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THE VICE PRESIDENT
WASHINGTON

May 13, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: THE VICE PRESIDENT *harr*
SUBJECT: Meeting on Energy Policy Finance,
Hot Springs, Virginia, May 9, 1975

Last Friday, at the Business Council meeting in Hot Springs, Virginia, David Packard brought together confidentially a group of business, industrial, and financial leaders to discuss the energy and resources policy and finance proposal we have been considering. (I have attached a list of those who attended.)

The group's initial reaction to the proposal was wary:

- in terms of financing, the proposal would compete for traditional sources of capital in the private market;
- the entity which the proposal contemplates could become just another government agency attempting to allocate credit in a way bound to be less efficient than the free market, soaking up capital from the private market, and establishing its own regulatory and bureaucratic apparatus;
- at first, most of the group felt that Congressional action would accomplish the same thing, if the Congress would just act promptly to:

*Remove regulatory impediments;

*Provide tax incentives such as the deductibility of dividend payments from corporate income tax.

In the course of the meeting, however, most of these arguments were successfully met, as follows:

- Congress will not act in time by removing regulatory restrictions and by supplying economic incentives (for example, in the form of corporate tax relief);
- Even if the Congress did pass timely enabling legislation, some projects vital to our achieving energy self-sufficiency (for example, nuclear plants; uranium enrichment; coal liquification; oil storage) are so vast in scope that only government can undertake the risks necessary for carrying them out;
- The entity which the proposal contemplates would be used only for vital new projects that could not find financing elsewhere; it would not be a bail-out of existing industries.

As a result of these arguments, the group's reaction at the meeting's end was much more favorable. Many doubts were removed or modified, and a measure of support was drawn. The later feedback has been more positive.

I have asked for more specific written comments from those who were there, and I'll include those observations in my report to you on Friday.

Attachment - Attendees

ATTENDEES
(May 9, 1975)

The Vice President

Stephen D. Bechtel, Jr.	Chairman, Bechtel Group
Benjamin F. Biaggini	President, Southern Pacific
John E. Corette	Chairman, Montana Power
Shearon Harris	Chairman, Carolina Power & Light
H. J. Haynes	Chairman, Standard of California
Jack K. Horton	Chairman, Southern California Edison
Reginald H. Jones	Chairman, General Electric
Edmund W. Littlefield	Chairman, Utah International
Frank R. Milliken	President, Kennecott Copper
David Packard	Chairman, Hewlett-Packard
Shermer L. Sibley	Chairman, Pacific Gas & Electric
Edgar B. Speer	Chairman, U.S. Steel
F. Perry Wilson	Chairman, Union Carbide
Walter B. Wriston	Chairman, Citicorp

Consultants to the Vice President

Bill Donaldson	Founder, Donaldson, Lufkin and Jenrette, Inc; former Under Secretary of State
George Woods	Retired Chairman - First Boston Corp.; former President, World Bank



THE VICE PRESIDENT
WASHINGTON

May 20, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: THE VICE PRESIDENT *had 2*
SUBJECT: Energy Resources Finance Corporation

On May 2 you directed a Domestic Council review group to explore in more detail the concept of the establishment of an Energy Resources Finance Corporation and report back to you within two weeks. Attached for your review are:

Tab 1 - A summary of the current economic situation and statement of the problem.

Tab 2 - A summary outline of the proposed Corporation - its purpose, investment objectives, financing plan, organizational structure and summaries of several typical potential projects and how they could be financed.

Tab 3 - A summary of the principal objections to the Corporation - both from within the Administration and from executives in industry and finance - with suggested responses to these objections.

Tab 4 - A draft speech that might be used by you to announce your decision to move ahead with development of a final plan preparatory to the submission of enabling legislation.

Tab 5 - Draft legislation.

Tab 6 - May 2, 1975 Memorandum from the Vice President to the President and May 2 and May 12 Memoranda from the Vice President to the Review Group.

The Nation is at or approaching an economic crossroads which offers an opportunity for a major new Administration initiative.

Faced with rapid erosion of economic activity, quite correctly your initial efforts to date have been focused on a range of measures designed to arrest and turn the accelerating downward spiral of business activity. Although the first signs of an upturn may be imminent, high unemployment persists, and will continue to persist long into any recovery. We must continue to attack this intolerable employment problem. At the same time, as the economy turns we must turn our immediate attention to the elimination of these energy and resource related bottlenecks which fueled the recent inflation and threaten to reappear in any sustained upturn. Energy shortages would seriously impede and could abort any recovery and would present an unacceptable threat to our national security and foreign policy objectives.

PROGRESS TOWARD ENERGY GOALS LAGGING

Evidence to date suggests that we are alarmingly stalled on efforts to implement your energy self-sufficiency



goals. Congress has not moved on your proposed energy legislation and shows few signs of producing a meaningful compromise bill. Investment spending which must precede the development of new and expansion of old sources of energy is seriously lagging. The Federal Government abounds in thoughts, plans and schemes to attack this problem, but unfortunately there is an abundance of equally strongly held views and rationalization as to why such plans will not work. The net result is inaction.

A POSITIVE INITIATIVE

Timing is the key to most successful ventures, and I believe very strongly that now is the time to announce a major new Administration initiative via the formation of the proposed Energy Resources Finance Corporation. To date, you have backed economic measures that, while stimulative to the economy, have had no impact on increasing our productivity or improving our competitive position in the world. Your efforts to hold back the inflationary impact of these programs by keeping a tight rein on the size of the federal deficit have been courageous and increasingly successful,



but have the unfortunate side effect of casting the Administration in a negative tone. You have stood firm against a runaway deficit because you recognized the inevitable inflationary implications, but the Administration program lacks the positive counter-balance of an affirmative effort that will channel expenditures in an inflation-fighting, job-producing manner.

THE ENERGY RESOURCES FINANCE CORPORATION

The Corporation is cast in a philosophical and structural framework that reflects your deep-seated belief in the free enterprise system.

- it would work through, not around or as a replacement for private enterprise;
- it is not conceived as a "bail out" mechanism, designed to perpetuate uneconomic operations. Rather, the entire focus is on the creation of new energy and related natural resources and transportation capacity and capability, vital to renewed productive efficiency



and national energy self-sufficiency;

-- it would have a limited life, with no new financial commitments after five years.

Consistent with its catalytic, bridge financing role, it would by law, go out of business when its mission is completed;

-- in addition to its financing role, it would have legal powers designed to at the very least, shorten, and in some cases eliminate, the myriad of regulatory impediments which currently impede and stall energy related investment; and

-- it would be formed to attack current problems, designed to have a finite lifespan and therefore should be able to attract the type of entrepreneurial, managerial talent from the private sector that led to the success of World War II synthetic rubber plant and Manhattan-type projects.

Several of the concerns and objections to such a project, voiced within the Administration and elsewhere, (Tab 3) have some merit. I am convinced, however, that



the refutation judgments carry the day. We could go on for months or years refining the pros and cons -- but delay beyond the early part of the summer will put the project that much closer to 1976, and the political attack and legislative blockage which predictably will emerge as a matter of Presidential politics.

Your early public announcement of the concept of the plan and your decision to submit enabling legislation, will mobilize the considerable talents within the Administration in a concerted program to enlarge, flesh out and improve the precise scope and structure of the Corporation as outlined in the attached documents. With the galvanizing effect of such a decision now, I believe we can accomplish the necessary reviews and consultations and have a final program and legislative package ready within a month.





I. ECONOMIC BACKGROUND AND THE PROBLEM

The consensus view is that the U.S. economy has bottomed and that the first signs of an upturn will become evident in the third and fourth quarter. High unemployment persists, however, and any major improvement in employment rates will seriously lag the general recovery.

