be given to the positions of Republicans and Democrats who have stood with us on this issue.

OPTIONS IF YOU DECIDE TO VETO

There are basically two options regarding our next steps if you decide to veto the bill:

(1) Announce your intention to veto the bill and send up an Administrative decontrol plan today

Pros:

- Dramatically signals your intention to veto.
- Gives the Congress as a whole one last chance to agree upon a phased decontrol plan.

Cons:

- Could harden the attitude of the Conferees toward any chances of improving the pricing provision next week.
- Infringes on the Conference Committee's jurisdiction over pricing at a time when their bill has not been reported back to Congress.
- Even if the plan is accepted, the Act expires November 15 and the Congress would defer to the Conferees in writing the extension and its pricing provisions.
- Likely to be defeated just before a possible veto fight.

(2) Zarb announcement of your intention to veto unless the pricing provision and other problem areas are improved

Pros:

- Leaves your options open.
- Provides the Conferees with both an incentive and another chance to reconsider the pricing provision.

Cons:

- Could signal the possibility of a further compromise on our part on the pricing issue.
- Eliminates possibility of submitting an Administrative plan.

RECOMMENDATION

I recommend Option 2. This option gives us another chance to improve the pricing provision and other problem areas. A few key votes on the Senate side (Glenn, Weicker, Bumpers) could swing it our way.

TABLE 1

PRELIMINARY COMPARISON OF ENERGY PROPOSALS

	12 Mon	24 mon	36 mon
DOMESTIC COMPOSITE PRICE ($/BBL)			
. Original 39 Month Program	$ 8.96	$10.74	$12.97
. Stone Amendment w/Stripper	8.94	9.76	10.47
. Conference Committee Plan	8.31	9.14	10.05
OLD AND NEW OIL PRICES			
. Old Oil - All Programs	5.25	5.25	5.25
. IMPLIED NEW OIL CAP			
. . 39 Month Program	12.10	12.70	13.30 *
. . Stone w/Stripper	13.64	14.37	14.14
. . Conference Committee	12.31	13.22	13.54
IMPORTS (MM B/D)			
. 39 Month Program	6.9	7.7	6.3
. Stone w/Stripper	6.9	7.9	6.9
. Conference Committee	7.2	8.2	7.3

* Under the 39 month plan only about 4% of domestic oil would sell at $5.25; whereas 96% would sell at the $13.30 ceiling price. Under either the Stone or the Conference Committee proposals a considerably greater proportion of domestic oil would sell at the $5.25 price level.