The original documents are located in Box 1, folder: "Memoranda to the President, August 6, 1975" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

AUG 6 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THROUGH: ROGERS C.B. MORTON

SUBJECT: BRIEFING PAPERS FOR THURSDAY ENERGY REVIEW

Attached for your review is a briefing book on the two energy subjects to be discussed tomorrow.

Tab A: Decontrol options and timing of major events during August.

Tab B: Preliminary policy recommendation for the natural gas shortage this winter.

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TAB A

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THROUGH: ROGERS C.B. MORTON

SUBJECT: STRATEGY ON DECONTROL

BACKGROUND

Before the recess, the House passed the Staggers pricing amendment to H.R. 7014. This provision rolls back the price of new and released oil to $7.50 per barrel, but provides that "high cost" oil can sell for as much as $10.00 per barrel. Old oil prices will remain at $5.25 per barrel for ten years or more.

The House then defeated your 39-month decontrol compromise program and passed S.1849, a simple 6-month extension of the price control provisions. Senator Mansfield has indicated that this legislation will not be delivered until the end of August so Congress can act quickly on the veto override. If you choose not to sign the extension, the EPAA will expire on Sunday, August 31, 1975. Congress will not be able to act on the veto until it returns at noon, Wednesday, September 3.

In addition to these events, OPEC meetings on pricing policies are scheduled for September 4 and 24, and in all likelihood will result in an announced price increase of $1.00 to $2.00 per barrel by October 1.

The vote on overriding the veto will be very close and is hard to predict. There are several actions which you can take to improve the chances of sustaining the veto. This memorandum requests several key decisions on these actions and the thrust and timing of public announcements on the subject.

DECONTROL ALTERNATIVES

This section presents your alternatives on decontrol, both on the veto and actions to mitigate its effects.

Option 1. Veto simple 6-month extension.

PROS: - Will be major action to stimulate supply and cut energy demand.

- Will remove a complex and counterproductive regulatory system.

CONS: - Will result in difficult political problems with respect to price increases and with special interest groups such as airlines, farmers, etc.

- Will leave us temporarily without minimally needed authorities to deal with the natural gas shortages or special petroleum problems such as propane.

Recommendation: Veto the 6-month extension.

Presidential Decision:

Agree _____

Disagree _____

Option 2: Remove the $2.00 and $.60 per barrel import fees on crude and products respectively effective if the veto is sustained.

Removal of the import fees coupled with immediate decontrol and the other supply and demand actions of your original program will reduce imports by approximately 1.4 million barrels per day in 1977. This compares with 1.2 million barrels per day if your 39-month decontrol compromise was accepted. These import savings remain below the 2 million barrels per day of your original program announced in January.

PROS: - Will substantially cushion if not eliminate the economic impact of sudden decontrol.

- Will increase Congressional support for sustaining your veto of the simple extension of the EPAA.

CONS: - Will lower the conservation savings.

- Will reduce Federal revenues, but also decreases windfalls to petroleum industry.

- Comes at an inopportune time vis-a-vis OPEC price increases.

Recommendation: Remove both the crude and product import fees effective when the veto is sustained.

Presidential Decision:

Agree _____

Disagree _____

Option 3. Support rapid enactment of a windfall profits tax and energy tax rebates to consumers.

The Senate Finance Committee has already voted out a windfall profits tax effective with immediate decontrol which is similar to the Administration's proposal and which allows for consumer rebates.

PROS: - Tax will remove windfalls and help cushion economy from effects of decontrol.

- Support will help sustain the veto.

- Administration support of this bill will help Chairman Long and will increase the likelihood of rapid enactment.

CONS: - The tax is probably somewhat more harsh than the Administration would propose.

Recommendation: Support the Finance Committee legislation in concept and basic provisions and indicate that rebates should not exceed revenues generated from the tax.

Presidential Decision:

Agree _____

Disagree _____

Option 4. Jawbone industry to ease transition during the few months following immediate decontrol.

PROS: - Such action would make the transition to full decontrol easier in terms of supplier-purchaser relationships, regional problems, etc.

- Would reduce adverse political backlash if the veto is sustained.

- Could be viewed publicly as the President taking action to assure oil companies act responsibly.

CONS: - Could prove to be ineffective if industry doesn't respond accordingly.

- Could be interpreted as major Administration concern on the problems with immediate decontrol.

- Might appear as industry/Administration collusion.

Recommendation: Begin early but quiet jawboning for voluntary cooperation.

Presidential Decision:

Agree _____

Disagree _____

Option 5. New Legislative Initiatives

There are four basic legislative suboptions which could be proposed either before or after the veto vote to provide needed authorities and allay fears about the impact of decontrol.

Suboption A. Propose legislation which would merely convert the EPAA from a mandatory to a standby basis.

PROS: - A relatively simple proposal which would diffuse any fight over the specifics of allocation authorities.

- Would help to convince interest groups with identified problems that FEA still has authority to allocate if necessary.

CONS: - Would hurt chances of sustaining the veto since such a proposal is so similar to a simple extension of the EPAA.

Suboption B. Request limited new authorities to deal only with identified problems such as propane or independent marketers.

PROS: - Deals specifically with problem areas caused by immediate decontrol and would thus help to sustain your veto.

- It is significantly different from a simple continuation of the EPAA in either a mandatory or standby form.

CONS: - It could be easily "Christmas treed" by special interest groups.

- May only serve to heighten concerns about letting controls lapse.

- Special interest groups which are not included will fight for veto override.

Suboption C. Integrate selected petroleum authorities with the Natural Gas Emergency Standby Act of 1975, which we are proposing to deal with the natural gas shortage.

PROS: - Such a proposal is significantly different from a simple extension of the EPAA and should not hurt sustaining the veto.

- Standby emergency authorities are needed in any event to deal with the projected natural gas shortage this winter and this would be an effective mechanism in which to get selected petroleum authorities.

CONS: - It will not be possible to cast all needed petroleum authorities as natural gas related.

Suboption D. Propose legislation to implement the 39-month decontrol plan in addition to one of the above options.

PROS: - Places the blame back on Congress for allowing immediate petroleum price increases.

- It is a gradual decontrol program, with slight economic impacts.

CONS: - Will lead to some confusion as to the Administration's true position because you are now supporting immediate decontrol.

- Since the 39-month administrative decontrol plan was not accepted by the House, the chance of acceptance is slim and would require even further compromise.

- Under the administrative option, only a yes or no vote could be cast. This plan could and would be greatly modified on the floor.

Recommendation: Suboption C - integrate selected petroleum authorities with standby authorities needed to deal with the natural gas shortage. Do not resubmit the 39-month decontrol plan.

Presidential Decision:

Agree _____

Disagree _____

In the event your veto is overridden, there are several administrative options to choose from to continue moving toward decontrol without submitting another plan to Congress. These specific options are being developed now and will be submitted to you later this month.

TIMING AND FOCUS OF PRESIDENTIAL STATEMENT

S.1849 will not reach your desk until late in August. There are several possibilities for a public statement prior to the reconvening of the Congress on September 3 which are outlined below.

Option 1. Public statement just covering the decontrol issue and the rescinding of the import fees on crude and products this week.

PROS: - The timing for this message is very good as you present your case to the people and the press early in August.

- It allows you to speak forcefully on the issue during your public engagements throughout the rest of August.

- An early address and specific removal of fees will allow Administration spokesmen the time during August to present your case on the positive energy effects and minimal economic impacts to the Nation.

CONS: - Will lose the opportunity to compromise on the $2 import fee just before Congress reconvenes which may lose impact on Congress to sustain the veto.

- There is not adequate staff time to adequately brief all interest groups or prepare specific options for your decision on windfall profit taxes, rebates, or the form of your legislative proposals.

- By giving up the fees now, you will lose your opportunity to give them up later when OPEC raises world prices.

Option 2. Presidential message to be given during your vacation either at Vail or at one of your public speaking engagements during mid-August.

PROS: - Gives you and Administration officials more time to prepare for a speech.

- Still leaves adequate time for Administration spokesmen to reinforce message during August.

CONS: - Neither Vail nor any one of your other public engagements is the best setting since they involve either your vacation or political fund raising events.

- Delay until mid-August may give the impression of indecision on your part.

Option 3. A broad Presidential message after you return from Vail after August 25 but before September 3 when Congress reconvenes. Such an energy policy speech would include your position on decontrol but could also include the following major policy issues now under review in ERC and scheduled for your decision prior to the end of August.

- The Energy Resources Finance Corporation (ERFCO).
- Implementation of the synthetic fuels goal announced in your State of the Union Message.
- A much expanded voluntary energy conservation effort.
- A comprehensive plan for dealing with the winter natural gas shortage.

Recommendation: A broad Presidential television message after your return from Vail and before the Congress reconvenes on September 3. Have Frank Zarb and Alan Greenspan inform the press of your decision to veto the simple extension and if the veto is sustained to immediately remove the $2 import fees. This will allow Presidential spokesmen and yourself to speak forceably during August while still getting maximum press impact in early September with a major energy policy speech.

Presidential Decision:

Agree _____

Disagree _____

TAB B

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

THRU: Rogers C. B. Morton

FROM: Frank G. Zarb

SUBJECT: Natural Gas Shortages

BACKGROUND

At your direction, the Energy Resources Council formed an interagency task force, directed by the Federal Energy Administration, to assess the magnitude of the upcoming natural gas shortage, its potential and likely economic impacts, and to recommend action to mitigate the problem.

This is a vital issue which affects our entire economy and we will continue to improve our analyses of the shortage and impacts, as well as provide further policy recommendations throughout the summer and fall.

The remainder of this memorandum summarizes our findings and recommendations. The attachment provides more details on the shortage, its economic impact and the policy recommendations.