Congress, impatient with high unemployment and with the political support of labor, now threatens further spending programs designed to stimulate short term employment goals. Indeed much of the counter-cyclical monetary and fiscal stimulus to date has been focused on short lead time demand stimulation. Very few, if any, of the stimulative efforts have been focused on the critical problems of increasing productivity and alleviating the energy and related natural resource and transportation shortages and bottlenecks which contributed so significantly to the excessive inflation rates of recent years. While we can be encouraged by the prospect of recovery from recently depressed levels of economic activity, our next set of problems will be associated with increasing our efforts at solving the unemployment situation, while



maintaining a sustained rate of recovery -- both without the reoccurrence of inflation.

You recognized the pervasive economic impact of the reoccurrence of energy related shortages and the attendant national security risks by designating, in your State of the Union Message, the development of energy resources as the Nation's first priority. The Administration's energy independence goals which you established require by 1985 a new or additional

200 nuclear power plants

250 coal mines

150 coal fired power plants

30 oil refineries

20 synthetic fuel plants

and many thousand new oil and gas wells.

FINANCING CAUSES DELAYS

It is projected, as a rough approximation, that your program will require capital investment in energy facilities of \$700 to \$850 billion between 1975 and 1985. Unfortunately, as you know, results to date indicate little forward movement. In fact, in 1974, there were 235 coal and nuclear plants delayed or



cancelled, representing 114,000 megawatts of nuclear capacity and 74,000 megawatts of coal. Whereas there were a range of regulatory and tax impediments, market price uncertainties and technological difficulties which contributed to this erosion, in a recent survey "financing problems" were cited as the primary or contributing cause of nearly 70% of the nuclear cancellations and deferrals and 45% of the coal plant decisions.

At present, largely as a result of Congressional inaction and resultant uncertainty, no detailed national energy plan exists which establishes yearly nationwide and regional goals as benchmarks for the investment flows necessary for domestic energy resource development. It is difficult, therefore, to identify, and more importantly, quantify and rank the precise roadblocks to achievement of your energy self-sufficiency goals.

Of prime importance are the myriad of federal, state and local rules, requirements, regulatory commissions, etc., all of which conspire to increase the cost of new projects, make the investment returns uncertain, and leave unclear the shifting "rules of the ball game" to the point where play does not commence.



Administration efforts to clarify, simplify and/or preempt this regulatory morass must be redoubled. Realistically, however, with little hope of Congressional cooperation, this promises to be an extremely time-consuming process, with at best an uncertain prospect of success. It is on the theory of a simultaneous effort to open up a financing reservoir which in itself can be used as a weapon to resolve this impasse, that the proposal for the Energy Resources Finance Corporation is predicated.





II. PURPOSE AND PROPOSED INVESTMENT STRATEGY OF THE CORPORATION

Armed with a charter with features akin to a traditional investment bank, English merchant bank or development bank, the Corporation would act as a financing vehicle designed to catalyze the private sector into undertaking the massive scale of investment needed to achieve the Administration's energy independence goals of the next decade. Through this broad-gauge charter, the Corporation would be empowered to provide capital through equity investment, loans and loan guarantees to elements of the private enterprise system -- corporations, partnerships, consortia and/or subsidiaries of the Corporation itself, formed to implement national energy goals.

It is intended that the Corporation would also be empowered to provide financing that would create or rebuild the supporting elements necessary to deliver energy raw materials or energy to converters and end users. Thus critical investments could be made in the energy related portion of our transportation system and to relieve bottlenecks that might occur in other raw materials or finished products (pipe, drilling rigs, etc.) necessary to complete an energy development system.



It is contemplated, in order to encourage the commercialization of a number of synthetic fuel projects, new surface or underground in situ mining techniques, and other advanced technologies, that the Corporation or its subsidiaries would be empowered to guarantee not only financial investments but also to enter into price guarantees and/or take or pay contracts for certain quantities of energy product over a fixed period of time. The absolute dollar risk of such guarantees would be limited to a fixed percentage of the Corporation's equity capital.

AREAS FOR INVESTMENT

Within the context of an overall national energy policy and plan, Corporation financing would be undertaken at "going rates" only where private sector financing was not available on economically acceptable terms or in adequate amounts. Currently such financial bottlenecks have slowed or arrested private investment in at least three broad areas:

- 1) Large scale projects, with long lead times, where present delay stems partly because of technical uncertainty and partly because



capacity will not be needed unless first stage projects are completed. Uranium fuel enrichment plants are typical of this situation. Prudent commercial investors will want to wait for greater proof of technical feasibility and development of actual market demand, with a resulting time delay that is inconsistent with our energy independence timetable. If we wait to build this enrichment capacity until enough nuclear power plants are on stream to assure demand, we will have extended periods of imbalance or shortage while long lead time enrichment capacity is rushed to completion. (See illustrative example at end of this section.) The scale and complexity of relatively simple coal mine expansion is vastly enlarged when the necessity for development of delivery systems is included in the project. Coal slurry pipelines, electrified railway connections, improved rail-beds, large capacity coal hopper cars and other elements of a total system will require a scale of financing that lends itself to the large resources of the Corporation.



- 2) Projects which require financing that is structured to defer interest charges and loan repayments until the project is completed and on stream. The Corporation would be able to extend such terms or as an alternative might actually build and then lease or sell the facility. The construction and lease purchase of a nuclear power plant to a utility would be typical of this category of investment. The Corporation could, through a subsidiary, cause this plant to be built and would "carry it" until completion, when it could be either sold or leased to the user utility. The limited availability of this capital through the Corporation (relative to total national needs) would allow the Corporation to require certain state and local regulatory concessions as a quid pro quo to qualify for financing, providing a potential lever toward regulatory change currently unavailable in the existing environment. The FNP (Floating Nuclear Plant) illustrations at the end of this section add a siting flexibility which together with financing availability offers further lead time savings.



- 3) Projects which are either demonstrational in nature or are uncertain as to commercial feasibility. Such projects could bear a much higher degree of investment risk and would be limited to an amount equivalent to the equity capital of the Corporation. They would be undertaken as "second stage" efforts, after development financing by ERDA and/or R&D sponsored by private industry. Such projects might presently be in areas such as coal gasification and liquification, in situ shale oil recovery, and eventually in more advanced thermal and solar type projects. (Illustrative example at the end of this section covers high BTU gasification plants.)



AUTHORIZED CAPITALIZATION

Structure:	<u>Billions</u>
Capital Stock - (Equity Subscribed by U.S. Treasury)	\$ 20
Borrowing Authority (including guarantees)	<u>\$200</u>
	\$220

The capital stock or equity of the Corporation (\$20 billion) would be subscribed by the U.S. Treasury. In addition, the Corporation would be authorized to issue and have outstanding up to \$200 billion of notes, debentures, bonds, guarantees or other evidence of indebtedness. These obligations would be fully guaranteed by the U.S. Government. The terms and timing of all Corporation borrowings would be subject to approval by the Secretary of the Treasury and would be accomplished by the Federal Financing Bank. These obligations would be available for purchase by foreign investors, as well as qualified for purchase by any federally chartered or regulated commercial bank savings and loan association or mutual savings bank. Obligations of the Corporation would be eligible for purchase by the Federal Reserve Open Market Committee and would be lawful investments and may be



accepted as security for all fiduciary, trust and public funds, the investment or deposit of which is under the authority or control of the U.S.

GENERAL POWERS AND TERMS

The Corporation would have the broadest powers to carry out its operations and to establish subsidiary corporations for special purposes. It would cease to make new loans or investments after a five-year term, and would be empowered and required after five years to monitor and fund prior commitments and to begin a program of liquidation and sale of all its assets within ten years.

SPECIAL EXPEDITING POWERS

Each energy-related project which is certified by the Corporation as being of critical importance to the national goal of energy independence would receive expedited and final treatment by all Federal departments and agencies. Upon receipt of the certification for a project, every Federal department and agency so notified would have six months to make any administrative or



regulatory determination which might affect the certified project. Once the administrative or regulatory determination is made, it would be final. No rules, regulations, laws, orders or other administrative or legal actions made after six months from the date of certification may have any adverse impact on the certified project.

