The original documents are located in Box 1, folder: “Memoranda to the President, September 1-15, 1975” of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

9/3 - to GE

SEP 4 1975

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb Frank G. Zarb

THROUGH: Rogers C.B. Morton

SUBJECT: Biweekly Status Report

Apparent demand for petroleum for the 4 weeks ending August 15, at just under 16 million barrels per day, was nearly 900,000 barrels per day below 1974 and nearly a million below 1973. However, this was 270,000 barrels per day above the forecast without your program.

Imports during this period were 6.11 million barrels per day, which is 670,000 barrels per day above the forecast. The figure for the 4 weeks ending August 22 (not charted) was 6.41 million barrels per day, more than 900,000 barrels per day above the forecast.

Motor gasoline demand continued to decline from the peak of 7.20 million barrels per day reached in the 4 weeks ending July 25, The latest level was 7.04 million barrels per day, exactly on the forecast, only 80,000 barrels above 1974 and 40,000 below 1973.

Demand for residual fuel oil has been substantially above the forecast since June. For the 4 weeks ending August 15, it was 2.31 million barrels per day -- 400,000 barrels per day above the forecast. This undoubtedly reflected increases in the level of industrial production which rose by 0.5 percent in both June and July, according to the Federal Reserve Board index. July demand was 12.0 percent below July 1974; the index of industrial production for the month of July was 11.7 percent below last year.

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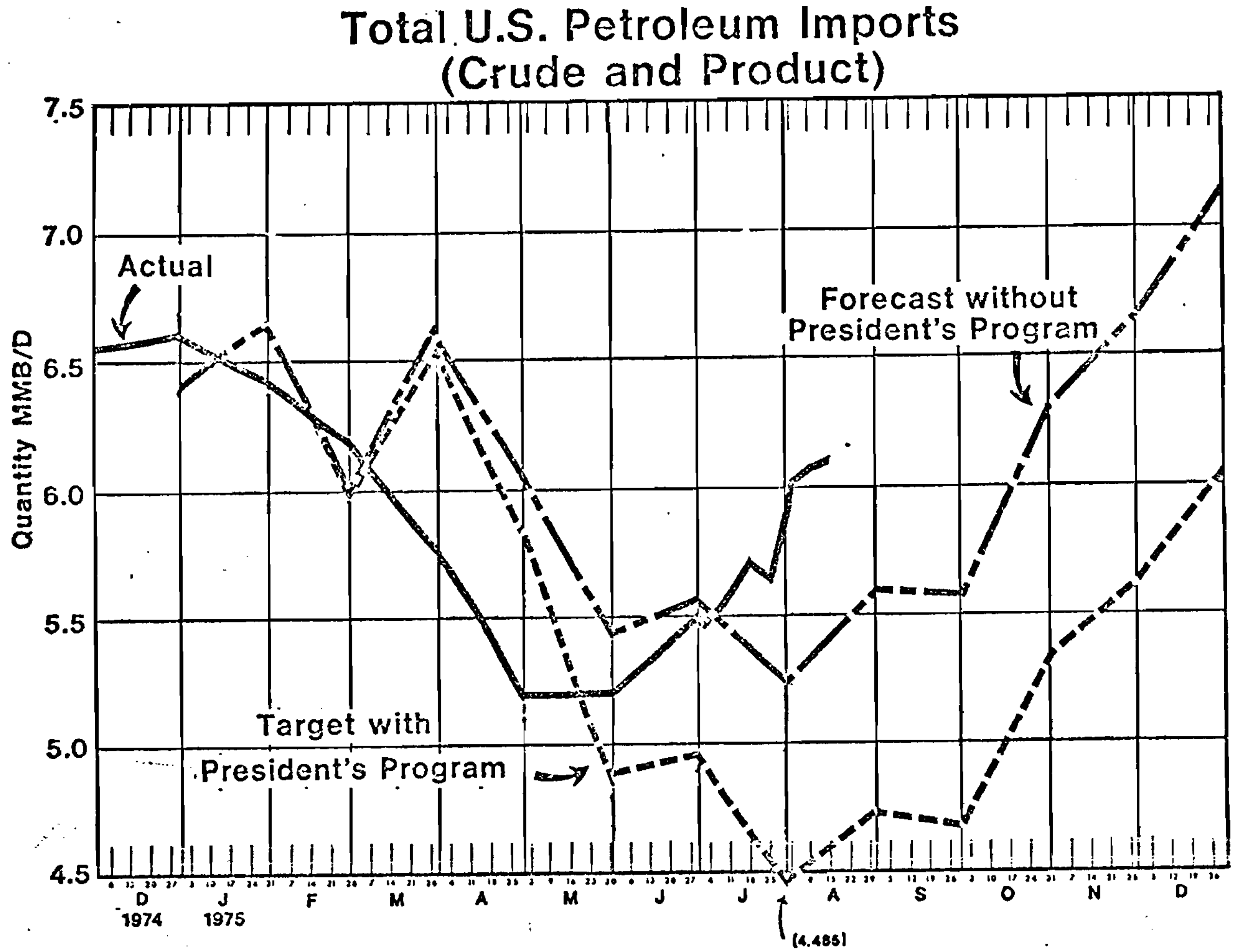
Quarterly Report on Mid-Term Goals

