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THE WHITE HOUSE

WASHINGTON

January 22, 1975

MEETING WITH NORTHEASTERN GOVERNORS

Thursday, January 23, 1975

2:30 P.M. (45 minutes)

The Cabinet Room

From: Ken Cole

I. PURPOSE

You are holding this meeting in response to a request of the Governors of the Northeastern states because of their concerns about some aspects of your energy and economic proposals.

The purpose of the meeting is to give them an opportunity to be heard and for the Administration to explain aspects of the program that may have been misunderstood and to try to neutralize their opposition to your program.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

This particular group of Governors has been most vocal in its opposition, particularly to the energy proposals and are making a strong effort to organize their Congressional delegations.

It is fair to say that the Governors of both parties share your Economic and Energy goals. The Northeast controversy is almost entirely over those aspects of the energy program which will raise the price of imported crude oil and petroleum products. There are some in this group that have announced their intentions to file suit in an effort to block the imposition of import fees.

While no decisions are expected at this meeting, you may wish to ask the group to continue the dialogue begun at this meeting with Frank Zarb and the FEA experts. The group could continue to meet with all of the Governors present or some lesser number designated by the members for a complete sharing of our full information and data with them which has led us to conclude that our plan is in the best interest of the entire nation.

In conclusion, you could recommend the further follow up steps set forth in the attached talking points which set forth action that the Governors could undertake in each of their states.

Note: FEA has prepared a complete briefing book for each of the participating Governors which focuses on the Northeast.

B. Participants

See Tab A.

C. Press Plan

Press photo opportunity at the beginning of the meeting. Frank Zarb will brief the press corps at the conclusion of the energy events this afternoon.

III. TALKING POINTS

See Tab B.

IV. FURTHER BACKGROUND

We have just learned that Governor Carey has proposed a resolution to this group which would seek your delay for 90 days in the imposition of import fees. (8 Governors voted Yes - Governor Thomson and Governor Longley voted No).

The views expressed by some of these Governors in their letters to you and/or statements are set forth as Tab C.

PARTICIPANTS

Governors

Honorable Brendan T. Byrne (D), New Jersey
Honorable Hugh L. Carey (D), New York
Honorable Michael S. Dukakis (D), Massachusetts
Honorable Ella Grasso (D), Connecticut
Honorable James B. Longley (I), Maine
Honorable Philip Noel (D), Rhode Island
Honorable Thomas P. Salmon (D), Vermont
Honorable Milton J. Shapp (D), Pennsylvania
Honorable Meldrim Thomson, Jr. (R), New Hampshire
Honorable Sherman W. Tribbitt (D), Delaware

Administration

Counsellor Jack Marsh
Donald Rumsfeld
William Seidman
Frank Zarb
Jim Cavanaugh
Jim Falk
Michael Duval
Eric Zausner

III. TALKING POINTS

Welcoming remarks and appreciation for Governor Carey arranging this meeting.

• I have decided to Administratively impose a gradual increase in imported crude oil. I know you oppose this action.

I cannot delay. My responsibility to prevent the serious impact on our national security and the very existence of our freedom and leadership in the world because of the current energy situation, requires that I take action.

From a decade ago when we were a net exporter of oil, we now are dependent on foreign sources for 38 percent of our needs. If we continue in the direction that the country is now on, we will be importing 25 percent more oil by 1977 and we will be dependent on foreign sources for more than half of our oil by 1985.

Furthermore, this is draining our national wealth, and thus it is impacting adversely on our economy and our unemployment. In 1970 we paid less than \$3 billion for our oil imports, but, because of the quadrupling of the cartel price of oil, we are now paying almost \$25 billion a year. By continuing on our current course, this will go to \$32 billion in 1977.

This country is thus moving at a very rapid pace towards increasing vulnerability and decreasing economic strength.

I cannot, in good conscience with both the Congress and the American people, exercise the power of this Office by sitting by and watching the Nation continue to talk about its energy crisis while it does nothing to change the direction which is so badly hurting our country. The American people will not long tolerate inaction or a President who does not use the powers available to him to prevent this increasing damage to the Nation.

I recognize that Administratively-imposed fees, while they will turn this country around and head us back in the right direction, are not the ultimate answer. Of course, Congress must quickly act on my proposals to insure that the increased revenues which the government will collect from energy taxes and fees, will be returned to consumers and businesses. My proposed energy tax cut is a critical component of my overall energy program.

