FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

MAR 5 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK ZARB Frank G. Zarb

SUBJECT: Reply to Notations on the February 19 News Summary

This memorandum is in response to the two items of interest which you noted in the February 19 News Summary.

1. The effect of the phase out of Canadian crude oil shipments to Upper Midwest refineries.

The news article (see attached) indicated that despite appeals from Senator Mondale and Governor Wendell Anderson, the Administration has failed to address the problem. On January 28, Senator Mondale wrote you of his interest in exempting Canadian crude shipments from the proposed import fee and of the need to negotiate modifications to the announced Canadian oil export phase out in order to assure a source of supply to refineries in the Upper Midwest which have been heavily dependent on Canadian crude. State and FEA are, in fact, actively pursuing discussions with the Canadian Government on alternatives to the complete export phase out as well as seeking alternative sources of feedstocks for the Canadian crude eventually be cut off. Senator Mondale has been informed of the above.

These negotiations have been in process for some time now. Although it is clearly a sensitive subject for the Canadians, the Government has indicated its willingness to

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cooperate in attempting to dovetail the Administration of its cutbacks with the U.S. allocation plan as the U.S. takes on responsibility for the allocation of the imported Canadian crude. While we have agreed with the Canadians on this matter, the specific allocation mechanism has not as yet been fully worked out. The next export cut (from about 800,000 B/D to about 650,000 B/D) is anticipated around July 1, but there is some doubt as to whether it will really happen. No difficulty is anticipated in having an allocation plan in place by that time.

2. Temporary Emergency Court of Appeals ruling against the two-tier oil pricing system.

Your question concerned the significance of this ruling. If the two-to-one decision is upheld on further review, it would have the effect of significantly narrowing FEA's authority under the Emergency Petroleum Allocation Act of 1973 and would reduce the Agency's flexibility to respond to changing market conditions. Furthermore, if under this decision FEA is required to set a specific price on "new" oil at well below market prices (a point on which the majority's opinion is not very clear), we believe it would tend to discourage new production, and if applied retroactively (another point on which the opinion is not clear), it could impose an unconscionable financial burden on large and small oil producers. Finally, to the extent the new oil price level is required to be significantly modified, this would probably necessitate a revision of FEA's cost equalization program on crude oil. The decision does not significantly undermine your authority to decontrol old oil prices, but makes it clear that the action must be submitted to Congress for its tacit approval -- which we have always assumed was the case.

FEA has requested the Justice Department to seek a rehearing before all nine members of the T.E.C.A. and a stay of the issuance of the Court's mandate until final disposition of the appeal.

Attachment

THE WHITE HOUSE

WASHINGTON

February 24, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK ZARB

FROM: JERRY H. JONES

The attached pages from the February 19 News Summary were returned in the President's outbox with the following notation to you:

-- What is the story on these?

The notation on page 13 with regard to new oil price increases was:

-- Significance?

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld
Mike Duval

GERALD R. F...

THE PRESIDENT HAS SEEN

Economy-Energy-Budget

Midwest Papers

Mining Journal (Marquette, Mich.), "No Free Lunch." Cries of anguish are still reverberating around the country from opponents of President Ford's proposal to levy an eventual tax of $3 a barrel on imported oil. Unfortunately, American politics isn't filled with officials willing to give bad news to people, to tell them things just aren't going to be as good as in the past. The fact is, as the old saying goes, there is no such thing as a free lunch. The lunch that looks free today can get awfully expensive a little further down the road.

Columbus Evening Dispatch: L. William Seidman, one of President Ford's top economic advisers said Friday in Columbus he thinks Congress will probably modify the President's economic and energy proposals but will stick with the basic idea of using revenues from an imported oil tariff for economic relief to lower and middle-income families. Seidman also said he expects the rate of inflation which was 12 per cent in 1974, to be "down to 7 per cent very shortly."

Detroit News, U.S. Funds to Aid Michigan." President Ford's release of impounded federal highway and water pollution control funds should give a good boost to the badly depressed construction industry in Michigan, meaning more jobs and serving the President's aim of spurring the economy.

Minneapolis Tribune, "Mondale and Canadian Oil." We join Sen. Walter Mondale (D., Minn.) in urging the Ford administration to get together with the Canadian government in high-level talks about Canada's phasing out of crude-oil shipments to Upper Midwest refineries, which are almost totally dependent on Canadian oil. Despite personal appeals to President Ford by Mondale, Gov. Wendell Anderson and others, the White House has shown a strange reluctance to face up to the problem. Canadian officials are willing to assign a special priority to supplying the upper Midwest, but the administration needs to work out an allocation program. So far, however the Federal Energy Agency has shown no sense of urgency about the area's plight.

Federal Appeals Court Rules Against Decontrol of Old Oil

A federal appeals court ruled Wednesday that last year the government acted illegally in removing the price ceiling on new oil, ABC reported. If the decision is upheld, it will force the oil companies into a multi-million rebate for consumers, Howard K. Smith said.

* * *

Bergman Refuses to Testify Before Senate Committee Studying Nursing Home Fraud

Rabbi Bernard Bergman, operator of a nationwide chain of nursing homes, refused to testify before a Senate committee studying nursing home funding abuses pending the results of criminal investigations of his homes by New York State officials, all networks reported.

His lawyer said Bergman had to take the protection of the fifth amendment because he is facing criminal charges in New York, ABC/CBS reported.

ABC's Gregory Jackson interviewed Judge Louis Kaplan, who as a New York City commissioner led a similar investigation of nursing home abuses 15 years ago. Jackson said nothing came of that investigation.

"In fact, after the furor died down, the nursing home operators won a generous increase in their welfare payment," Jackson said.

John Chancellor (NBC) said the nursing home industry became highly profitable when the federal government began paying for the care of the elderly. In a special report on Medicare and Medicaid, Betty Rollin (NBC) said from the beginning the program was so big and so poorly administered that both federal and state authorities simply lost track of how the money was being spent.

Rollin said it was easy in the nursing home industry for owners to divert tens of millions of dollars from patient care to their own care. They paid club dues, bought a Rolls Royce, and charged a son's college tuition to Medicaid.

Rollins said NBC news has learned that for four years none of the 552 nursing homes in New York State was visited by a state Medicaid auditor, but health inspectors, Rollins

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 6, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Biweekly Status Report

FROM: Frank G. Zarb

THROUGH: Rogers C. B. Morton

Legislative Status

The House Interior and Insular Affairs Committee has completed the mark up of the House Surface Mining bill with few compromises satisfactory to the Administration. The Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee reported to the full Committee legislation to prevent the President from raising the price of old oil by more than $.50 above the January 1, 1975, national average price without making certain findings and submitting the proposal along with the findings to Congress. These findings would include an economic impact statement. The full Committee completed mark up on March 5. The Senate Interior and Insular Affairs Committee began mark up sessions March 3 on similar legislation.

The House has passed the $21.3 billion tax cut bill with an amendment repealing the oil depletion allowance except for natural gas sold under long-term contracts. Tab A provides details.

Status of One Million Barrel Savings Program

The charts shown in Tab C assess progress toward achieving your one million barrel savings program. The forecast, target and actual graphs are updated biweekly to take into consideration changes that have occurred which affect their values, i.e., actual weather as compared with "normal," changes from forecasted economic conditions and revisions in company reports to FEA. As indicated in Tab C:

- The weather in the continental United States during January 1975 was warmer than normal (13.8 percent fewer degree days). In the three-week period ending February 15, degree days were 1.5 percent fewer than normal.

- Consumption of petroleum products for the four weeks ending February 14 was slightly below your target goal.

- Imports of crude oil and petroleum products for the four-week period were 805,000 barrels per day (or 11.9 percent) below FEA's original forecast. However, with corrections for the weather, imports are 356,000 barrels per day below your import savings goal.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

March 7, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THRU: ROGERS C.B. MORTON

Attached is an outline of the positions on various segments of your Energy Plan which Al Ullman and I begin with. I will be meeting with him today and again on Monday.

As our discussions proceed and the areas of possible compromise are surfaced they will be reviewed with the Energy Resources Council Executive Committee and then submitted to you in options form.

Attachment

ENERGY PROGRAM COMPARISON

GOALS

President	Ways and Means	Assessment
° 1975 - 1 MMB/D reduction	° 1975 - not specified	° Compromise on timing possible
° 1977 - 2 MMB/D reduction	° 1977 - 1 MMB/D reduction	
° 1985 - imports of 3 to 5 MMB/D	° 1985 - imports of 6 MMB/D	

SHORT TERM PROGRAM

President	Ways and Means	Assessment
° Taxes/fees on all petroleum and natural gas	° Taxes on gasoline	° Compromise on timing and gasoline emphasis possible
° Old oil decontrol and new natural gas deregulation	° Phased decontrol and deregulation	° Compromise on timing possible
° Windfall profits tax	° Windfall profits tax (oil, gas and coal) and depletion allowance repeal	° Details could probably be worked out
° Not included	° Import quotas and allocation	° Major philosophical difference
° Amendments to coal conversion authorities	° Not included	° Need to discuss

LONG TERM PROGRAM

President	Ways and Means	Assessment
Energy Supply		
° Naval Petroleum Reserve development	° Naval Petroleum Reserve development	° No difference
° Aggressive Outer Continental Shelf leasing	° Government exploration of Outer Continental Shelf	° Major philosophical difference
° 1 MMB/D synthetic fuels program	° Incentives for synthetic fuels	° Details need to be developed
° Electrical utility rate return and tax incentives	° Utility tax credits	° Major differences on scope of program

President	Ways & Means	Assessment
Clean Air Act Amendment	° Not included	° Not in Ways & Means
Standby price floor	° Not included	° Need to discuss
Conservation		
40% auto efficiency standards/ emission changes	° Taxes and rebates	° Compromise possible if Clean Air Act can be included
Thermal building standards	° Not included	° Not in Ways and Means
Insulation tax credit and low income grants	° Incentives for insulation	° Need to develop details, compromise possible
Not included	° Incentives for industry	° Need to explore cost/benefit of program
Emergency Measures		
1.3 billion storage program and standby measures	° Storage program & standby measures	° Compromise likely

FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

MAR 8 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb
Administrator

SUBJECT: House Commerce Committee Amendments to the Emergency Petroleum Allocation Act of 1973

On Tuesday, March 4, the full House Commerce Committee reported H.R. 4035, which would amend the decontrol procedures of the current Allocation Act and extend the present mandatory petroleum allocation program from August 31, 1975, to December 31, 1975.

The bill as reported would:

-- Require price regulation amendments which raise the price of old domestic crude more than 50 cents per barrel to be submitted to the Congress as decontrol exemptions from the Allocation Act.

-- Permit price increases of old domestic crude without submission to the Congress if the increase is 50 cents per barrel or less, and is intended to compensate producers for declining field production or costs of secondary and tertiary recovery methods.

-- Extend from 5 to 15 days the period in which either House can veto a decontrol exemption plan or price increase of old crude of more than 50 cents per barrel.

-- Make procedural changes which would make it more difficult to "ram through" decontrol plans by parliamentary maneuvers to prevent resolutions of disapproval from reaching the floor of either House within the 15-day period.

-- Limit flexibility in phasing-in decontrol without Congressional consideration of each step in the process, because the rudimentary provisions of the current law permit many regulation changes approaching decontrol without their being considered "exemption plans" that require Congressional consideration and acquiescence.

-- Make the factual findings necessary for decontrol under the Allocation Act <u>not</u> subject to judicial review.

-- Extend the current Allocation Act through December 31, 1975.

-- Extend from June 30, 1975, to December 31, 1975, authority to issue coal conversion orders under the Energy Supply and Environmental Coordination Act of 1974.

The bill as reported is not too bad, though we intend to keep the pressure on Congress that extension of the Allocation Act will not solve our problems. We intend to continue working with the committees of the House and Senate to chip away undesirable elements of this legislation and its Senate counterpart as they proceed in the Congress.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 8, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM TO THE PRESIDENT

FROM: FRANK ZARB FZ

SUBJECT: My separate meetings with Chairmen Dingell and Ullman regarding enactment of an effective energy legislative program.

Yesterday afternoon and this morning I met with Chairmen Dingell and Ullman, respectively, to discuss action on your energy legislative program.

Both indicated an open desire to work together in formulating a legislative package which will be acceptable to Congress and consistent with your goal of regaining U.S. energy self-sufficiency. They informed me that together they are sharing the responsibilities of reporting out appropriate legislation.