THE SHORTAGE

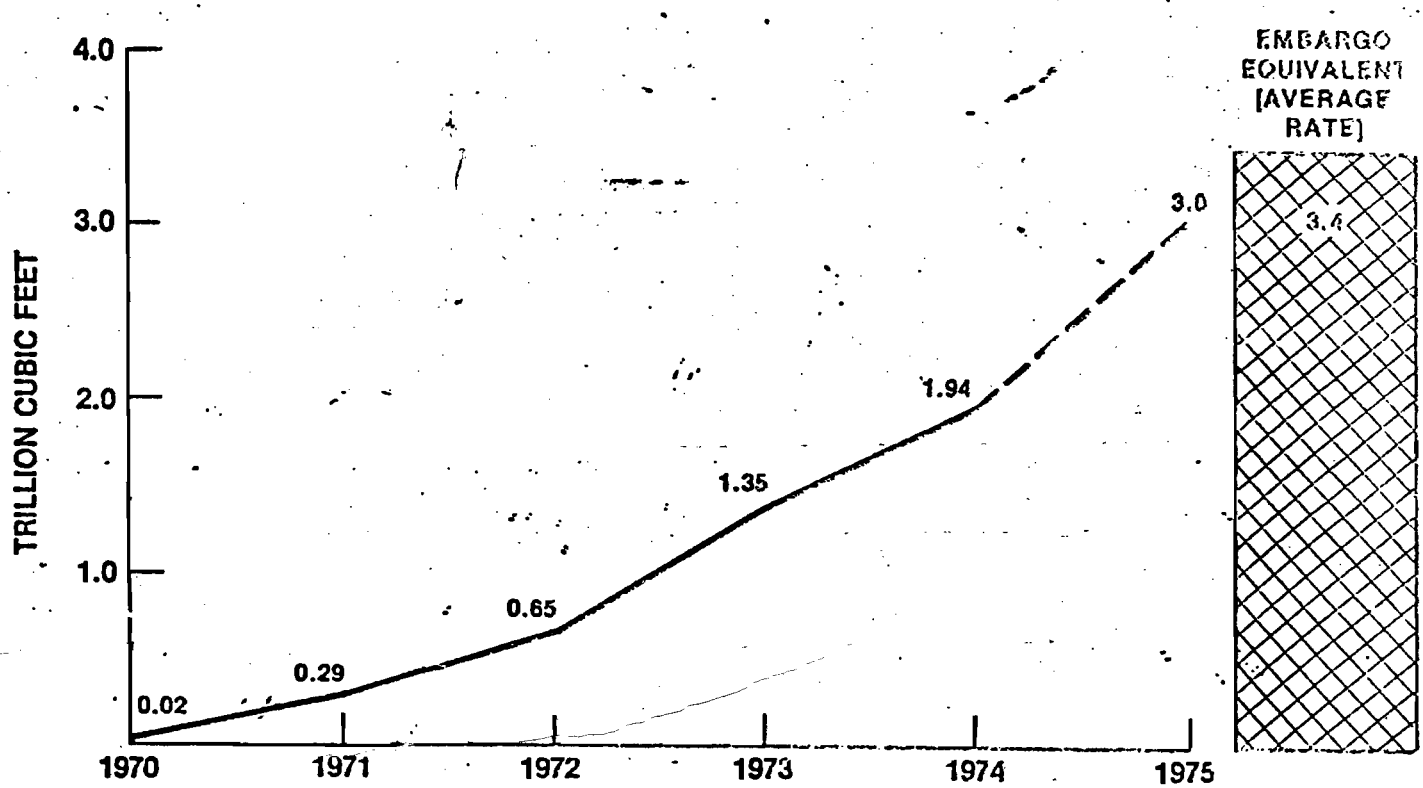
- The natural gas shortage has been growing rapidly.
  - In 1970, curtailments were 0.1 Tcf or less than 1 percent of consumption. Last year curtailments were up to 2.0 Tcf or 10% of total demand (see Figure 1).
  - For 1975 they are forecast to increase by 45% to 2.9 Tcf (about 15 percent of demand).
- The shortage is most severe in the winter.
  - This winter curtailments will be 1.3 Tcf, up from 1.0 Tcf last winter. This lower than expected increase is due to the lag in demand growth as the economy begins its upswing.
  - A very cold winter (once every 10 years) would raise the shortage to about 1.45 Tcf.
- Even with natural gas deregulation, which is our primary long term policy objective, shortages can be expected to grow in each succeeding winter for several years and could approach 1.9 Tcf in the 1976/1977 heating season.

ECONOMIC IMPACT THIS WINTER

- Because of the economic slowdown and much higher prices, no shortage and possibly a surplus exists in the intrastate markets, primarily Louisiana, Texas, and Oklahoma.
- Economic impacts last winter were very scattered and not significant nationwide. This was due to:
  - Alternate fuels were available and many gas consumers switched to propane and oil.
  - The economic slowdown and mild weather reduced demand.
  - Conservation programs were implemented in some local areas.
  - Some emergency natural gas deliveries were allowed under existing FPC authorities.

NATURAL GAS INTERSTATE GAS CURTAILMENTS

FIRM AND INTERRUPTIBLE



PRELIMINARY ESTIMATES FOR WINTER SEASON OF 1975-1976 INDICATE SHORTAGES AT AN ANNUAL RATE OF 15-25% [3.5 TCF]

- To the extent there were economic impacts, they were localized mainly in eastern and midwestern states.

- This coming winter the shortage will increase by about 0.3 Tcf and this is probably the most accurate measure of economic impact.

- This shortage is likely to be focused in about 15 states on the mid-Atlantic coast (from New York to Georgia) and the Midwest (including Ohio, Missouri, Indiana, and the farm belt), along with California.

  - Table 1 shows the potential economic impact in the most affected states. As indicated in this Table, the shortage in these ten states accounts for more than half the national total.

  - Local communities within these states are likely to feel an even greater impact where a factory, which is a major employer, may be forced to shut down or reduce output.

- The economic impact could be magnified many fold by a concurrent Arab embargo, as alternate fuels would be unavailable.

POLICY GUIDELINES

- Policy recommendations should at least cover the incremental shortage. However, because it will be growing in successive years and given the uncertain rate of economic recovery, the weather or Congressional response, actions to deal with the total shortage should be proposed.

- Recommending a comprehensive program will:

  - Put the President in the most desirable public position, even if we can scrape through with less than is requested of the Congress.

  - Take account of long legislative lead times for succeeding winters.

  - Reduce downside problems in the event of a simultaneous embargo.

- Specific policy recommendations should:

  - Reduce demand and increase supply by national actions to alleviate the shortage to the extent practicable.

  - Avoid a nationwide Federal allocation program, except in the event of an oil embargo.

  - Take national action to assure that available supplies can move among customers and from intrastate to interstate markets.

  - Set up effective Federal/State mechanisms to deal with the local problems -- primarily by State and local officials.

POLICY RECOMMENDATIONS

There are no decisions required at this time since your advisers agree on the broad administrative, legislative and tax initiatives we should take. Their impact is summarized in the table below.

Impact of Recommended Program

	Savings Winter 1975/76 (Bcf)
Administrative	210
Legislative	375
Tax	600
Total	1185

- At your direction the executive branch agencies will implement the following administrative actions:

Action	Agency
• Establish an intensive and immediate energy conservation public education program to reduce inefficient uses of natural gas.	FEA

Action	Agency
° Complete hearings and approval process for new pipelines to transport interstate gas.	FPC
° Exhort gas producers to increase production from shut-in wells.	FEA
° Alter practices and priorities of natural gas use in utilities.	FPC; FEA
° Increased emergency use of stored gas as a result of FPC hearing conclusions.	FPC

- We are now drafting a Natural Gas Emergency Standby Act of 1975 to be submitted to the Congress upon its return containing the following provisions:

Titles	Agency
° Permit interstate pipelines to purchase gas from the intrastate market on an emergency 180 day basis at current market prices.	FPC
° Allow end-user purchases of uncommitted gas from the intrastate market at current market prices.	FPC
° Provide temporary standby authority to allocate natural gas between interstate pipelines as well as intrastate pipelines in the event of an embargo or similar emergency.	FEA; FPC
° Provide temporary authority to place a Federal moratorium, if needed, on all new residential, commercial, and utility connections of natural gas.	FEA; FPC
° Provide temporary authority to mandate electric utility and industrial boiler use conversion from gas to oil or coal.	FEA

TABLE 1
ECONOMIC IMPACT IN MOST AFFECTED STATES

State	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Usir State Industry Employment (In Thousands)
New Jersey	263	32	12%	41%	32%	717
Maryland	171	33	19	60	20	202
Virginia	134	27	20	50	9	116
North Carolina	134	39	29	41	33	552
South Carolina	123	17	14	20	29	227
Pennsylvania	723	60	8	17	23	854
Ohio	1072	98	9	22	29	996
New York	603	(4)	(1)	(3)	21	1249
Missouri	375	37	10	31	18	249
Iowa	169	29	17	22	14	101
Total (10 States)	3767	368				
% of U.S.	33%	54%				

Titles	Agency
° Provide temporary authority to ban use of natural gas for ornamental lighting.	FEA
° Provide authority to permit curtailed gas customers to purchase gas from uncurtailed gas customers at uncontrolled prices.	FPC

- In addition, FEA will continue as the lead agency to deal with natural gas contingency planning and, along with the Federal Power Commission, will convene a meeting with the Governors and key energy advisors in the most affected states in late August. At this meeting with the Governors, the magnitude of the problem, and potential Federal and local actions to mitigate the impacts will be discussed.

- The Administration will continue to press for an excise tax on natural gas use and insulation tax credits that were previously proposed in your State of the Union Message.

NATURAL GAS ASSESSMENT

SHORTAGE

The natural gas shortage has been growing at an alarming rate in recent years. Demand for natural gas has steadily increased because of its clean-burning properties, low-cost, and until recently, accessibility. It is consumed by over 40 million residences, 3.4 million commercial establishments, and over 200,000 industrial users. While demand has increased, proved reserves have declined since 1967 and production peaked in 1973. The decline in production of 1.3 Tcf in 1974 is equivalent to over 230 million barrels of oil. Further, the regulated price in the interstate market (51 cents per thousand cubic feet) has resulted in a growing market share for the intrastate market where prices are unregulated (market share has shifted about 5 percent since 1970).

As demand increased and supply declined, shortages began to develop. In 1970, for the first time, interstate pipelines curtailed some of their customers. Curtailments (generally defined as requirements less deliveries) grew from 0.1 trillion cubic feet (Tcf) in the 1970/71 season (April-March) to 2.0 Tcf in 1974/75, as shown below:

TABLE 1
CURTAILMENT TRENDS

Year (April-March)	Annual Firm 1/ Curtailments (Tcf)	Heating Season (Nov.-Mar.) Curtailments (Tcf)
1970/71	0.1	0.1
1971/72	0.5	0.2
1972/73	1.1	0.5
1973/74	1.6	0.6
1974/75	2.0	1.0
1975/76 (expected)	2.9	1.3
1976/77 (forecast)	about 4.0	about 1.9

Even with natural gas deregulation, shortages are expected to grow in each succeeding winter for the next several years, although at a much slower rate than without deregulation.

The shortage was also felt in the intrastate market and curtailments were experienced in several producing states (e.g., Louisiana). In the last year, however, the increase in intrastate prices, economic slowdown, reduced refinery runs (many refineries use natural gas as fuel) and conservation have relieved the intrastate shortage and resulted in a temporary surplus. The major producing states are Texas, Louisiana, Oklahoma, California, New Mexico, and Kansas.

1/ Pipeline to pipeline curtailments not included in 1974-1976 data.

While curtailments are normally used to measure the shortage, the most appropriate and consistent measure of the problem we face this year is the reduction in deliveries this year over last year, plus any increase in demand. Deliveries are expected to decline this winter by about 350 billion cubic feet (Bcf), but demand is also expected to decline. Even assuming a normal winter the economic recovery will not be rapid enough to increase natural gas demand over last winter. With a normal winter, demand will be about 125 Bcf less than last winter; with a cold winter, it will be about level. Thus, the incremental shortage in this heating season over last year will be almost 250 Bcf.

