The original documents are located in Box 19, folder "Oil Pricing Act" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

A BILL

To provide for the phased decontrol of crude oil prices, to provide for a gradual transition from mandatory price and allocation controls, to amend the Emergency Petroleum Allocation Act of 1973, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Sec. 1. This Act may be cited as the "Oil Pricing Act of 1975".

Sec. 2. Section 4 of the Emergency Petroleum Allocation Act of 1973, as amended, is further amended by striking out subsection (g) and inserting in lieu thereof the following:

"(g)(1) The regulation promulgated and made effective under subsection (a) of this section shall remain in effect until midnight January 31, 1979, except that the President or his delegate may amend such regulation so long as such regulation, as amended, meets the requirements of this section. With respect to crude oil produced in the United States, such regulation shall provide for a primary ceiling price for controlled old crude oil not to exceed the ceiling price for controlled old crude oil pursuant to the regulation in effect on August 31, 1975, and for a secondary ceiling price for all crude oil other than controlled old crude oil which shall average approximately $11.50 per barrel for the month of November, 1975, subject to appropriate adjustments above or below that amount to reflect variations in quality, and may increase at the rate of not more than $.05 per barrel per month in each subsequent month. Controlled old crude oil shall be defined so that the amount of controlled old crude oil produced and sold from any given property in a particular month is not less than either (A) the total number of barrels of crude oil which was produced and required by the regulation in effect at the time to be sold at or below the ceiling price from the property concerned during the three calendar months ending July 31, 1975, during which time production shall have been maintained at the maximum feasible rate of production, divided by three, and reduced by not more than 1.5 percent each month for the first 12 months, beginning November 1, 1975, 2.5 percent each month for the next 12 months, and 3.5 percent each month for the next 15 months, or (B) the total number of barrels of crude oil produced and sold from the property concerned in a particular month which would have been required to be sold at or below the ceiling price pursuant to the regulations in effect on August 31, 1975, whichever is less; except that such regulation may further exclude from the definition of controlled old crude oil that domestic crude oil produced from a property which employs high cost enhanced recovery methods as defined in such regulation. Notwithstanding the provisions of subsection (e)(2) of this section, crude oil exempted pursuant to such subsection shall not be sold at prices in excess of the secondary ceiling price required for all crude oil other than controlled old crude oil established pursuant to this paragraph. With respect to natural gas liquids and natural gas liquid products, the regulation promulgated and made effective under subsection (a) of this section may be amended to provide for the gradual increase of controlled prices to price levels for comparable products refined from crude oil at a rate which does not exceed the equivalent of the average allowable rate of the reduction of controlled old crude oil pursuant to this paragraph."

"(2) The authority to promulgate and amend the regulation and to issue any order under this section, and to enforce under section 5 such regulation and any such order, expires at midnight January 31, 1979, but such expiration shall not affect any action or pending proceedings, civil or criminal, not finally determined on such date, nor any action or proceeding based upon any act committed prior to midnight January 31, 1979."

"(3) If at any time after November 1, 1975, the President finds that application of the regulation under subsection (a) to crude oil, residual fuel oil or a refined petroleum product is not necessary to carry out this Act, that there is no shortage of such oil or product, and that exempting such oil or product from such regulation will not have an adverse impact on the supply of any other oil or refined petroleum products subject to this Act, he may prescribe an amendment to the regulation under subsection (a) exempting such oil or product from the provisions of such regulation as such provisions pertain to either (A) the allocation of amounts of such oil or product, or (B) the specification of price or the manner for determining price of any such oil or product, except that the regulations promulgated pursuant to paragraph (1) of this subsection shall at all times be applicable to the prices of domestic crude oil, natural gas liquids and natural gas liquid products. Notice of any such proposed amendment shall be given by publication in the Federal Register, and a minimum of ten days following such publication shall be afforded to the public for the written and oral presentation of views, data, and arguments."