The second quarterly report on progress toward your Mid-Term goals is included with this report.

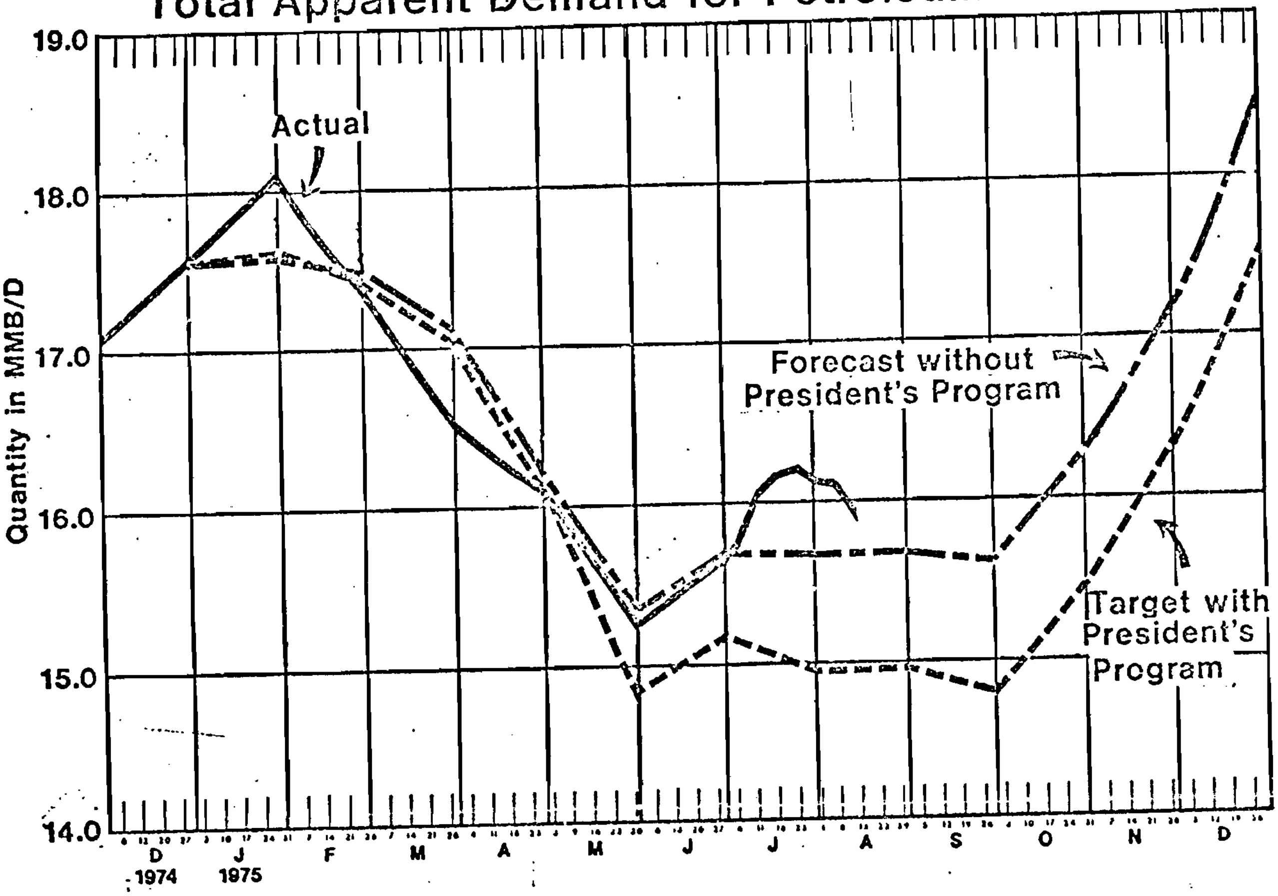
Figure 1



o For the 4 weeks ending August 15, total imports averaged 6.11 million barrels per day. This was 670,000 barrels per day above the forecast, although 720,000 below the same period last year. Imports for the 4 weeks ending August 22 (not shown on the chart) averaged 6.41 million barrels per day, 900,000 above the forecast.