While there are areas of disagreement between your proposal and alternatives presently being reviewed by their respective committees and sub-committees, it appears that their main concern centers around exclusive reliance on market forces to obtain a 2 million barrel per day reduction by 1977. Both stated they felt serious economic disruptions would result if we relied on immediate price increases to obtain this goal, and that politically Congress would have to reject such a proposal. They did, however, indicate a willingness to support a technique which would allow prices to increase at a less rapid rate, such as gradual decontrol and deregulation over a yet to be determined, extended period of time.

In addition, Chairman Ullman stated that many Members do not understand the significance of or necessity for the goal of a 2 million barrel per day reduction in imports. He emphasized the need for continued educational efforts by your Administration in order that the American public and the Congress will understand the necessity for reductions of this magnitude.

During the course of next week we will increase our efforts and move forward in our discussions with these committees. Our staffs have already begun meeting to provide mutual assistance and to begin serious negotiations.

3/7 to Nipp
Concurrence
3/11 FZ
3/12 sent back up
back to drafter

FEDERAL ENERGY ADMINISTRATION

Ford, Gerald

MEMORANDUM FOR: The President

SUBJECT : New Car Fuel Economy Guide

The attached booklet "1975 Gas Mileage Guide for New Car Buyers" is a sample of one of the things we are doing to influence consumers to purchase new cars that get good gas mileage. This is a joint EPA-FEA publication; the EPA emission certification tests on new cars provided the data, and FEA developed the information/education/publicity program. A cooperative arrangement was developed with the Public Documents Distribution Center (a GPO facility) in Pueblo, Colorado, for free distribution of individual requests.

We have advertised the booklet's availability on television, radio and in national printed media ("Parade Magazine," "Popular Science," newspapers, etc.). So far approximately one million have been distributed, 40% through new car dealers and 60% by mail to citizens who request it; we expect to give out another 800,000 Guides. The booklet has been the most frequently requested government publication in the last two months from the Pueblo Distribution Center.

You may wish to mention this at some appropriate time -- don't forget the zip code.

Frank G. Zarb
Administrator

Attachment

cc: subject
chron
ECE reading

RHemphill/DPirkey:egn:rm.6502 CONCURRENCES 3/4/75

SYMBOL								
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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

MAR 15 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

THRU: Rogers C.B. Morton

SUBJECT: Energy Legislation Compromise

The attached briefing book includes talking points for your Tuesday meeting with key Republicans on the House side and an option paper and supporting analyses of possible energy legislation compromises.

We are not asking for any decisions at this time and I will schedule another meeting later in the week for your decisions on the next steps and directions in developing a compromise legislative program.

TABLE OF CONTENTS

TAB A

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 15, 1975

OFFICE OF THE ADMINISTRATOR

MEETING WITH ROGERS MORTON, FRANK ZARB, BILL SIMON, HENRY KISSINGER (TOM ENDERS), JIM LYNN, BILL SEIDMAN, MAX FRIEDERSDORF JACK MARSH, ALAN GREENSPAN, REPRESENTATIVE SCHNEEBELI, REPRESENTATIVE CONABLE AND REPRESENTATIVE BROWN

Tuesday, March 18, 1975
11:00 A.M.
The Oval Office

From: Frank G. Zarb

I. PURPOSE

To discuss possible compromise strategies with Republican congressional leaders.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: We have been making some progress in moving towards compromise with the House Ways and Means and Commerce Committees on a national energy program. The ranking minority members of these Committees have been invited to discuss possible compromises with you today. A decision memorandum from the ERC is attached which outlines these alternatives.

B. Participants: Roger Morton, Frank Zarb, Bill Seidman, Max Freidersdorf, Jack Marsh, Alan Greenspan, Bill Simon, Henry Kissinger (Tom Enders), Jim Lynn, Herman Schneebeli, Barber Conable, Bud Brown

C. Press Plan: None at this time.

III. TALKING POINTS

1. As you know, there is now considerable activity in Congress on developing an energy program.

2. I've postponed the second and third dollars of my import fees for 60 days and hopefully we can have a legislative program by then. If not, I do intend to impose the remaining import fees.

3. Members of the Administration have had extensive discussions with Congressmen Ullman and Dingell, and Senators Pastore, Jackson and Long.

4. Our strategy is to attempt to get acceptable legislation from Ways and Means and the House Commerce Committee as early as possible.

5. This morning I would like to discuss the major areas of potential compromise and get your views before I make my decisions later this week.

6. Let me ask Frank Zarb to go through these areas and briefly discuss the alternates we are considering.

OPTIONS FOR ENERGY LEGISLATION COMPROMISE

Background

Members of the Administration have been meeting extensively with the Chairman and staff of the House Ways and Means Committee and other Congressional committees to pursue areas of possible agreement on the energy program.

Based on these discussions, it appears that it is now possible to develop a compromise position on your energy tax program. While a compromise is possible, major concessions on both sides will likely be necessary.

There are numerous areas of agreement between the Ways and Means program and your own. (Tab C compares both programs and summarizes agreements and disagreements.) In general, while our disagreements are significant, Ways and Means is already further toward our goals, strategies and philosophies than any of the other enunciated Democratic plans. Hence, any compromise with Ullman will place him further out on a limb and be subject to major weakening or deletion by the rest of the Congress. It is clear, however, that Ways and Means recommends different types of energy taxes than recommended by the Administration and may recommend limitations on the President's ability to impose import fees.

The other major House activity is in Representative Dingell's Subcommittee on Energy and Power, which has jurisdiction over 7 of the 13 titles in your Omnibus energy legislation. While Mr. Dingell started out philosophically opposed to your approach, he appears to be moving closer to the Ways and Means philosophy. But, there will be major problems getting several of your proposals through his committee.

The Democratic leadership's program developed by Representative Wright and Senator Pastore is being divided into several components and we remain far apart in terms of our thinking. The Senate seems to have a firm grip on this program and will be more difficult to deal with than the House.

We have concentrated our efforts with the House Committees since they will report out a bill on our tax proposals first and since they are more likely to compromise towards our objectives. The major disagreements can be boiled down into four areas:

- Timing of import reductions.
- Conservation focus on gasoline.
- Use of allocations, quotas and purchasing authority.
- New auto efficiency incentives.

A number of proposed compromise actions are presented in the remainder of this memorandum along with their expected impact. In summary, they would have the following effects:

	1975	1977
President's goals	1 MMB/D	2 MMB/D
Savings from Admin. program	1.0 MMB/D	2.1 MMB/D
Estimated Savings from Ullman Plan	0.5 MMB/D	1.4 MMB/D
Estimated savings from compromise program	0.5-0.7 MMB/D	1.7-2.0 MMB/D

You will be meeting on Tuesday with senior Republicans from the Ways and Means Committee and Dingell's Subcommittee. No decisions need be made on these alternatives until after that meeting.

I. TIMING OF IMPORT REDUCTIONS

Perhaps the major conflict is the difference between quickly achieving the 1 MMB/D and 2 MMB/D reductions to stem any increase in vulnerability and desire of some in the Congress to phase in a program very slowly to avoid economic impact now and allow a gradual transition. Many in Congress, and several outside economists alike, appear convinced that the rapid drop in imports under the Administration's program would cause major economic impacts. Some accommodation is obviously necessary. Congress favors no action in 1975, little or no action in 1976, and a 4-8 year phase-in of price increases from proposals such as a gasoline tax or decontrol. Such timing makes any savings in 1975 unlikely and your 2 MMB/D 1977 goal unreachable.

Options:

There are two phasing options which might be adopted by the Congress.

Option 1

A 3-5 year phase-in of the import fees, decontrol, and other taxes. Dingell, whose subcommittee has jurisdiction over decontrol, is leaning towards a 5 year phase-in.

Option 2

A 2 year phase-in of the program, coupled with an "economic safety valve" which would delay each phase after the initial step, if the economy does not recover as expected.

Using an "economic safety valve" will be complicated and subject to being placed at a level where it effectively precludes any action. However, it may be the only way for the Administration and the Democrats to compromise on a program which can meet your 1977 goal. The 3-5 year phase-in is easier to administer, but means a significant abandonment of both of your short-term goals.

Recommendations: Adopt Option 2.

- Phase in your petroleum tax program between now and the end of 1977.
  - Leave the $1 crude oil import fee in place, add a $.50 product import fee on July 1, 1975, and add another $.50 fee to product imports on July 1, 1976. (Add $1 more to import fees on July 1, 1977, if you reject the partial gasoline tax in the next section.)
  - Allow old oil to be decontrolled in three equal steps by releasing 1/3 of the old oil from price controls on July 1, 1975 and 1/3 more on July 1 of each year thereafter. This would be the equivalent of raising old oil prices by $2 per barrel at each step.
- Phase in natural gas deregulation.
  - Deregulate new gas now.
  - Place a cap on new gas wellhead prices which would be $.75 per MCF for 1975, $1.00 for 1976, $1.25 for 1977 and then no cap.
- Phase in the natural gas excise tax in three 10¢ increments each year starting July 1, 1975.
- Provide for a statutory economic safety valve which would defer the next annual increase automatically if economic conditions deteriorated. (Tab D provides more details.)

Presidential Decision:

Agree _____

Disagree _____

Comments:

II. CONSERVATION FOCUS ON GASOLINE

The Ways and Means Committee originally put forward a large gasoline tax which would rise from 5¢ per gallon beginning sometime in the latter half of 1975 to 40¢ per gallon by 1979. The latest indication is that Representative Ullman will request a gasoline tax of 7¢ in 1975, rising to between 35-40¢ in 1979. This tax can save significant quantities of fuel. It should be noted that a lower gasoline tax, coupled with phased decontrol and excise taxes is the permanent equivalent of the Administration's proposed "gasoline tilt."

Options:

A gasoline tax is considerably more popular than across the board increases. However, with decontrol and partial import fees, a much lower gas tax is needed to save an equivalent amount of fuel. The only options available are:

Option 1

Oppose any gasoline excise tax.

Option 2

Agree to a gasoline tax, but at a much reduced level. There are two major alternatives under this approach:

1. Accept a schedule of:

   - 5¢ in July 1975.
   - additional 5¢ as of July 1976.
   - additional 5¢ for a total of 15¢ as of July 1977.

2. Accept a even lower gas tax which, along with the rest of the program, achieves the original goals for 1977 (probably 10¢/gallon on gasoline at its maximum).

Recommendation: Adopt Option 2.

Accept a phased, but lower gasoline tax, at the minimum level needed to achieve our original goals. The net effect of the phased in excise taxes, decontrol and the gasoline tax is to increase all prices by about 12¢ per gallon by 1977. Gasoline prices would be up by 18¢ while all other products would increase by only 7¢.

Presidential Decision:

Agree _____

Disagree _____

Comments:

III. USE OF ALLOCATION, QUOTAS AND FEDERAL PURCHASING AUTHORITIES

The Ways and Means Committee has proposed the use of gradually decreasing quotas to meet our energy conservation goals. After extensive discussions, the Committee seems convinced that quotas that actually restrict supply would necessitate the use of allocation with significant adverse consequences. The Committee also suggested the use of a Federal purchasing authority to acquire all U.S. imports, but they recognize the complexities of such a program.

Options:

The use of quotas, or purchasing mechanisms are philosophically opposed to our program, but politically popular. Our options are:

Option 1

Oppose these mechanisms completely.

Option 2

Develop variations of quotas which do not have significant adverse effects and adopt a discretionary Federal purchasing authority for strategic reserves purchases.

Option 3

Implement Federal purchasing authority to restrict supply.

Recommendations: Adopt Option 2.

- Agree to a very loose, standby quota system.
  - Would be designed to cut imports by no more than the demand reduction that would be achieved by the final conservation tax program.
  - Levels could be frequently adjusted by the President as conditions change.
  - Authority to use an auction to allocate the rights to import among domestic refiners and importers.
- Agree to a Federal purchasing authority which would only be used to purchase oil for the U.S. strategic reserve, and not interfere with the current market mechanisms for normal U.S. imports. This authority, while representing a possible final bargaining point, could become very powerful and could affect prices at the margin.

Presidential Decision:

Agree _____

Disagree _____

Comments:

IV. NEW AUTO EFFICIENCY INCENTIVES

As part of your energy conservation program a voluntary agreement to achieve a 40% improvement in new car efficiency was reached with the major domestic auto manufacturers. The Congress generally feels this is an insufficient guarantee and is proposing either legislatively imposed efficiency standards or a tax on large autos to discourage both their manufacture and purchase.