ECONOMIC IMPACT

Natural gas shortages are distributed unevenly. Within one region or state, some areas may have adequate supplies while other areas are being severely curtailed, because the shortage depends upon a particular pipeline's supply situation. Although the average interstate pipeline reports curtailments of 19 percent of demand, some pipelines will have to curtail almost half their requirements. National macroeconomic estimates of the impacts of the shortage tend to understate its severity. Thus, rather than try to predict impacts on a national level, the task force has concentrated on the local areas most likely to be affected.

Last year, very little unemployment or plant shutdowns occurred as a result of natural gas unavailability. Most plant closings occurred because of the recession and many shutdowns were avoided by availability of alternate fuels (propane, butane, distillate or residual oil), emergency diversion of natural gas, mild weather or conservation. There were scattered examples of plant closings during the heating season in Virginia, North Carolina, New Jersey and other states, but in general, almost everybody was able to squeak through.

As a result of the analysis of last year's impacts, it is apparent that the major policy actions should concentrate on reducing the additional shortage expected in this heating season, maintaining the availability of alternate fuels, and preparing for even greater shortages next year.

The areas likely to experience the greatest economic impact this winter are the mid-Atlantic states stretching from Southern New York to Georgia and several midwestern states, such as Ohio,

West Virginia, Kentucky, Missouri, Illinois, Iowa, and Nebraska. California, which used over 1.5 Tcf last year could also experience substantial impacts.

In North Carolina, which is probably the most severely impacted state and is served primarily by the heavily curtailed Transcontinental Pipeline Co. (Transco), it is estimated that about two-thirds of the industrial customers will be cut off from natural gas. Most of these firms -- primarily textile, chemical, and glass -- do not have alternate fuel capability. In New Jersey, which is also heavily curtailed by Transco, the northern part of the state is relatively free of curtailments, while Southern New Jersey's chemical industries may be affected. Ohio's industrial curtailments could reach 60 percent, but most impacts will be experienced by smaller stone, clay, and glass industries in the central part of the state. Even in states that are not as short of gas, such as Indiana, a utility serving 50 small towns each with only one industry may have to shut down one-third of these plants.

In some communities the impacts could be especially severe. In Danville, Virginia last year, concerted action by local government officials, industry, and residential gas users avoided the shutdown of four major manufacturing plants (Dan River Textiles, Corning Glass Works, Goodyear Tire and Rubber's largest truck and airplane tire facility, and U.S. Gypsum) employing over 10,000 of the area's 50,000 residents. A massive public education media campaign and conversions to alternate fuels by a local hospital saved almost 15 percent of the city's heating requirements in about half the winter.

Since residential and commercial users receive first priority under Federal Power Commission guidelines, natural gas curtailments generally affect industry most. In particular, industries which cannot switch to alternate fuels or are not prepared to switch (such as chemicals, motor vehicle parts, textiles, fertilizer, and glass) may experience considerable impacts. Even when alternate fuels are available, their use will increase costs and will put some companies at a competitive disadvantage with companies in other states that are not experiencing curtailments.

As indicated in Table 2, more than half the reductions in deliveries will occur in ten states. In some of these states, the reduction in deliveries will be more than half the 1973 industrial gas consumption. Also, in some states, about one-third of industrial employment is in industries that use natural gas. Nevertheless, it should be recognized that availability of alternate fuels can substantially reduce the unemployment effects, but the accompanying higher priced fuel may result in economic problems.

TABLE 2

ECONOMIC IMPACT IN MOST AFFECTED STATES

ate	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Using State Industry Employment (In Thousands)
w Jersey	263	32	12%	41%	32%	717
ryland	171	33	19	60	20	202
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ssouri	375	37	10	31	18	249
wa	169	29	17	22	14	101
tal (10 States)	3767	368				
% of U.S.	33%	54%				

POLICY RECOMMENDATIONS

A wide range of potential Federal and local government policy actions has been reviewed. Every conceivable alternative was evaluated for its feasibility, possible energy and economic impact, ease of implementation, legislative requirements, and timing of effects.

The policy options have been evaluated with the following basic guidelines:

- The intrastate market is likely to be saturated and some surplus gas may be available.
- The major problems to be solved now are a national shortage of 250-400 Bcf above last winter and several localized situations.
- Policy recommendations should try to accomplish more than the incremental shortage over last year, since weather could be severe, economic recovery could be more rapid than expected, and implementing these actions may take some time.
- There are a number of actions that must be taken to begin solving next year's growing problem.
- Federal policies should attempt to bring the national shortage to a manageable level, while providing assistance to state and local governments in solving their particular problems.
- We should ask for more than is really needed to manage the problem so that the Executive Branch can be postured as dealing fully with the shortage and to prepare for any unexpected events, such as an oil embargo.
- Recommend all actions that are good public policy even if they have greater impact than required, then proceed to add measures that are needed to deal with local problems.
- Natural gas allocation programs should be avoided except in the event of an oil embargo.

The recommended administrative and legislative policies shown in Table 3 can reduce this year's shortage by about 1.2 Tcf if the 37¢/mcf excise tax were enacted and by about 0.6 Tcf without the excise tax. The administrative actions save slightly less (about 210 Bcf) than the incremental shortage over last winter, but augmented by the legislative actions could relieve almost the entire shortage. These are Federal policy actions which make sense to initiate, can be implemented this year, and can reduce the shortage to a level below that of last year. These measures allow the marketplace to allocate supply to the maximum extent possible and contain few negative features. Consumer groups, however, are likely to claim that purchase of gas in the intrastate market for shipment via interstate pipelines is a backhand way of achieving deregulation of gas prices.

Some of the legislative authorities are needed on a standby basis or to cope with an even larger shortage next year. These actions involve a larger use of regulatory powers to conserve or allocate natural gas supplies. The greatest potential relief of the natural gas problem in the next few years could be achieved through forced conversions of powerplant and industrial boiler use of natural gas. About one-third of gas consumption continues to be used in the generation of steam (about 6 Tcf), mostly in the Southwest. With gas more plentiful in these areas because of higher prices, there have been few curtailments and little incentive to switch to oil or coal. Further, environmental restrictions and the capital cost to convert have deterred such shifts. Although mandatory conversions and moratoriums on new residential or commercial connections may be desirable public policy, it should be recognized that these actions will have considerable cost and would represent Federal intrusion into private decisions at the local level.

The allocation of natural gas has considerable allure on the surface. By allocating about 330 Bcf, the curtailment on almost every pipeline could be reduced to 25 percent. However, allocation presents several problems:

TABLE 3
POLICY RECOMMENDATIONS

ACTION	AGENCY	THIS WINTER'S EXPECTED GAS SAVINGS (Bcf)
ADMINISTRATIVE:		
° Expedite new pipelines	FPC	40
° Intensive public education program to reduce inefficient gas use	FEA	65
° Exhort production from shut-in wells	FEA	5
° Alter utility practices	FPC/FEA	50
° Increased emergency use of stored gas	FPC	50
LEGISLATIVE:		
° Stimulate and allocate propane	FEA	50
° Allow end-user gas purchases	FPC	75
° Allow 180 day emergency pipeline gas	FPC	250
° Standby allocation authorities	FPC	
° Permit swaps among end-users	FPC	
° Mandatory boiler use conversions	FEA	Minimal
° Moratorium on new residential, commercial, and utility gas connections	FPC	Minimal
° Ban on ornamental lighting	FEA	Minimal
PREVIOUSLY RECOMMENDED:		
° Natural gas deregulation	FPC	Minimal
° Insulation tax credits	Treasury	Minimal
° Excise tax on natural gas use	Treasury	600

- It represents a bail-out for poor planning in some areas and involves taking away gas from some pipelines which have previously managed to avoid substantial curtailments

- By removing gas from an area that had not experienced curtailments, economic problems could be created since users who would now be curtailed may not be at all prepared for such shortages and may not be able to secure or use alternate fuels. These problems may be larger than those being solved in the areas receiving allocated gas.

- Once the framework for an allocation system is in place, there is tremendous pressure to utilize it and special interests are built-up.

- The data base needed to allocate effectively is not yet available.

- Pipeline interconnections to support reallocations may not always be readily available.

Despite the cautions about allocation, such authorities may be desirable to deal with local emergencies and may be needed in the event of an oil embargo. If an embargo were to occur, the alternate fuels would be in extremely short supply, and the available gas will need to be allocated.

Some of the actions being proposed for next year could have an impact before the end of this year's heating season. Anything that can stimulate purchase and installation of insulation can reduce heating requirements and make more gas available for essential industrial use. Further, although most supply enhancement activities will take time to implement, some could pay off in 1976-1977.

The uneven distribution of natural gas shortages means that some states or local areas will experience adverse economic impacts while others will have no problem if these Federal actions are implemented. Rather than a Federal regulatory approach to solve these problems, it is suggested that local governments receive Federal guidance, but try to help themselves. It is recommended that the governors of the most severely impacted states and their energy advisers be invited to Washington

to meet with FEA and FPC and be given a thorough briefing of the expected problem and that a discussion of policies be carried out. A number of suggested local actions could be discussed at this meeting, including:

- The Federal government will provide each state with its entire data base concerning expected shortages and their impacts; monitor changes in supply, demand, and alternate fuels; and provide technical assistance to the states to help manage the problem.

- Intensive conservation programs for boiler use of natural gas, residential, and commercial users, including case histories of residential-industry cooperation. Boiler fuel use represents over 1/3 of the natural gas market.

- Use of surcharges for consumption above a certain base level used last year, along with rebates for consumption much less than last year. For example, there could be a 100 percent surcharge for consumption above 90 percent of last year's residential use, with some rebates for consumption below 80 percent of last year.

- Application of a voluntary "buy-back" procedure, in which pipelines buy back gas from users with alternate fuel capability at a price equal to the price of the alternate fuel (over $2.00 per mcf) and then sell the gas at the higher price to users without alternate fuel capability. This could be implemented by a state public utility commission.

- Greater use of peak load pricing to reduce peak consumption of electricity, which is often generated by natural gas.

In considering these recommended policy actions, a number of other alternatives were examined and rejected for a variety of reasons. A list of these options is given in Table 4.

TIMING OF ACTIONS

It is recommended that the following sequence of events take place by the time the Congress returns:

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- Designate FEA as the lead Federal agency to deal with natural gas contingency planning and implementation.

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OPTIONS ELIMINATED FROM CONSIDERATION

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Increase production of the Hugoton gas field through override of Kansas gas production rules	Lead times for new compressors are too long, even if override of Kansas production rules could be obtained
Define and prohibit non-essential uses of natural gas consumed on-site by end-users in the residential and commercial sectors	Safe elimination of pilot lights would require excessive lead times and requires further analysis

- Invite Governors of most impacted states to a White House meeting in early September to discuss expected shortages and possible local measures to reduce its impacts.

- Submit legislative package to the Congress in early September containing immediate, standby, and longer-term measures.