FACT SHEET
OIL PRICING ACT OF 1975

This legislation amends Section 4(g) of the Emergency Petroleum Allocation Act to provide for phased decontrol of oil prices and allow for the proper transition to the termination of price and allocation controls. The legislation accomplishes the following:

1. Thirty-nine month phase out of crude oil price controls. Old oil would be phased out over a 39-month period beginning November 1, 1975, and ending January 31, 1979, at the rates of 1.5% the first 12 months, 2.5% the next 12 months, and 3.5% the last 15 months. A secondary ceiling price of $11.50 per barrel would be imposed on all new, released and decontrolled domestic oil beginning November 1, 1975, rising $.05 each month thereafter to a level of $13.40 by January 31, 1979.

2. Removal of price controls on natural gas liquids (propane) over the 39-month period at the same rate as the phase out of old oil. The 70% of the propane derived from the natural gas stream can now only increase in price under FEA regulations as the cost of natural gas increases. Without a phase out of controls on NGL's, decontrol of crude oil prices will operate to increase the disparity between natural gas derived propane and crude oil derived propane and cause serious market distortions.

3. Elimination of requirement for prior Congressional review every 90 days for all exemptions. If price controls on crude oil must be retained for over 3 years, many currently extraneous regulatory measures can be removed long before the expiration of that period. FEA is granted discretionary authority to exempt products from unnecessary allocation and price controls upon certain findings of fact.

4. Exemption for crude oil produced by high-cost enhanced recovery methods. Because a large percentage of the potentially available incremental domestic production is obtainable only by high-cost tertiary recovery methods, which might not be adequately stimulated by a 39-month phase out plan, FEA is permitted by regulation to exempt such production from old oil price controls, and allow it to be sold at the secondary ceiling price of $11.50 after November 1, 1975.

5. Treatment of stripper well oil in the same manner as new oil. If the first sale of stripper well oil continues to be exempt from price controls and a secondary ceiling price of $11.50 is placed on new and decontrolled oil, the price of stripper well oil would probably be somewhere between the price of new oil and the landed cost of imported crude oil. Thus, unless stripper well oil is also subject to the secondary price ceiling, a 4-tier cost equalization entitlements program would become necessary which would be almost impossible to administer.

6. <u>Extension of EPAA until January 31, 1979</u>. The Allocation Act must be extended for the same length of time as the phase out of old oil to allow the continuation of the entitlements program and the crude oil allocation program since controls on the price of crude oil require that these programs be maintained.

A BILL

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Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Sec. 1. This Act may be cited as the "Oil Pricing Act of 1975".

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"(g)(1) The regulation promulgated and made effective under subsection (a) of this section shall remain in effect until midnight January 31, 1979, except that the President or his delegate may amend such regulation so long as such regulation, as amended, meets the requirements of this section. With respect to crude oil produced in the United States, such regulation shall provide (A) for a primary ceiling price for controlled old crude oil not to exceed the ceiling price for controlled old crude oil pursuant to the regulation in effect on August 31, 1975, and, (B) for a secondary ceiling price for all crude oil other than controlled old crude oil which shall average approximately $11.50 per barrel for the month of November, 1975, subject to appropriate adjustments above or below that amount to reflect variations in quality, and may increase at the rate of not more than $.05 per barrel per month in each subsequent month. Controlled old crude oil shall be defined so that the amount of controlled old crude oil produced and sold from any given property in a particular month is not less than either (A) the total number of barrels of crude oil which was produced and required by the regulation in effect at the time to be sold at or below the ceiling price from the property concerned during the three calendar months ending July 31, 1975, during which time production shall have been maintained at the maximum feasible rate of production, divided by three, and reduced by not more than 1.5 percent each month for the first 12 months, beginning November 1, 1975, 2.5 percent each month for the next 12 months, and 3.5 percent each month for the next 15 months, or (B) the total number of barrels of crude oil produced and sold from the property concerned in a particular month which would have been required to be sold at or below the ceiling price pursuant to the regulations in effect on August 31, 1975, whichever is less; except that such regulation may further exclude from the definition of controlled old crude oil that domestic crude oil produced from a property which employs high cost enhanced recovery methods as defined in such regulation. Notwithstanding the provisions of subsection (e)(2) of this section, crude oil exempted pursuant to such subsection shall not be sold at prices in excess of the secondary ceiling price required for all crude oil other than controlled old crude oil established pursuant to this paragraph (1). With respect to natural gas liquids and natural gas liquid products, the regulation promulgated and made effective under subsection (a) of this section may be amended to provide for the gradual increase of controlled prices to price levels for comparable products refined from crude oil at a rate which does not exceed the average allowable rate of the reduction of controlled old crude oil pursuant to subparagraph (A) of this paragraph."