MANAGEMENT

Management of the Corporation would be vested in a Board of Directors consisting of five persons appointed by the President with the advice and consent of Congress. All five would be independent public members, serving full time as senior executives and directors of the Corporation. Of the five, all of whom would serve staggered terms, not more than three could be members of one political party and not more than one could be from any Federal Reserve District. The President would, with the advice and consent of Congress, appoint one of the five as Chairman and Chief Executive Officer.



POLICY FRAMEWORK

The Corporation, its Board of Directors, and the Chief Executive Officer, would devise an investment strategy designed to implement the national energy and related resource and transportation policy and program set forth by the President and his delegated agent(s). At present, according to the Energy Reorganization Act of 1974, the Energy Resources Council has central coordinating responsibility in the development of this policy. The Federal Energy Administration and the Energy Research and Development Administration have key statutory roles in the development of overall energy strategy. The Corporation would, subject to Presidential direction, attempt to make investment commitments that expedite the national energy goals put forth by these agencies. The Energy Resources Council would serve as policy adviser to the Board of the Corporation.



ILLUSTRATIVE EXAMPLES

1. Uranium Fuel Enrichment Plants

To support the goal of 200 new nuclear power plants by 1985 (with additional plants thereafter) and to compete for foreign markets, new uranium fuel enrichment capacity will be required by 1983 and additional increments of capacity will have to come on line every year or two thereafter.

To date, three plants have been built and owned by the U.S. Government (ERDA). However, the Administration is now reviewing whether the next increment of capacity should be Government-owned or private. Whatever the outcome of this decision, it is possible that the subsequent increments of additional nuclear fuel enrichment capacity will be private and use the new centrifuge fuel enrichment technology now under development by ERDA. Investments of \$1 billion or more annually may be required for the necessary centrifuge plant capacity.

Attractive proposals using the centrifuge separation methods have already been presented to ERDA by Garrett Corporation, ENI-Atlantic Richfield, and others.



Other interested companies are expected to appear with new proposals. It is possible that three or four competitive centrifuge projects could be initiated in the next few years. If this occurs, each project could begin on a relatively small scale, but be susceptible to capacity additions once the initial stage is technically settled and markets have developed. Estimated costs for the first stage of a centrifuge project generally range from \$250 to \$500 million. Eventually, a plant of an economically viable size might cost \$800 million to \$1 billion.

In order to encourage private industry to enter the fuel enrichment business, substantial Federal help will be required. In addition to ERDA technical assistance and Government arrangements to assure markets for the fuel coming from the private plants and to provide loaned uranium fuel if the new plant construction falls behind schedule, some form of guarantee may be required for the estimated 75% of project costs which would be financed with debt. To encourage private involvement in Uranium enrichment, the Corporation could provide guarantees for the debt associated with the first few centrifuge projects. Guarantees in the range of \$200-



300 million per plant for the first stage might be anticipated. If the debt associated with the later stages of a \$1 billion plant also had to be guaranteed, the total exposure might be \$600-750 million per plant. Once a plant is operating efficiently, markets have been secured and any technical problems are resolved, it might then be provided that the guarantee would be phased out and the project would then be totally financed by private industry and the private capital market.

2. Nuclear Power Plants

As noted above, the construction of 200 new nuclear power plants by 1985 is a national goal encountering significant problems because of cancellations and deferrals of new plant construction. Consequently, the Nation's ability to increase the proportion of electricity produced from domestic non-fossil fuels is in jeopardy.

While the reasons for delays in these plants are usually varied and complex, a few are common to most. First, many of the utilities are experiencing financial difficulties which limit their capacity to continue investing in capital-intensive nuclear plants. Typically,



state public utility commissions are not being helpful in this regard. As an extreme example, construction has been stopped on two plants because of finances after each was more than 45% completed. Secondly, an ever-increasing number of delays are being caused by the licensing process, despite Administration proposals to speed up this process.

These delays and cancellations may require that further increments of electricity will have to be supplied by short lead time oil-consuming combustion turbines in the early 1980's unless significantly lower electricity consumption growth rates occur over the next few years.

Taking numerous actions to increase the number of new nuclear power plants (as well as coal-fired) coming into service in the early 1980's will be an important function of the Corporation. One proposed method of increasing the number of nuclear plants available by the early 1980's involves support for the concept of Floating Nuclear Plants ("FNP"). The FNP is a complete nuclear power generating station comprised of proven systems and equipment and standardized in design to allow repetitive factory manufacture on an assembly-line basis. Following assembly, the plant is towed to its operating location



where it is moored--floating within a basin surrounded by a protective structure. This concept has the following advantages:

- standardized, proven design
- factory manufacture
- better quality assurance and control
- greater assurance of high plant reliability
- 3-4 years shorter plant/site lead time
- siting flexibility
- minimized environmental and societal impact
- lower capital and generation costs

Each Floating Nuclear Power plant could provide electricity from domestic nuclear fuel and eliminate the need for the equivalent of 12 million barrels of oil per year (about \$140 million annually, at today's import price).

In conjunction with Public Service Electric and Gas Company of New Jersey ("PSE&G"), Westinghouse has been developing a method of designing, licensing and producing a FNP. PSE&G has ordered four plants and expended \$30 million in the licensing effort. Westinghouse has already invested \$100 million in the manufacturing facility. However, the general downturn in the utility industry has caused PSE&G to defer the introduction of



the first plant from 1980 to 1985. The complications of licensing such a first-of-a-kind concept have discouraged other utilities from ordering the FNP. The result has been a suspension in construction of the Westinghouse factory and delay of implementation of the FNP concept and its oil savings benefits for five years.

To expedite its Floating Nuclear Power plant program, Westinghouse has proposed that the Government order four FNP's with the first to be delivered by the end of 1981. In turn, the Government would sell the four plants to one or more operating utilities upon completion. The result of this action would be recovery of three years on the Westinghouse FNP manufacturing schedule and the reduction of oil consumption through the earlier introduction of the four plants. In addition, the new floating plant concept would be generally proven and made available to the utility industry three years earlier. Implementation of this program could demonstrate Federal Government leadership and direction in the nuclear area, thereby causing other companies to begin producing and using FNP. (One other company has taken some preliminary steps.) If successful, the



scale of this program could be expanded several-fold, as a complement to an accelerated program for additional, conventional nuclear plants.

To effect this program, the Corporation would have to invest about \$2.5 billion for the plants and capitalized interest payments over a ten year period. This capital investment would be returned to the Corporation by the purchasing utility(ies) at the end of this period.

In the course of providing or withholding financing for these nuclear plants and others, the Corporation might obtain a de facto Federal override in the areas of fuel adjustment clauses, regulatory lags, peak pricing and other matters and generally encourage state public utility commissions to begin to act more responsibly in electric price and return on investment considerations. Also, direct Federal involvement could be useful in expediting solution of safety and environmental questions.

3. High BTU Gasification Plants

Proven natural gas reserves have recently been declining as production has exceeded new discoveries.



At the same time, reserves dedicated to interstate gas pipeline companies have declined more rapidly than total reserves because gas producers find it much more profitable to sell their gas intrastate, thereby removing this gas from the interstate market. In fact, drilling for sales to intrastate markets is at a near record level. Today the reserves dedicated to interstate markets are equal to about nine years of usage at current rates of consumption.

Faced with dwindling reserves and a declining production rate, the gas pipeline companies have been aggressively seeking new sources of supply to enable them to serve at least their highest priority customers. Because of the decreasing supplies of domestic natural gas and the high cost of imported liquified natural gas, some pipeline companies have plans to initiate synthetic natural gas ("SNG") development projects. This is consistent with the national goal of 20 synthetic fuel plants by 1985.