The recommended actions, both immediate and standby could substantially reduce the impact of shortages and would be supplemented by existing emergency relief procedures.

AUG 6 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THROUGH: ROGERS C.B. MORTON

SUBJECT: BRIEFING PAPERS FOR THURSDAY ENERGY REVIEW

Attached for your review is a briefing book on the two energy subjects to be discussed tomorrow.

Tab A: Decontrol options and timing of major events during August.

Tab B: Preliminary policy recommendation for the natural gas shortage this winter.

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Zausner

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

THRU: Rogers C. B. Morton

FROM: Frank G. Zarb

SUBJECT: Natural Gas Shortages

BACKGROUND

At your direction, the Energy Resources Council formed an interagency task force, directed by the Federal Energy Administration, to assess the magnitude of the upcoming natural gas shortage, its potential and likely economic impacts, and to recommend action to mitigate the problem.

This is a vital issue which affects our entire economy and we will continue to improve our analyses of the shortage and impacts, as well as provide further policy recommendations throughout the summer and fall.

The remainder of this memorandum summarizes our findings and recommendations. The attachment provides more details on the shortage, its economic impact and the policy recommendations.

THE SHORTAGE

- The natural gas shortage has been growing rapidly.
  - In 1970, curtailments were 0.1 Tcf or less than 1 percent of consumption. Last year curtailments were up to 2.0 Tcf or 10% of total demand (see Figure 1).
  - For 1975 they are forecast to increase by 45% to 2.9 Tcf (about 15 percent of demand).
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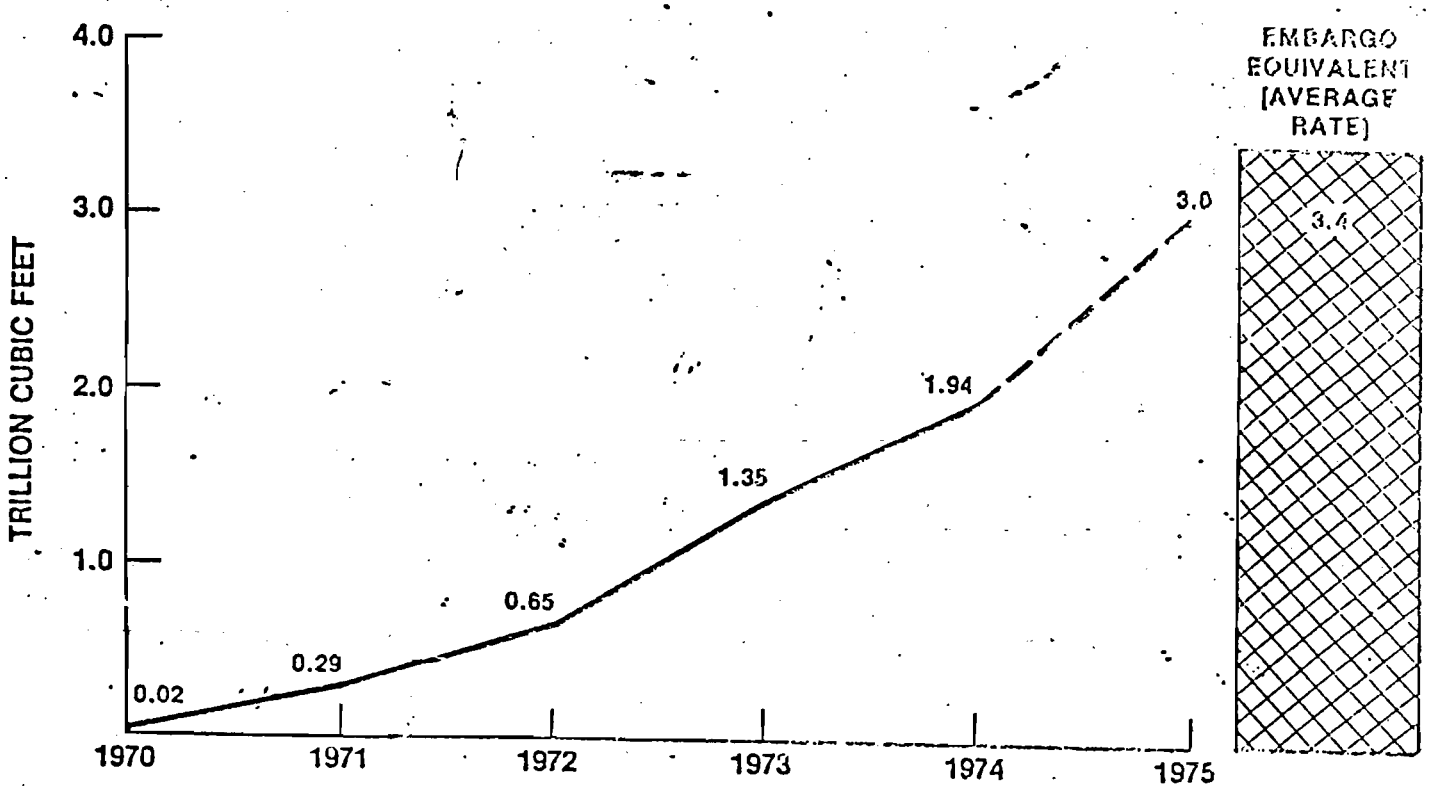
  - This winter curtailments will be 1.3 Tcf, up from 1.0 Tcf last winter. This lower than expected increase is due to the lag in demand growth as the economy begins its upswing.
  - A very cold winter (once every 10 years) would raise the shortage to about 1.45 Tcf.
- Even with natural gas deregulation, which is our primary long term policy objective, shortages can be expected to grow in each succeeding winter for several years and could approach 1.9 Tcf in the 1976/1977 heating season.

ECONOMIC IMPACT THIS WINTER

- Because of the economic slowdown and much higher prices, no shortage and possibly a surplus exists in the intrastate markets, primarily Louisiana, Texas, and Oklahoma.
- Economic impacts last winter were very scattered and not significant nationwide. This was due to:
  - Alternate fuels were available and many gas consumers switched to propane and oil.
  - The economic slowdown and mild weather reduced demand.
  - Conservation programs were implemented in some local areas.
  - Some emergency natural gas deliveries were allowed under existing FPC authorities.

NATURAL GAS INTERSTATE GAS CURTAILMENTS

FIRM AND INTERRUPTIBLE



PRELIMINARY ESTIMATES FOR WINTER SEASON OF 1975-1976 INDICATE SHORTAGES AT AN ANNUAL RATE OF 15-25% [3.5 TCF]

- To the extent there were economic impacts, they were localized mainly in eastern and midwestern states.

- This coming winter the shortage will increase by about 0.3 Tcf and this is probably the most accurate measure of economic impact.

- This shortage is likely to be focused in about 15 states on the mid-Atlantic coast (from New York to Georgia) and the Midwest (including Ohio, Missouri, Indiana, and the farm belt), along with California.

  - Table 1 shows the potential economic impact in the most affected states. As indicated in this Table, the shortage in these ten states accounts for more than half the national total.

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- The economic impact could be magnified many fold by a concurrent Arab embargo, as alternate fuels would be unavailable.

POLICY GUIDELINES

- Policy recommendations should at least cover the incremental shortage. However, because it will be growing in successive years and given the uncertain rate of economic recovery, the weather or Congressional response, actions to deal with the total shortage should be proposed.

- Recommending a comprehensive program will:

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- Specific policy recommendations should:

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  - Take national action to assure that available supplies can move among customers and from intrastate to interstate markets.

  - Set up effective Federal/State mechanisms to deal with the local problems -- primarily by State and local officials.

POLICY RECOMMENDATIONS

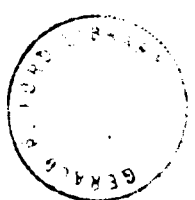
There are no decisions required at this time since your advisers agree on the broad administrative, legislative and tax initiatives we should take. Their impact is summarized in the table below.

Impact of Recommended Program

	Savings Winter 1975/76 (Bcf)
Administrative	210
Legislative	375
Tax	600
Total	1185

- At your direction the executive branch agencies will implement the following administrative actions:

Action	Agency
° Establish an intensive and immediate energy conservation public education program to reduce inefficient uses of natural gas.	FEA



Action	Agency
° Complete hearings and approval process for new pipelines to transport interstate gas.	FPC
° Exhort gas producers to increase production from shut-in wells.	FEA
° Alter practices and priorities of natural gas use in utilities.	FPC; FEA
° Increased emergency use of stored gas as a result of FPC hearing conclusions.	FPC

- We are now drafting a Natural Gas Emergency Standby Act of 1975 to be submitted to the Congress upon its return containing the following provisions:

Titles	Agency
° Permit interstate pipelines to purchase gas from the intrastate market on an emergency 180 day basis at current market prices.	FPC
° Allow end-user purchases of uncommitted gas from the intrastate market at current market prices.	FPC
° Provide temporary standby authority to allocate natural gas between interstate pipelines as well as intrastate pipelines in the event of an embargo or similar emergency.	FEA; FPC
° Provide temporary authority to place a Federal moratorium, if needed, on all new residential, commercial, and utility connections of natural gas.	FEA; FPC
° Provide temporary authority to mandate electric utility and industrial boiler use conversion from gas to oil or coal.	FEA

Titles	Agency
° Provide temporary authority to ban use of natural gas for ornamental lighting.	FEA
° Provide authority to permit curtailed gas customers to purchase gas from uncurtailed gas customers at uncontrolled prices.	FPC

- In addition, FEA will continue as the lead agency to deal with natural gas contingency planning and, along with the Federal Power Commission, will convene a meeting with the Governors and key energy advisors in the most affected states in late August. At this meeting with the Governors, the magnitude of the problem, and potential Federal and local actions to mitigate the impacts will be discussed.

- The Administration will continue to press for an excise tax on natural gas use and insulation tax credits that were previously proposed in your State of the Union Message.

TABLE 1
ECONOMIC IMPACT IN MOST AFFECTED STATES

State	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Us State Industr Employment (In Thousand
New Jersey	263	32	12%	41%	32%	717
Maryland	171	33	19	60	20	202
Virginia	134	27	20	50	9	116
North Carolina	134	39	29	41	33	552
South Carolina	123	17	14	20	29	227
Pennsylvania	723	60	8	17	23	854
Ohio	1072	98	9	22	29	996
New York	603	(4)	(1)	(3)	21	1249
Missouri	375	37	10	31	18	249
Iowa	169	29	17	22	14	101
Total (10 States)	3767	368				
% of U.S.	33%	54%				

NATURAL GAS ASSESSMENT

SHORTAGE

The natural gas shortage has been growing at an alarming rate in recent years. Demand for natural gas has steadily increased because of its clean-burning properties, low-cost, and until recently, accessibility. It is consumed by over 40 million residences, 3.4 million commercial establishments, and over 200,000 industrial users. While demand has increased, proved reserves have declined since 1967 and production peaked in 1973. The decline in production of 1.3 Tcf in 1974 is equivalent to over 230 million barrels of oil. Further, the regulated price in the interstate market (51 cents per thousand cubic feet) has resulted in a growing market share for the intrastate market where prices are unregulated (market share has shifted about 5 percent since 1970).