The recent EPA ruling on auto emissions will require a renegotiation of our voluntary agreement with the auto manufacturers -- giving even more impetus to a legislated solution. The Ways and Means Committee strongly favors the tax approach and suggests a tax schedule which would place no taxes on autos which get over 20 or 25 miles per gallon and a tax rising to between $500 and $1000 per auto for cars with less efficiency. The tax would be phased in starting with the 1977 model year.

While we favor the voluntary approach, it also appears that the tax approach is far superior to regulatory standards, if we must accept some additional actions.

Options:

Option 1

Oppose any tax.

Option 2

Work with Committee to develop a viable tax option.

Recommendations: Adopt Option 2.

- Accept a tax on less efficient autos starting with the 1978 model year, and work with Ways and Means to develop it.
- Indicate that the auto emission standards problem must be simultaneously resolved. (The likelihood of a rapid resolution of the auto emission standard problem is slim.)
- Indicate you will strongly oppose regulatory standards in addition to the tax disincentives.
- Some of your advisors feel that we should continue our current position in order to keep the pressure on revising the auto emission standards.

Presidential Decision:

Agree _____

Disagree _____

Comments:

V. OTHER TAX AREAS

The Ways and Means Committee has indicated a general desire to include other tax incentives for insulation retrofit, coal conversion, coal production, and industrial energy conservation. While these are not likely to be as significant either substantively or politically, we will continue to work with the Committee to evaluate these options and come back to you once the details are developed.

Recommendation:

That in evaluating these options we indicate that none will be acceptable on their merits unless they can be fully financed out of tax revenues generated by the gasoline tax, import fees or windfall profits taxes.

ENERGY PROGRAM COMPARISON

GOALS

President	Ways and Means	Assessment
° 1975 - 1 MMB/D reduction ° 1977 - 2 MMB/D reduction ° 1985 - imports of 3 to 5 MMB/D	° 1975 - not specified ° 1977 - 1 MMB/D reduction ° 1985 - imports of 6 MMB/D	° Compromise on timing and level possible

SHORT TERM PROGRAM

President	Ways and Means	Assessment
° Taxes/fees on all petroleum and natural gas	° Taxes on gasoline	° Compromise on timing and gasoline emphasis possible
° Old oil decontrol and new natural gas deregulation	° Phased decontrol and deregulation	° Compromise on timing possibl
° Windfall profits tax	° Windfall profits tax (oil, gas and coal) and depletion allowance repeal	° Details could probably be worked out
° Not included	° Import quotas and allocation	° Major philosophical differen
° Amendments to coal conversion authorities	° Not included	° Need to discuss

LONG TERM PROGRAM

President	Ways and Means	Assessment
Energy Supply		
° Naval Petroleum Reserve development	° Naval Petroleum Reserve development	° No differences
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° 1 MMB/D synthetic fuels program	° Incentives for synthetic fuels	° Details need to be developed
° Electrical utility rate return and tax incentives	° Utility tax credits	° Major differences on scope o program

President	Ways & Means	Assessment
° Clean Air Act Amendment	° Not included	° Not in Ways & Means
° Standby price floor	° Not included	° Need to discuss
Conservation		
° 40% auto efficiency standards/ emission changes	° Taxes and rebates	° Compromise possible if Clean Air Act can be included
° Thermal building standards	° Not included	° Not in Ways and Means
° Insulation tax credit and low income grants	° Incentives for insulation	° Need to develop details, compromise possible
° Not included	° Incentives for industry	° Need to explore cost/benefit of program
Emergency Measures		
° 1.3 billion storage program and standby measures	° Storage program & standby measures	° Compromise likely

ECONOMIC SAFETY VALVE

There are several possible ways to implement an economic safety valve with respect to energy actions. The major decisions that would be needed are how often to use the mechanism and what economic indicator should be linked to it.

Frequency of Use

To be meaningful, the economic safety valve should be used no more frequently than every 9-12 months. With the lag times in reporting of economic indicators and the slowness in development of trends, more frequent cycles would be difficult and misleading.

It is proposed that the initial import fee and steps towards decontrol be implemented without any economic indicators test. Thereafter, additional steps towards decontrol or import fees would be on an annual basis provided the economic indicators used as the safety valve are not negative. If they are, the next phase of the tax or decontrol increases would automatically be postponed six months and the process would be repeated.

Economic Measure

There are three obvious candidates for use as the economic measure: inflation, unemployment, and GNP. With each of these, there would have to be a relatively accurate forecast of the economy to estimate the safety level.

The inflation rate would be a poor choice as it does not represent economic health, would be difficult to predict, and would not be largely affected by these incremental steps.

The unemployment rate is likely to be the measure with the greatest political and social appeal. It is easy to understand and directly affects the average citizen. There are two major disadvantages with using unemployment as an indicator:

1. It is unlikely that anybody would commit to an unemployment level above 8% and would most likely say that unemployment would have to be below 6-7% for the next steps to occur. This might effectively preclude any next steps even before the program was implemented.

2. The energy program has very little impact on unemployment, but tying the increments to unemployment might suggest a connection.

3. GNP is the least understood of the three suggested measures, but is probably the best indicator of economic health and the easiest to predict. The safety valve could be linked to a particular growth rate in GNP. For example, as long as the rate of growth in real GNP during the preceding 9-12 months was positive, the next phase of the program would be implemented.

There are also other measures such as disposable income per capita that could be used and will be evaluated in the next several days.

FEDERAL ENERGY ADMINISTRATION
Washington, D.C. 20461

March 17, 1975

Office of the Administrator

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Biweekly Status Report

FROM: Frank G. Zarb Frank G. Zarb

THROUGH: Rogers C. B. Morton

Legislative Status

On March 11, the House voted to recommit to the Ways and Means Committee the vetoed oil import tariff increase delay legislation (HR 1767).

On March 14, the House Interstate and Foreign Commerce Committee reported the bill, HR 4035, that would restrict the President's authority to decontrol domestic crude oil. Similar legislation in the Senate, S 621, was also ordered reported by the Senate Interior and Insular Affairs Committee. No floor action has been scheduled yet in either chamber.

The Senate Finance Committee will report its tax cut legislation without the oil depletion allowance amendment in the bill passed by the House. However, floor amendments are expected on the repeal of the depletion allowance. Floor action is expected during the week of March 17.

The Senate discontinued debate on S 622, Standby Authorities Bill, and will resume floor consideration after the Easter Recess.

Status of One Million Barrel Savings Program

Progress toward achieving your one million barrel saving is presented in Tab C. The following trends are significant:

- Imports for petroleum products remain at about the same level (6.2 million barrels per day) as the last reporting period, and are approximately 340,000 barrels per day above the target level for the reporting period.

cc: Official File AE(2)
Chron
Zarb sig
Zausner (2)
Rathbun (2)
Corn
Dwyer
P:OES:RCorn:vm:3/19/75

- During February, stock levels of motor gasoline exceeded 250 million barrels, the highest level since February 1972.

- Prices of uncontrolled oil continued to increase in selected areas, raising the average price of uncontrolled oil to $11.28 per barrel in January from $11.08 per barrel in December.

- For the continental United States, the distillate heating oil degree days are 5.4 percent below normal (warmer weather) as of March 2, 1975.

Major International Events

In the Middle East there were several major developments during the last week. Saudi Arabia dropped production to a level of only 6.5 million barrels per day, 76 percent of the maximum allowable production; Kuwait summoned representatives of the Gulf Oil Company and British Petroleum Company to negotiate terms of the takeover of the remaining equity interest held by the companies. The OPEC Ministers took no action on oil prices or production levels at their March 4-5 meeting in Algeria. Tab D provides details.

TAB A

TAB A- Progress in Obtaining Implementing Legislation

President's Legislative Proposals

- On March 11, the House voted to recommit the vetoed bill, HR 1767, which would have delayed the imposition of oil import fee increases for 90 days. This legislation, having been referred back to the Ways and Means Committee, may be rescheduled for floor action at any time. Prior to House consideration, the President had announced that he would delay the imposition of increases previously scheduled for March 1 and April 1; the President had also announced a delay in his plan to decontrol old oil prices at least until May 1.

- OMB has sent drafts of the Nuclear Licensing and Siting Bill and the Nuclear Insurance Bill for comment by appropriate agencies.

Congressional Action

- The Senate held two days of debate on S 622, Standby Authorities Bill. Further floor consideration has been scheduled after the Easter recess.

- By a margin of 84 to 13, the Senate passed surface mining legislation, S 7; the House began consideration of its surface mining bill, HR 25, on March 14. A final vote is expected during the week of March 17.

- The Senate Finance Committee voted to separate the depletion allowance repeal amendment from the House passed tax cut bill. However, a compromised version of the depletion allowance repeal (which would eliminate the allowance for the major oil companies and retain it, at least in part, for independent producers) is expected to be offered in a floor amendment. Ways and Means Committee Chairman opposes retaining the allowance for independents, but may accept a gradual phase out.

- Mark up has been completed by the House Interior and Insular Affairs Committee on HR 49, a bill to transfer the management of the Naval Petroleum Reserves from the Navy to the Department of the Interior.

- Freshmen Democratic congressmen have developed their own energy plan after attacking the energy programs of both the Administration and Democratic leaders as "unacceptable" due to the high costs to consumers. Two provisions, which diverge sharply from all proposed programs, are a rollback of domestic oil prices to a controlled range of \$4.25-\$7.00 and a repeal of utility tax subsidies (including the investment tax credit, and accelerated depreciation).

- The Ways and Means Committee (with jurisdiction over energy taxes, tariffs and quotas) and the Energy and Power Subcommittee of the House Commerce Committee (which handles the related issues of fuel allocation, gasoline rationing and oil price controls) are cooperating closely and have committed the committees to a "parallel course of action" in developing energy proposals. The Energy and Power Subcommittee scheduled two weeks of hearings beginning March 10; Ways and Means Committee opened two weeks of hearings on March 3.

- The Ways and Means Committee modified a previous proposal of a 40¢ per gallon gasoline tax, and will probably adopt a smaller tax increase. The Committee expects to begin mark up during the week of March 17, and hopes to have legislation ready for floor action in the latter part of April.

- Senate Commerce Committee began mark up sessions on natural gas control legislation, which would set ceilings on both interstate and intrastate natural gas. Two final hearings were scheduled for March 17 and 18.

<u>Trends in Congress</u>

- Key element of the historic vote in the House to end the depletion allowance was the support generated by the younger, liberal freshmen, including the majority of the freshmen from the South.

- Positive action on the disputed development of the Outer Continental Shelf is expected to emerge from Congress. However, legislation is awaiting the Supreme Court decision on New England claims that Colonial grants give ownership of seabed areas 100 miles offshore.

- Support is increasing to create a "Federal Petroleum Purchasing Agency" to deal directly with the oil exporting nations.

- The idea of an energy trust fund, which would channel energy tax revenues into energy development and conservation actions, is generally supported by the Democrats, and is incorporated in both the Pastore/Wright and the Ullman plans.

- Democrats have reached agreement with the Administration, in principle, on two issues--the need to develop our Naval Petroleum Reserves and to provide for conversion of power plants from oil to coal.

- Democrats appear to favor the use of quotas on oil imports to restrain the level, but without sharp reduction immediately.

PROGRESS OF ENERGY LEGISLATION: March 3 - March 17

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION		SIGNIFICANT CONGRESSIONAL ACTION
		HOUSE	SENATE	
A. OMNIBUS ENERGY BILL (HR 2633, HR 2650, S 594)				
Title I- Naval Petroleum Reserve Development/Military Strategic Reserve **Title II-National Strategic Petroleum Reserve**	Administration witnesses have testified before a joint hearing held by the Senate Armed Services Subcommittee on National Stockpile and Naval Petroleum Reserves and the Senate Interior and Insular Affairs Committee. Administration witnesses also testified before the Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee.	Title I has been referred to the Armed Services Subcommittee on Investigations. No action has been taken. Energy and Power Subcommittee of Interstate and Foreign Commerce held hearing regarding these Titles. In related action, Interior and Insular Affairs marked up HR 49, a bill to transfer the management of the Naval Petroleum Reserves to the Department of Interior, and ordered the bill reported on March 13.	Joint hearing held before the Armed Services Subcommittee and the Interior and Insular Affairs Committee. Discussion included Title I and II, S 677, SJ Res 13, and S Res 113, the companion bill to HR 49.	
Title III-Natural Gas Amendment	Administration witnesses will testify before the Senate Commerce Committee on March 18.	Energy and Power Subcommittee of Interstate and Foreign Commerce Committee held a hearing on Title III.	Commerce Committee has held mark up sessions on S. 692, a bill to control the intrastate and interstate prices of natural gas. The Committee will hold a final hearing on March 18.	
Title IV-Energy Supply and Environmental Coordination Act of 1974 Extension	Administration Witnesses will testify before the Energy and Power Subcommittee of the House Commerce Committee on March 20.	Energy and Power Subcommittee of Commerce Commitee tentatively scheduled hearings for late April focusing on the allocation authority as contained in ESECA and whether it should be linked with price control authority. The Health and Environment Subcommittee of the Interstate and Foreign Commerce Committee held hearings relating to this allocation/price control issue.	Referred to the Public Works Subcommittee on Environmental Pollution. No hearings have been scheduled.	