- I understand the crushing impact of the energy crisis on the Northeast.
 - You are dependent on petroleum products for 85% of your energy needs -- almost twice the national average. This means you must rely on high-cost foreign products for nearly one-half of your energy needs.
 - Your weather requires New England families to use 60% more of this expensive fuel than average American families. This means that their costs are 28% higher. (\$1,250 per New England family per year compared to \$970 average U.S.)
- We have taken action to reduce your burden by trying to achieve equality among the different regions of the country to the extent we can.
 - We have
 - 1) the entitlements program which gives the Northeast greater access to a price controlled "old" oil; and
 - 2) The proclamation I will sign contains substantial reduction in the fees on imported products -- which the Northeast relies on so heavily -- compared to the new fees on imported crude oil.
 - There is much more we can and will do. We need your cooperation.
 - In the near-term I have asked Frank Zarb to work with you and your representatives to develop solutions designed to assist the Northeast while not undercutting my national energy goals. For example, two areas which Frank will explore with you are:
 - 1) Differential utility rates which favor low-income families and high charges for excessive use by those who can best afford to pay.

2) Methods to reduce increases in costs of residual and heating oil by encouraging a disproportionate increase in gasoline costs. This option, of course, could result in substantial hardship in areas of the country which are dependent on the automobile.

- In the long term:

- There are still no refineries in New England and attempts to build refineries have been persistently thwarted.
- OCS development off New England and the Mid-Atlantic is being resisted.
- About 75% of planned nuclear plants have been cancelled or postponed in this area.
- Powerplant coal conversions could save 70,000 barrels per day in 1975.

GOVERNOR BRENDAN T. BYRNE

Concerned over increasing natural gas curtailments. Has submitted budgetary, legislative programs in line with President's governmental austerity proposals.

"New Jersey already has crushing unemployment rate . . . economic situation in state is critical."

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"imperative process of learning to live with its means. Now is the time . . . to bring government back into lines with (fiscal) reality . . ."

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" . . . agree . . . nation must cut back its consumption of energy . . . but we cannot agree with the unfair and discriminatory program you are imposing on us.

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THE WHITE HOUSE
WASHINGTON

mtg. today 1/23
w/ President
2:45

Honorable James B. Longley
Governor of Maine
Augusta, Maine 04330
207/289-3531

Honorable Michael S. Dukakis
Governor of Massachusetts
Boston, Massachusetts 02113
617/727-3600

Honorable Ella Grasso
Governor of Connecticut
Hartford, Connecticut 06115
203/566-4840

Honorable Milton J. Shapp
Governor of Pennsylvania
Harrisburg, Pennsylvania 17120
717/787-2500

Honorable Philip Noel
Governor of Rhode Island
Providence, Rhode Island 02903
401/277-2397

Honorable Thomas P. Salmon
Governor of Vermont
Montpelier, Vermont 05602
802/828-3333

Honorable Meldrim Thomson, Jr.
Governor of New Hampshire
Concord, New Hampshire 03301
603/271-2121

Honorable Hugh L. Carey
Governor of New York
Albany, New York
518/474-8390

Honorable Brendan T. Byrne
Governor of New Jersey
Trenton, New Jersey 08625
609/292-6000

Honorable Sherman W. Tribitt
Governor of Delaware
Dover, Delaware 19901
302/678-4101

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PMS. PRESIDENT GERALD R FORD

WHITE HOUSE DC 20500

DEAR MR PRESIDENT I CANNOT URGE TOO STRONGLY THAT YOU IN YOUR STATE OF THE UNION ADDRESS CLEARLY DEFINE YOUR ADMINISTRATIONS GOALS IN REGARD TO OUTER CONTINENTAL SHELF OIL EXPLORATION AND DEVELOPMENT DECISIVE ACTION ACCCOMPANIED BY FIRM RESOLVE AND RECOMMENDED HIGH PRIORITY LEGISLATION IS DESPERATELY NEEDED TO ELIMINATE THE PRESENT MIASMA OF PETTIFOGGERY WHICH IS CURRENTLY BEING USED BY A MINORITY OF CITIZENS TO DEFEAT EFFECTIVE ACTION IN ENERGY PRODUCTION EFFORTS AS CHIEF EXECUTIVE OF NEW HAMPSHIRE I SHALL CONTINUE TO IMPLEMENT ENERGY CONSERVATION MEASURES SUCH PROGRAMS ARE AT BEST STOP-GAP PROCEDURES AND WILL NOT SOLVE THE LONG RANGE PROBLEMS INHERENT IN OUR ENERGY CRISIS INDEED

IT IS DIFFICULT TO CONVEY THE CITIZENRY THAT A CRISIS EXISTS AS THEY OBSERVE OUR NATIONAL GOVERNMENT AND MANY STATE GOVERNMENTS TOTALLY PARALYZED IN THE POSTER OF NERO FIDDLING WHILE ROME BURNS IF THIS NATION IS TO FREE ITSELF OF THE SUBORNMENT AND BLACKMAIL WHICH ARE RELIANCE UPON FOREIGN OIL IMPORTS CREATES A PRACTICAL AND REALISTIC APPROACH MUST BE FORGED THIS IS NOT TIME FOR OUR PUBLIC OFFICIALS TO BE INTIMIDATED BY A FEW OBSTRUCTIMENTALISTS THIS IS A TIME FOR HONEST LEADERSHIP TO PROCLAIM WITHOUT FEAR THAT THE FUTURE OF AMERICA IS TIED INEXTRICABLY WITH ENERGY PRODUCTION ANY WEAKER APPROACH WOULD BE TANTAMOUNT TO TREASON