As demand increased and supply declined, shortages began to develop. In 1970, for the first time, interstate pipelines curtailed some of their customers. Curtailments (generally defined as requirements less deliveries) grew from 0.1 trillion cubic feet (Tcf) in the 1970/71 season (April-March) to 2.0 Tcf in 1974/75, as shown below:

TABLE 1
CURTAILMENT TRENDS

Year (April-March)	Annual Firm 1/ Curtailments (Tcf)	Heating Season (Nov.-Mar.) Curtailments (Tcf)
1970/71	0.1	0.1
1971/72	0.5	0.2
1972/73	1.1	0.5
1973/74	1.6	0.6
1974/75	2.0	1.0
1975/76 (expected)	2.9	1.3
1976/77 (forecast)	about 4.0	about 1.9

Even with natural gas deregulation, shortages are expected to grow in each succeeding winter for the next several years, although at a much slower rate than without deregulation.

The shortage was also felt in the intrastate market and curtailments were experienced in several producing states (e.g., Louisiana). In the last year, however, the increase in intrastate prices, economic slowdown, reduced refinery runs (many refineries use natural gas as fuel) and conservation have relieved the intrastate shortage and resulted in a temporary surplus. The major producing states are Texas, Louisiana, Oklahoma, California, New Mexico, and Kansas.

1/ Pipeline to pipeline curtailments not included in 1974-1976 data.

While curtailments are normally used to measure the shortage, the most appropriate and consistent measure of the problem we face this year is the reduction in deliveries this year over last year, plus any increase in demand. Deliveries are expected to decline this winter by about 350 billion cubic feet (Bcf), but demand is also expected to decline. Even assuming a normal winter the economic recovery will not be rapid enough to increase natural gas demand over last winter. With a normal winter, demand will be about 125 Bcf less than last winter; with a cold winter, it will be about level. Thus, the incremental shortage in this heating season over last year will be almost 250 Bcf.

ECONOMIC IMPACT

Natural gas shortages are distributed unevenly. Within one region or state, some areas may have adequate supplies while other areas are being severely curtailed, because the shortage depends upon a particular pipeline's supply situation. Although the average interstate pipeline reports curtailments of 19 percent of demand, some pipelines will have to curtail almost half their requirements. National macroeconomic estimates of the impacts of the shortage tend to understate its severity. Thus, rather than try to predict impacts on a national level, the task force has concentrated on the local areas most likely to be affected.

Last year, very little unemployment or plant shutdowns occurred as a result of natural gas unavailability. Most plant closings occurred because of the recession and many shutdowns were avoided by availability of alternate fuels (propane, butane, distillate or residual oil), emergency diversion of natural gas, mild weather or conservation. There were scattered examples of plant closings during the heating season in Virginia, North Carolina, New Jersey and other states, but in general, almost everybody was able to squeak through.

As a result of the analysis of last year's impacts, it is apparent that the major policy actions should concentrate on reducing the additional shortage expected in this heating season, maintaining the availability of alternate fuels, and preparing for even greater shortages next year.

The areas likely to experience the greatest economic impact this winter are the mid-Atlantic states stretching from Southern New York to Georgia and several midwestern states, such as Ohio,

West Virginia, Kentucky, Missouri, Illinois, Iowa, and Nebraska. California, which used over 1.5 Tcf last year could also experience substantial impacts.

In North Carolina, which is probably the most severely impacted state and is served primarily by the heavily curtailed Transcontinental Pipeline Co. (Transco), it is estimated that about two-thirds of the industrial customers will be cut off from natural gas. Most of these firms -- primarily textile, chemical, and glass -- do not have alternate fuel capability. In New Jersey, which is also heavily curtailed by Transco, the northern part of the state is relatively free of curtailments, while Southern New Jersey's chemical industries may be affected. Ohio's industrial curtailments could reach 60 percent, but most impacts will be experienced by smaller stone, clay, and glass industries in the central part of the state. Even in states that are not as short of gas, such as Indiana, a utility serving 50 small towns each with only one industry may have to shut down one-third of these plants.

In some communities the impacts could be especially severe. In Danville, Virginia last year, concerted action by local government officials, industry, and residential gas users avoided the shutdown of four major manufacturing plants (Dan River Textiles, Corning Glass Works, Goodyear Tire and Rubber's largest truck and airplane tire facility, and U.S. Gypsum) employing over 10,000 of the area's 50,000 residents. A massive public education media campaign and conversions to alternate fuels by a local hospital saved almost 15 percent of the city's heating requirements in about half the winter.

Since residential and commercial users receive first priority under Federal Power Commission guidelines, natural gas curtailments generally affect industry most. In particular, industries which cannot switch to alternate fuels or are not prepared to switch (such as chemicals, motor vehicle parts, textiles, fertilizer, and glass) may experience considerable impacts. Even when alternate fuels are available, their use will increase costs and will put some companies at a competitive disadvantage with companies in other states that are not experiencing curtailments.

As indicated in Table 2, more than half the reductions in deliveries will occur in ten states. In some of these states, the reduction in deliveries will be more than half the 1973 industrial gas consumption. Also, in some states, about one-third of industrial employment is in industries that use natural gas. Nevertheless, it should be recognized that availability of alternate fuels can substantially reduce the unemployment effects, but the accompanying higher priced fuel may result in economic problems.

TABLE 2

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POLICY RECOMMENDATIONS

A wide range of potential Federal and local government policy actions has been reviewed. Every conceivable alternative was evaluated for its feasibility, possible energy and economic impact, ease of implementation, legislative requirements, and timing of effects.

The policy options have been evaluated with the following basic guidelines:

- The intrastate market is likely to be saturated and some surplus gas may be available.
- The major problems to be solved now are a national shortage of 250-400 Bcf above last winter and several localized situations.
- Policy recommendations should try to accomplish more than the incremental shortage over last year, since weather could be severe, economic recovery could be more rapid than expected, and implementing these actions may take some time.
- There are a number of actions that must be taken to begin solving next year's growing problem.
- Federal policies should attempt to bring the national shortage to a manageable level, while providing assistance to state and local governments in solving their particular problems.
- We should ask for more than is really needed to manage the problem so that the Executive Branch can be postured as dealing fully with the shortage and to prepare for any unexpected events, such as an oil embargo.
- Recommend all actions that are good public policy even if they have greater impact than required, then proceed to add measures that are needed to deal with local problems.
- Natural gas allocation programs should be avoided except in the event of an oil embargo.

The recommended administrative and legislative policies shown in Table 3 can reduce this year's shortage by about 1.2 Tcf if the 37¢/mcf excise tax were enacted and by about 0.6 Tcf without the excise tax. The administrative actions save slightly less (about 210 Bcf) than the incremental shortage over last winter, but augmented by the legislative actions could relieve almost the entire shortage. These are Federal policy actions which make sense to initiate, can be implemented this year, and can reduce the shortage to a level below that of last year. These measures allow the marketplace to allocate supply to the maximum extent possible and contain few negative features. Consumer groups, however, are likely to claim that purchase of gas in the intrastate market for shipment via interstate pipelines is a backhand way of achieving deregulation of gas prices.

Some of the legislative authorities are needed on a standby basis or to cope with an even larger shortage next year. These actions involve a larger use of regulatory powers to conserve or allocate natural gas supplies. The greatest potential relief of the natural gas problem in the next few years could be achieved through forced conversions of power-plant and industrial boiler use of natural gas. About one-third of gas consumption continues to be used in the generation of steam (about 6 Tcf), mostly in the Southwest. With gas more plentiful in these areas because of higher prices, there have been few curtailments and little incentive to switch to oil or coal. Further, environmental restrictions and the capital cost to convert have deterred such shifts. Although mandatory conversions and moratoriums on new residential or commercial connections may be desirable public policy, it should be recognized that these actions will have considerable cost and would represent Federal intrusion into private decisions at the local level.

The allocation of natural gas has considerable allure on the surface. By allocating about 330 Bcf, the curtailment on almost every pipeline could be reduced to 25 percent. However, allocation presents several problems:

TABLE 3
POLICY RECOMMENDATIONS

ACTION	AGENCY	THIS WINTER'S EXPECTED GAS SAVINGS (Bcf)
ADMINISTRATIVE:		
° Expedite new pipelines	FPC	40
° Intensive public education program to reduce inefficient gas use	FEA	65
° Exhort production from shut-in wells	FEA	5
° Alter utility practices	FPC/FEA	50
° Increased emergency use of stored gas	FPC	50
LEGISLATIVE:		
° Stimulate and allocate propane	FEA	50
° Allow end-user gas purchases	FPC	75
° Allow 180 day emergency pipeline gas	FPC	250
° Standby allocation authorities	FPC	
° Permit swaps among end-users	FPC	
° Mandatory boiler use conversions	FEA	Minimal
° Moratorium on new residential, commercial, and utility gas connections	FPC	Minimal
° Ban on ornamental lighting	FEA	Minimal
PREVIOUSLY RECOMMENDED:		
° Natural gas deregulation	FPC	Minimal
° Insulation tax credits	Treasury	Minimal
° Excise tax on natural gas use	Treasury	600

- It represents a bail-out for poor planning in some areas and involves taking away gas from some pipelines which have previously managed to avoid substantial curtailments

- By removing gas from an area that had not experienced curtailments, economic problems could be created since users who would now be curtailed may not be at all prepared for such shortages and may not be able to secure or use alternate fuels. These problems may be larger than those being solved in the areas receiving allocated gas.

- Once the framework for an allocation system is in place, there is tremendous pressure to utilize it and special interests are built-up.

- The data base needed to allocate effectively is not yet available.

- Pipeline interconnections to support reallocations may not always be readily available.

Despite the cautions about allocation, such authorities may be desirable to deal with local emergencies and may be needed in the event of an oil embargo. If an embargo were to occur, the alternate fuels would be in extremely short supply, and the available gas will need to be allocated.

Some of the actions being proposed for next year could have an impact before the end of this year's heating season. Anything that can stimulate purchase and installation of insulation can reduce heating requirements and make more gas available for essential industrial use. Further, although most supply enhancement activities will take time to implement, some could pay off in 1976-1977.

The uneven distribution of natural gas shortages means that some states or local areas will experience adverse economic impacts while others will have no problem if these Federal actions are implemented. Rather than a Federal regulatory approach to solve these problems, it is suggested that local governments receive Federal guidance, but try to help themselves. It is recommended that the governors of the most severely impacted states and their energy advisers be invited to Washington

to meet with FEA and FPC and be given a thorough briefing of the expected problem and that a discussion of policies be carried out. A number of suggested local actions could be discussed at this meeting, including:

- The Federal government will provide each state with its entire data base concerning expected shortages and their impacts; monitor changes in supply, demand, and alternate fuels; and provide technical assistance to the states to help manage the problem.