The Lurgi-methanation process for making high BTU gas from coal uses a combination of proven technologies which have been used in other countries for many years.



As a consequence, the construction of commercial-sized plants could begin in the very near future. Although there are currently plans for more than 10 plants to produce high BTU gas from coal in the U.S., none of these projects has, as yet, proceeded to construction. The six projects at the most advanced stages of planning include:

- * El Paso Natural Gas Company plant in New Mexico
- * American Natural Gas Company plant in North Dakota
- * The Transwestern plant (Pacific Lighting and Texas Eastern Transmission venture) in New Mexico
- * Pan Handle Eastern plant in Wyoming
- * Northern Natural Gas plant in Montana
- * Natural Gas Pipeline Co. plant in North Dakota

Each of these proposed plants would have the capacity to produce about 250 million cubic feet ("MCF") of SNG per day. The estimated cost of a 250 MCF/day plant has doubled in the last 18 months to about \$800 million for the "hardware" (excluding interest on construction financing and anticipated working capital needs of another \$200-300 million) Because the capitalizations of the gas pipeline companies who propose to build these plants are small in relation to the cost of a plant,



potential investors are deeply concerned by the apparent financial risks of a possible SNG plant failure.

The principal factor delaying commercialization of this technology is the inability of the regulated gas utilities to obtain new plant financing. This problem arises as a result of the prevailing FPC pricing regulations for gas transmitted through interstate pipelines and the political uncertainties and technical risks which could lead to further plant cost escalation and major construction delays.

In the recent case of Transwestern, the FPC ruled on its first SNG application. Here the Commission decided that it would not give advance approval to a gas price which would, in effect, guarantee that the investors would earn an adequate return on investment. This unfavorable ruling has made it virtually impossible for the gas utilities to acquire necessary financing for the proposed plants and increases the need for Federal financial help.

In order to expedite the construction of the first high BTU gas plants, the Corporation could agree to participate in the construction of several plants. It



could finance this construction until the plants had been through their initial proving periods -- in essence, the Corporation could thereby assume a major portion of the risk of cost overruns and technical problems. Once the proving periods were over, the Corporation could then lease the completed, proven plants to the various pipeline companies. The capital eventually committed per plant would be at least \$1 billion.

Using this major financing commitment and Government involvement as a lever, the Corporation could help overcome the many major governmental impediments to high BTU gasification projects. Most importantly, the FPC might be convinced to permit gas prices which would allow the gas pipeline companies to pay fair lease payments on plants constructed with Federal Government involvement. Also, surface mining permits, pollution control arrangements, water allocation priorities and other government-related problems might be more expeditiously resolved if a Government Corporation were "out in front."

At the same time the Corporation, or ERDA, could contract for an experimental in situ gasification project



from deep coal mines to determine costs of this method of gas production. Once this is proven, which would take about four years, it could be undertaken by private corporations.

4. Some Other Potential Investments

Coal slurry pipelines
Nuclear fuel reprocessing plants
High temperature gas reactors
Electrification of railways
Shale oil production plants
Coal liquefaction plants
Oil storage facilities
(This would be straight subsidy)
Coal-fired power plants
100-ton coal hopper cars
Medium-BTU gasification plants
Breeder reactors
Regional high voltage electric transmission
grids
Surface and underground coal mines
Uranium mines and mills
Oil and gas pipelines
Geothermal power plants



Oil refineries

Offshore drilling rigs

New railbeds

Large-capacity coal shovels and draglines

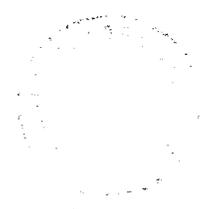
New railroad locomotive units

Oil-to-coal power plant conversion projects

Pumped-storage hydroelectric plants

Western water systems





III. PRINCIPAL OBJECTIONS AND CONCERNS RELATIVE TO THE ESTABLISHMENT OF THE CORPORATION AND RELATED THOUGHTS:

1. There really is no financing problem. Regulatory restrictions, inadequate regulated returns, environmental inhibitions, OSHA dictates, etc., all conspire to create a cost add-on and aura of uncertainty that have retarded investment decision-making. Eliminate the redundant and conflicting regulations, create a Federal preemption of rate-making, and investment capital will become available.

There is no denying that excessive restrictions and regulatory overkill are key factors. However, the prospect of legislative movement in this area is remote. We cannot afford to lessen our efforts to eliminate redundant and overly restrictive regulation, nor can we afford to delay investment until this legislative and administrative logjam breaks. The Corporation, with its financial clout, can become a major new forcing lever.

2. The proposed Corporation will be just another government bureaucracy. Government cannot run anything



well and this proposed entity will be no exception.

It will create a life of its own and constitute

another permanent layer of inefficiency.

The Manhattan-District project, Synthetic Rubber Corporation, TVA, Comsat and NASA are prime examples of the exceptions to this generally valid assertion. The proposed structure of the Corporation -- its broad mandate, limited term of existence, and management and Board structure are all designed to attract a type of goal-oriented entrepreneurial management from the private sector. As in any undertaking, management will be the key factor determining success or failure and the entire design and assigned mission are oriented toward attracting such management.

3. Such a Corporation will be interpreted as "throwing in the towel" on free enterprise -- another step in the "socialization" of our system.

Political realities indicate that, with high unemployment the legislative process will throw more, not fewer roadblocks in the path of free enterprise. Without such a bridge mechanism, the private enter-



prise system, its hands tied, will increasingly fail to deliver adequate energy to satisfy public demands. Private enterprise will be tagged as the culprit, charged with failure, and the ultimate political solution could be to substitute government takeover, ownership, and control.

4. The Corporation is a mechanism for credit allocation by government. Other credit users will be pushed off the bottom rung of the ladder. Unless the "free market" is allowed to allocate credit on the basis of optimum financial return, misallocation will occur.

Energy is a national security as well as economic problem. The highest return to the nation cannot be measured in financial return on individual investments. Free market will allocate only where return is commensurate with financial risk. Given the time frame of our energy independence goals, government must take some of the risks that prevail at these early stages of development, if the President's goals are to be achieved. Product price uncertainty and technological risk are prime causes of financing



difficulties. The passage of time may resolve these risks, but our timetable for the nation requires investment now.

5. Financing is a problem only because of the risk-reward rates of energy projects. The proposed Corporation will merely solve a cash flow problem with a balance sheet adjustment, incurring large liabilities that will not be paid out because of inadequate returns.

Perhaps -- but if this proves to be true then the ultimate subsidation of these costs represents the price of national security and energy independence. Hopefully the Corporation will have a "balanced portfolio" where the high risk - high loss investments are limited and the bulk of the program is concentrated in debt investments or guarantees in projects that will eventually have a satisfactory payout.

6. The raising of this amount of capital by the government, will add to projected "crowding" in financial markets - resulting in a resumption of high interest



rates and credit starvation for less well-endowed borrowers.

The borrowing will be coordinated by the Federal Financing Bank. The use of credit guarantees, as well as a staggered need for funds over the life of the Corporation will allow a measure of time to elapse before the entire amount of capitalization is funded. Residual dislocations are the price to be paid for designation of energy as priority national objective.

7. Any attempt to circumvent regulatory procedures by giving special expediting powers to the Corporation will be strongly opposed by environmentalists, consumer advocates, etc.

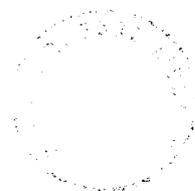
The purpose of the expediting power is to eliminate the "red tape", time delay aspects of regulations, not legitimate consumer protection. Surveys indicate that while the public is in favor of the "protective" aspects of regulations, they are increasingly impatient with red tape and unnecessary redundancy and bureaucratic delay.