PROGRESS OF ENERGY LEGISLATION: March 3 - March 17

(contd)

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION: HOUSE	CONGRESSIONAL ACTION: SENATE	SIGNIFICANT CONGRESSIONAL ACTION
Title V-Clean Air Act Amendments Title VI-Significant Deterioration	Administration witnesses testified before the Subcommittee on Health and Environment of House Commerce Committee. Administration witnesses are scheduled to testify this week before the Senate Public Works Committee, Subcommittee on Environmental Pollution.	In related action, a panel discussion was held before the Ways and Means Committee on auto fuel economy and efficiency standards. Administration witnesses did testify. Subcommittee on Health and Environment of the Interstate and Commerce Committee has held a hearing.	Public Works Subcommittee on Environmental Pollution has scheduled hearings for the week of March 17. In related action, a hearing was held before the Commerce Committee on automobile fuel economy (S 499) and automobile R&D (S 307, S 633, S 654). Administration witnesses did testify.	
Title VII-Utilities Act of 1975	Administration witnesses may be scheduled to appear before the Energy and Power Subcommittee of House Interstate and Foreign Commerce Committee in April.	Energy and Power Subcommittee of Interstate and Foreign Commerce Committee have tentatively scheduled hearings beginning April 28.	No hearings have been scheduled.	
Title VIII-Energy Facilities Planning and Development	Administration witnesses may be scheduled to appear before the Energy and Power Subcommittee of House Interstate and Foreign Commerce Committee in April.	Energy and Power Subcommittee of Interstate and Foreign Commerce Committee have tentatively scheduled hearings beginning April 28.	Interior and Insular Affairs Committee may include discussion of Title VIII in conjunction with action on Jackson's Land Use Bill, S 984. No hearings have been scheduled at this time.	
Title IX-Energy Development Security	Administration witnesses have discussed this issue before various committees.	Referred to Ways and Means Committee for consideration.	Referred to Finance Committee for consideration.	
Title X-Building Energy Conservation Standards Title XI-Winterization Assistance	Administration witnesses have testified before the House Banking, Currency and Housing Committee, and the Senate Banking, Housing and Urban Affairs Committee. Administration witnesses will appear before the Senate Government Operations Committee hearing on energy conservation in April.	Hearings have been held before the Banking, Currency and Housing Committee and the Subcommittee on Housing and Community Development. Future hearings may be scheduled. Discussion has surrounded HR 3577, Home Heating Efficiency Bill of 1975, an alternative to the President's proposals.	Senate Banking, Housing and Urban Affairs Committee held hearings in mid February on both Titles. Future hearings will be scheduled. A related hearing on energy conservation has been scheduled by the Government Operations Committee in April.	

PROGRESS OF ENERGY LEGISLATION: March 3 - March 17

(cont.)

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION HOUSE	SENATE	SIGNIFICANT CONGRESSIONAL ACTION
Title XII-National Appliance and Motor Vehicle Energy Labeling	Administration witnesses have testified before the Senate Commerce Committee. Administration witnesses will testify before the Energy and Power Subcommittee of the House Commerce Committee during the week of March 17.	Hearings have been scheduled by the Energy and Power Subcommittee of the Commerce Committee for the week of March 17.	Hearings have been held by the Commerce Committee.	
Title XIII-Standby Authorities Act (S 620)	Administration witnesses have testified before the Senate Interior and Insular Affairs Committee, and the Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee.	A hearing was held before the House Interstate and Foreign Commerce Committee's Subcommittee on Energy and Power.	Senate Interior and Insular Affairs Committee reported on S 622 on March 5. The report number is 94-26.	Senate discontinued debate on S 622 on March 12 and will resume floor consideration after the Easter recess.
B. OTHER BILLS - SUPPLY				
Surface Mining Legislation (HR 3119, S 552)	Administration witnesses have testifed before both House and Senate Interior and Insular Affairs Committees.	Interior and Insular Affairs Committee reported HR 25. The report number is 94-45.	Interior and Insular Affairs Committee reported on S 7. The report number is 94-28.	On March 12, the Senate pased S 7 by a margin of 84 to 13. The House began floor consideration of HR 25 on March 13.
Nuclear Licensing and Siting Bill	OMB has received draft legislation from the Nuclear Regulatory Commission and has solicited comment from the appropriate agencies.			

(contd)

ADMINISTRATION BILL OR COMPONENT	ADMINISTRATION ACTION	CONGRESSIONAL ACTION HOUSE	CONGRESSIONAL ACTION SENATE	SIGNIFICANT CONGRESSIONAL ACTION
Nuclear Insurance Bill	OMB has received draft legislation from the Nuclear Regulatory Commission and has solicited comment from appropriate agencies.			
C. TAX PROPOSALS 1. Windfall Profits Tax 2. Petroleum Excise Tax and Import Fee. 3. Natural Gas Excise Tax 4. Uniform Investment Tax Credit 5. Higher Investment Tax Credit 6. Preferred Stock Dividend Deductions 7. Residential Conservation Tax Credit	Administration witnesses have testified at a number of panel discussions held by the Ways and Means Committee.	Ways and Means began two weeks of panel discussions on the energy tax program on March 3.	Presently incorporated in the Senate tax cut bill are provisions regarding the investment tax credit and corporate surcharge exemption increase.	

TAB B

TAB B - Progress Report on Administrative Actions
Within the President's Energy Program

Administrative Activity	Lead Agency	Status	Next Steps
Near Term Program			
1. Crude Oil Decontrol	FEA	Congressman Dingell Introduced legislation (HR 4035) restricting the President's authority to decontrol domestic crude oil. Similar legislation, S 621, was introduced by Senator Jackson. Both bills are scheduled to be reported out of committee during the week of March 17. No floor action has been scheduled.	Action will depend on evolving a compromise on the overall energy program.
2. Energy Conservation	FEA	Budget submission for increased funding for a conservation educational program is awaiting Congressional action. Testimony delivered before House Appropriations Committee, March 13.	Prepare for testimony before Senate Appropriation Committee on April 12. Guidelines for using energy conservation "mark" to be completed during the next reporting period.
3. Coal Conversion	FEA	Reviewing testimony and written comments on programmatic Environmental Impact Statement	Final Environmental Impact Statement to be published April 10. Final regulations expected to be published in Federal Register March 23, 1975.

Administrative Activity	Lead Agency	Status	Next Steps
4. Import Fee Implementation	FEA	On March 4 the Presisident vetoed legislation restricting his authority to raise fees. He has agreed to postpone further increases for 60 days.	Further action will depend on evolving a compromise on the overall energy program.

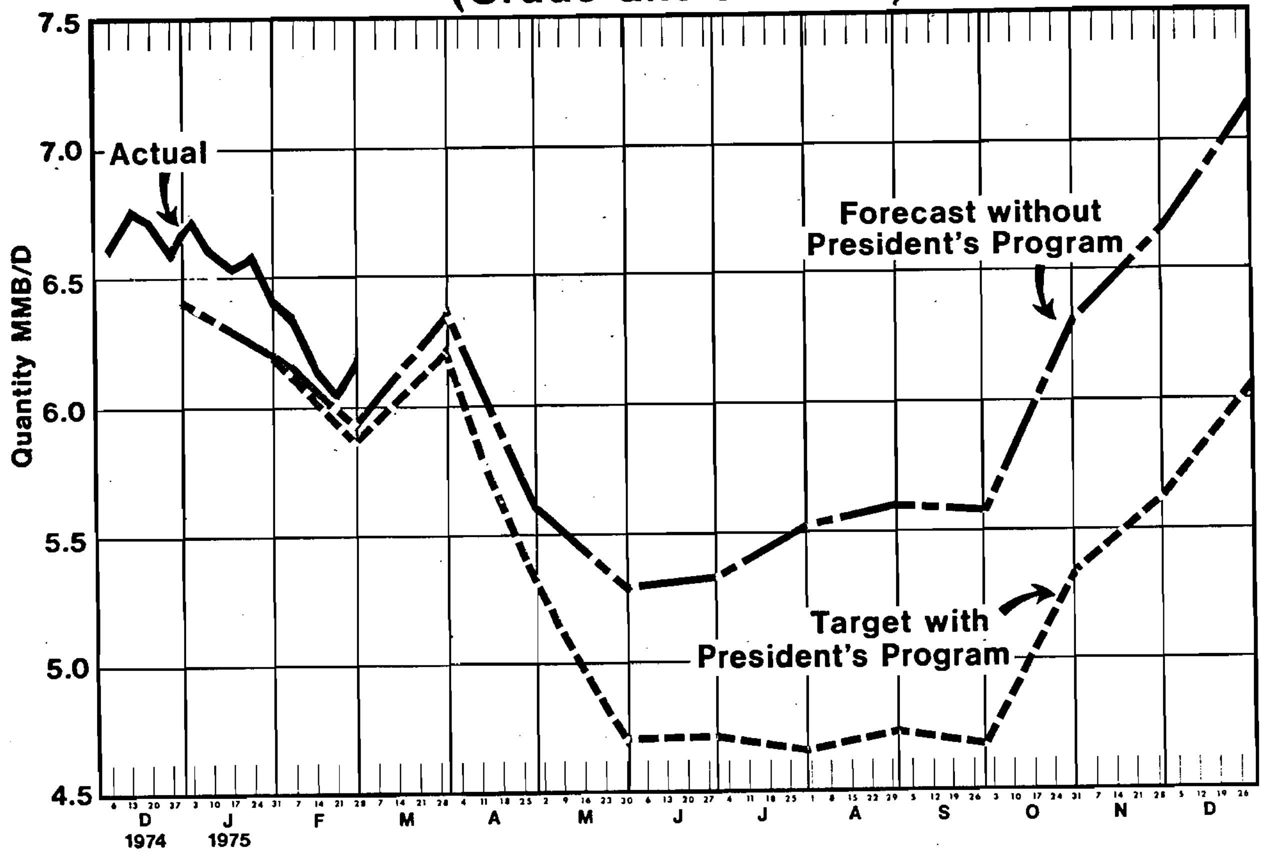
Administrative Activity	Lead Agency	Status	Next Steps
Mid Term Program			
1. OCS Leasing	Interior	Final decision on accepting or rejecting bids was announced by DOI, which requires commercial production by leasee within 5 years.	Companies whose bids were rejected may petition the Secretary of the Interior for reconsideration of the bids.
2. Emission Controls	EPA	EPA Administrator suspended statutory standards for 1977 and set interim standards. New standards through 1982 have been recommended.	Administration must decide on position on EPA's emission standard recommendations, as they differ from President's program. DOT & FEA to meet with auto manufacturers.
3. Auto-Efficiency Agreements	DOT	Voluntary agreements signed in January. Negotiations in process with auto manufactures to establish monitoring system.	Finalize monitoring process and prepare first report.
4. Appliance Standards	NBS	FEA and Commerce working to formulate proposed standards. FEA and Commerce held meeting with appliance manufacturers on February 20, 1975 to discuss program.	Further meetings with individual manufacturers to be held during March. No signed agreement expected until this summer.

Administrative Activity	Lead Agency	Status	Next Steps
5. Emergency Storage	FEA	FEA task force has been organized. Program justification has been submitted to OMB to obtain planning funds.	Interagency coordination of the program.
6. Utility Study	FEA	Analysis of financial problems of utilities has been distributed to ERC for comment.	Await ERC recommendations.
7. Price Floor on Petroleum Imports	FEA	Position paper completed and discussed at ERC Meeting March 14, 1975.	Await action by the ERC.