- Intensive conservation programs for boiler use of natural gas, residential, and commercial users, including case histories of residential-industry cooperation. Boiler fuel use represents over 1/3 of the natural gas market.

- Use of surcharges for consumption above a certain base level used last year, along with rebates for consumption much less than last year. For example, there could be a 100 percent surcharge for consumption above 90 percent of last year's residential use, with some rebates for consumption below 80 percent of last year.

- Application of a voluntary "buy-back" procedure, in which pipelines buy back gas from users with alternate fuel capability at a price equal to the price of the alternate fuel (over $2.00 per mcf) and then sell the gas at the higher price to users without alternate fuel capability. This could be implemented by a state public utility commission.

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WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

THRU: Rogers C. B. Morton

FROM: Frank G. Zarb

SUBJECT: Natural Gas Shortages

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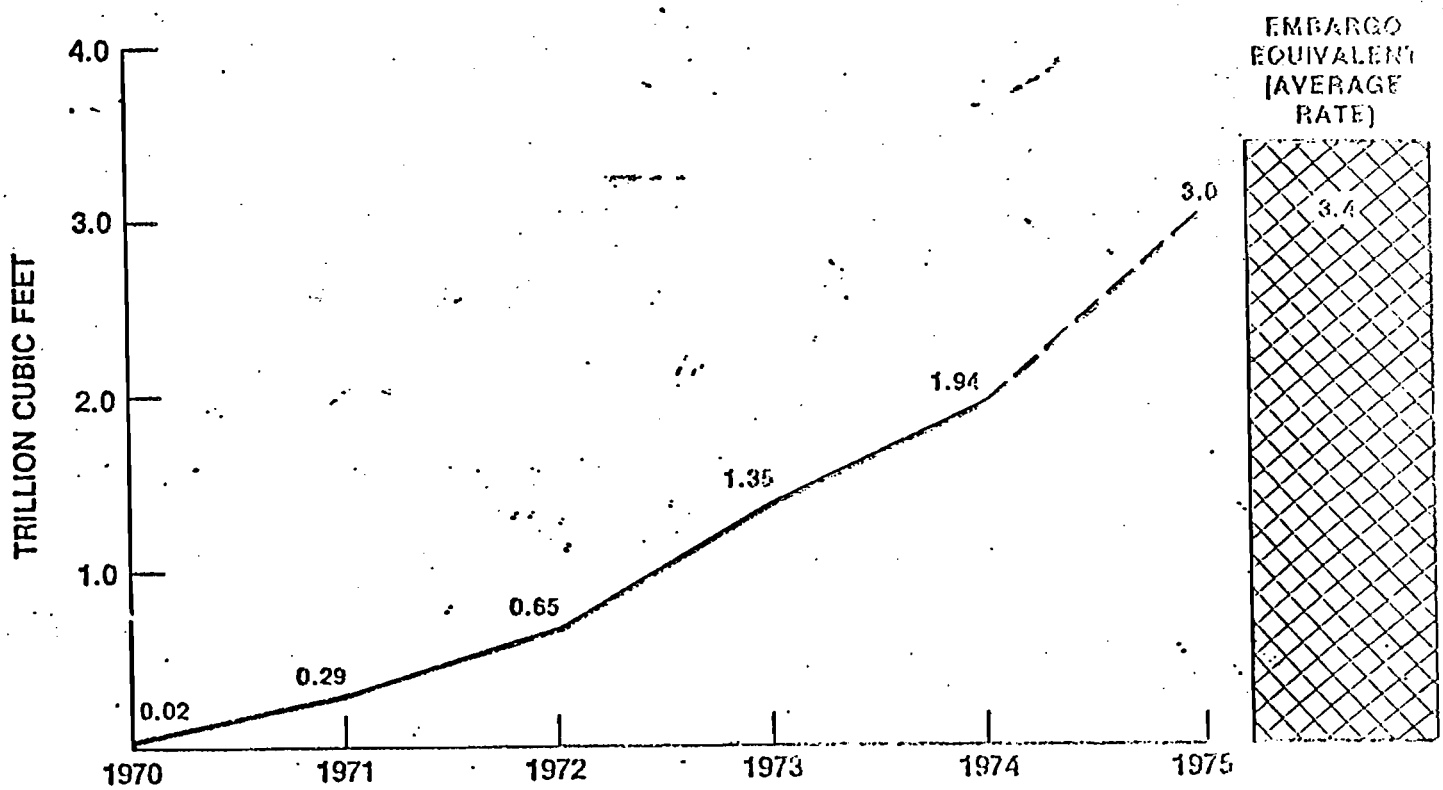

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Legislative	375
Tax	600
Total	1185

- At your direction the executive branch agencies will implement the following administrative actions:

Action	Agency
• Establish an intensive and immediate energy conservation public education program to reduce inefficient uses of natural gas.	FEA

Action	Agency
° Complete hearings and approval process for new pipelines to transport interstate gas.	FPC
° Exhort gas producers to increase production from shut-in wells.	FEA
° Alter practices and priorities of natural gas use in utilities.	FPC; FEA
° Increased emergency use of stored gas as a result of FPC hearing conclusions.	FPC

- We are now drafting a Natural Gas Emergency Standby Act of 1975 to be submitted to the Congress upon its return containing the following provisions:

Titles	Agency
° Permit interstate pipelines to purchase gas from the intrastate market on an emergency 180 day basis at current market prices.	FPC
° Allow end-user purchases of uncommitted gas from the intrastate market at current market prices.	FPC
° Provide temporary standby authority to allocate natural gas between interstate pipelines as well as intrastate pipelines in the event of an embargo or similar emergency.	FEA; FPC
° Provide temporary authority to place a Federal moratorium, if needed, on all new residential, commercial, and utility connections of natural gas.	FEA; FPC
° Provide temporary authority to mandate electric utility and industrial boiler use conversion from gas to oil or coal.	FEA

Titles	Agency
° Provide temporary authority to ban use of natural gas for ornamental lighting.	FEA
° Provide authority to permit curtailed gas customers to purchase gas from uncurtailed gas customers at uncontrolled prices.	FPC

- In addition, FEA will continue as the lead agency to deal with natural gas contingency planning and, along with the Federal Power Commission, will convene a meeting with the Governors and key energy advisors in the most affected states in late August. At this meeting with the Governors, the magnitude of the problem, and potential Federal and local actions to mitigate the impacts will be discussed.

- The Administration will continue to press for an excise tax on natural gas use and insulation tax credits that were previously proposed in your State of the Union Message.

TABLE 1
ECONOMIC IMPACT IN MOST AFFECTED STATES

State	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Using State Industry Employment (In Thousands)
New Jersey	263	32	12%	41%	32%	717
Maryland	171	33	19	60	20	202
Virginia	134	27	20	50	9	116
North Carolina	134	39	29	41	33	552
South Carolina	123	17	14	20	29	227
Pennsylvania	723	60	8	17	23	854
Ohio	1072	98	9	22	29	996
New York	603	(4)	(1)	(3)	21	1249
Missouri	375	37	10	31	18	249
Iowa	169	29	17	22	14	101
Total (10 States)	3767	368				
% of U.S.	33%	54%				

NATURAL GAS ASSESSMENT

SHORTAGE

The natural gas shortage has been growing at an alarming rate in recent years. Demand for natural gas has steadily increased because of its clean-burning properties, low-cost, and until recently, accessibility. It is consumed by over 40 million residences, 3.4 million commercial establishments, and over 200,000 industrial users. While demand has increased, proved reserves have declined since 1967 and production peaked in 1973. The decline in production of 1.3 Tcf in 1974 is equivalent to over 230 million barrels of oil. Further, the regulated price in the interstate market (51 cents per thousand cubic feet) has resulted in a growing market share for the intrastate market where prices are unregulated (market share has shifted about 5 percent since 1970).

As demand increased and supply declined, shortages began to develop. In 1970, for the first time, interstate pipelines curtailed some of their customers. Curtailments (generally defined as requirements less deliveries) grew from 0.1 trillion cubic feet (Tcf) in the 1970/71 season (April-March) to 2.0 Tcf in 1974/75, as shown below:

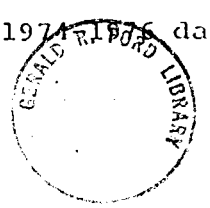
TABLE 1
CURTAILMENT TRENDS

Year (April-March)	Annual Firm 1/ Curtailments (Tcf)	Heating Season (Nov.-Mar.) Curtailments (Tcf)
1970/71	0.1	0.1
1971/72	0.5	0.2
1972/73	1.1	0.5
1973/74	1.6	0.6
1974/75	2.0	1.0
1975/76 (expected)	2.9	1.3
1976/77 (forecast)	about 4.0	about 1.9

Even with natural gas deregulation, shortages are expected to grow in each succeeding winter for the next several years, although at a much slower rate than without deregulation.

The shortage was also felt in the intrastate market and curtailments were experienced in several producing states (e.g., Louisiana). In the last year, however, the increase in intrastate prices, economic slowdown, reduced refinery runs (many refineries use natural gas as fuel) and conservation have relieved the intrastate shortage and resulted in a temporary surplus. The major producing states are Texas, Louisiana, Oklahoma, California, New Mexico, and Kansas.

1/ Pipeline to pipeline curtailments not included in 1974-1976 data.



While curtailments are normally used to measure the shortage, the most appropriate and consistent measure of the problem we face this year is the reduction in deliveries this year over last year, plus any increase in demand. Deliveries are expected to decline this winter by about 350 billion cubic feet (Bcf), but demand is also expected to decline. Even assuming a normal winter the economic recovery will not be rapid enough to increase natural gas demand over last winter. With a normal winter, demand will be about 175 Bcf less than last winter; with a cold winter, it will be about level. Thus, the incremental shortage in this heating season over last year will be almost 250 Bcf.

ECONOMIC IMPACT

Natural gas shortages are distributed unevenly. Within one region or state, some areas may have adequate supplies while other areas are being severely curtailed, because the shortage depends upon a particular pipeline's supply situation. Although the average interstate pipeline reports curtailments of 19 percent of demand, some pipelines will have to curtail almost half their requirements. National macroeconomic estimates of the impacts of the shortage tend to understate its severity. Thus, rather than try to predict impacts on a national level, the task force has concentrated on the local areas most likely to be affected.

Last year, very little unemployment or plant shutdowns occurred as a result of natural gas unavailability. Most plant closings occurred because of the recession and many shutdowns were avoided by availability of alternate fuels (propane, butane, distillate or residual oil), emergency diversion of natural gas, mild weather or conservation. There were scattered examples of plant closings during the heating season in Virginia, North Carolina, New Jersey and other states, but in general, almost everybody was able to squeak through.

As a result of the analysis of last year's impacts, it is apparent that the major policy actions should concentrate on reducing the additional shortage expected in this heating season, maintaining the availability of alternate fuels, and preparing for even greater shortages next year.