8. From a political viewpoint, once legislation is introduced to form the Corporation, it will be impossible to avoid expansion of its charter -- to the point where it becomes a Christmas tree for financing in many segments of the economy -- a massive and obviously impractical national credit allocation entity.

This is a political judgement and certainly a risk. If the bill gets perverted, there is always the veto.





IV.

DRAFT SPEECH FOR PRESIDENT FORD
ON PROPOSAL FOR
ENERGY RESOURCE AND FINANCE CORPORATION

Fellow Americans:

First, I wish to thank you for the thousands of expressions of support in the trying weeks we have just come through. I particularly appreciate and commend your firm resolution: - that this nation will not countenance piracy against its ships on the high seas - no matter what cloak it may wear.

The strength of a free people lies in its ability to face realities, to come together in crisis, to do so with firm and open resolve, and to support their leadership in such commitments. In the days ahead, we shall be carrying forward new foreign policy initiatives to meet the new and changing conditions in the world. We shall be carrying forward these new initiatives steadfast and confident in our strength and purpose as we move into the future.



Our foreign policy not only must mirror our commitment to the principals of international justice and peace. It must also reflect our own national needs and aspirations. We must remember that a nation is strong and effective in world affairs only as it is strong and effective at home.

It is about America at home that I wish to speak. And to speak plainly -- to "tell it like it is." This you expect of me -- And I know no other way for a free people to make the right decisions than to face the facts.

At home, the first fact we face is the economic recession which is causing such suffering and hardship to so many throughout our land.

Economists differ in their opinions as to when the recession will end and as to how rapid and how sustained the recovery will be. They look at inventories, sales, interest rates, econometric models and other indicators -- as they must. There are uncertainties in any such forecasts because basic conditions have changed in areas like the costs of fuel, the availability of various raw materials, and the upset of traditional pricing mechanisms.



Whatever these figures indicate, you and I are concerned about people, not statistics. I don't have to tell you that unemployment is too high. I don't have to tell you that unemployment breeds suffering, uncertainty, fear, and, ultimately, loss of self-confidence.

I have just been given the official projection of the probable level of unemployment for the next year -- It is 8.2%

8.2% unemployment for 12 months is intolerable. 8.2% of the labor force without work is contrary to the tradition of self-reliance and individual enterprise which made us what we are today. 8.2% is too many people out of work, too much suffering, too much anxiety, and too much unhappiness for us to stand.

I intend to take action now to help assure that this statistical projection will not become a social reality. Difficult though the task may be, we can take positive action to provide jobs. We must take action! And, so far as your President is concerned, we will take action!

But I shall need your help to do it.



We can do it by energizing the economy, by encouraging construction, and by stimulating production. We can do it through our free enterprise system and thereby provide real jobs at going pay rates and not "make work" government jobs or a dole. We can do it by cutting through red tape, putting money where the need is, and moving our economy forward.

The United States faces a serious energy crisis now and will continue to do so in the years ahead unless we take action to increase our energy resources and production. Our national security, our level of employment and the quality of life for all Americans are at stake. We can wait no longer to start the program for energy self-sufficiency along the lines I laid down in my message on the State of the Union and in the legislation I submitted to the Congress.

Nearly half a year has gone by, and Congress has given us no legislation. It is nearly a year and one-half since the oil embargo. Action must be taken now and the barriers and roadblocks to progress in the energy field must be eliminated.



A key to moving ahead is the ability of private business to finance new power plants, to open new mines, to bring in more natural gas, to rehabilitate railroads for carrying coal, to build prototype coal gasification plants and the like. It will take a massive effort as we need many new nuclear power plants, coal-fired power plants, uranium mines and mills, oil storage facilities and oil refineries, pumped storage hydro-electric plants, offshore drilling rigs, railroad hopper cars, surface and underground coal mines.

We need to undertake these projects, as we can, in such a way as to minimize adverse impacts on our environment. Let us not forget that it will take sizable capital investment and ample energy to achieve our long term environmental goals.

Today it is clear that the energy program is not moving. The reason that the program is not moving is also clear: Congress has not acted. We do not have the energy legislation we need to streamline procedures for turning ideas into reality in terms of increased productivity and more jobs. Without energy legislation, we cannot get clear direction of Federal policy. Without



energy legislation, we can't remove the pervasive feeling that large private commitments to any program for energy self-sufficiency will not be supported on a continuing basis by government policy.

To get our energy program moving, and to meet the challenge posed by the intolerably high level of unemployment we face in the next twelve months, I am announcing tonight two immediate but far-reaching steps for our domestic policy.

First, I am directing an Administration-wide review of major Federal economic and social regulation. I want to examine, from a broad perspective, the regulatory methods and mechanisms this nation employs to achieve social and economic goals. I want to determine whether we are getting our money's worth from all these regulations and procedures of our regulatory agencies -- or whether too many rules and too much red tape are actually costing us more than they are benefiting us by obstructing progress and discouraging initiative.

Second, to assist in financing our national goal of energy self-sufficiency and at the same time to provide constructive jobs, I propose the establishment of an



Energy Resources Finance Corporation by the Congress.

The Energy Resources Finance Corporation would invest or loan funds or guarantee loans to private business to get on with our energy program and related raw material programs, and in the process provide thousands of jobs -- in our mines, oil fields, utility companies, construction projects, factories, engineering, financial, scientific, accounting and all related activities. The ERFC would get started with a \$20 billion appropriation but be authorized to issue \$200 billion in bonds backed by the Federal Government. It would lend or invest money, buy preferred stock, take mortgages, build and lease facilities -- all with a view to bringing about energy production and employment.

The ERFC would have certain powers designed to cut through the red tape which is now holding back essential projects -- red tape that must be cut before it strangles the economy and literally dims the lights in our homes and factories.

The ERFC would not be putting the government into business but assisting business in these difficult times



to have our enterprise system build what the nation needs and to provide real jobs in the process. When its task is finished, the ERFC would liquidate and disappear.

We have precedents for such an enterprise in Federal Mortgage corporations, Farm credit organizations, the Synthetic Rubber Corporation and Manhattan District projects of World War II and, of course, TVA, Comsat, and NASA. We have precedents for the government's providing stimulus to industries like the highway programs for automobiles, airport and airway programs for aviation, and rights-of-way for many of our railroads.

The ERFC would not signal a threat of new unbridled inflation. It would not be spending federal tax dollars on a public jobs program with little or no productive capacity added to the nation. Instead, it would be loaning and investing funds, and will be repaid as the projects mature.

The ERFC would be expected to make its financial commitments over a period of five years. It would pay out its loaned funds over a period of ten years. As its loans are paid off, ERFC would be phased out and liquidated.



But the jobs this corporation would create will be permanent. By permanently enlarging and improving our productive capacity, this corporation will also permanently enlarge the number of people with jobs. The result will be constructive employment, not just those make-work, budget-breaking jobs that result from the usual pump-priming public employment programs.

This corporation is also crucial for our environmental programs. The enhancement of our environment itself requires additional energy for its achievement. By tackling the energy problem programatically and forthrightly, we can achieve a better quality of life, employment for our welfare, and greater security for the nation.

Before the month is out, the Administration will complete the final plans for this new enterprise. I will send Congress legislation to create the Energy Resources Finance Corporation. I am also instructing the Departments and agencies to begin the review of regulations and regulatory agencies. I urge your support of both these positive initiatives.

We cannot tolerate dependence on foreign sources for so much of our energy.



We cannot expect to achieve environmental goals without more energy.

We cannot tolerate a continuing high unemployment rate, and there is no need to!

We have the capacity to achieve our energy, environmental and employment goals.

Let's get together and do it.

Involved are jobs for Americans and our whole economic future. At stake are the continued strength of the United States, our national security, and indeed our political liberty.

It will take hard work. It will take sacrifice. It will have its costs.

But let us remember that there is no free ride to freedom. It has to be paid for by every generation of Americans -- each in its own way.