TAB C

Table 1

Total U.S. Petroleum Imports (Crude and Product)



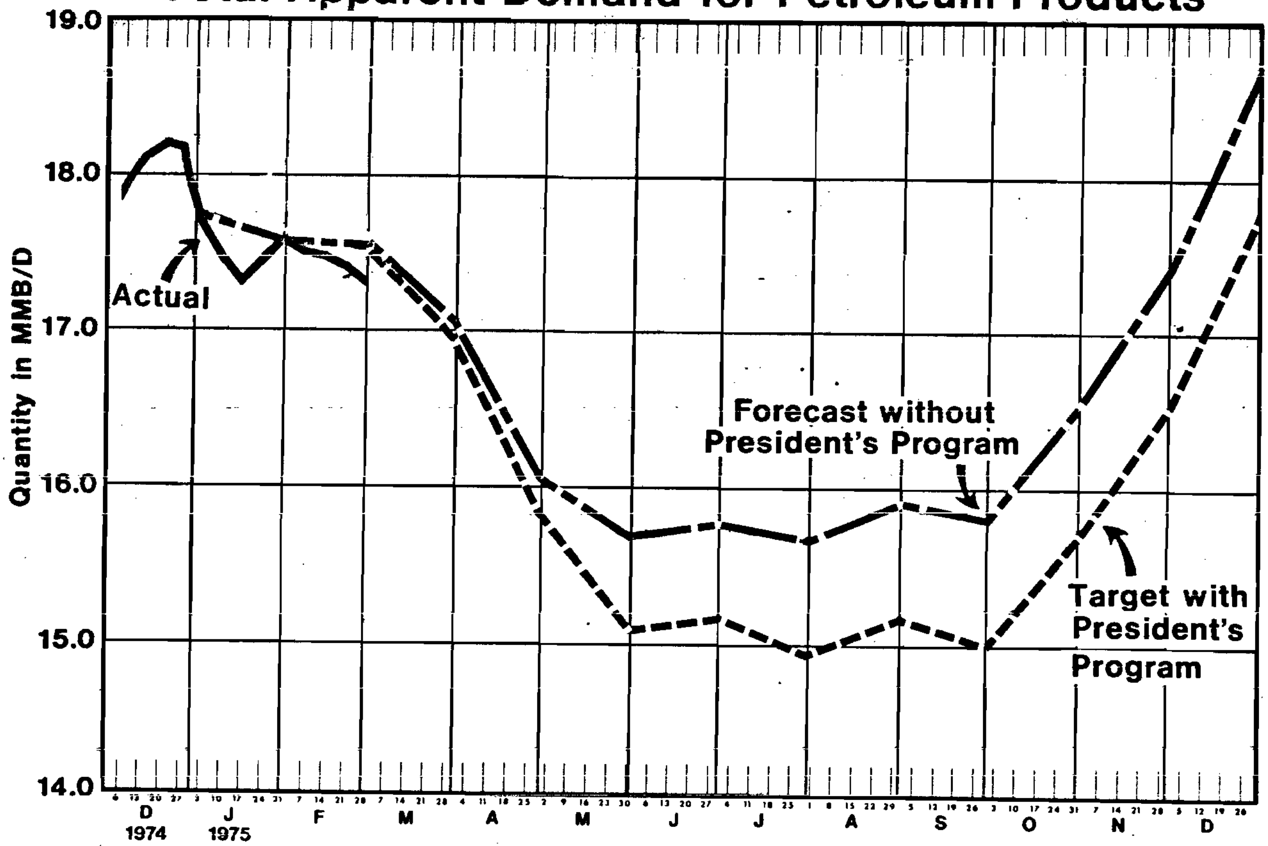
o Imports of crude oil and petroleum products for the four weeks ending February 28 were 6.20 million barrels per day, 340,000 barrels per day above the target of 5.86 million barrels per day.

o At 4.06 million barrels per day, imports of crude continued to comprise about two-thirds of total imports.

o At times, there are significant differences between the imports reported by Census and FEA. Census statistics are as reported at "time of arrival into the U.S."; FEA statistics are as reported "at the refinery gate". With the imposition of the President's tariff effective after midnight, January 31, 1975, Customs was petitioned to--and did--stay open until midnight. Thus, there is abnormally early reporting in the January Census figure (9.208 million barrels per day), since many of these reports could have been made as late as February 14, 1975, and have been counted as February imports.

Table 2

Total Apparent Demand for Petroleum Products

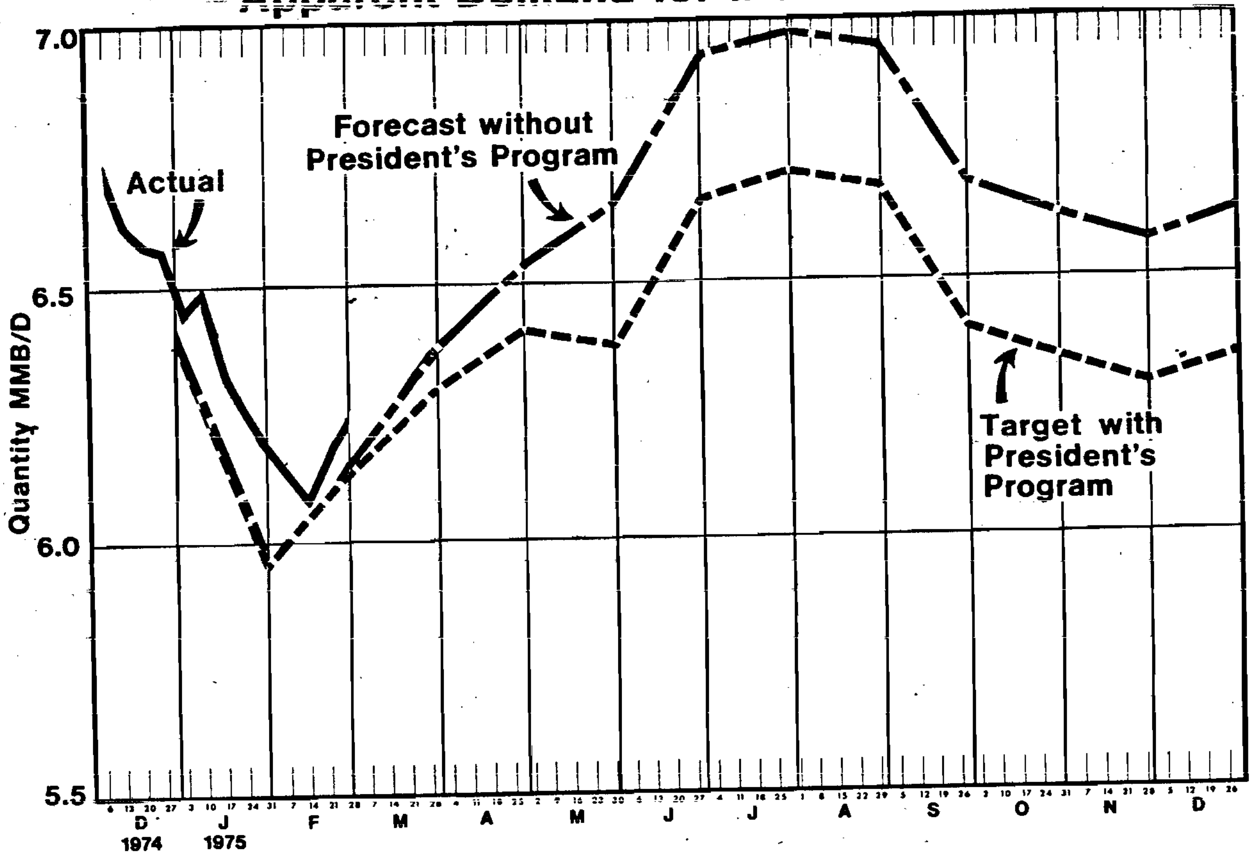


- o Total apparent demand during the 4 weeks ending February 28 was 17.34 million barrels per day, 200,000 barrels per day below the revised target of 17.54 million barrels per day.

- o The "savings" of 200,000 barrels per day are apparently due to cutbacks in the use of minor products (largely jet fuels, kerosine and propane), since the major products (motor gasoline, residual and distillate fuel oils) continue to be above your goal. However, FEA's estimates of demand are based on "disappearance from primary stocks"; thus, distortion can be introduced by significant movements into secondary storage and subsequent delays in the distribution of products.

Table 3

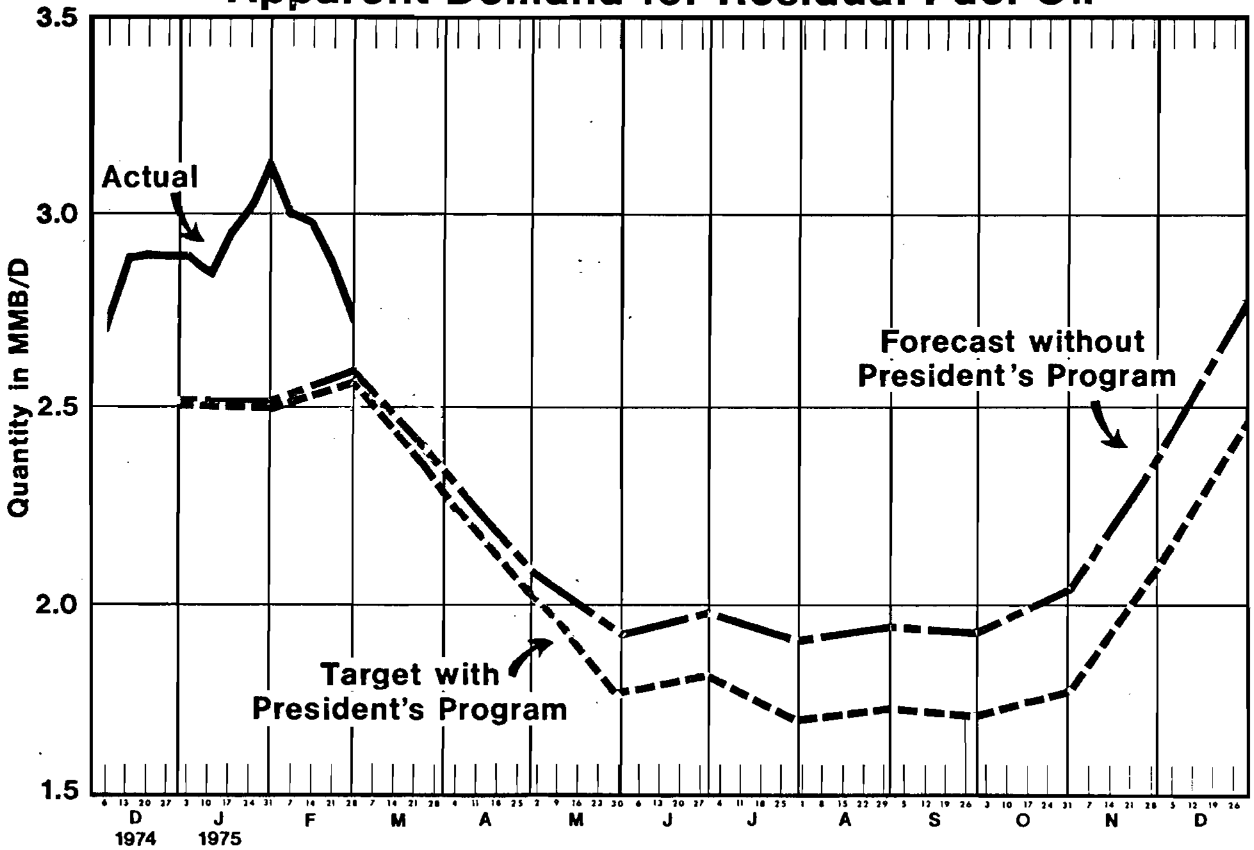
Apparent Demand for Motor Gasoline



- Apparent demand for motor gasoline for February was 6.25 million barrels per day, which is 120,000 barrels per day above the target level of 6.13 million barrels per day.

- Stock levels reached 252.1 million barrels during the month of February, their highest level since February 1972.

