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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

[Jan. 1975]

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

THROUGH: Rogers C.B. Morton

SUBJECT: Material for Energy Meeting

Attached is the material for our meeting at 2:00 PM today, including:-

- Brief outline of the energy decisions you have already made.
- Draft message.
- We have only a few last issues to resolve. The issue papers are attached.

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SUMMARY OF ENERGY PROGRAM

SHORT TERM PROGRAM (now-1977)

Immediate, Administrative Actions

- impose \$3 per barrel import tariff, phased in \$1 increments starting February 1
- modify the crude equalization program to mitigate regional and economic impacts

Legislative Proposals

- \$2 per barrel excise tax on all refinery inputs and petroleum product imports
- administrative decontrol of old oil on April 1 with enactment of windfall profits tax
- deregulation of new natural gas and imposition of a \$.37 per mcf excise tax
- amendments to coal conversion authorities to allow more fuel switching
- provision for production from Elk Hills for domestic markets

Impact

- raises consumer petroleum prices by an average of about 10¢ per gallon
- cuts imports by 1 million B/D in 1975
- cuts imports by 2 million B/D in 1977
- stops growing curtailments and unemployment from natural gas shortages

MID-TERM PROGRAM (1975-1985)

Energy Supply

- Increasing domestic oil and gas supply
 - legislation to allow development of NPR #4 for domestic markets
 - major leasing of frontier OCS areas
- Increasing coal use
 - submission of revised surface mine legislation
 - Clean Air Act amendments
 - new coal leasing program to require production from existing leases and start new leases
- Stimulating nuclear power development
 - resubmit nuclear licensing legislation
 - stepped up funding for safety and waste management
- Restoring utility industry financial viability
 - increase in investment tax credit
 - new tax treatment for preferred stock dividends
 - limited Federal override of state utility commissions
- Minimizing world oil price uncertainty
 - new Presidential authority to set price floors, quotas or other measures to assure energy industry protection and domestic invulnerability

Energy Conservation

- Increasing auto efficiency
 - legislative freeze on auto emission standards
 - signed agreement with manufacturers on 40 percent goal
- Increasing appliance efficiency
 - resubmission of mandatory labeling legislation
 - establish voluntary goals for all major appliance manufacturers
- Increasing efficiency of buildings
 - legislation to set mandatory thermal standards for new buildings
 - 15 percent investment tax credit for homeowners' expenditures for insulation
 - \$150 million grant program to assist low-income homeowners

Emergency Measures

- Standby rationing/allocation and price control authorities for use in future embargo
- Legislation and authorization to build a one billion barrel standby storage system

Impact

- Cut imports from over 12 million B/D to under 5 million barrels per day in 1985
- Assures invulnerability by providing capacity to completely replace remaining imports by standby measures

LONG TERM PROGRAM (POST 1985)

- Commitment to needed R&D funds
- New national synthetic fuels program
 - 1 million B/D goal by 1985
 - use of price guarantees or other incentives to assure goal is reached



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To the Congress of the United States:

Today, as the 94th Congress convenes, America and the world are confronted with problems that will provide stern tests of our abilities and our determination. Together we must address those problems and take the decisive and timely actions that citizens of the United States and the world now call for and expect.

Twenty years ago, this nation began to lose its energy independence and its leadership role in energy. We followed a path that has not only exposed our economy to supply cutoffs and unprecedented price increases, but has also weakened our ability to guarantee our national security and control our foreign policy. Our country is too vulnerable and the international economic system is under too much strain for us to stand still. The potential domestic and international ramifications are not only frightening, but unacceptable.

Now, I, as President and you, as Members of a new Congress must change the direction of the past two decades. We must begin today to implement a new energy policy. The actions to be taken will not be easy or universally popular. The benefits will not be fully realized until another decade passes. But the job must be done. And if we join together, it can be done.

The warnings that have been issued and the steps that have been taken to date have proven insufficient. The energy problems that we and the world face will not go away. In fact, without action now the situation will certainly deteriorate. What is at stake is the economic balance of power achieved by the Western World over the last century and a half. It can be resolved only by the concerted action of many nations. Thus, the task before us is to not only improve our domestic situation but also to provide leadership for the world.