RESPECTFULLY

MELDRIN THOMSON JR GOVERNOR OF NEW HAMPSHIRE

NNNN



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6 PMS HONORABLE GERALD FORD

7 WHITE HOUSE

8 WASHINGTON DC

9 MR PRESIDENT

10 I WANT TO THANK YOU FOR YOUR KIND INVITATION FOR ME TO ATTEND
11 A BRIEFING JANUARY 16 PRIOR TO YOUR STATE OF THE UNION ADDRESS.
12 UNFORTUNATELY, BECAUSE OF THE SHORT NOTICE AND IN FAIRNESS TO
13 THE LEGISLATURE THAT IS NOW IN SESSION HERE IN MAINE I WILL
14 BE UNABLE TO ATTEND. WHILE I THANK YOU FOR THE INVITATION AND
15 WISH YOU WELL IN YOUR STATE OF THE UNION MESSAGE, I WANT TO
16 OFFER SOME SUGGESTIONS TO WHICH YOU MIGHT WANT TO GIVE SOME
17 FUTURE THOUGHT:

18 1. IN THE INTEREST OF ECONOMY OF GOVERNMENT IN CONSERVATION

25

5 OF ENERGY, I QUESTION WHETHER ASKING ME AND OTHER GOVERNMENT
6 OFFICIALS TO TRAVEL TO WASHINGTON EQUATES TO THAT OBJECTIVE.7 2. I SUBMIT IT IS NOT FAIR TO THE TAXPAYERS WHO SUPPORT OUR
8 TRAVEL OR COMPATIBLE WITH THE ENERGY CRISIS WHICH SUGGESTS WE
9 CONSERVE.10 3. I ASK YOU TO CALL THE GOVERNORS TOGETHER WHEN YOU WANT OUR
11 INPUT AND SUGGESTIONS AS CONSTRUCTED WITH THIS KIND OF INVITATION
12 TO BRING US TOGETHER TO SIMPLY TELL US WHAT YOU ARE GOING SAY
13 A FEW HOURS LATER.14 4. FINALLY, LET ME COMMEND YOU ON YOUR MORATORIUM ON SPENDING,
15 SOME MAINE CITIZENS LOVE THE MOTO "AS MAINE GOES, SO GOES THE
16 NATION" ARE COMMENTING THAT THE PRESIDENT IS FOLLOWING MAINE'S
17 LEAD SINCE I ALSO HAVE CALLED FOR A ONE YEAR SPENDING MORATORIUM
18 HERE IN MAINE.

26

3
4
5 LET ME PLEDGE TO YOU MY SUPPORT WHENEVER POSSIBLE AS TO YOUR
6 PROGRAMS AND MY FULL SUPPORT IN EVERY INSTANCE WHERE THE BEST
7 INTEREST OF THE COUNTRY IS AT STAKE.

8 JAMES B LONGLEY GOVERNOR OF MAINE

9 NNNN

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15





State of Rhode Island and Providence Plantations

EXECUTIVE CHAMBER, PROVIDENCE

Philip W. Noel
Governor

: January 17, 1975

TO WHOM IT MAY CONCERN:

I will be meeting with President Ford on Thursday, January 23, 1975 to discuss this issue. I would appreciate your cooperation in forwarding this letter to the President's attention in preparation for Thursday's meeting.

Very truly yours,

Philip W. Noel
GOVERNOR



State of Rhode Island and Providence Plantations

EXECUTIVE CHAMBER, PROVIDENCE

Philip W. Noel
Governor

January 17, 1975

JK
The President
The White House
Washington, D. C.

Dear Mr. President:

I would first like to offer my compliments to you for the courage and foresight that you have displayed in the development and announcement of your program to address our nation's severe economic and energy needs. Although I am not in total accord with your basic approach to the solution of these vexing problems, I share your sense of urgency, and I do feel that your overall program is both necessary and worthwhile. I would like very much to be able to give my total support to your effort. Unfortunately, I feel compelled to stand in total opposition.

I cannot support your effort because of the tremendous inequities inherent in the proposed energy program and the devastation that would result to the Northeast, and perhaps other states, should that program be implemented. My concern is not totally provincial for I can foresee serious long term consequences that will weaken our nation.

In your remarks on Thursday afternoon in the East Room you said, "I have been assured by my advisers that this program will not result in any regional discrimination." You further singled out Secretary Morton and Federal Energy Administrator Zarb as being the two persons responsible for the accomplishment of that goal within the total program. These were, indeed, encouraging words to long suffering New Englanders. Immediately after the meeting adjourned, in discussions with Mr. Zarb, I learned that what you really meant was, that there would be no further additional discrimination as a result of the new tax and tariff system. This revelation casts an entirely different light upon your remarks, and I predict a tremendous wave of discontent and opposition in the Northeast.