"(2) The authority to promulgate and amend the regulation and to issue any order under this section, and to enforce under section 5 such regulation and any such order, expires at midnight January 31, 1979, but such expiration shall not affect any action or pending proceedings, civil or criminal, not finally determined on such date, nor any action or proceeding based upon any act committed prior to midnight January 31, 1979."

"(3) If at any time after November 1, 1975, the President finds that application of the regulation under subsection (a) to crude oil, residual fuel oil or a refined petroleum product is not necessary to carry out this Act, that there is no shortage of such oil or product, and that exempting such oil or product from such regulation will not have an adverse impact on the supply of any other oil or refined petroleum products subject to this Act, he may prescribe an amendment to the regulation under subsection (a) exempting such oil or product from the provisions of such regulation as such provisions pertain to either (i) the allocation of amounts of such oil or product, or (ii) the specification of price or the manner for determining price of any such oil or product, except that the regulations promulgated pursuant to paragraph (1) of this subsection shall at all times be applicable to the prices of domestic crude oil, natural gas liquids and natural gas liquid products. Notice of any such proposed amendment shall be given by publication in the Federal Register, and a minimum of ten days following such publication shall be afforded to the public for the written and oral presentation of views, data, and arguments."

November 10, 1975

MEMORANDUM TO: MAX FRIEDERSDORF

THROUGH: VERN LOEN

FROM: TOM LOEFFLER

SUBJECT: FEA Proposal to Energy Conference Concerning Oil Pricing Policy

For your information, attached is the amendment proposal for an oil pricing policy prepared under the weekend by FEA. This proposal will serve as the basis for what is hoped to be a viable compromise on pricing policy by the House and Senate Energy Conferees.

cc: Vern Loen
Charlie Leppert

DOMESTIC COMPOSITE PRICE
($/bbl)

PLAN \ END OF	1-1-76	12 mo.	24 mo.	36 mo.	40 mo
Current Controls	$8.75	$9.59	$10.67	$12.46	$12.68
Original 39 mo. program	7.71	8.96	10.74	12.91	13.5[illegible]
New plan[1/]	7.55	8.53	9.49	11.68	12.1[illegible]
Conference Committee[2/]	7.55	8.31	9.14	10.05	10.3[illegible]

1/ Current Conference Committee provision with following changes:

a. 5% of domestic oil production automatically removed from composite calculation on June 1, 1976.

b. An additional 5% removed automatically from composite calculation on January 1, 1977.

c. Alaska removed automatically from composite in 1978 when it comes on line (e.g. oil thru the pipeline).

2/ Provision as approved by House and Senate Conferees on November 6.