The Present Situation

A comprehensive assessment of the U.S. energy situation is now complete. The background is well known:

- U.S. energy consumption has been growing at a rate of 4-5 percent in recent years.
- Domestic production of petroleum has been declining since 1970; coal use remains at the levels of the 1930's; since 1968 we have been consuming natural gas faster than we have discovered it; and nuclear power and other sources have not yet begun to attain the promise of their potential.
- We now rely on coal for 17% of our energy and on oil and gas for most of the rest. Yet, we have centuries of coal reserves left and only enough oil and gas to last a generation at the current levels of use.

--Petroleum imports have provided an ever-increasing share of America's energy rising from about 20 percent in 1970 to the present 37 percent of domestic oil consumption.

With the onset of the Arab Embargo in October of 1973, the extent of our vulnerability was clearly demonstrated. Our Gross National Product dropped significantly and a half-million of our national labor force were forced out of work.

Even today, as the many problems caused by the embargo have faded in our memory, our energy problem remains very serious. Domestic demand will continue to grow, though more slowly than in the past. Domestic petroleum production will continue to decline. The gap between supply and demand will continue to be filled by imports, which already have surpassed pre-embargo levels. Thus, we will rely more and more on insecure foreign sources, which have quadrupled petroleum prices over the past year and which probably can maintain today's exorbitant prices in the near future--at the growing peril of the international economic system.

Overseas, we see major industrialized nations--many are our traditional friends and allies--with limited or virtually non-existent domestic energy sources and accumulating staggering deficits because of these high oil prices. We hear dire warnings

of their bankruptcy and imminent economic collapse. We see oil-producing nations accumulating surplus cash, more than they can productively use at home, at an estimated annual rate of about \$60 billion -- and we hear predictions of the monetary chaos which these accumulations portend. And, at a more fundamentally human level, we see underdeveloped, often impoverished nations, which at the best of times must struggle for their economic survival, now being bent to the breaking point under the weight of these oil prices.

This is the situation as it is and as it will continue to be, unless we act now to reverse existing trends. This is the situation we must now rectify. To do so will require cutting our demand for energy and stimulating production from our domestic energy sources. No single one of these broad approaches will suffice. All must be pursued. And all will require some sacrifice by our citizens.

National Energy Policy and Goals

Many of the proposals I will outline today entail difficult domestic choices--increased energy costs, environmental compromises or changed lifestyles. Some of these proposals will be seen as major precedents or deviations from traditional Government policy-- but we have no choice. Our current policies have

proven inadequate; only if we set new precedents and steer a new course can we avert greater vulnerability in the years ahead.

To achieve these objectives, we must establish firm national energy goals that all Americans can understand, believe in and agree to. We must seek to attain those goals through a set of programs that strike a reasonable balance with and between our many other national objectives. And we must demonstrate the newly dedicated will and determination as a people to make the difficult decisions now and stick with them until our goals are achieved.

The actions I am announcing today will affect all Americans and without positive measures, the burdens will not be equally shared. The poor and the working man are always hardest hit by rising prices as they spend more of their income for energy than other groups. To compensate for these effects, I will soon announce a series of measures to help low-income consumers. In addition, all Americans will benefit from reduced balance of payments deficits and the increased domestic employment opportunities that will result from this program. In the next 10 years, we will need more people to explore, develop, produce and transform our energy resources than ever before.

As a first step I am establishing the following national energy goals to assure that our future is as secure and productive as our past:

- (1) We must act immediately to cut energy consumption and increase our domestic supply--and thereby, to reduce imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.
- (2) By 1985, we must eliminate our nation's vulnerability to economic disruption by foreign suppliers. This will mean that by 1985 we should import no more than 15 percent of our total petroleum consumption--and we should have the capability to immediately replace that 15 percent from storage and standby measures in the event of a supply disruption.
- (3) We must strive to develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

All of these goals involve economic and political costs, largely because they cannot be fully achieved through natural market forces operating within current national and international

policies. To attain them, therefore, will take a massive and far reaching program that must include:

- Drastic, immediate action to cut imports.
- Actions to increase dramatically our supplies and our ability to use our coal, gas, oil and nuclear power.
- A major new mandatory energy conservation program.
- A major new emergency and security storage program including up to one billion barrels of petroleum storage.

As you consider the detailed proposals I will spell out shortly, I remind you that we cannot pick the ones we like and ignore those that may be distasteful to us. We are faced with an intolerable and worsening problem and we cannot debate the merits of only increasing supply or only reducing demand. We must do both to the maximum extent possible. The program I am proposing is a complex one--and all parts of it are necessary if we are to reach our national energy goals.