Table 4
Apparent Demand for Residual Fuel Oil



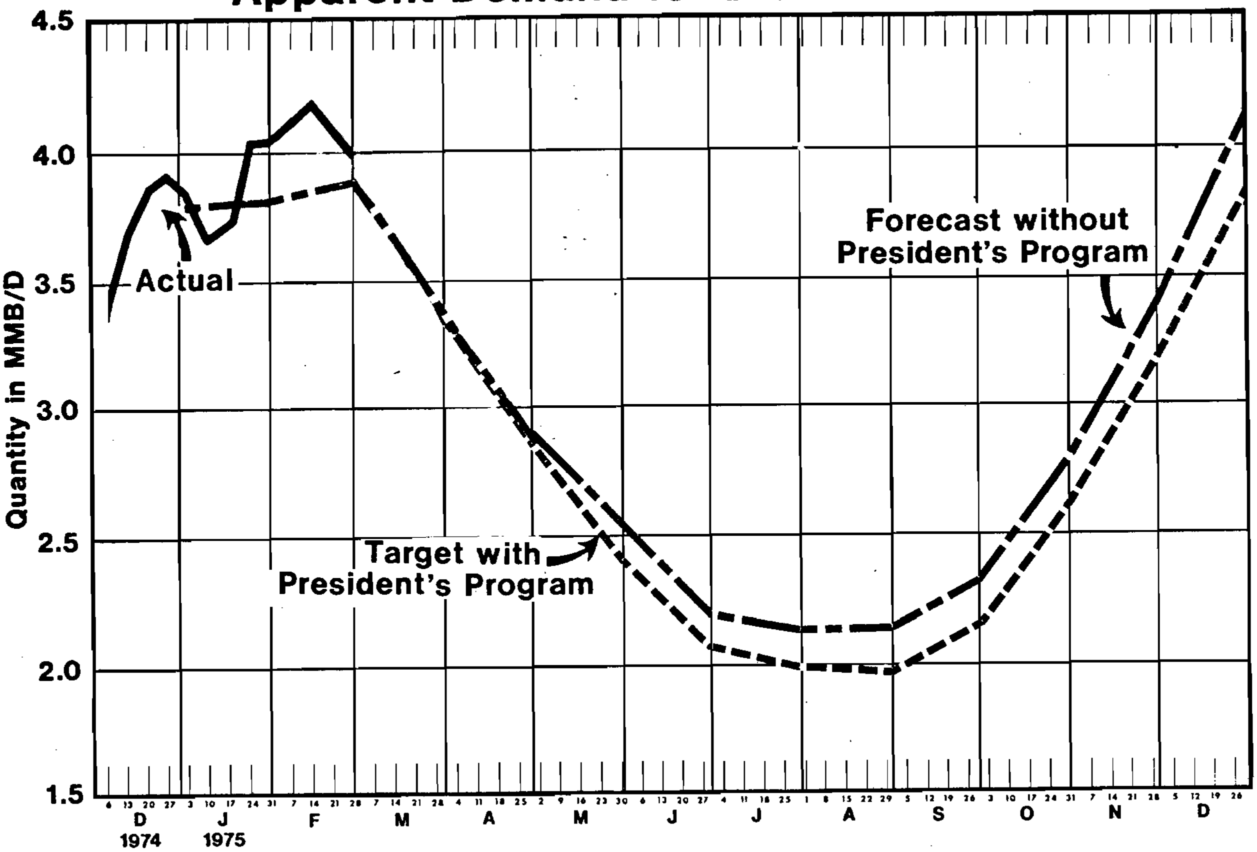
- o Apparent demand for the 4 weeks ending February 28 was 2.72 million barrels per day, which is 150,000 barrels per day above the target of 2.57 million barrels per day.

- o Imports of residual fuel oil in February decreased by 219,000 barrels per day from January, a 14.3 percent decrease.

- o The difference between apparent demand for residual and the target figure may be due to substitution of residual for curtailed natural gas (which has been substantial this winter) and changes in secondary inventories as a result of the coal strike. However, the historical pattern of residual consumption is so erratic that residual has proved to be the most difficult petroleum product to forecast.

Table 5

Apparent Demand for Distillate Fuel Oil

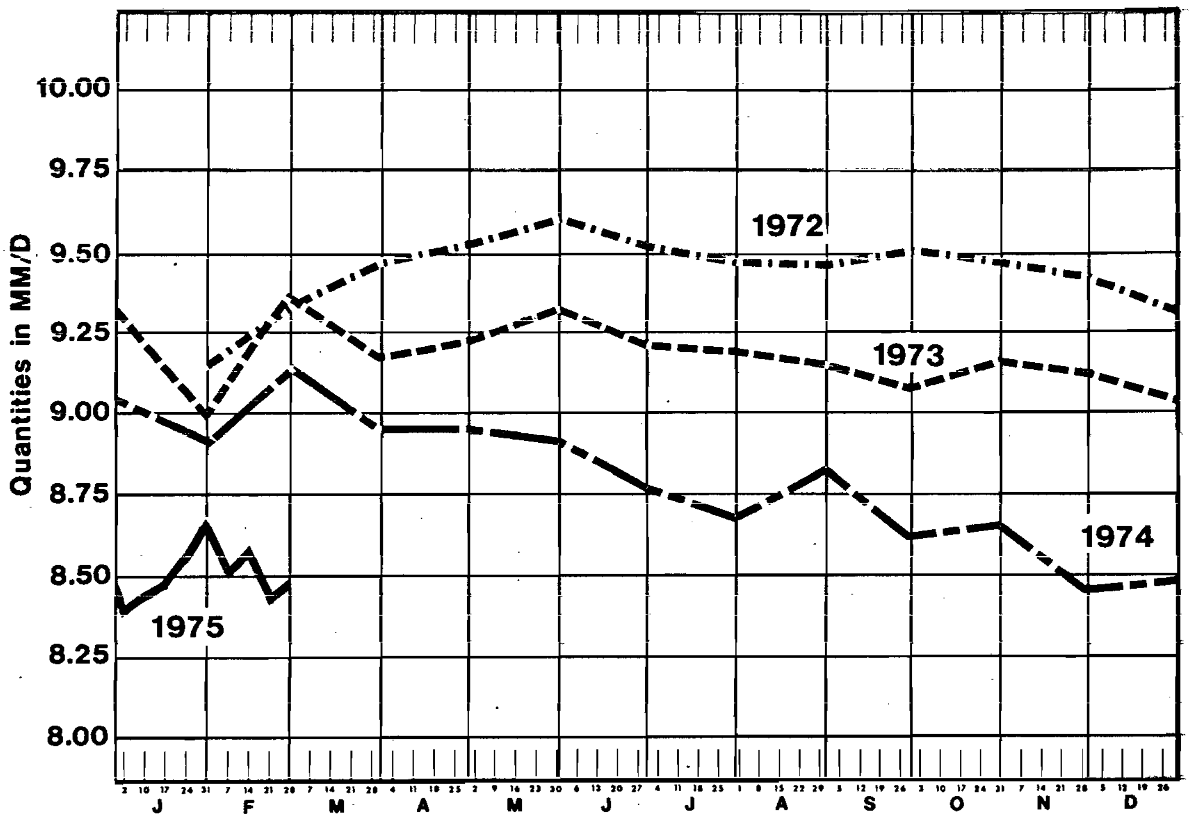


- o Apparent demand for distillate fuel oil for the 4 weeks ending February 28 was 4.01 million barrels per day, 100,000 barrels per day above the target level of 3.91 million barrels per day.

- o The increase in apparent demand in January and February parallels changes in demand for distillate fuel oil in these months in past years.

Table 6

Domestic Crude Oil Production

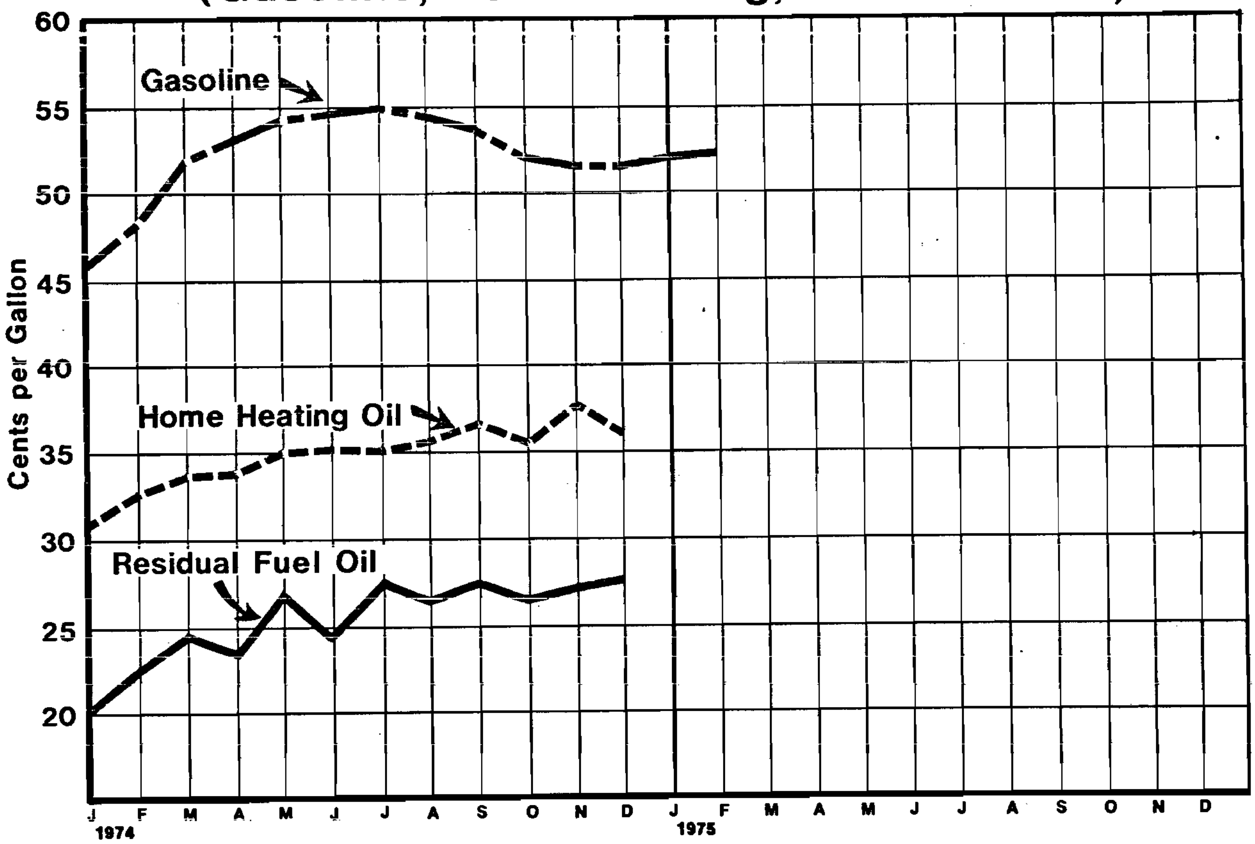


- Production of crude oil for the 4 weeks ending February 28, at 8.483 million barrels per day, is 7.4 percent below the same period of 1974 and 9.5 percent below the same period in 1973.

- The increase in January and early February represents a minor fluctuation; it should not be interpreted as a reversal of the long-term decline in production established in earlier years.