January 17, 1975

I was present at the White House when former President Nixon announced his program for "Project Independence 1980". I applauded the announcement of such a vital goal and pledged my full cooperation. I find that your target year of 1985 is more realistic, and once again I applaud this goal as being absolutely necessary to the continuing strength of our nation.

In my opinion, in order to achieve a national goal of such importance, the sacrifice and burden required to succeed must fall equally upon the shoulders of every American. I believe that every major goal that we have achieved as a nation, and there have been many, was achieved as a result of equal sacrifice and dedication on the part of all Americans. In formulating national energy policy and goals, the requirement for a shared burden becomes readily apparent. The program that you have announced does not meet that essential test of fairness and equity.

A VERY BRIEF ANALYSIS:

1. For many years New England's energy cost has substantially exceeded the national average. There are many documented reasons that led to this inequity and that kept that inequity in place for so long. In the absence of national energy policy there was no realistic way to address and resolve that problem. New Englanders suffered quietly over many years.
2. The disparate price that New England paid for energy quickly rose to intolerable levels as a result of oil price fluctuation attendant to the Arab embargo and subsequent pricing policies both here and abroad.
3. An example of this energy price disparity is evidenced by the following comparative cost of energy for utilities:

Per Million BTU's

New England -----	\$ 1.81
National Average -----	\$.84
West North Central ----	\$.44

The validity of these and other meaningful statistics as well as the cause of this great disparity is well documented in studies that we have had professionally prepared under my direction as the State Co-Chairman of the New England Regional Commission. We have presented these studies and data to members of President Nixon's staff, to members of your staff, to the staff of the New England

January 17, 1975

caucus, the National Governors' Conference and to many other interested parties.

Your assurance of no regional discrimination as further defined by members of your Cabinet is, therefore, totally unacceptable. In essence, your program will continue the fantastic energy price disparity that now exists and simply give assurance that the disparity will not become further distorted.

MR. PRESIDENT, THE SACRIFICE AND BURDEN REQUIRED TO IMPLEMENT THE CRITICAL GOAL OF ENERGY INDEPENDENCE WILL NOT FALL EVENLY ON THE SHOULDERS OF ALL AMERICANS.

The lack of parity in this program is more than adequate justification for total resistance from the Northeast. I would like to share with you some of my apprehension should we fail to attain energy price equalization.

1. The Northeast will not be able to retain its industrial productivity. In the six month period immediately following the oil embargo, industrial production in New England declined 11.4%, while the decline nationally averaged 3.8%. The pace of industrial out-migration will quicken once energy price distortion becomes accepted as part of our national energy policy.
2. Unemployment, now at 9.1% in Rhode Island (highest in the nation), will escalate rapidly.
3. The cost of heating fuel and electricity is now beyond the reach of some and will go beyond the reach of the average wage earner. The Rhode Island average factory wage is currently \$26.00 per week below the national average.
4. The Federal and State costs of supporting our social welfare systems will rise dramatically. New England states are prohibited by constitution from engaging in deficit financing and therefore state and local taxes will escalate significantly.

I would point out that the statistics for other New England states are comparable to those that I cite for Rhode Island. Rather than continue to list further foreseeable consequences, I would simply conclude by offering the observation that the people of New England are among the least able financially, to sustain further economic burden.

The President

-4-

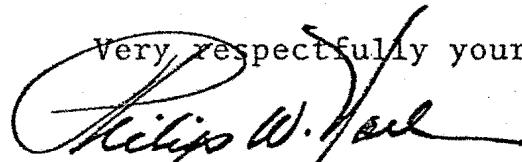
January 17, 1975

My concern for the future of the nation is based upon my opinion that such an energy policy will result in a shift of land use patterns. I have heard a lot about the free enterprise system in recent months. I believe in the free enterprise system, and I have knowledge as to how it works. Stated simply--industry will go where they have the best chance to make a buck. In a free enterprise system, we should not tell industry where to locate, but I submit that we should not have an energy pricing policy that will be an inducement for them to utilize our natural resources in the least efficient patterns.

Food production is one of our greatest concerns, and the Northeast is not well suited to contribute significantly to that need. The relocation of industry on the basis of energy costs could conceivably result in a reduction in our ability to maximize the use of our land resource. New England is best suited for industrial production.

In closing, I offer my assurance that I am willing to meet with members of your Administration at their convenience, if you, Mr. President, feel that there is some possibility to make this program more effective and more acceptable to New England. We have long been prepared for such a meeting and I appreciate the good will of the people in your Cabinet. However, our message has gone so long unanswered, that I believe your personal attention to these matters has become critical.