Actions to meet the Short-Term (1977) Goal

If we are to be successful in implementing a national energy policy, our first steps will be the most important. They must be taken now; they must serve to place us on the right path, and they must serve to give notice to other nations of the seriousness of our intent.

In the short-term, there are only a limited number of actions which can increase domestic supply. I intend to pursue all of them. To that end, I have already consulted with Congressional leaders to discuss the subject of producing oil more rapidly from the Elk Hills, California, Naval Petroleum Reserve. Increased production from this area should be used to top off military storage tanks, provide funds for storage, and result in increased domestic supplies. It can also provide funds to build a more secure domestic storage program. I will submit legislation to allow commercial production of up to 160 thousand barrels per day as soon as possible in 1975, and up to 300 thousand barrels per day by the end of 1977.

In order that we make greater use of our domestic coal resources, I am submitting a set of comprehensive amendments to the Energy Supply and Environmental Coordination Act of 1974. These will greatly increase the number of plants that can be converted to coal in the coming years. The current law only allows 23,000 barrels per day of conversions in 1975; these

amendments could allow almost 100,000 barrels per day to be saved.

These supply actions are not nearly enough to meet my import goal. To reach these levels, voluntary conservation is essential, but will not be sufficient. To assist the voluntary program, the Federal Energy Administration is stepping up its energy conservation public information program from one to five million dollars. I am, also, calling on the 94th Congress to enact a comprehensive legislative package to cut demand to reach the goal of import reductions of 1 million barrels per day in 1975, and 2 million barrels per day by the end of 1977. Because of the urgent domestic and international need for action, I am, during the period of Congressional deliberation on this legislation, administratively raising the fee on all imported crude oil, natural gas liquids and petroleum products. The fee levels will be \$1 per barrel effective February 1; \$2 on March 1; and \$3 on April 1. The crude price equalization program will be modified to mitigate disproportionate benefits or impacts in any single area or our country.

The legislative package I am requesting to conserve energy use is a tough program including the following items:

- An excise tax of \$2 per barrel on all crude oil, natural gas liquids and product imports.
- Deregulation of new natural gas as previously proposed by the Administration.
- An excise tax of 37¢ per thousand cubic feet on all natural gas to equal the \$2 oil excise tax on a thermal equivalency basis.

--A windfall profits tax to ensure that no single sector of our economy gains unduly while others make sacrifices. I will administratively decontrol the price of crude oil on April 1 and urge Congressional enactment of this tax by that time.

--A program of income tax reductions and/or other rebate measures to return to the economy the roughly \$30 billion estimated to be raised this year through these measures. Most of this money is to be restored directly to consumers, with special measures to provide funds for the poor.

The actual legislative language for this and my other proposals will be forwarded after my State of the Union Message. I want to work closely with the Congress so that this package will be enacted within 90 days and our import goals can be met. Only prompt action will enable the money collected through the tariffs to be returned to the economy quickly and the inequities caused by the tariff to be corrected. This proposal will result in some windfall profits, but rapid Congressional action can also remove this problem. The windfall profits tax, as well as rebates, would be retroactive to February 1, 1975. These actions are harsh and my administrative authorities are limited--but they are the only powers I have and the situation is too serious to wait.

In making the decision to propose this comprehensive package of legislation, I had to choose between fundamentally differing approaches to conserve energy. The only viable method to achieve large and immediate reductions in energy consumption, other than this market approach, is through greater use of Government controls--either by import quotas, allocation, or rationing. While each of these measures has some merit, each would result in large inefficiencies, bureaucracy, and disruptions in our way of life. Rather than the spectre of gas lines or rationing coupon lines, we must let the free market work to the maximum extent possible. But higher prices alone would create economic pressures that must be relieved by tax measures to return revenues to consumers.

Actions to meet the Mid-Term (1985) Goal

By 1985, the vulnerability of the United States to economic disruption by foreign energy suppliers must be eliminated by achieving the capacity for full energy self-sufficiency. This will mean that by 1985 we should be importing no more than 15 percent of our total petroleum consumption, which would be about 6 percent of total energy use, and that most of that amount must be immediately replaceable from storage and standby emergency measures.