And let us heed this self-evident truth as we approach the Second Hundred Year anniversary of the Declaration of Independent by acting decisively, by



acting together, by acting now.

Let us demonstrate once again how a free people can meet challenge and change with imaginative resolution -- and with the enhancement, not the obliteration of the free enterprise system and individual opportunity.

The promise of America is as great -- indeed greater, than ever before. The performance of America will gain match that promise. You and I, with God's help, can assure it.



5/20/75

V.
A BILL

To establish the Energy Resources Finance Corporation, a United States Government Corporation with authority to make loans to and provide financing for those sectors of the national economy which are of critical importance to the development of domestic sources of energy and the attainment of energy self-sufficiency for the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there be, and is hereby created, a body corporate with the name "Energy Resources Finance Corporation" (herein called the Corporation). That the principal office of the Corporation shall be located in the District of Columbia, but there may be established agencies or branch offices in any city or cities of the United States under rules and regulations prescribed by the Board of Directors. This Act may be cited as the "Energy Resources Finance Corporation Act of 1975".

Findings and Purposes

Sec. 2. The expeditious achievement of energy self-sufficiency for the United States is a goal which, in the judgment of the Congress, is essential to the success of the national economy and to the maintenance of national security. It is the purpose of this Act to provide for the allocation of capital to those sectors of the national economy which are of critical importance to the development of domestic sources of energy or



the attainment of energy self-sufficiency by the United States.

Management of the Corporation

Sec. 3. The Corporation shall have capital stock of \$20,000,000,000, subscribed by the United States of America, payment for which shall be subject to call in whole or in part by the Board of Directors of the Corporation.

There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$20,000,000,000 for the purpose of making payments upon such subscription when called.

Sec. 4. The management of the Corporation shall be vested in a Board of Directors consisting of five persons appointed by the President by and with the advice and consent of the Senate. The President shall designate one of such appointees as Chairman of the Board and chief executive officer and shall have the power at any time and from time to time to designate a new Chairman from among the members of the Board. Of the five members of the Board, not more than three shall be members of any one political party and not more than one shall be appointed from any Federal Reserve district. Each Director shall devote working time not otherwise required by the business of the United States principally to the business of the Corporation. Before entering upon his duties, each of the Directors so appointed and each officer of the Corporation shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or in any other Act shall be construed to prevent the appointment and compensation



as an employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof. Initially, two of the Directors shall be appointed for three-year terms, two for two-year terms, and one for a one-year term. Thereafter, upon the expiration of any Director's term, such Director or his successor shall be appointed for a three-year term or until such Director's successor is appointed and qualified. Whenever a vacancy shall occur among the Directors so appointed, the person appointed to fill such a vacancy shall hold office for the unexpired portion of the term of the Director whose place such person is selected to fill. Directors, officers, attorneys, agents, or employees of the Corporation shall be subject to all provisions of law governing the conduct in office of employees of the Departments and Agencies of the United States Government.

Sec. 5. The Corporation shall have power to adopt, alter, and use a corporate seal, which shall be judicially noticed; to make contracts; to lease such real estate as may be necessary for the transaction of its business; to sue and be sued, to complain and defend, in any court of competent jurisdiction, State or Federal; to select, employ, and fix the compensation of such officers, employees, attorneys, and agents as shall be necessary for the transaction of the business of the Corporation, without regard to the provisions of other laws applicable to the employment and compensation of officers or employees of the United States; to define their authority and duties, require bonds of



them and fix the penalties thereof, and to dismiss at pleasure such officers, employees, attorneys and agents; and to prescribe, amend, and repeal, by its Board of Directors, bylaws, rules, and regulations governing the manner in which its general business may be conducted and the powers granted to it by law may be exercised and enjoyed, including the selection of such executive officers not otherwise provided for herein, together with provision for such committees and the functions thereof, as the Board of Directors may deem necessary for facilitating its business under this Act. The Board of Directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the government. The Corporation may request and shall be entitled to receive from any board, commission, independent establishment, or executive department of the government, including any field service thereof, information necessary for the conduct of the Corporation's affairs. With the consent of any such board, commission, independent establishment, or executive department, the Corporation may make use of services, facilities, officers, and employees thereof in carrying out the provisions of this Act.



Functions of the Corporation

Sec. 6. (a) In order to achieve the purposes of this Act, the Corporation is authorized and empowered, upon such terms and conditions as it may determine, to provide financial assistance to any business concern:

(1) to enable such concern to finance facilities construction, conversion, or expansion, or the acquisition of equipment, plant, machinery, supplies, or materials;

or

(2) to provide such concern with working capital;

or

(3) to aid such concern in the payment of current debts or obligations.

As used in this Act the term "business concern" shall mean any individual, corporation, company, association, firm, partnership, society, public authority, or other entity which is engaged in the development, manufacture, supply, importation, exportation, procurement or production of goods or services in the United States and which is deemed by the Board of Directors to be essential, by itself or as part of a larger industrial grouping, to the achievement of energy self-sufficiency by the United States, or the long-term security of energy sources and supplies for the United States, and the term "financial assistance" shall mean the provision of loans, the furnishing of guarantees, the purchase of capital stock, or any other advance or extension of funds or credit by the Corporation to a business concern.



(b) In providing financial assistance under subsection (a), the Board of Directors shall determine that equivalent financing is not available on similar terms from other sources.

(c) No financial assistance may be provided under subsection (a) unless an application therefor has been submitted to the Corporation in such manner and containing such information as the Corporation may require.

(d) Financial assistance provided by the Corporation under subsection (a) may be made upon such terms, and subject to such restrictions, as shall seem to the Board of Directors to be commensurate with the needs of the recipient, and may be renewed or extended by the Board of Directors as it may determine.

(e) Each loan made under subsection (a) shall bear interest at such rate as the Board of Directors of the Corporation may determine, giving considerations to the need and capacities of the recipient as well as to the Corporation's need to sustain continuing operations out of returns on investment.

(f) Except as provided in subsection (g) hereof, all loans or purchases of obligations under the foregoing provisions shall be, in the opinion of the Board of Directors, of such sound value, or so secured, as to reasonably assure retirement or repayment, and may be made or effected either directly or in cooperation with banks or other lending institutions. Such loans may be made directly upon promissory notes or by way of discount or rediscount of obligations tendered for the purpose. The Corporation, under such conditions as it shall prescribe, may take over

or provide for the administration and liquidation of any collateral accepted by it as security for such loans. In no case shall the aggregate amount of advances made under this section to any one business concern or affiliated business concerns exceed at any one time 5 per centum of (1) the authorized capital stock of the Corporation plus (2) the aggregate principal sum of the obligations of the Corporation authorized to be outstanding.

(g) To the extent of its paid-in-equity capital, the Corporation may make high-risk loans or direct investments, or provide product price guarantees, which in the opinion of the Board of Directors will further the purposes of this Act. The Board of Directors shall create such reserves as may be necessary to meet contingent liabilities which may be created under this subsection (g).

(h) The Corporation shall be subrogated to the rights of any third party receiving payments of interest or principal out of funds provided by the Corporation under a loan guarantee arrangement authorized hereunder. Guarantees of loans under subsection (a) shall be subject to such further terms and conditions as the Corporation may require to carry out the purposes of this Act.

(i) The probable ultimate net cost of all contingent obligations of the Corporation arising out of guarantees authorized hereunder shall be considered financial assistance or commitments for financial assistance for the purpose of computing the general



funds of the Corporation available for use in carrying out the purposes of the Act. The Corporation shall set aside such contingency funds as the Board of Directors shall deem appropriate to meet contingent liabilities.

(j) The Corporation may, in compliance with applicable laws governing transactions in securities, sell in public or private transactions all or any part of the common or preferred stock, capital notes, bonds or any other evidences of indebtedness or ownership acquired by the Corporation pursuant to this section.