Very respectfully yours,



Philip W. Noel
GOVERNOR



STATE OF NEW HAMPSHIRE

CONCORD 03301

EDRIM THOMSON, JR.
GOVERNOR

January 20, 1975

Refinery report

The President
The White House
Washington, D. C.

Dear Mr. President,

I was delighted to learn from my staff that attended your briefing on the State of the Union Message that you proposed the construction of thirty major new oil refineries.

In the backup material outline of energy questions and answers it is stated: "The administration intends to encourage refinery construction in all areas of the country and particularly in those in which there is a significant refining deficit."

"In New England, for example it would be beneficial to have refining capability now and particularly if Atlantic OCS production begins. Refineries in that area could offset New England's expensive reliance on product imports and could create jobs."

As you know, we are vitally interested in obtaining a refinery for New Hampshire. Most of the other New England states have in the past dragged their feet with regard to a refinery.

Is it possible that somewhere in your program there is federal funding that would help us develop a refinery in New Hampshire? Are there knowledgeable people in the federal government structure who could be loaned to the State of New Hampshire to help us in this important undertaking?

Our State has dealt with one major oil refinery proposal and we are aggressively seeking others.

We have already developed what we feel is an excellent refinery siting law.

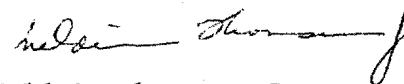
We are conscious of the need for additional refinery capacity and want to do all in our power to promote the construction of an environmentally clean refinery in our State.

Mr. President
Page Two
January 20, 1975

We seek federal research grant assistance to help us cope with this problem. We feel it is important that a small state should know how to address itself to these problems. We also believe that such a grant would be important to other small states across America that will be faced with similar demands and which can benefit from knowing what has happened in New Hampshire.

We would appreciate any help you can give us in siting a refinery in New Hampshire at the earliest possible date.

Respectfully,



Meldrim Thomson, Jr.
Governor

MT/slm



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

THE GOVERNOR

January 16, 1975

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I have studied the economic program you first outlined last Monday night and then amplified in your State of the Union address yesterday.

In the national interest, I wish to be as candid as possible in presenting my views to you.

The same doctors whose economic prescriptions for the past decade have created the twin evils of recession and rampant inflation have now recommended to you a new concoction of programs that will make the Nation even more ill. Their recommendations would offer a new round of vicious inflation for inflation-sick Americans.

The infusion of added income into the economy via the income tax rebate will prove beneficial but not as effective in stimulating new jobs and higher earning power than a more selective system of public investment programs in housing, transportation, resource development and education could achieve.

Moreover, the proposed income tax rebate program is almost the reverse of what it should be. Low income workers get only tiny rebates while families in the higher brackets get considerably more. People living on pensions and social security and assistance get virtually nothing.

Further, the proposed personal tax cut of \$12 billion represents less than one per cent of the GNP level of \$1.4 trillion. With tax rebates scheduled in two payments, six months apart, this will have but little impact on the sluggish economy although an immediate impact is urgently needed.

A far greater economic impact could be achieved throughout the Nation, more jobs created and greater long term benefits would incur if the initial \$16 billion tax cut were made in one immediate payment, while the second round of tax relief you propose were lumped together and made by the government for investment programs in new forms of domestic energy, new housing, rail transportation, air and water pollution control and purification systems, for financing higher education and vocational training.

Quite importantly, though, any positive impact that the proposed tax rebate program will have on the economy will be overwhelmed rather quickly by a new shock wave of inflation that will be created by deregulating the prices for domestic crude oil and natural gas and by imposing the \$3.00 per barrel tax on oil, and this in turn will more than offset any tax relief granted at any level. In fact, the added cost for electricity alone would wipe out the tax rebate for the average family.

The impact of these tremendous increases in energy costs will be more harmful to our economy than last year's OPEC oil increases. Particularly this new wave of inflation will drive people living on low, fixed incomes and our marginal wage earners deeper into poverty.

Utility rates will soar, as would costs for food, clothing, transportation and almost all basic commodities. In fact, the increase in cost for electricity alone would be greater in the first year than all of the rebate for an average family.

Mr. President

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January 16, 1975

I urgently request that before this energy pricing or decontrol program you announced in your State of the Union address is put into effect that you review some of the economic data that we have developed in Pennsylvania.

I have been working with the same group of economists for over a decade.

Among other things, we accurately predicted that the Federal Reserve increase in the rediscount rate in 1965 would trigger the very inflation that taking this action was supposed to curb. I was roundly criticized at the time for making such a prognostication but history has borne out this contention.

I have consistently warned for the past decade that the policy of tight money and high interest rates would stimulate inflation rather than control it, and now at long last, the Congressional Democratic study paper makes this same observation.

The analysis we made of the difficulties in administering wage-price controls in America led me to attack Phases I, II, III and IV as worthless programs to deal with the nation's economic problems.