In order for the nation to attain such a goal, we must act quickly to remove constraints and provide new incentives for domestic production and conservation because many of the measures I propose will take 5-10 years to reach fruition after the necessary laws are enacted. We cannot afford to pick and choose among fuels, because to meet our 1985 demand from domestic resources requires that:

- Coal production must double.
- Trends must be reversed to realize our fullest potential in oil and gas production.
- Nuclear power must increase to more than twenty times current levels.
- Emerging energy sources have to accelerated.

The specific measures I will propose have been selected after a careful evaluation of all our national goals-- energy independence, economic well-being, environmental quality, and social welfare. Actions that would unduly compromise any of these goals have not been taken.

I have already discussed the need for deregulation of new natural gas, which must be approved in this session of the Congress to reverse the trend of dwindling natural gas reserves, production, and continued unemployment due to natural gas shortages.

The decline in domestic petroleum production can also be reversed, and today's higher prices will provide a strong incentive to produce more oil from known fields. But the

largest part of increased production will have to come from wells drilled in major new frontier areas. Thus, our position on Outer Continental Shelf leasing and development must be equally clear. Therefore, I now reaffirm that it is the intent of this Administration to move ahead with exploration, leasing and production in those frontier areas of the Outer Continental Shelf where the environmental risks are judged to be acceptable. For over 100 years we have been drilling for oil and gas on our continent, and now our reserves are declining. Yet, we know that huge reserves remain where we have not yet explored. The immense resources under the Shelf, in the Petroleum Reserves and on all public lands, belong to all Americans. We cannot afford to allow those resources--which we can develop in an environmentally sound way--to remain untouched if the price is continuing reliance upon unstable foreign energy sources.

The same statement can be made with regard to the largest of our Naval Petroleum Reserves. NPR 4 in Alaska has not yet been significantly explored or developed. As a result, it could not be available for production for several years, even in an emergency more grave than we faced during last year's embargo. As with the Elk Hills Reserve, I have consulted with Congressional leaders to discuss the need for exploration, development and production of NPR 4 for the domestic economy and a working national strategic reserve. I will soon forward legislation to you to authorize the exploration, development, and production of NPR-4 to provide petroleum for the domestic economy. Only then can we know the true extent

of the resources beneath that reserve, estimates of which run from 10 to 30 billion barrels of oil and 60 to 192 trillion cubic feet of natural gas. With accelerated exploration and production based upon the expertise of the private sector, NPR-4 could produce 2-3 million barrels of oil per day and commensurately large quantities of gas by 1985.

Our most abundant domestic resource, coal, is most severely limited by markets; and it is with this fuel that we must strike a new energy/environment balance if we are to move our economy toward a heavier reliance on domestic energy. Clean air and proper restoration of mined lands are both possible, even with greater coal use--but reasonable standards must be set first.

A matter already familiar to most Members of Congress is the need for proper legislation to assure that strip mining is conducted in a way that allows greater use of our most abundant fuel and, at the same time, provides adequate protection for the environment. I vetoed the strip mining legislation passed by the last Congress, but it remains a valuable piece of work. With a minimum of changes to make the bill more precise, I am prepared to sign a revised version into law. And I am prepared to work with the Congress so that those changes can be made and the law be enacted as soon as possible.

One of the primary objectives of the Clean Air Act amendments proposed by the Administration is to provide for the increased use of coal while maintaining appropriate environmental safeguards. The Congress must act on these amendments to grant the Environmental Protection agency authority to suspend emission limitations for powerplants until low sulfur coal can be obtained or stack gas scrubbers can be installed. It should take no longer than 1980 for all urban powerplants to comply and all rural powerplants will be able to follow suit by 1985.

I also urge the Congress to provide legislative clarification with regard to the prevention of significant air quality deterioration in those parts of the nation where the air is already cleaner than required by Federal health and welfare standards under the Clean Air Act. We cannot afford the continued uncertainty which now exists in the face of our serious energy problems. Among the Clean Air Act amendments I am submitting is one to deal with this critical problem.

The Federal Government owns over 200 billion tons of coal reserves. Currently 16 billion tons on Federal lands are under lease, although only 6 billion are currently scheduled to support production by 1980. To assure rapid production from existing leases and to make new, low sulfur supplies available, I have directed the Secretary of the Interior to:

- Put into force legal diligence requirements to assure timely production from existing leases.
- To meet with the western Governors to explore regional questions associated with new federal coal leases.
- To implement a new program of coal leasing consistent with timely development and adequate return on public resources provided that adequate environmental safeguards can be provided.