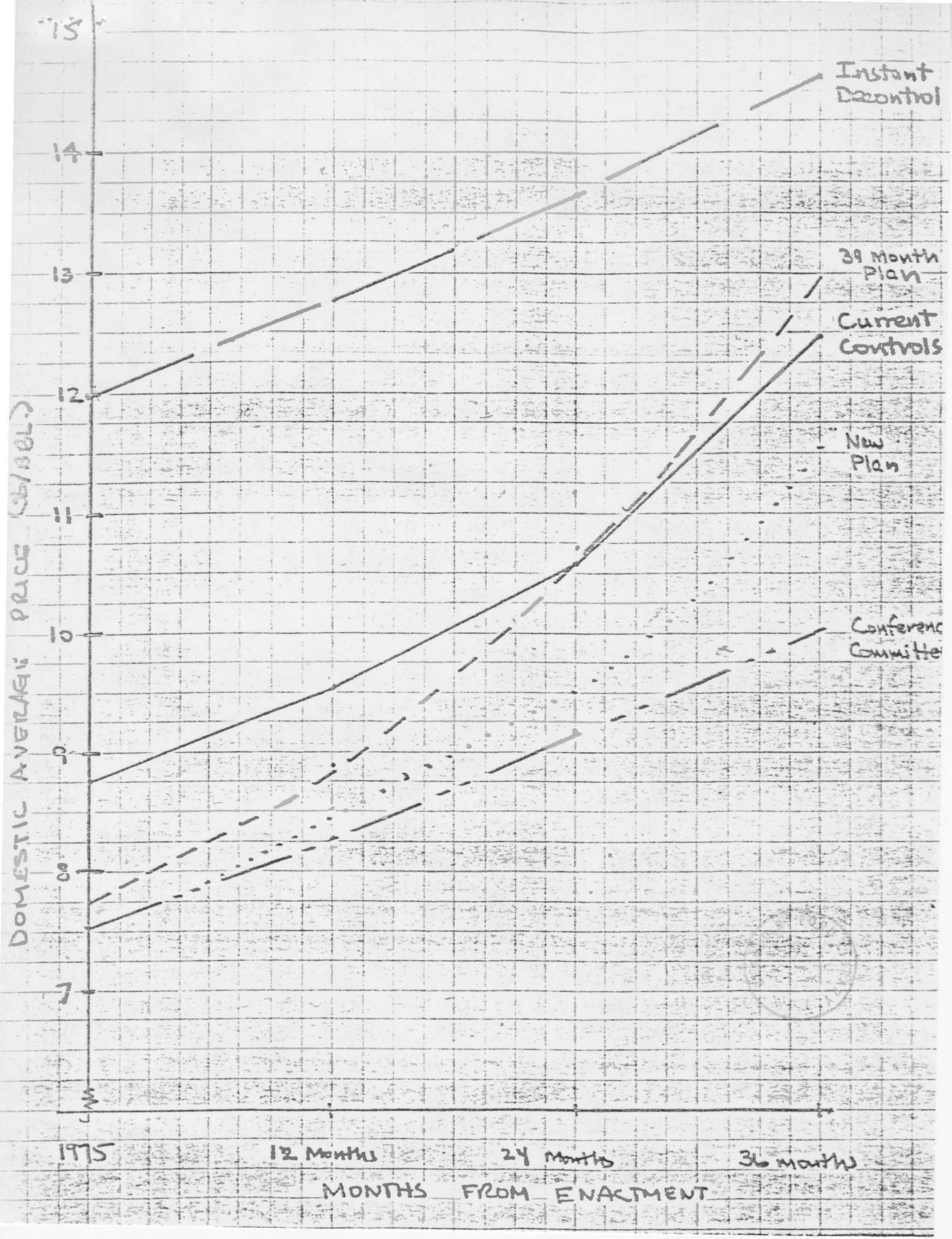
RATIONALE FOR EXCLUSIONS FROM COMPOSITE

Alaska

The domestic average price is currently calculated with an old to new oil ratio of about 60-40. When Alaskan production comes on line in late 1977 or early 1978, it will represent over 1-1/2 million barrels per day of new oil and will change the existing old to new oil ratio from about 50-50 to 42-58. The result of this change will be to affect the price at which oil priced at the higher tier could sell in the lower 48 states. If Alaskan oil must be figured in the domestic composite price, the higher tier for lower 48 oil may have to be lowered by between $1.50-2.00 per barrel. Alaskan oil is vital to this nation and should not be viewed as a threat by lower 48 oil producers. Adding Alaskan oil to the composite would disrupt the integrity of the system. It should also be noted that Alaskan oil will displace higher cost imported oil when it comes on stream. Thus, the change proposed will not operate to raise prices to the consumer abruptly but merely to prevent a sharp reduction in product prices in 1977 and 1978.

5% and 10% Removals

There is a need for certain high cost domestic oil production to be treated separately from calculation of the composite, although priced at the upper tier. This new production from tertiary recovery, high cost OCS areas, or marginal stripper wells should be provided maximum incentives within the existing price structure and should not penalize other uncontrolled oil.



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DOMESTIC AVERAGE PRICE ($/BBL)
Instant Decontrol
39 Month Plan
Current Controls
New Plan
Conference Committee
1975
12 Months
24 Months
36 Months
MONTHS FROM ENACTMENT