We have developed a system whereby the economic benefit in terms of new jobs, volume and profits to the private sector that can be achieved by making pre-selected public sector investments in various fields can be calculated in advance, and the advantage of each program weighed.

I urge that before the far reaching program you announced yesterday is put into motion that I have the opportunity to review with you and your economists the serious consequences that will befall the Nation under the "State of the Union" program and also that we have to review the alternatives that I suggest that will stimulate new economic growth and create new jobs without starting a new round of violent inflation.

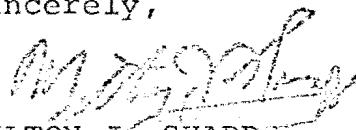


January 16, 1975

It is not too late to reverse the present economic trends in America, but if the new program you announced yesterday is implemented, the possibility of maintaining our free enterprise system and of preventing enormous long term hardships for large segments of our population in both urban and rural areas will become extremely difficult.

Mr. President, I urge that you reconsider the ill chosen course on which you are about to embark before this nation is plunged into an accelerated round of new inflation, increased business failures and higher unemployment.

Sincerely,



MILTON J. SHAPP
Governor

COPY FYI TO: JAMES FALK



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
TRENTON

BRENDAN T. BYRNE
GOVERNOR

January 8, 1975

LETTER OF TRANSMISSION

Honorable Gerald R. Ford
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, D.C.

Dear Mr. President:

The recent report of the Federal Power Commission's Bureau of Natural Gas has underscored the rapidly deteriorating outlook for natural gas supplies in the United States. New Jersey and several other states have been particularly hard hit by a rapid succession of increasing curtailments. We are faced with economic chaos unless forceful and immediate Federal actions are initiated.

In conversations with Secretary Morton and other Federal officials I have explained in considerable detail the special problems faced by the State of New Jersey as a result of increasing natural gas curtailments. New Jersey is heavily dependent on the Transcontinental Gas Pipeline Corporation (Transco) for its supplies. Transco's curtailment level has risen sharply and is one of the worst of any pipelines in the nation. The southern portion of the State, which is completely dependent on Transco and which has a heavy concentration of industries that use natural gas for vital process and feedstock purposes, has been particularly hard hit. A minimum of 15,000 to 20,000 jobs are directly at stake in this area; the indirect unemployment effects could be much greater. New Jersey already has a crushing unemployment rate of 9.5% and the economic situation in the state is critical.

With a real sense of urgency, I recommend for your immediate consideration the following program of Federal legislation and administrative initiatives:

1. Regulate the price of intrastate natural gas.

A major national controversy that must be resolved immediately by the Congress swirls about the intrastate natural gas market. The Interstate pipelines cannot compete with intrastate purchasers for new supplies because of the wide gap between regulated interstate prices and unregulated intrastate prices. The oil and gas producers believe that the solution is to deregulate all natural gas prices for "new" gas. I am convinced that this will cause highly inflationary price increases to



our citizens and our industries - estimates range up to \$10 billion annually - without a corresponding assurance that the supply will be increased.

In my view, it makes far more sense to treat natural gas as a national resource that ought to be regulated regardless of where it is consumed. When the Congress passed legislation in 1973 requiring controls to be placed on domestic crude oil, it established a precedent in that it did not provide that oil produced in a state and consumed in that state should be exempt from price ceilings. I urge your Administration to continue this precedent by supporting legislation that would bring the intrastate natural gas market under the same price controls to which interstate gas is now subject.

I am convinced that this approach is far preferable than forcing the forty million American families that are connected at the ends of our national pipeline grid to absorb sharp price increases from deregulation at a time when their budgets are already stretched to the limit by inflation.

2. Legislation to authorize allocation of natural gas through inter-pipeline transfers.

The natural gas shortage has not fallen uniformly upon states or regions. This condition is due to the widely varying supply situations of the pipelines that happen to serve various areas of the country. New Jersey's heavy dependence on the Transco system is a most unfortunate example.

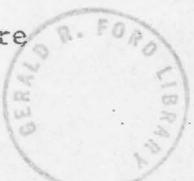
It is my belief that, when a national shortage of a vital commodity such as natural gas is affecting some areas of the country far more seriously than others, the Federal government must act to spread the burden of the shortage as fairly and equitably as possible. Congress passed the Fuels Allocation Act to accomplish precisely this goal in dealing with the oil crisis last year.

I believe that the Natural Gas Act gives the Federal Power Commission similar authority to allocate natural gas among interstate pipelines. I have requested the Chairman of the FPC to exercise this authority. He, however, has indicated to me that the Commission does not believe that the Natural Gas Act provides inter-pipeline allocation authority. Furthermore, the Commission has opposed a legislative proposal by Senator Roth of Delaware which would clearly give the FPC this authority.

I strongly feel that fairness dictates that the citizens and the industries of the nation be treated on an equitable basis; the burden of a national shortage cannot be allowed to fall on only a few states or regions. Accordingly, I urge your Administration to support the Roth bill or similar legislation to confirm the FPC's allocation authority and mandate its exercise.