Nuclear power must also play an important role in our energy future. Although nuclear power was expected to play an important role in the early 1970's, it now only supplies about 1 percent of our energy needs. There have been technical problems, construction delays, and other bottlenecks to slow its progress. To rejuvenate nuclear power, I am announcing a markedly increased budget appropriation for nuclear waste disposal and for continued improvements in safeguards. I will also resubmit the Nuclear Facility Licensing Act and urge prompt Congressional action on this bill. But the use of nuclear power, as well as the availability of all electric power, depends upon the health of the electric utilities industry. In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned

additions to non-nuclear capacity. Financial problems for that industry are worsening, and current regulatory practices by State commissions are largely inadequate or unresponsive. If these problems, trends and obstacles persist, the cancellations and construction delays will slow the transition from oil and gas fired powerplants to coal and nuclear facilities. The delays and difficulties this industry is currently experiencing could well lead to higher oil import levels and inadequate supplies of electricity 5 to 10 years from now.

I am proposing, therefore, and will soon forward legislation to provide for:

--An increase in the investment tax credit for electric utilities from the current 4 percent to a level which eliminates the gap between its tax credit and those of other industries. There will also be remission of unused credits.

--This higher investment tax credit will be available for all powerplants, with the exception of oil and gas plants; we can no longer afford the extravagance of using scarce oil and gas in power plants.

--A further tax reform to allow utilities to deduct preferred stock dividends for tax purposes as a way to stimulate equity, rather than debt financing; and

--A limited federal override of state regulatory procedures which will assure rapid rate processing and allow construction work in progress to be included in the rate base. We must not set up a new federal bureaucracy, but we must assure that utilities return to a more stable financial footing.

I am also directing the Energy Resources Council to review the entire regulatory process as it relates to electric utilities and to make additional recommendations for reform.

As we take these actions to increase our energy supplies, we must be aware of some potential problems. Our success should serve, as we intend, to lower world oil prices. However, before we achieve our goals of energy sufficiency, actions of oil producing nations, or economic conditions, could result in lower--but unstable--price levels, that could weaken our continued commitment to greater self-sufficiency. The Federal Government must take actions to encourage and protect domestic energy investment in the face of significant world price uncertainty. To do so is the only way to ensure our progress to energy vulnerability by 1985.

To provide this stability, I will request legislation to authorize and require the President of the United States to use tariffs, import quotas or other measures to protect our energy prices at levels which will achieve full national capability for self-sufficiency and protect our energy industry and jobs. I have directed the Administrator of FEA to deliver recommendations to me within 90 days on the use of these authorities for implementing a long-term price floor immediately.

All of the actions I have mentioned would have the effect of increasing our available domestic supplies of energy. Oil production could reach 13 or 14 million barrels per day, coal production could double and nuclear generation could increase from a 4 to 30 percent share of our electric generation capacity by 1985. But those supply actions are not enough. We must dramatically cut our historical demand growth if we are to meet our goals for 1985. Higher energy prices will cause market forces to reduce demand, but these effects are not enough-- particularly in key-energy intensive sectors such as buildings and transportation.

Heating and cooling of buildings account for almost 20 percent of total United States energy consumption. Energy savings of above 30 percent could be realized by energy efficient construction. I therefore propose legislation to mandate thermal efficiency standards for all new buildings in the United States. The energy savings with such standards are estimated to be 275,000 barrels of oil per day by 1980, and 560,00 by 1985 for new buildings alone. Since potential savings are even greater for existing homes, I also intend to ask for legislation to institute a 15 percent tax credit for investments of up to \$1,000 for those owners of existing homes who add insulation, storm doors and windows or other energy efficiency improvements to their homes. Further, I am announcing

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today the establishment of an energy conservation program for low-income families, to be administered by the Department of Health, Education and Welfare. Under this program, which will be funded at \$55 million in Fiscal Year 1976, the Federal Government will purchase and have volunteers install insulation and other energy conserving devices in homes owned or occupied by low-income citizens, who might otherwise not be able to have such improvements made on their homes. These actions will help the homeowners adjust, with Federal assistance, to today's--and tomorrow's higher energy prices.