Sec. 7. Subject to the terms and restrictions of Section 6 hereof, the Corporation shall be entitled to reply upon the recommendations of the Energy Resources Council, the Federal Energy Administration or the Energy Research and Development Administration, or their successors, in determining whether the provision of financial assistance to a business concern or any other act authorized hereunder, will further the purposes of this Act.

Sec. 8. In order to further the purposes of this Act, the Corporation is authorized and empowered, under such terms, conditions, and restrictions as the Board of Directors may determine, to make loans to, or contracts with States, municipalities and political subdivisions of States, to aid in financing projects authorized under Federal, State or municipal law.

Sec. 9. (a) When the Board of Directors shall determine that such action is necessary to achieve the purposes of this Act, the Corporation may create or organize subsidiary corporations



with such powers and authorities (not exceeding those of the Corporation) which may be required --

(1) to produce, acquire, carry, sell or otherwise deal in energy-related commodities and materials;

(2) to purchase and lease land, purchase, lease, build, operate and expand plants, and purchase and produce equipment, facilities, machinery, materials, and supplies;

(3) to lease, sell, or otherwise dispose of such land, plants, facilities and machinery in order to induce business concerns to engage in the foregoing activities.

(b) The powers of every corporation created or organized under this Section shall be set out in a charter which shall be valid only when certified copies thereof are filed with the Secretary of the Senate and the Clerk of the House of Representatives and published in the Federal Register, and all amendments to such charters shall be valid only when similarly filed and published. No corporation created hereunder shall have succession beyond the authorized life of the Energy Resources Finance Corporation, unless the life of such corporation is extended beyond such time of termination pursuant to an Act of Congress.

Financing of the Corporation

Sec. 10. All moneys of the Corporation not otherwise employed may be deposited with the Treasurer of United States subject to check by authority of the Corporation, or in any Federal Reserve bank, or may, by authorization of the Board of



Directors of the Corporation, be used in the purchase for redemption and retirement of any notes, debentures, bonds, or other obligations issued by the Corporation. The Federal Reserve banks are authorized and directed to act as depositories, custodians, and fiscal agents for the Corporation in the general performance of its powers conferred by this Act.

Sec. 11. In order to enable the Corporation to carry out the provisions of this Act, the Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, the Federal Reserve banks, the Energy Resources Council, the Federal Energy Administration, the Interstate Commerce Commission, the Energy Research and Development Administration, the Civil Aeronautics Board, the Securities and Exchange Commission, the Federal Power Commission, the Nuclear Regulatory Commission, the Internal Revenue Service, and all other executive departments, agencies, boards, commissions, and independent establishments of the Federal Government whether or not specifically enumerated above, are hereby authorized and directed to make available to the Corporation, in confidence, such reports, records, or other information as they may have available relating to the condition of any applicant for financial assistance, or relating to individuals, associations, partnerships, or corporations whose obligations or securities are offered to or held by the Corporation as security in connection with the furnishing of such financial assistance, and to make examinations of such applicants for the confidential use of the Corporation. Every applicant for

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financial assistance under this Act shall, as a condition precedent thereto, consent to such examinations as the Corporation may require for the purposes of this Act, and shall further consent that any reports of examinations of the applicant by constituted authorities may be furnished by such authorities to the Corporation upon request therefor.

Sec. 12. (a) The Corporation is authorized and empowered to issue, and to have outstanding of any one time, notes, debentures, bonds or other obligations in the aggregate principal amount of \$200,000,000,000; such obligations shall contain terms as to maturity, redemption, priority and interest, and such other terms, as may be determined by the Board of Directors of the Corporation: Provided, That marketing arrangements for securities of the Corporation shall be made through the Federal Financing Bank, and the terms, time and marketing arrangements of any such offering shall be subject to the approval of the Secretary of the Treasury.

(b) The Federal Financing Bank shall be authorized to purchase, and upon request from the Corporation shall purchase, the securities or other evidences of indebtedness of the Corporation. The Federal Financing Bank may, at any time, sell any such securities or evidences of indebtedness of the Corporation so acquired.

(c) The notes, debentures, bonds, and other obligations of the Corporation --



(1) may be secured by assets of the Corporation in such manner as shall be prescribed by its Board of Directors;

(2) subject to the provisions contained in subsection (a) above, may be offered for sale at such price or prices as the Corporation may determine;

(3) shall be available for purchase by foreign investors; shall be qualified for purchase by any Federally chartered or regulated commercial bank, savings and loan association or mutual savings bank; and shall be eligible for purchase by the Federal Reserve Open Market Committee and any Federal Reserve bank; and

(4) shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof.

(c) In the event that the Corporation shall default in the payment of the principal of or interest on outstanding notes, debentures, bonds, or other such obligations, the Secretary of the Treasury shall upon request by the holders of such defaulted obligations pay the amount thereof, and there is hereby authorized to be appropriated out of any moneys in the Treasury not otherwise appropriated a sum sufficient to pay such defaulted obligations. Thereupon, to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such defaulted notes, debentures, bonds, or other obligations of the Corporation.



Sec. 13. The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under any general bond-issuing authority granted, and the purposes for which securities may be issued under any general bond-issuing authority heretofore granted are extended to include any purchases of the Corporation's obligations hereunder. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired under this Section. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public debt transactions of the United States.

Sec. 14. The Corporation, including its franchise, its capital, reserves, and surplus, and its income shall be exempt from all taxation now or hereafter imposed by the United States, by any territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority; except that any real property of the corporation shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.



Sec. 15. In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other obligations.

Sec. 16. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as depository of public money and financial agent of the government, as may be required of it. Obligations of the Corporation shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.



General

Sec. 17. The Corporation shall make and publish a quarterly report to the Congress stating the aggregate sums then outstanding as financing facilities, including a listing of the borrowers or recipients thereof and a brief description of the factors considered by the Board of Directors in extending the facilities; such report shall also contain a detailed report on other activities of the Corporation, if any, authorized under Sections 6 and 7 of this Act. The report shall further show the assets and liabilities of the Corporation as at the end of the Corporation's fiscal quarter next preceding the date of the report, and the number, functions and compensation of persons employed by the Corporation at annual salary rates exceeding \$1,500 per month.

Sec. 18. (a) The accounts of the Corporation shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The audits shall be conducted at the place or places where the accounts of the Corporation are normally kept. All books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Corporation and necessary to facilitate the audits shall be made available to the person or persons conducting the audits; and full facilities for verifying transactions with the balances

or securities held by depositories, fiscal agents, and custodians shall be afforded to such person or persons.

(b) The report of each such independent audit shall be included in the appropriate quarterly report submitted to Congress under Section 15 of this Act. The audit report shall set forth the scope of the audit and include such statements as are necessary to present fairly the Corporation's assets and liabilities and surplus or deficit, with an analysis of the changes therein during the year, supplemented in reasonable detail by a statement of the Corporation's income and expenses during the year, and a statement of the sources and application of funds, together with the independent auditor's opinion of those statements.

Sec. 19. (a) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any security, for the purpose of obtaining for himself or for any applicant any loan, or extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the Corporation, or for the purpose of obtaining money, property, or anything of value, under this Act, shall be punished by a fine of not more than \$5,000 or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation, or coupon, in imitation of or purporting to be a note, debenture, bond, or other

obligation or coupon, issued by the Corporation, or (2) passes, utters or publishes, or attempts to pass, utter or publish, any false, forged or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by the Corporation, knowing the same to be false, forged or counterfeited, or (3) falsely alters any note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the Corporation, or (4) passes, utters or publishes, or attempts to pass, utter or publish, as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, or any person who willfully violates any other provision of this Act, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or, without being duly authorized, draws any order or issues, puts forth or assigns any note, debenture, bond, or other obligation, or draft, bill of exchange, mortgage, judgment,



or decree thereof, or (3) with intent to defraud, participate, share, receive directly or indirectly any money, profit, property or benefit through any transaction, loan, commission, contract, or any other act of the Corporation, or (4) gives any unauthorized information concerning any future action or plan of the Corporation which might affect the value of securities, or, having such knowledge, invests or speculates, directly or indirectly, in the securities or property of any company, bank, or corporation receiving loans or other assistance from the Corporation, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(d) No individual, association, partnership, or corporation shall use the words "Energy Resources Finance Corporation" or a combination of these words which a court of competent jurisdiction shall find reasonably likely to mislead or deceive, as the name or a part thereof under which he or it shall do business.