3. Collection of royalties from Federal lands in the form of natural gas.

The United States government holds in trust some of the most valuable oil and gas bearing lands. Traditionally, the Department of the Interior has leased those properties to private companies to explore and produce oil and gas from the public lands, with the royalty rights



The general practice has been to take the royalty payments in cash from the proceeds realized by the lessor; but the standard lease agreement provides that the government may, if it elects to do so, take its royalty interest in the form of oil or gas.

During 1973 and 1974, the Interior Department took some of its royalties from oil-producing wells in the form of royalty oils, and made this oil available to independent refiners which were experiencing difficulty at that time in securing crude oil. This was a very constructive use of the Federal government's rights as a landholder, and one that should provide a model for the Interior Department in meeting the current natural gas shortage situation. Government-owned producing lands are a public resource which should be used to serve emergent public needs.

I propose that the Federal government exercise its option to acquire a portion of natural gas royalties from public lands in the form of natural gas. This natural gas should then be made available to those pipelines experiencing the greatest supply difficulties. The result would be of immediate and significant benefit to those states and regions that, through no fault of their own, are dependent on pipelines experiencing severe deficiencies. Such action can be taken by your Administration without additional legislation, and I urge you to pursue this approach without delay.

4. Action to free natural gas reserves currently being withheld from the market.

I am deeply disturbed by continuing allegations that producers are withholding significant quantities of natural gas reserves from the market in anticipation of higher prices. Just today, it has been reported that Federal Trade Commission investigators have recommended that the FTC file a complaint against the major natural gas producers for conspiring to under-report reserves.

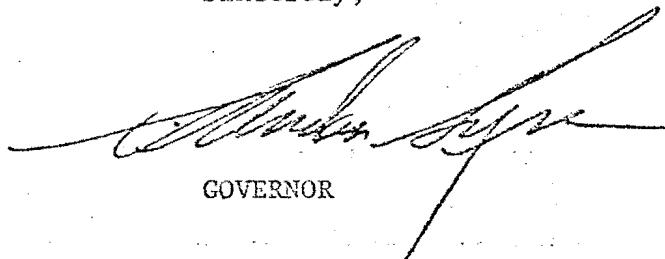
Interior officials have told me that they regularly monitor reserve figures and verify that wells on known shut-in producible Federal leases are capped for legitimate reasons; further, they claim to have sufficient legal authority to perform these checks and to cancel or not renew leases if evidence of withholding is found. However, they cannot cite one single instance of a cancellation or non-renewal, and this seems to me to raise serious questions about Interior's effectiveness in this area.

I urge the Administration to review this situation carefully and exert every possible effort to determine the extent of withholding, and to force producers to start production promptly or face cancellation

of their lease. If your review of the situation leads to the conclusion that new legislation is needed to give Interior additional powers, then I urge you to introduce such legislation as soon as possible.

Because of the urgency of the natural gas situation, I would be willing to meet at your earliest convenience to discuss these proposals, which I trust will have your prompt and favorable consideration.

Sincerely,



GOVERNOR

THE WHITE HOUSE
WASHINGTON

January 23, 1975

In the senior staff meeting this morning, I mentioned a letter from Governor Noel of Rhode Island. His letter seems to summarize the attitude of these Northeast leaders, and how they view both the energy situation and the President's plan.

Jack Marsh



State of Rhode Island and Providence Plantations

EXECUTIVE CHAMBER, PROVIDENCE

Philip W. Noel
Governor

January 17, 1975

The President
The White House
Washington, D. C.

Dear Mr. President:

I would first like to offer my compliments to you for the courage and foresight that you have displayed in the development and announcement of your program to address our nation's severe economic and energy needs. Although I am not in total accord with your basic approach to the solution of these vexing problems, I share your sense of urgency, and I do feel that your overall program is both necessary and worthwhile. I would like very much to be able to give my total support to your effort. Unfortunately, I feel compelled to stand in total opposition.

I cannot support your effort because of the tremendous inequities inherent in the proposed energy program and the devastation that would result to the Northeast, and perhaps other states, should that program be implemented. My concern is not totally provincial for I can foresee serious long term consequences that will weaken our nation.

In your remarks on Thursday afternoon in the East Room you said, "I have been assured by my advisers that this program will not result in any regional discrimination." You further singled out Secretary Morton and Federal Energy Administrator Zarb as being the two persons responsible for the accomplishment of that goal within the total program. These were, indeed, encouraging words to long suffering New Englanders. Immediately after the meeting adjourned, in discussions with Mr. Zarb, I learned that what you really meant was, that there would be no further additional discrimination as a result of the new tax and tariff system. This revelation casts an entirely different light upon your remarks, and I predict a tremendous wave of discontent and opposition in the Northeast.