Since over half of our petroleum is used in transportation, it is imperative that we find ways to further reduce consumption by automobiles. The level of automotive pollution control directly affects our ability to conserve fuel. We have made tremendous improvements in reducing automobile emissions in the last few years. To improve auto efficiency, I propose to submit legislation to freeze automotive emission standards for hydrocarbons and carbon monoxide for 5 years at current California regulatory levels and to implement a 3.1 grams per mile nitrogen oxide standard. These standards are more stringent than currently required, but to move to the even more stringent standards now legislatively mandated would produce very little environmental improvement but would seriously impair the efforts of automotive manufacturers as they work toward the goal I called for in my October 8 economic address of a 40 percent increase in efficiency over the next 5 years.

Based on the passage of this amendment, I have received written pledges from the three largest domestic automobile manufacturers that they will make that 40 percent efficiency improvement. This pledge includes yearly goals, Federal monitoring and public release of the data with which to assess the progress to the goals. They have pledged to do their part; it is now up to Congress to take the necessary action so that their promise can become a reality.

Needless to say, I am pleased with this voluntary commitment from the automobile manufacturers, and I am certain that the manufacturers of major appliances can make a similar effort. Therefore, I am directing the Energy Resources Council to set efficiency standards for major appliances, and to secure within 6 months signed pledges to meet those goals from the leading manufacturers of those appliances. I am hopeful that this voluntary approach will succeed; but if I must, I will ask for mandatory legislation to accomplish this end.

These numerous proposals and actions that I have described, taken together, can reduce our dependence on foreign energy supplies to a manageable level by 1985. But, even so, the United States will continue to import 3 to 5 million barrels of oil per day or about 15 percent of the total we consume. Consequently, to ensure that we are capable of energy self-sufficiency, we must establish legal authority for emergency measures that can be readily implemented, including rationing, and, thus, guarantee equal sharing of shortages and the equitable allocation of supplies.

Further, we must commence now to prepare a strategic storage capacity of 1 billion barrels of oil above and beyond our present capacity. The stored reserves would be available in the event of a supply cutoff, and would be capable of providing 3 million barrels of oil per day for a full year. One-fourth of the stocks would be earmarked for military use in case of future cutoffs. To prepare such an emergency storage capacity will take several years. But if we begin now, and we must, our other actions may exert enough pressure to lower world oil prices by the time we are ready to provide storage stocks. Only by taking such precautions can we act responsibly both at home and in the international community in a time of future supply interruptions.

This program will assure our nation's invulnerability in the 1980's. But no country can embark on such a program alone. Ultimately we are still dependent until all allies are free from the economic impacts and political coercion associated with insecure oil imports. We must build upon the tremendous progress already made in consumer country cooperation. I am directing the Secretary of State to continue his efforts with the members of the International Energy Agency to:

--Seek more stringent energy conservation by other consumer nations, further cutting petroleum imports.

--Direct, joint negotiations with other consumer nations on floor prices, quotas or other mechanisms as a means of assuring a reduction and elimination of vulnerability to oil disruptions.

--Seek greater joint cooperation in our long-term energy programs discussed below.

Action to meet the Long-Term (post 1985) Goal

The actions I have proposed will enable us to meet our short-term and mid-term goals. For the longer term, our goal is to sustain our position of energy independence, and to enhance it so that the United States will again be able to supply a significant share of the Free World's needs. In the past, we were able to do so because we exported petroleum. That will not be the case in the future--not to the same degree.

For the future, we must be able to help other nations through development of new energy technology. We must, by the 1980's and beyond, find new, cleaner ways to use coal. We must tap our gigantic deposits of oil shale. We must develop solar, geothermal, nuclear, and other energy forms. And these and other

resources must be developed in ways that do not severely damage our environment.

This means that we, as a Nation, must reaffirm our commitment to a strong energy research and development program, aimed not only at developing the capability to tap all our major domestic energy resources but also at improving the efficiency of energy utilization in all sectors of our economy.

Last year, the United States committed itself to a five year \$10 billion energy-R&D effort. The 1975 energy R&D budget resulted in almost a doubling of our program from the level in 1974 and three times that of 1973. In 1976, I will continue this accelerated effort and I pledge today to make available whatever funds are needed for future R&D activities to ensure that America can maintain its energy independence. With the activation of the new Energy Research and Development Administration on January 19, we now have, for the first time, both the unified Federal organization and the financial commitment to get the job done.