The areas likely to experience the greatest economic impact this winter are the mid-Atlantic states stretching from Southern New York to Georgia and several midwestern states, such as Ohio,

West Virginia, Kentucky, Missouri, Illinois, Iowa, and Nebraska. California, which used over 1.5 Tcf last year could also experience substantial impacts.

In North Carolina, which is probably the most severely impacted state and is served primarily by the heavily curtailed Transcontinental Pipeline Co. (Transco), it is estimated that about two-thirds of the industrial customers will be cut off from natural gas. Most of these firms -- primarily textile, chemical, and glass -- do not have alternate fuel capability. In New Jersey, which is also heavily curtailed by Transco, the northern part of the state is relatively free of curtailments, while Southern New Jersey's chemical industries may be affected. Ohio's industrial curtailments could reach 60 percent, but most impacts will be experienced by smaller stone, clay, and glass industries in the central part of the state. Even in states that are not as short of gas, such as Indiana, a utility serving 50 small towns each with only one industry may have to shut down one-third of these plants.

In some communities the impacts could be especially severe. In Danville, Virginia last year, concerted action by local government officials, industry, and residential gas users avoided the shutdown of four major manufacturing plants (Dan River Textiles, Corning Glass Works, Goodyear Tire and Rubber's largest truck and airplane tire facility, and U.S. Gypsum) employing over 10,000 of the area's 50,000 residents. A massive public education media campaign and conversions to alternate fuels by a local hospital saved almost 15 percent of the city's heating requirements in about half the winter.

Since residential and commercial users receive first priority under Federal Power Commission guidelines, natural gas curtailments generally affect industry most. In particular, industries which cannot switch to alternate fuels or are not prepared to switch (such as chemicals, motor vehicle parts, textiles, fertilizer, and glass) may experience considerable impacts. Even when alternate fuels are available, their use will increase costs and will put some companies at a competitive disadvantage with companies in other states that are not experiencing curtailments.

As indicated in Table 2, more than half the reductions in deliveries will occur in ten states. In some of these states, the reduction in deliveries will be more than half the 1973 industrial gas consumption. Also, in some states, about one-third of industrial employment is in industries that use natural gas. Nevertheless, it should be recognized that availability of alternate fuels can substantially reduce the unemployment effects, but the accompanying higher priced fuel may result in economic problems.

TABLE 2

ECONOMIC IMPACT IN MOST AFFECTED STATES

State	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Using State Industry Employment (In Thousands)
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Total (10 States)	3767	368				
% of U.S.	33%	54%				

POLICY RECOMMENDATIONS

A wide range of potential Federal and local government policy actions has been reviewed. Every conceivable alternative was evaluated for its feasibility, possible energy and economic impact, ease of implementation, legislative requirements, and timing of effects.

The policy options have been evaluated with the following basic guidelines:

- The intrastate market is likely to be saturated and some surplus gas may be available.
- The major problems to be solved now are a national shortage of 250-400 Bcf above last winter and several localized situations.
- Policy recommendations should try to accomplish more than the incremental shortage over last year, since weather could be severe, economic recovery could be more rapid than expected, and implementing these actions may take some time.
- There are a number of actions that must be taken to begin solving next year's growing problem.
- Federal policies should attempt to bring the national shortage to a manageable level, while providing assistance to state and local governments in solving their particular problems.
- We should ask for more than is really needed to manage the problem so that the Executive Branch can be postured as dealing fully with the shortage and to prepare for any unexpected events, such as an oil embargo.
- Recommend all actions that are good public policy even if they have greater impact than required, then proceed to add measures that are needed to deal with local problems.
- Natural gas allocation programs should be avoided except in the event of an oil embargo.

The recommended administrative and legislative policies shown in Table 3 can reduce this year's shortage by about 1.2 Tcf if the 37¢/mcf excise tax were enacted and by about 0.6 Tcf without the excise tax. The administrative actions save slightly less (about 210 Bcf) than the incremental shortage over last winter, but augmented by the legislative actions could relieve almost the entire shortage. These are Federal policy actions which make sense to initiate, can be implemented this year, and can reduce the shortage to a level below that of last year. These measures allow the marketplace to allocate supply to the maximum extent possible and contain few negative features. Consumer groups, however, are likely to claim that purchase of gas in the intrastate market for shipment via interstate pipelines is a backhand way of achieving deregulation of gas prices.

Some of the legislative authorities are needed on a standby basis or to cope with an even larger shortage next year. These actions involve a larger use of regulatory powers to conserve or allocate natural gas supplies. The greatest potential relief of the natural gas problem in the next few years could be achieved through forced conversions of power-plant and industrial boiler use of natural gas. About one-third of gas consumption continues to be used in the generation of steam (about 6 Tcf), mostly in the Southwest. With gas more plentiful in these areas because of higher prices, there have been few curtailments and little incentive to switch to oil or coal. Further, environmental restrictions and the capital cost to convert have deterred such shifts. Although mandatory conversions and moratoriums on new residential or commercial connections may be desirable public policy, it should be recognized that these actions will have considerable cost and would represent Federal intrusion into private decisions at the local level.

The allocation of natural gas has considerable allure on the surface. By allocating about 330 Bcf, the curtailment on almost every pipeline could be reduced to 25 percent. However, allocation presents several problems:

TABLE 3
POLICY RECOMMENDATIONS

ACTION	AGENCY	THIS WINTER'S EXPECTED GAS SAVINGS (Bcf)
ADMINISTRATIVE:		
° Expedite new pipelines	FPC	40
° Intensive public education program to reduce inefficient gas use	FEA	65
° Exhort production from shut-in wells	FEA	5
° Alter utility practices	FPC/FEA	50
° Increased emergency use of stored gas	FPC	50
LEGISLATIVE:		
° Stimulate and allocate propane	FEA	50
° Allow end-user gas purchases	FPC	75
° Allow 180 day emergency pipeline gas	FPC	250
° Standby allocation authorities	FPC	
° Permit swaps among end-users	FPC	
° Mandatory boiler use conversions	FEA	Minimal
° Moratorium on new residential, commercial, and utility gas connections	FPC	Minimal
° Ban on ornamental lighting	FEA	Minimal
PREVIOUSLY RECOMMENDED:		
° Natural gas deregulation	FPC	Minimal
° Insulation tax credits	Treasury	Minimal
° Excise tax on natural gas use	Treasury	600

- It represents a bail-out for poor planning in some areas and involves taking away gas from some pipelines which have previously managed to avoid substantial curtailments

- By removing gas from an area that had not experienced curtailments, economic problems could be created since users who would now be curtailed may not be at all prepared for such shortages and may not be able to secure or use alternate fuels. These problems may be larger than those being solved in the areas receiving allocated gas.

- Once the framework for an allocation system is in place, there is tremendous pressure to utilize it and special interests are built-up.

- The data base needed to allocate effectively is not yet available.

- Pipeline interconnections to support reallocations may not always be readily available.

Despite the cautions about allocation, such authorities may be desirable to deal with local emergencies and may be needed in the event of an oil embargo. If an embargo were to occur, the alternate fuels would be in extremely short supply, and the available gas will need to be allocated.

Some of the actions being proposed for next year could have an impact before the end of this year's heating season. Anything that can stimulate purchase and installation of insulation can reduce heating requirements and make more gas available for essential industrial use. Further, although most supply enhancement activities will take time to implement, some could pay off in 1976-1977.

The uneven distribution of natural gas shortages means that some states or local areas will experience adverse economic impacts while others will have no problem if these Federal actions are implemented. Rather than a Federal regulatory approach to solve these problems, it is suggested that local governments receive Federal guidance, but try to help themselves. It is recommended that the governors of the most severely impacted states and their energy advisers be invited to Washington

to meet with FEA and FPC and be given a thorough briefing of the expected problem and that a discussion of policies be carried out. A number of suggested local actions could be discussed at this meeting, including:

- The Federal government will provide each state with its entire data base concerning expected shortages and their impacts; monitor changes in supply, demand, and alternate fuels; and provide technical assistance to the states to help manage the problem.

- Intensive conservation programs for boiler use of natural gas, residential, and commercial users, including case histories of residential-industry cooperation. Boiler fuel use represents over 1/3 of the natural gas market.

- Use of surcharges for consumption above a certain base level used last year, along with rebates for consumption much less than last year. For example, there could be a 100 percent surcharge for consumption above 90 percent of last year's residential use, with some rebates for consumption below 80 percent of last year.

- Application of a voluntary "buy-back" procedure, in which pipelines buy back gas from users with alternate fuel capability at a price equal to the price of the alternate fuel (over $2.00 per mcf) and then sell the gas at the higher price to users without alternate fuel capability. This could be implemented by a state public utility commission.

- Greater use of peak load pricing to reduce peak consumption of electricity, which is often generated by natural gas.

In considering these recommended policy actions, a number of other alternatives were examined and rejected for a variety of reasons. A list of these options is given in Table 4.

TIMING OF ACTIONS

It is recommended that the following sequence of events take place by the time the Congress returns:

- Announce immediate implementation of administrative actions.

- Designate FEA as the lead Federal agency to deal with natural gas contingency planning and implementation.

TABLE 4

OPTIONS ELIMINATED FROM CONSIDERATION

Options	Reason for Elimination
Increase LNG imports from Algeria	There are no actions which can be taken by the government to increase LNG imports for the 75-76 winter heating season.
Negotiate increased imports from Mexico and Canada	There is little potential for increased imports from these countries.
Accept payment in-kind for production from federal lands and allocate to interstate pipelines most in need	Most royalty gas is presently sold to pipelines experiencing curtailments
Increase production from offshore shut-in wells	There is no way to significantly increase production from shut-in wells for the 75-76 winter through a regulatory approach.
Increase LNG imports from Alaska	Potential is too small (3-6 Bcf in comparison to the expected opposition of the required legislation
Increase domestic production through in-field drilling in the Blanco-Mesaverde gas fields	Small potential per added drilling rig, and extreme difficulties in obtaining required drilling rigs
Increase production of the Hugoton gas field through override of Kansas gas production rules	Lead times for new compressors are too long, even if override of Kansas production rules could be obtained
Define and prohibit non-essential uses of natural gas consumed on-site by end-users in the residential and commercial sectors	Safe elimination of pilot lights would require excessive lead times and requires further analysis

- Invite Governors of most impacted states to a White House meeting in early September to discuss expected shortages and possible local measures to reduce its impacts.

- Submit legislative package to the Congress in early September containing immediate, standby, and longer-term measures.

The recommended actions, both immediate and standby could substantially reduce the impact of shortages and would be supplemented by existing emergency relief procedures.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THROUGH: ROGERS C.B. MORTON

SUBJECT: STRATEGY ON DECONTROL

BACKGROUND

Before the recess, the House passed the Staggers pricing amendment to H.R. 7014. This provision rolls back the price of new and released oil to $7.50 per barrel, but provides that "high cost" oil can sell for as much as $10.00 per barrel. Old oil prices will remain at $5.25 per barrel for ten years or more.