January 17, 1975

I was present at the White House when former President Nixon announced his program for "Project Independence 1980". I applauded the announcement of such a vital goal and pledged my full cooperation. I find that your target year of 1985 is more realistic, and once again I applaud this goal as being absolutely necessary to the continuing strength of our nation.

In my opinion, in order to achieve a national goal of such importance, the sacrifice and burden required to succeed must fall equally upon the shoulders of every American. I believe that every major goal that we have achieved as a nation, and there have been many, was achieved as a result of equal sacrifice and dedication on the part of all Americans. In formulating national energy policy and goals, the requirement for a shared burden becomes readily apparent. The program that you have announced does not meet that essential test of fairness and equity.

A VERY BRIEF ANALYSIS:

1. For many years New England's energy cost has substantially exceeded the national average. There are many documented reasons that led to this inequity and that kept that inequity in place for so long. In the absence of national energy policy there was no realistic way to address and resolve that problem. New Englanders suffered quietly over many years.
2. The disparate price that New England paid for energy quickly rose to intolerable levels as a result of oil price fluctuation attendant to the Arab embargo and subsequent pricing policies both here and abroad.
3. An example of this energy price disparity is evidenced by the following comparative cost of energy for utilities:

Per Million BTU's

New England -----	\$ 1.81
National Average -----	\$.84
West North Central -----	\$.44

The validity of these and other meaningful statistics as well as the cause of this great disparity is well documented in studies that we have had professionally prepared under my direction as the State Co-Chairman of the New England Regional Commission. We have presented these studies and data to members of President Nixon's staff, to members of your staff, to the staff of the New England

January 17, 1975

caucus, the National Governors' Conference and to many other interested parties.

Your assurance of no regional discrimination as further defined by members of your Cabinet is, therefore, totally unacceptable. In essence, your program will continue the fantastic energy price disparity that now exists and simply give assurance that the disparity will not become further distorted.

MR. PRESIDENT, THE SACRIFICE AND BURDEN REQUIRED TO IMPLEMENT THE CRITICAL GOAL OF ENERGY INDEPENDENCE WILL NOT FALL EVENLY ON THE SHOULDERS OF ALL AMERICANS.

The lack of parity in this program is more than adequate justification for total resistance from the Northeast. I would like to share with you some of my apprehension should we fail to attain energy price equalization.

1. The Northeast will not be able to retain its industrial productivity. In the six month period immediately following the oil embargo, industrial production in New England declined 11.4%, while the decline nationally averaged 3.8%. The pace of industrial out-migration will quicken once energy price distortion becomes accepted as part of our national energy policy.
2. Unemployment, now at 9.1% in Rhode Island (highest in the nation), will escalate rapidly.
3. The cost of heating fuel and electricity is now beyond the reach of some and will go beyond the reach of the average wage earner. The Rhode Island average factory wage is currently \$26.00 per week below the national average.
4. The Federal and State costs of supporting our social welfare systems will rise dramatically. New England states are prohibited by constitution from engaging in deficit financing and therefore state and local taxes will escalate significantly.

I would point out that the statistics for other New England states are comparable to those that I cite for Rhode Island. Rather than continue to list further foreseeable consequences, I would simply conclude by offering the observation that the people of New England are among the least able financially, to sustain further economic burden.

The President

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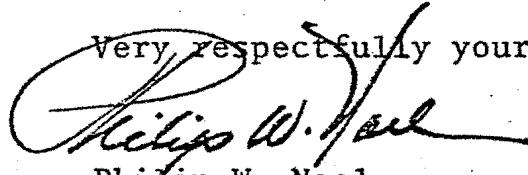
January 17, 1975

My concern for the future of the nation is based upon my opinion that such an energy policy will result in a shift of land use patterns. I have heard a lot about the free enterprise system in recent months. I believe in the free enterprise system, and I have knowledge as to how it works. Stated simply--industry will go where they have the best chance to make a buck. In a free enterprise system, we should not tell industry where to locate, but I submit that we should not have an energy pricing policy that will be an inducement for them to utilize our natural resources in the least efficient patterns.

Food production is one of our greatest concerns, and the Northeast is not well suited to contribute significantly to that need. The relocation of industry on the basis of energy costs could conceivably result in a reduction in our ability to maximize the use of our land resource. New England is best suited for industrial production.

In closing, I offer my assurance that I am willing to meet with members of your Administration at their convenience, if you, Mr. President, feel that there is some possibility to make this program more effective and more acceptable to New England. We have long been prepared for such a meeting and I appreciate the good will of the people in your Cabinet. However, our message has gone so long unanswered, that I believe your personal attention to these matters has become critical.

Very respectfully yours,



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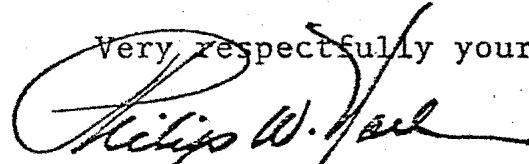
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