Energy R&D funds and organization are not enough; we also need new incentives to assure that emerging technologies are not only developed, but brought into commercial use as rapidly as possible. Therefore, I am announcing today a National Synthetic Fuels

Commercialization Program. This effort, which will assure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, will entail a program of Federal incentives designed to reduce the price uncertainty, help raise capital, and overcome unnecessary delays in bringing existing or nearly developed technologies into commercial use. The program will result in the demonstration of technologies of several types and perhaps 30-50 major new plants, using both oil shale and coal resources, and will not only provide additional incremental domestic fossil fuels capacity by 1985, but will assure early availability of critical environmental, economic and other information necessary to decisions concerning the continuing growth of a synthetic fuels industry. The Energy Resources Council will develop, within six months, the detailed guidelines for implementing this program, including appropriate consideration of implications for regional development, water use, and environmental protection.

If the Congress and the American people will now consider these goals that I have set for the short-term, the mid-term and the years beyond, I believe we can all agree that they are attainable. To attain them will not be easy. To do so will require sacrifice and determination. But they can be attained.

The time is past for rhetoric and for talk of energy policies without clearly defined goals. We must resist the temptation to be guided by political or regional or personal considerations. We must resist the temptation to continue a

piecemeal approach to our energy problems, enacting numbers of unrelated laws in the vain hope that they might somehow fit together to form a coherent and comprehensive policy.

The program I have laid out today embodies a national policy. It will enable us to meet our energy goals. But this program requires that we work together, that we take all the steps, enact all the laws, necessary to implement this policy and accomplish these goals. If we do not do so--if we do not work together as an Administration, as members of Congress, as individual Americans--then we will have turned our backs on our responsibility to this Nation and to the people of other nations throughout the world. That we cannot afford to do.

Thank you!

C

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WINDFALL PROFITS TAX

ISSUE

How large should the windfall profits tax be?

BACKGROUND/PROBLEM

- The rapid rise in world oil prices has resulted in \$5.5 billion of windfall profits to the domestic oil industry.
- These profits would have been greater, except for the existence of price controls on "old oil."
- The Administration proposed a windfall profits tax last year which could have cut these profits by about \$3 billion (or down to \$2.5 billion).
- The Administration is now proposing decontrol of old oil coupled with a windfall profits tax. Price decontrol alone would result in almost \$10 billion of additional windfalls.
- The Treasury Department windfall tax proposal could cut after tax windfall profits to \$3.4 billion in 1975.
- This \$3.4 billion is less than the actual windfall of \$5.5 billion in 1974 because the Congress did not act, but is higher than the windfall which would have resulted had our proposal been enacted promptly in 1974 (\$2.5 billion).
- The rate of windfall tax is approximately the same as last year's and in excess of 80%, but because of decontrol, there are more before tax profits.

OPTIONS

Option 1: Go with the Treasury proposal as now structured

PROS:

- cuts windfalls dramatically
- oil industry profits would be less than last year
- is heavier windfall profits tax than Ways & Means Committee ultimately decided upon

CONS:

- proposal, if contrasted with last year, could be interpreted as a softening in the impacts of our excess profits tax

Option 2: Restructure Treasury tax proposal to leave oil industry with the same profits as would have occurred in 1974 if the windfall tax had been enacted last year

PROS:

- would be as strong a proposal as last year's measure
- less susceptible to political attack

CONS:

- might take too much profit from oil industry, reducing their incentive to explore and produce

ERC RECOMMENDATION

ERC recommends Option 2

D



ISSUE

Should the proposed Federal facility siting legislation have some form of Federal preemption authority?

BACKGROUND/PROBLEM

- Siting of powerplants, refineries and other energy facilities has been hampered by lack of any authority or agency at the State level to undertake overall planning and, more importantly, to assure that sites are found and developed in a timely manner.
- There is often great local opposition to powerplants or refineries and many have been delayed or stopped by local zoning decisions or other actions. Allowing preemption of these ordinances is the only way to assure that key facilities will be sited.
- The current Administration bill envisions States having the major role in planning for facilities, assuring adequate alternatives and safeguards, and having the authority to overrule local governments if they subsequently attempt to stop a facility. There is no disagreement within the Administration on this point.
- The unresolved question is: if the State fails to recognize its responsibility and does not take action to condemn sites, what type of Federal preemption should be considered?