The House then defeated your 39-month decontrol compromise program and passed S.1849, a simple 6-month extension of the price control provisions. Senator Mansfield has indicated that this legislation will not be delivered until the end of August so Congress can act quickly on the veto override. If you choose not to sign the extension, the EPAA will expire on Sunday, August 31, 1975. Congress will not be able to act on the veto until it returns at noon, Wednesday, September 3.

In addition to these events, OPEC meetings on pricing policies are scheduled for September 4 and 24, and in all likelihood will result in an announced price increase of $1.00 to $2.00 per barrel by October 1.

The vote on overriding the veto will be very close and is hard to predict. There are several actions which you can take to improve the chances of sustaining the veto. This memorandum requests several key decisions on these actions and the thrust and timing of public announcements on the subject.

DECONTROL ALTERNATIVES

This section presents your alternatives on decontrol, both on the veto and actions to mitigate its effects.

Option 1. Veto simple 6-month extension.

PROS: - Will be major action to stimulate supply and cut energy demand.

- Will remove a complex and counterproductive regulatory system.

CONS: - Will result in difficult political problems with respect to price increases and with special interest groups such as airlines, farmers, etc.

- Will leave us temporarily without minimally needed authorities to deal with the natural gas shortages or special petroleum problems such as propane.

Recommendation: Veto the 6-month extension.

Presidential Decision:

Agree _____

Disagree _____

Option 2: Remove the $2.00 and $.60 per barrel import fees on crude and products respectively effective if the veto is sustained.

Removal of the import fees coupled with immediate decontrol and the other supply and demand actions of your original program will reduce imports by approximately 1.4 million barrels per day in 1977. This compares with 1.2 million barrels per day if your 39-month decontrol compromise was accepted. These import savings remain below the 2 million barrels per day of your original program announced in January.

PROS: - Will substantially cushion if not eliminate the economic impact of sudden decontrol.

- Will increase Congressional support for sustaining your veto of the simple extension of the EPAA.

CONS: - Will lower the conservation savings.

- Will reduce Federal revenues, but also decreases windfalls to petroleum industry.

- Comes at an inopportune time vis-a-vis OPEC price increases.

Recommendation: Remove both the crude and product import fees effective when the veto is sustained.

Presidential Decision:

Agree _____

Disagree _____

Option 3. Support rapid enactment of a windfall profits tax and energy tax rebates to consumers.

The Senate Finance Committee has already voted out a windfall profits tax effective with immediate decontrol which is similar to the Administration's proposal and which allows for consumer rebates.

PROS: - Tax will remove windfalls and help cushion economy from effects of decontrol.

- Support will help sustain the veto.

- Administration support of this bill will help Chairman Long and will increase the likelihood of rapid enactment.

CONS: - The tax is probably somewhat more harsh than the Administration would propose.

Recommendation: Support the Finance Committee legislation in concept and basic provisions and indicate that rebates should not exceed revenues generated from the tax.

Presidential Decision:

Agree _____

Disagree _____

Option 4. Jawbone industry to ease transition during the few months following immediate decontrol.

PROS: - Such action would make the transition to full decontrol easier in terms of supplier-purchaser relationships, regional problems, etc.

- Would reduce adverse political backlash if the veto is sustained.

- Could be viewed publicly as the President taking action to assure oil companies act responsibly.

CONS: - Could prove to be ineffective if industry doesn't respond accordingly.

- Could be interpreted as major Administration concern on the problems with immediate decontrol.

- Might appear as industry/Administration collusion.

Recommendation: Begin early but quiet jawboning for voluntary cooperation.

Presidential Decision:

Agree _____

Disagree _____

Option 5. New Legislative Initiatives

There are four basic legislative suboptions which could be proposed either before or after the veto vote to provide needed authorities and allay fears about the impact of decontrol.

Suboption A. Propose legislation which would merely convert the EPAA from a mandatory to a standby basis.

PROS: - A relatively simple proposal which would diffuse any fight over the specifics of allocation authorities.

- Would help to convince interest groups with identified problems that FEA still has authority to allocate if necessary.

CONS: - Would hurt chances of sustaining the veto since such a proposal is so similar to a simple extension of the EPAA.

Suboption B. Request limited new authorities to deal only with identified problems such as propane or independent marketers.

PROS: - Deals specifically with problem areas caused by immediate decontrol and would thus help to sustain your veto.

- It is significantly different from a simple continuation of the EPAA in either a mandatory or standby form.

CONS: - It could be easily "Christmas treed" by special interest groups.

- May only serve to heighten concerns about letting controls lapse.

- Special interest groups which are not included will fight for veto override.

Suboption C. Integrate selected petroleum authorities with the Natural Gas Emergency Standby Act of 1975, which we are proposing to deal with the natural gas shortage.

PROS: - Such a proposal is significantly different from a simple extension of the EPAA and should not hurt sustaining the veto.

- Standby emergency authorities are needed in any event to deal with the projected natural gas shortage this winter and this would be an effective mechanism in which to get selected petroleum authorities.

CONS: - It will not be possible to cast all needed petroleum authorities as natural gas related.

Suboption D. Propose legislation to implement the 39-month decontrol plan in addition to one of the above options.

PROS: - Places the blame back on Congress for allowing immediate petroleum price increases.

- It is a gradual decontrol program, with slight economic impacts.

CONS: - Will lead to some confusion as to the Administration's true position because you are now supporting immediate decontrol.

- Since the 39-month administrative decontrol plan was not accepted by the House, the chance of acceptance is slim and would require even further compromise.

- Under the administrative option, only a yes or no vote could be cast. This plan could and would be greatly modified on the floor.

Recommendation: Suboption C - integrate selected petroleum authorities with standby authorities needed to deal with the natural gas shortage. Do not resubmit the 39-month decontrol plan.

Presidential Decision:

Agree _____

Disagree _____

In the event your veto is overridden, there are several administrative options to choose from to continue moving toward decontrol without submitting another plan to Congress. These specific options are being developed now and will be submitted to you later this month.

TIMING AND FOCUS OF PRESIDENTIAL STATEMENT

S.1849 will not reach your desk until late in August. There are several possibilities for a public statement prior to the reconvening of the Congress on September 3 which are outlined below.

Option 1. Public statement just covering the decontrol issue and the rescinding of the import fees on crude and products this week.

PROS: - The timing for this message is very good as you present your case to the people and the press early in August.

- It allows you to speak forcefully on the issue during your public engagements throughout the rest of August.

- An early address and specific removal of fees will allow Administration spokesmen the time during August to present your case on the positive energy effects and minimal economic impacts to the Nation.

CONS: - Will lose the opportunity to compromise on the $2 import fee just before Congress reconvenes which may lose impact on Congress to sustain the veto.

- There is not adequate staff time to adequately brief all interest groups or prepare specific options for your decision on windfall profit taxes, rebates, or the form of your legislative proposals.

- By giving up the fees now, you will lose your opportunity to give them up later when OPEC raises world prices.

Option 2. Presidential message to be given during your vacation either at Vail or at one of your public speaking engagements during mid-August.

PROS: - Gives you and Administration officials more time to prepare for a speech.

- Still leaves adequate time for Administration spokesmen to reinforce message during August.

CONS: - Neither Vail nor any one of your other public engagements is the best setting since they involve either your vacation or political fund raising events.

- Delay until mid-August may give the impression of indecision on your part.

Option 3. A broad Presidential message after you return from Vail after August 25 but before September 3 when Congress reconvenes. Such an energy policy speech would include your position on decontrol but could also include the following major policy issues now under review in ERC and scheduled for your decision prior to the end of August.

- The Energy Resources Finance Corporation (ERFCO).
- Implementation of the synthetic fuels goal announced in your State of the Union Message.
- A much expanded voluntary energy conservation effort.
- A comprehensive plan for dealing with the winter natural gas shortage.

Recommendation: A broad Presidential television message after your return from Vail and before the Congress reconvenes on September 3. Have Frank Zarb and Alan Greenspan inform the press of your decision to veto the simple extension and if the veto is sustained to immediatcly remove the $2 import fees. This will allow Presidential spokesmen and yourself to speak forceably during August while still getting maximum press impact in early September with a major energy policy speech.

Presidential Decision:

Agree _____

Disagree _____

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In addition to these events, OPEC meetings on pricing policies are scheduled for September 4 and 24, and in all likelihood will result in an announced price increase of $1.00 to $2.00 per barrel by October 1.

The vote on overriding the veto will be very close and is hard to predict. There are several actions which you can take to improve the chances of sustaining the veto. This memorandum requests several key decisions on these actions and the thrust and timing of public announcements on the subject.

PROS: - A relatively simple proposal which would diffuse any fight over the specifics of allocation authorities.

- Would help to convince interest groups with identified problems that FEA still has authority to allocate if necessary.

CONS: - Would hurt chances of sustaining the veto since such a proposal is so similar to a simple extension of the EPAA.

Suboption B. Request limited new authorities to deal only with identified problems such as propane or independent marketers.

PROS: - Deals specifically with problem areas caused by immediate decontrol and would thus help to sustain your veto.

- It is significantly different from a simple continuation of the EPAA in either a mandatory or standby form.

CONS: - It could be easily "Christmas treed" by special interest groups.

- May only serve to heighten concerns about letting controls lapse.

- Special interest groups which are not included will fight for veto override.

Suboption C. Integrate selected petroleum authorities with the Natural Gas Emergency Standby Act of 1975, which we are proposing to deal with the natural gas shortage.

PROS: - Such a proposal is significantly different from a simple extension of the EPAA and should not hurt sustaining the veto.

- Standby emergency authorities are needed in any event to deal with the projected natural gas shortage this winter and this would be an effective mechanism in which to get selected petroleum authorities.

CONS: - It will not be possible to cast all needed petroleum authorities as natural gas related.

Suboption D. Propose legislation to implement the 39-month decontrol plan in addition to one of the above options.

PROS: - Places the blame back on Congress for allowing immediate petroleum price increases.

- It is a gradual decontrol program, with slight economic impacts.

CONS: - Will lead to some confusion as to the Administration's true position because you are now supporting immediate decontrol.

- Since the 39-month administrative decontrol plan was not accepted by the House, the chance of acceptance is slim and would require even further compromise.

- Under the administrative option, only a yes or no vote could be cast. This plan could and would be greatly modified on the floor.

Recommendation: Suboption C - integrate selected petroleum authorities with standby authorities needed to deal with the natural gas shortage. Do not resubmit the 39-month decontrol plan.

Presidential Decision:

Agree _____

Disagree _____

In the event your veto is overridden, there are several administrative options to choose from to continue moving toward decontrol without submitting another plan to Congress. These specific options are being developed now and will be submitted to you later this month.

TIMING AND FOCUS OF PRESIDENTIAL STATEMENT

S.1849 will not reach your desk until late in August. There are several possibilities for a public statement prior to the reconvening of the Congress on September 3 which are outlined below.