Table 7

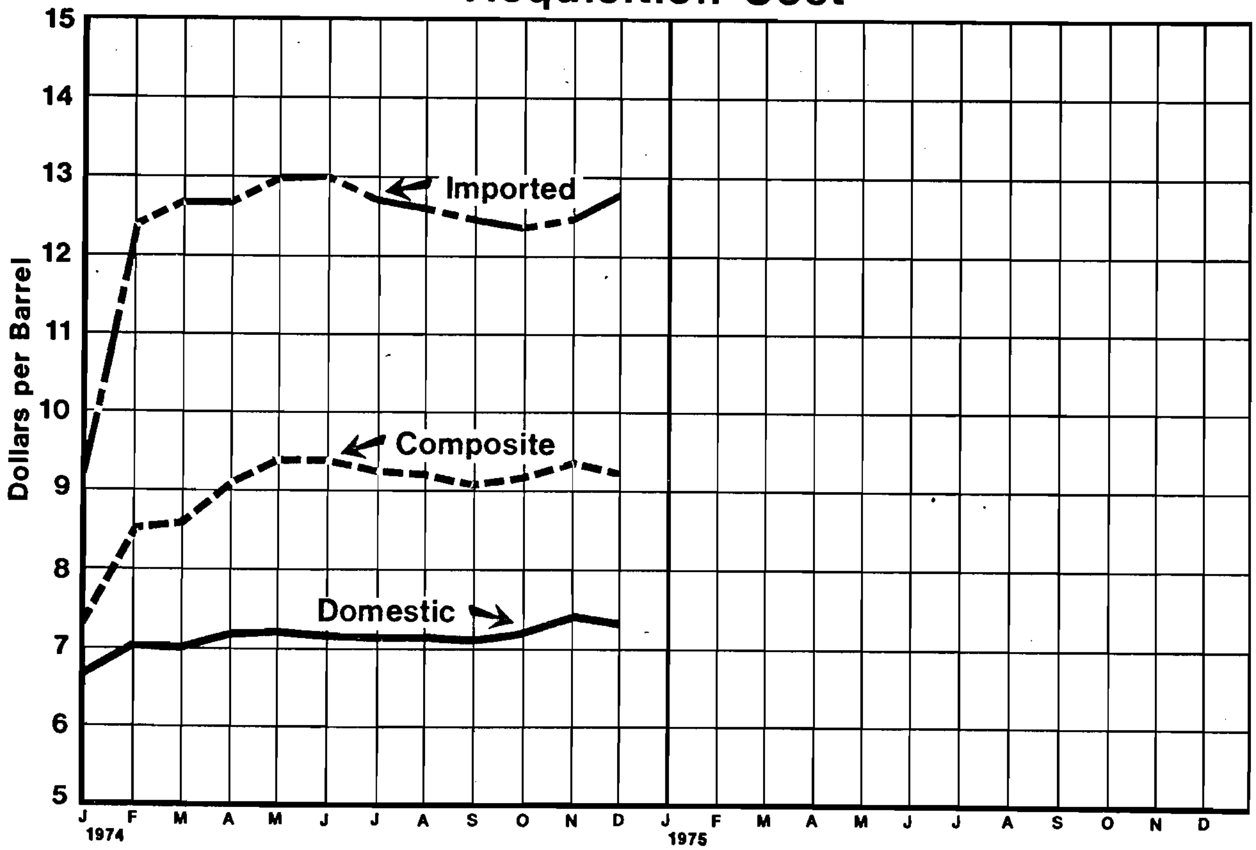
Retail Prices
(Gasoline, Home Heating, Residual Fuel)



- o The National average gasoline price increased by 0.1 cent per gallon in February to 52.5 cents per gallon, the second monthly increase in a row. This increase was primarily due to a 0.1 cent per gallon increase in prices of independent retail gasoline dealers. Independent retailers did not increase prices in January as the major retailers did; however, in February the independent retailers began to follow the majors in increasing their prices.

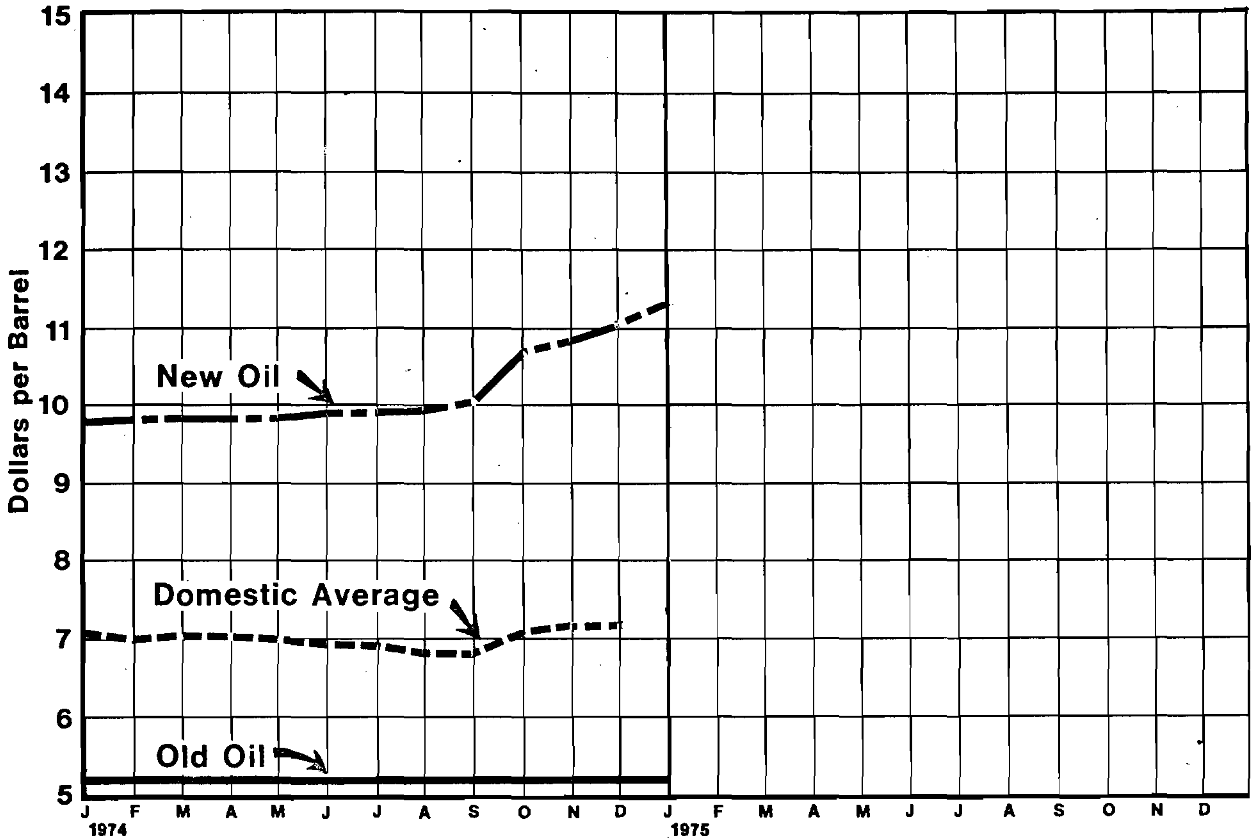
- o The National average residual price for December was up to 27.4 cents per gallon from 27.1 cents in November.

Table 8
Crude Oil Refiner Acquisition Cost



[No new data since last report.]

Table 9
Crude Oil Wellhead Price

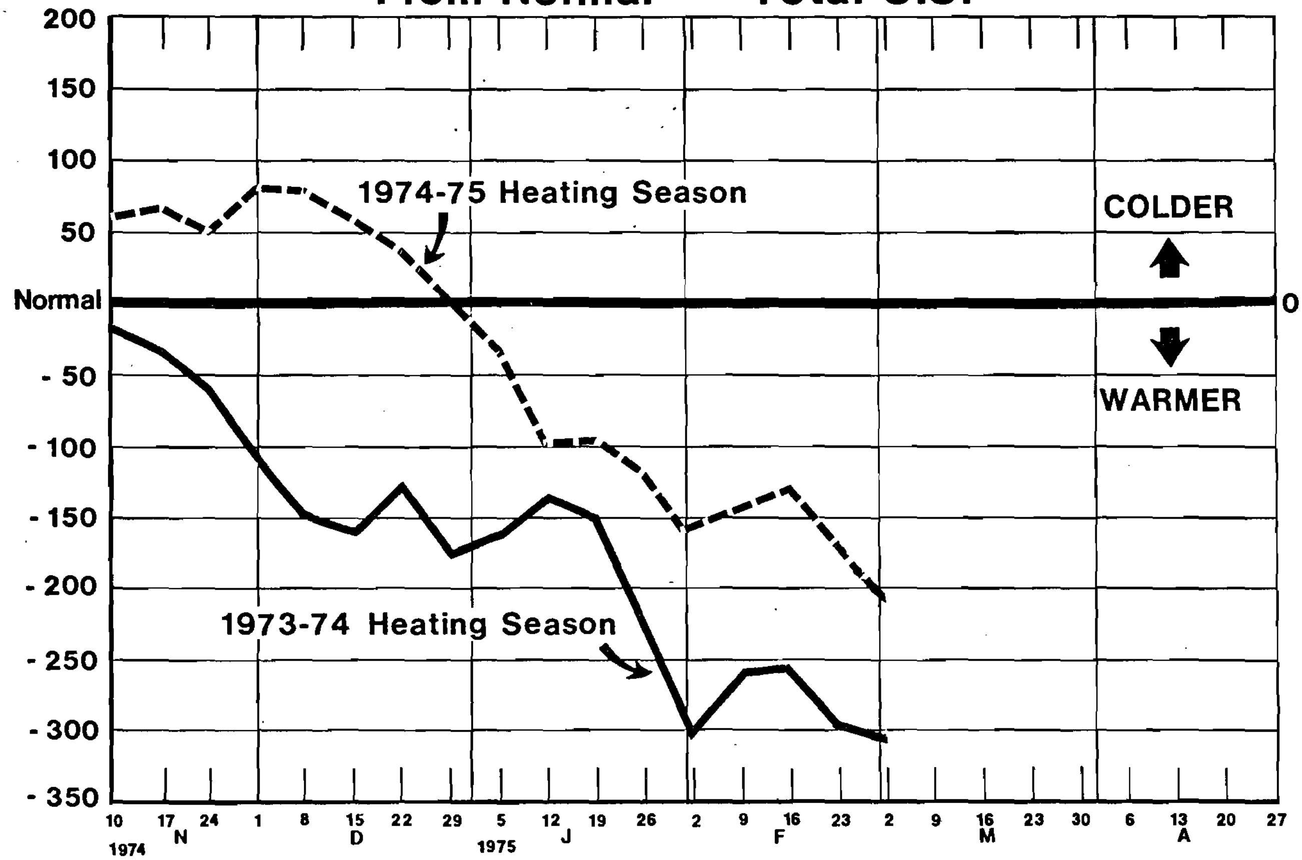


- o New oil prices continue to increase in selected areas, driving the average new oil price up to $11.28 per barrel in January. Many new oil prices are being applied retroactively to earlier months and are being passed through in the current months, overinflating the crude acquisition costs by refiners in the current months.

- o The percentage of production that sold at uncontrolled prices during December increased to 34 percent from 33 percent during November.

Table 10

Departure of Cumulative Distillate Heating Oil Degree-Days From Normal — Total U.S.



o For the 2-week period ended March 2, 1975, the distillate heating oil degree-days for the continental United States were 18.5 percent below normal (warmer weather).

o So far in the 1974-75 heating season, distillate heating oil degree-days for the U.S. are 5.4 percent below normal; a year ago, the distillate heating oil degree-days for the 1973-74 heating season were 8.1 percent below normal.

o Through March 2, the West Coast has accumulated less degree-days this heating season than last heating season, while the rest of the Nation has accumulated more degree-days than last heating season. The percentage changes are as follows: +2.9 percent in PAD I (East Coast); +3.5 percent in PAD II (Mid-Continent); +10.0 percent in PAD III (Gulf Coast); +0.5 percent in PAD IV (Rocky Mountain); and -2.4 percent in PAD V (West Coast).

DEFINITIONS

Apparent Demand -- Demand for products, in terms of real consumption, is not available; production plus imports plus withdrawals from primary stocks is used as a proxy for demand (consumption). Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Four-week moving averages computed from the Weekly Petroleum Reporting System.

Forecast -- A petroleum product demand forecast is made, based on a projection of the economy, which would occur without the President's program, and on a projection of normal weather. The forecast is periodically revised to take account of actual weather and revised macroeconomic forecasts.

Target -- The Target incorporates reductions in consumption implicit in the President's energy policy, as given in the State of the Union Message. In addition it is assumed that:

- domestic production increases by 160 MB/D by the end of 1975 due to the development of Elk Hills.
- petroleum demand is reduced by 98 MB/D by the end of 1975 due to switching from oil to coal.
- petroleum demand due to natural gas curtailments ceases after May 1, 1975, due to the deregulation of new natural gas at the wellhead.
- price changes due to the President's policies are held constant in real terms at their May 1975 levels.

Degree-Days -- The number of degree-days in one day is the number of degrees by which the mean temperature for the day is below 65° F. Statewide averages for degree-days are based on population weights. These statewide averages are then aggregated into P.A.D. Districts and the national average using a weighting scheme based on each State's consumption of fuel oil per degree-day, thereby relating the impact of the weather to distillate heating oil demand. Note that "above normal" degree-days correspond to "below normal" temperatures.

TAB D

TAB D

- Saudi Arabian oil production dropped from 7.6 million barrels per day in January to 6.5 million barrels per day in February.

- On March 5, Kuwait (who already owned 60 percent) announced nationalization of the Kuwait Oil Company. On March 12, Gulf Oil Company and British Petroleum Company representatives began negotiations with Kuwait on terms of the takeover.