OPTIONS

Option 1: Propose legislation with no mechanism to assure State preemption of local zoning perogatives

PROS:

- no new Federal preemption authority
- the tough decisions to be made at the State and local level, rather than being transferred to Washington

CONS:

- this approach is not likely to reduce facility siting problems

Option 2: Provide Federal authority to promulgate State plans and authorities if Governor does not act and allow owners of eligible facilities or citizens to sue State for inaction

- Federal Government could confer needed authorities on States if they failed to act or could not get State legislation passed.
- The Federal Government could not directly preempt State or local decisions.
- Courts would be used to enforce reasonable State action.

PROS:

- will assure that siting decisions are made
- does not set up direct Federal override or decision making on local powerplant sites or individual State decisions

CONS:

- could still be time consuming before process is working correctly
- has potential for significant litigation

Option 3: Provide direct Federal override to condemn sites for facilities if State agencies fail to act

PROS:

- assures rapid availability of sites

CONS:

- major new Federal role in State and local domain
- will transfer many difficult local decisions to Federal level

ERC RECOMMENDATION

ERC recommends Option 2 as a mechanism to assure adequate State planning and actions to site new energy facilities, without direct Federal intervention on a site by site basis.

E



THERMAL INSULATION TAX CREDIT

ISSUE

Should the decision to institute a 15 percent investment tax credit for insulation of existing buildings be reversed?

BACKGROUND/PROBLEM

- About 13 percent of all U.S. energy demand is consumed in heating or cooling residential buildings.
- At least 18 million homes have inadequate thermal efficiency and proper retrofits (new insulation, storm windows, weatherstripping) could reduce consumption by 15 percent.
- Although retrofitting may be economic, the money used to improve thermal efficiency may be needed for food, clothing, or other goods. Consumer debt is already high and high population mobility gives little incentive for investing now to achieve long-term (3-5 years) savings.
- Manufacturers of insulation are only operating at 65 percent of capacity, as new building construction has slowed.

OPTIONS

Option 1: Amend the Internal Revenue code to provide individuals with a tax credit of 15 percent of the costs of modifying their homes to conserve energy

- The 15 percent credit would be retroactive to January 1, 1975, and would apply to expenditures of up to \$1,000.
- The tax credit would expire in 1980.

PROS:

- this measure could save about 125,000 barrels per day in 1980 and over 300,000 barrels per day in 1985
- would demonstrate commitment to conservation and provide greater balance to Administration's program
- would ease the burden of first costs

CONS:

- could cost between \$300 and \$500 million annually through the next five years
- not needed if marketplace works correctly, since savings in fuel costs exceed improvement costs in a few years
- may be difficult to administer and enforce
- would be a bad precedent

Option 2: Major Federal voluntary marketing effort (possibly including demonstration program)

PROS:

- no new legislation required
- low cost program (\$50 million per year)
- easy to administer

CONS:

- limited effectiveness
- shows little commitment to help consumer adjust to higher energy prices

ERC RECOMMENDATION

ERC recommends Option 1

F



LOW-INCOME GROUP
CONSERVATION ASSISTANCE

ISSUE

Should the Administration request appropriations to fund an energy conservation service for low-income homeowners to install insulation? If so, at what level?

BACKGROUND/PROBLEM

- The President signed legislation on January 4, 1975, which gives the Administration authority to set up this low-income group assistance program.
- The poor own about 5 million of the 18 million single family homes that are inadequately insulated.
- The poor spend more than 10 percent of their income on energy (middle income groups spend less than 5 percent).
- Low-income homeowners are least able to purchase energy conserving materials.
- This program is patterned after a successful one-year pilot project in Maine, where 3,000 homes were insulated.

OPTIONS

Option 1: Fund this program within HEW's Community Service Administration (CSA) at a level of \$55 million in fiscal year 1976

- Would establish a goal of adding insulation and making other energy conserving modifications in 3 million low-income homes in the next five years.
- The Labor Department's Manpower Administration would assist the CSA through its public service employment program.

PROS:

- could save 25,000 barrels per day in 1980 and could result in savings to low-income groups of more than \$100 million per year
- would be a positive action to assist low-income groups and at the same time, save energy

CONS:

- requires a new administrative program
- would cost about \$55 million per year

Option 2: Do not fund this program

PROS:

- no budget costs
- no new bureaucracy or new categorical program created

CONS:

- involves no special actions for inner city and rural poor

ERC RECOMMENDATION

ERC recommends Option 1