(e) The provisions of the United States Code, Title 18, Chapter 11, Sections 201 through 218, inclusive and Title 18, Chapter 23, Sections 431 through 433, inclusive, as extended to apply to contracts or agreements with the Corporation under this Act, which for the purposes hereof shall be held to include loans, loan guarantees, advances, discounts, and rediscounts; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.



Sec. 20. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall not be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Termination

Sec. 21. Any other provision of this Act notwithstanding.

(a) The Corporation shall make no commitments for financial assistance after June 30, 1980, and shall after June 30, 1985, furnish no financial assistance pursuant to commitments made or entered into on or prior to June 30, 1980.

(b) After June 30, 1980, the Board of Directors of the Corporation shall commence all practical and reasonable steps to achieve an orderly liquidation of the Corporation's affairs, to the extent consistent with the purposes of this Act, on or prior to June 30, 1985. Such steps may include the sale or transfer to any agency of the United States, or the sale directly to the public, including any business concern, of all or any portion of the Corporation's assets.

(c) The authority conferred on the Corporation by this Act shall terminate on June 30, 1985, or at such earlier date as the President of the United States shall determine, and upon such termination, all assets or liabilities of the Corporation,



direct, contingent or otherwise, shall become assets and liabilities of the United States.

(d) The President may by Executive Order, extend the authorized life of the Corporation for additional three-year periods after June 30, 1985.

Sec. 22. [This section will provide for certain adjustments in regulatory procedures applicable to projects financed by the Corporation.]







THE VICE PRESIDENT
WASHINGTON

May 2, 1975

VI. MEMORANDUM FOR: THE PRESIDENT
FROM: THE VICE PRESIDENT *Handwritten signature*
SUBJECT: Domestic Council Review Group: Energy and Resource Policy and Finance

In response to your suggestion at our meeting on March 6 on the need to develop a program of positive action to meet the unemployment problem through the revitalization of the private enterprise system, you asked me to develop, with members of the Domestic Council, a more specific proposal.

What follows is a broad outline of a proposal developed out of my consultations with the following members of the Domestic Council:

- The Secretary of the Treasury
- The Secretary of Commerce
- The Secretary of Labor
- Director, Office of Management and Budget
- Administrator of the Federal Energy Administration
- Chairman of The Council of Economic Advisers
- Counsellor to the President for Economic Affairs
- Assistant to the President for Domestic Affairs
- Deputy Director of the Domestic Council

ENERGY AND RESOURCE POLICY AND FINANCE

The United States is at a crossroads. With high unemployment, this Congress is responding by passing a series of large-scale government programs that are adding substantially to the Federal deficit without increasing our productivity or improving our competitive position in the world.

The challenge before the nation is to devise a program:

- to strengthen the free enterprise system;
- to stimulate the economy and increase its productivity;
- to create productive jobs; and



- to achieve self-sufficiency in energy and raw materials while at the same time helping to restore confidence in government's ability to act effectively and confidence in the capacity of our free enterprise system to meet the people's needs.

This could be accomplished by legislation to create an energy and resource policy and finance corporation.

The prospects for tomorrow, for the years ahead, are far from promising -- unless action is taken now to meet the situation.

Action can be taken effectively -- action that recognizes the interrelationships of all these critical elements -- action that can help meet the urgencies for today and the needs of tomorrow.

Objectives:

A key to the whole effort is a self-liquidating financing vehicle sponsored and chartered by the Federal government that can:

1. Achieve the President's goal of energy self-sufficiency by 1985;
2. Assure adequate supplies of essential raw materials or their substitutes;
3. Assure the provision of essential transportation services;
4. Have the capacity to finance the conversion of vacant or underutilized plants to produce materials essential to achieve the above.

Operations:

The operation of this corporation will be to make investments in the capital facilities and equipment needed to achieve the foregoing objectives, and to do so through guarantees, loans, equity investments, construction or purchase, and lease or sale or other financing mechanisms.

Financing:

Initial capitalization of up to \$5 billion through the sale of common stock to the United States Treasury.

Authorization to issue up to \$200 billion in government-guaranteed obligations.

These obligations would be available for purchase by foreign, as well as domestic, investors.



Powers:

The corporation would have the broadest powers, on a self-liquidating basis, to carry on its operations and to establish subsidiary corporations for special purposes.

Organization:

Management of the corporation would be vested in a Board of Directors consisting of five (5) persons appointed by the President, by and with the advice and consent of the Senate. Of the five, all of whom would serve full-time, in staggered terms, not more than three could be members of any one political party and not more than one could be from each Federal Reserve District.

Termination:

The authority of the corporation to make investments or to make new financing arrangements will terminate ten years after its establishment.

* * *

At meetings this morning with:

The Secretary of State
The Secretary of The Treasury
The Secretary of Commerce
The Chairman of the Federal Reserve System; and

David Packard, Chairman of the Business Council
George Woods, Former President of the World Bank

I went over the above outline. It was our unanimous feeling that there is tremendous potential in the project, but that the concept should be amplified, with specific illustrations of how such a corporation would function.

RECOMMENDATION:

It was the unanimous feeling of this group that a Domestic Council review group be formed, on a very confidential basis to avoid leaks, to accomplish this. Treasury, Commerce and the Federal Reserve Bank have each agreed to assign a top staff person for this purpose, and we would add someone from Labor and OMB, together with Alan Greenspan, Bill Seidman and Frank Zarb.

David Packard has agreed to get together a top group from business, industry and finance to meet with me confidentially at the Business Council Conference a week from today in Hot Springs, West Virginia, to get their thought on the subject.

Target date for a report back to you is May 16, 1975.



This initiative might well be the basis of a major address to the nation by you in the latter part of this month, in which you outline:

- Your vision for the future of America;
- Your confidence in the tremendous opportunities that lie ahead;
- What is necessary for us in order to restore the people's faith in the future of America.

DECISION:

APPROVE

RA 7.

DISAPPROVE





THE VICE PRESIDENT

WASHINGTON

May 2, 1975

MEMORANDUM FOR: The Secretary of the Treasury
The Secretary of Commerce
The Secretary of Labor
Director, Office of Management and Budget
Chairman, Federal Reserve System
Administrator of the Federal Energy Administration
Chairman of the Council of Economic Advisers
Counsellor to the President for Economic Affairs
Assistant to the President for Domestic Affairs
Deputy Director of the Domestic Council

FROM: THE VICE PRESIDENT *had R*

SUBJECT: Domestic Council Review Group: Energy and Resource Policy and Finance

The President has directed proceeding with the proposal we have been considering for positive action to meet the unemployment problem and our energy needs by strengthening the private enterprise system. As a next step, the President has asked for specific illustrations of how this project would work.

BACKGROUND:

The United States is at a crossroads. With high unemployment, this Congress is responding by passing a series of large-scale government programs that are adding substantially to the Federal deficit without increasing our productivity or improving our competitive position in the world.

The challenge before the nation is to devise a program:

- to strengthen the free enterprise system;
- to stimulate the economy and increase its productivity;
- to create productive jobs; and
- to achieve self-sufficiency in energy and raw materials

while at the same time helping to restore confidence in government's ability to act effectively and confidence in the capacity of our free enterprise system to meet the people's needs.