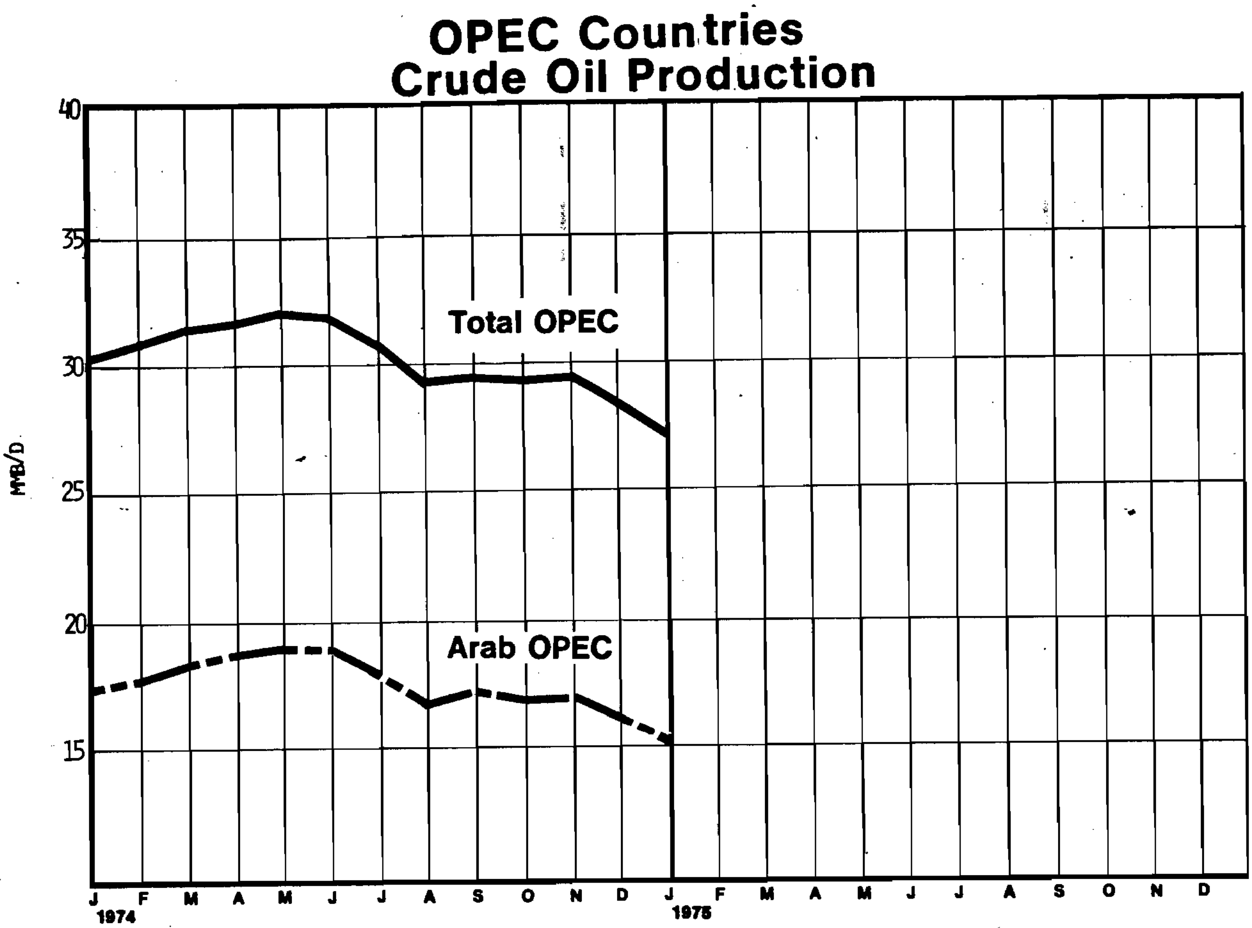
- Abu Dhabi reduced its price differential for its low-sulfur crude oil by $ .15/bbl. This action, coupled with the January reduction in the posted price has had an overall effect of reducing the price of Abu Dhabi crude by $ .55/bbl.

- At the OPEC meeting in Algiers, no actions were taken in regard to oil prices or production levels; however, OPEC policies on pricing and production levels will be the subject of discussion at the June 6, 1975 meeting in Gabon.

- Venezuela has taken steps to buy crude oil from Ecuador at cartel prices as a price support means. In addition, Venezuela has earmarked $500 million through 1980 for Central American countries to extend credits up to $6.00 per barrel of imports to be repaid at low rates.

- On March 11, Venezuelan President Perez introduced a bill to Congress to nationalize the petroleum industry. Preliminary reports indicate the creation of a Venezuelean holding company which will implement the takeover which should take about 5 to 6 months.

- The United Arab Emirate oil minister said on March 10 (after the OPEC meeting at Algiers) that OPEC members should agree on a system of prorationing of crude oil production in order to deal with the problem of excessive supply. He also stated that if exporting countries fail to develop a joint prorationing agreement certain countries "may have to resort to unilateral steps to lower prices or cut production."



(No new data since last reporting period.)

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Same memo on Gasoline

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

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MEMORANDUM FOR THE PRESIDENT

SUBJECT : OPTIONS FOR MODIFYING ADMINISTRATION'S ENERGY PROGRAM

THROUGH : ROGERS C. B. MORTON
SECRETARY OF THE INTERIOR

FROM : FRANK G. ZARB
ADMINISTRATOR

I. OPTIONS FOR DECONTROL OF DOMESTIC "OLD OIL" PRICES

BACKGROUND

As you are aware, our comprehensive energy program includes the complete decontrol of domestic crude oil prices. Approximately 40 percent of domestic crude is already sold at free market levels averaging $11 per barrel. Your program contemplates decontrolling the remaining 60 percent (i.e., "old oil" currently selling at prices averaging $5.40 per barrel) beginning on April 1, 1975.

The process by which you implement the decontrol of old oil requires submission to Congress of a formal amendment to the price control regulations, which shall not take effect if either House passes a resolution disapproving the decontrol amendment within five days.

CURRENT SITUATION

The President's energy message stated that "steps would be taken to remove price controls on domestic crude oil by April 1, 1975." This statement can be interpreted to mean either that complete decontrol would be implemented by April 1 or that we would initiate by April 1, 1975 administrative steps (i.e., a public notice of rulemaking) toward ultimate decontrol.

Three circumstances combine to make the decision on the precise form and timing of decontrol complex:

1. Congressional Recess - The Senate and the House recess on March 21 and 22, respectively and reconvene on April 7. Thus, unless we begin administrative steps prior to your veto of the import fee suspension bill, there will not be sufficient time prior to March 21 to complete all the necessary administrative steps (the requirement for public comment, submission of

amendment to Congress, etc.) necessary to have decontrol achieved by April 1, assuming that Congress would not veto the decontrol measure.

2. Relationship To Import Fee Suspension Bill Veto - Commencing the necessary public comment process prior to your veto of the import fee suspension bill in order to achieve decontrol by March 21 could be counterproductive and possibly jeopardize a favorable outcome of the veto-override attempt. On the other hand, the timing and manner of decontrol of crude oil prices may also be an important area of possible compromise with the Congress, which could help to assure your veto is sustained. Hence, any decision to compromise on this issue might be made and announced quickly to allow maximum use in the effort to sustain your veto.

3. Short Term Nature of New Price Regulatory System - The imposition of supplemental import fees, with the burden of these increased costs spread out by the entitlements program and tilted toward gasoline, creates an extraordinarily complex and difficult regulatory program. The economic distortions which result from this regulatory maze, and the concomitant political pressures generated by special interest groups seeking perservation of special treatment afforded by these regulations, make it imperative that this system be viewed solely as a short term expedient. Such a program is in our view simply not capable of being administered effectively, without developing severe and perhaps insoluable problems, for much longer than six months to one year.

OPTIONS

In light of the current situation, the issue of how to best achieve decontrol of domestic oil prices consistent with your energy objectives and with full recognition of the Congressional opposition to this action resolves to four principal options:

1. Initiate steps before April 1 to achieve complete decontrol of old oil prices within five days after the Congress returns from Easter recess (April 7) by formal submission of a decontrol amendment to the Congress.

2. Take action on or before April 1 to initiate a three step phased decontrol by raising old oil prices $2 in April and July, and then achieving total decontrol in October, going to Congress for approval at each stage.

3. Link decontrol to elimination of the import fee by announcing your intention to raise the price of old oil upward in $2 quarterly increments, beginning on May 1, while simultaneously reducing the import fee by $1 each month. Since this procedure would entail roughly compensating (though unequal) price adjustments, it could be undertaken administratively, with no decontrol amendment submitted to Congress until the final step on November 1.

4. Delay the submission of any decontrol amendment to the Congress for six months (October 1, 1975).

Option 1: Complete decontrol on April 12, 1975

This option would require submission of a decontrol amendment to the Congress before April 7 and would result in a $6-7 per barrel increase for old oil, which translates into price increases for products (gas at the pumps, etc.) of approximately 5¢ per gallon. This price would be in addition to the estimated 4.3¢ per gallon increase achieved when the existing import fee program reaches maturity ($3.00 fee on crude, $1.20 on products) on April 1, 1975. A decision to adopt this option must be made no later than March 7 if this option is to be implemented on time.

PROS

- would maintain, unaltered, the proposed program, i.e., demand reduction toward the 1 and 2 million barrel import reduction goals would proceed as scheduled.

- would maintain pressure on the Congress to accept program or put forward a constructive alternative.

CONS

- forcing the decontrol issue, in the middle of the tariff veto-overriding process, could hinder efforts to sustain the veto.

- In view of the strong Congressional opposition to imposition of the import fee, the Congress seems certain to veto any decontrol amendment which adds substantially to the price impact of the import fee at this time.

- If implemented, it would have a significant economic impact on sectors of the petroleum industry and on energy users.

Option 2: Phased Decontrol

This option envisions a three step phased decontrol by raising old oil prices $2 in April and in July, with total decontrol achieved in October 1975. Each of the three steps would be submitted to the Congress as an exemption amendment. As in Option 1, this strategy would increase old crude oil $6-7 per barrel when complete and product prices by approximately 5¢ per gallon. A three step phased decontrol would result in a decrease in the 75 import reduction attributable to decontrol from _____ barrels per day to an estimated _____ barrels per day. A decision to adopt this option must be made no later than March 7 if this option is to be implemented on the above schedule.

PROS

- gradual decontrol would be somewhat less vulnerable to a Congressional veto

- could improve the negotiating climate with Congress

- would ease the severity of impact on industry and consumers

CONS

- would still entail a high risk of Congressional veto

- would represent a compromise of the 75 import reduction goal

- would reduce pressure on the Congress to react to the overall program

Option 3: Phase in of Decontrol with Phase out of Import Fees

This option requires a modification in the energy program to make the lowering of import fees no longer contingent on enactment of the $2 excise tax, and envisions:

o A three step decontrol of the price of old crude by raising the price $2 on May 1 and August 1, with total decontrol achieved on November 1, 1975. It is our opinion that the first two steps of this increase could be accomplished without Congressional acquiescence with a reasonable chance of defending this action in court if these steps are taken in coordination with:

o A corresponding three step phase out of the $3 import fee by reducing the fee to $2 on May 1 and $1 on August 1, and eliminating it entirely on November 1, 1975.

This option would reduce the 75 import reduction goal attributable to decontrol from _____ barrels per day to approximately _____ barrels per day as well as delay the goal of _____ barrels per day attributable to the Congressional enactment of a $2 excise tax.

PROS

- allows partial administrative decontrol without submission to the Congress, thereby insuring at least some price induced conservation attributable to decontrol.

- Provides bargaining leverage to facilitate ultimate Congressional acceptance of complete crude oil price decontrol by tying it to phase out of import fees.

- represents a significant compromise with Congress which may help to sustain your veto.

- assures end of counterproductive regulatory maze (entitlements program, import fee program, etc.) imposed on our economy.

CONS

- some loss of 75 import reduction goal.

- implicitly recognizes that ultimate passage of $2 excise tax measure by the Congress is uncertain.

- is a major Presidential concession prior to any significant movement by the Congress.

Option 4: Delayed Decontrol

This option envisions delaying submission of a decontrol amendment to the Congress for 6 months (October 1, 1975). Adoption of this option would result in a decrease of the 75 import reduction attributable to decontrol from _____ barrels per day to an estimated _____ barrels per day.

PROS

- would improve current negotiating climate with Congress and help to sustain the veto.

- would ease severity of impact on industry and consumers.

CONS

- would represent a compromise of the 75 import reduction goal.
- would still require approval by the Congress and face a likely veto.
- would cause Administration to lose mementum in achieving eventual goals and reduce pressure on the Congress to react to overall program.

RECOMMENDATION