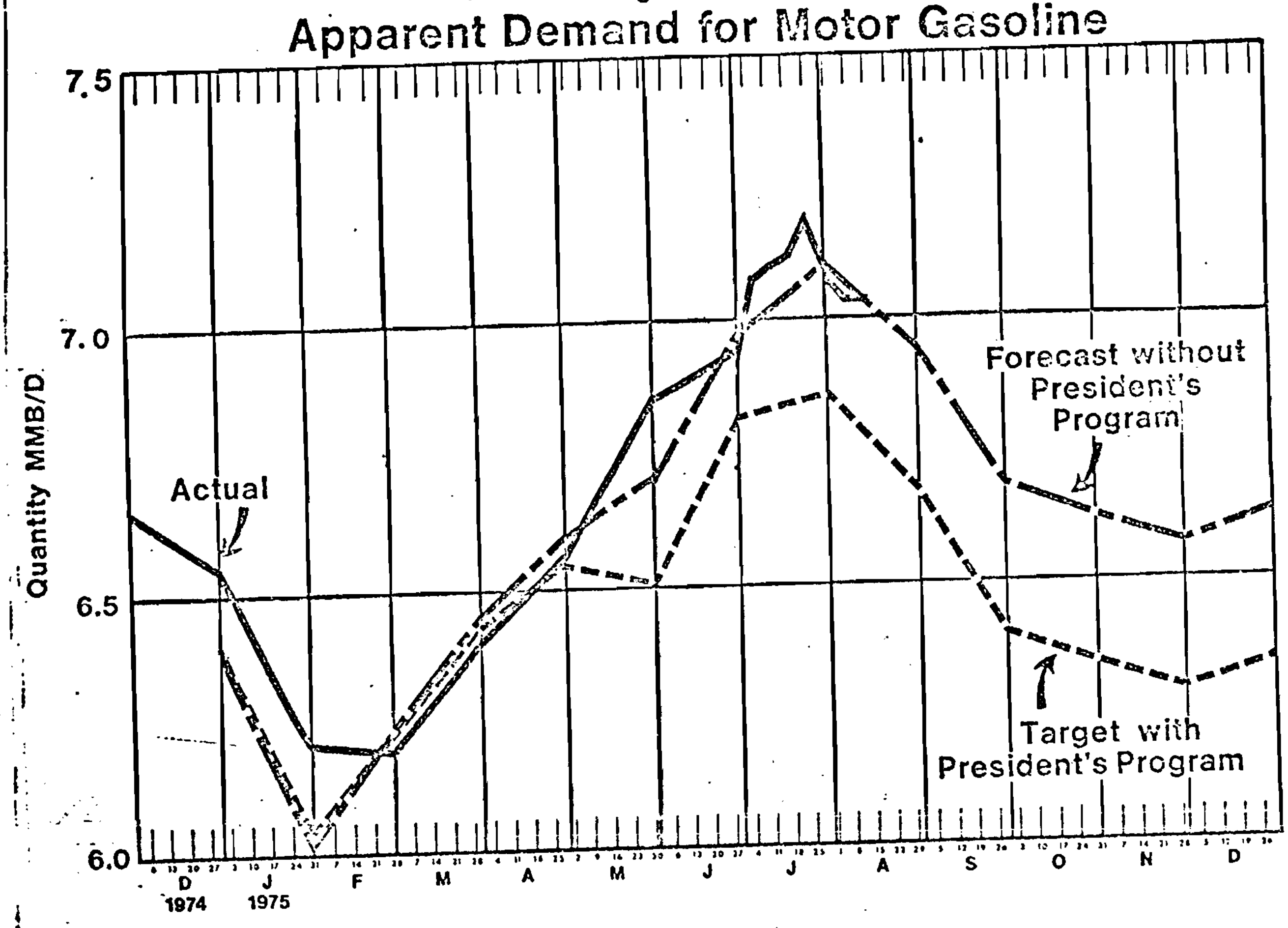
Figure 2

Total Apparent Demand for Petroleum Products



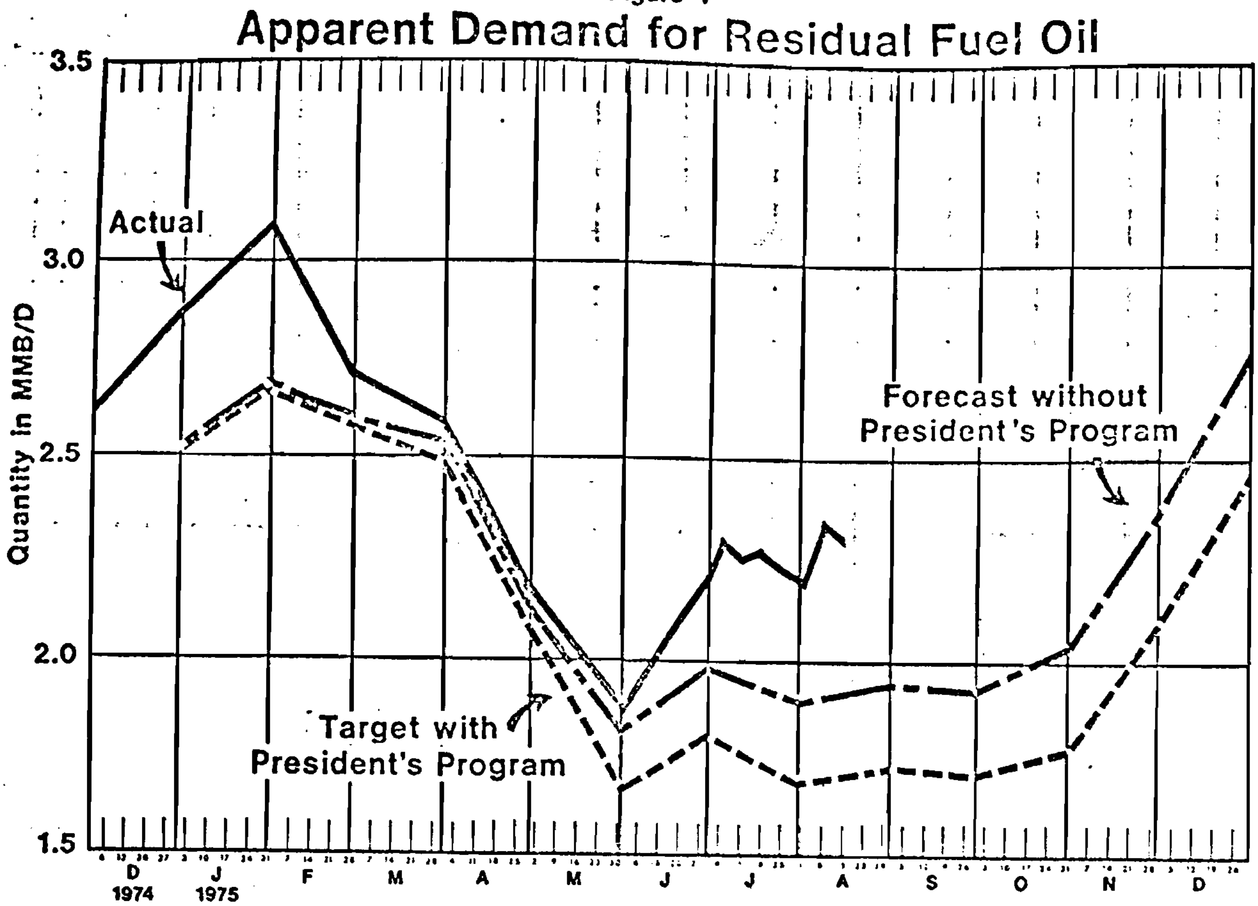
o Total apparent demand during the 4 weeks ending August 15 was 15.97 million barrels per day, 270,000 barrels per day above the forecast but 880,000 barrels per day below last year and 960,000 below 1973.

Figure 3



- o Apparent demand for motor gasoline in the 4 weeks ending August 15 averaged 7.04 million barrels per day, exactly equal to the forecast, 80,000 above last year, and 40,000 below 1973.

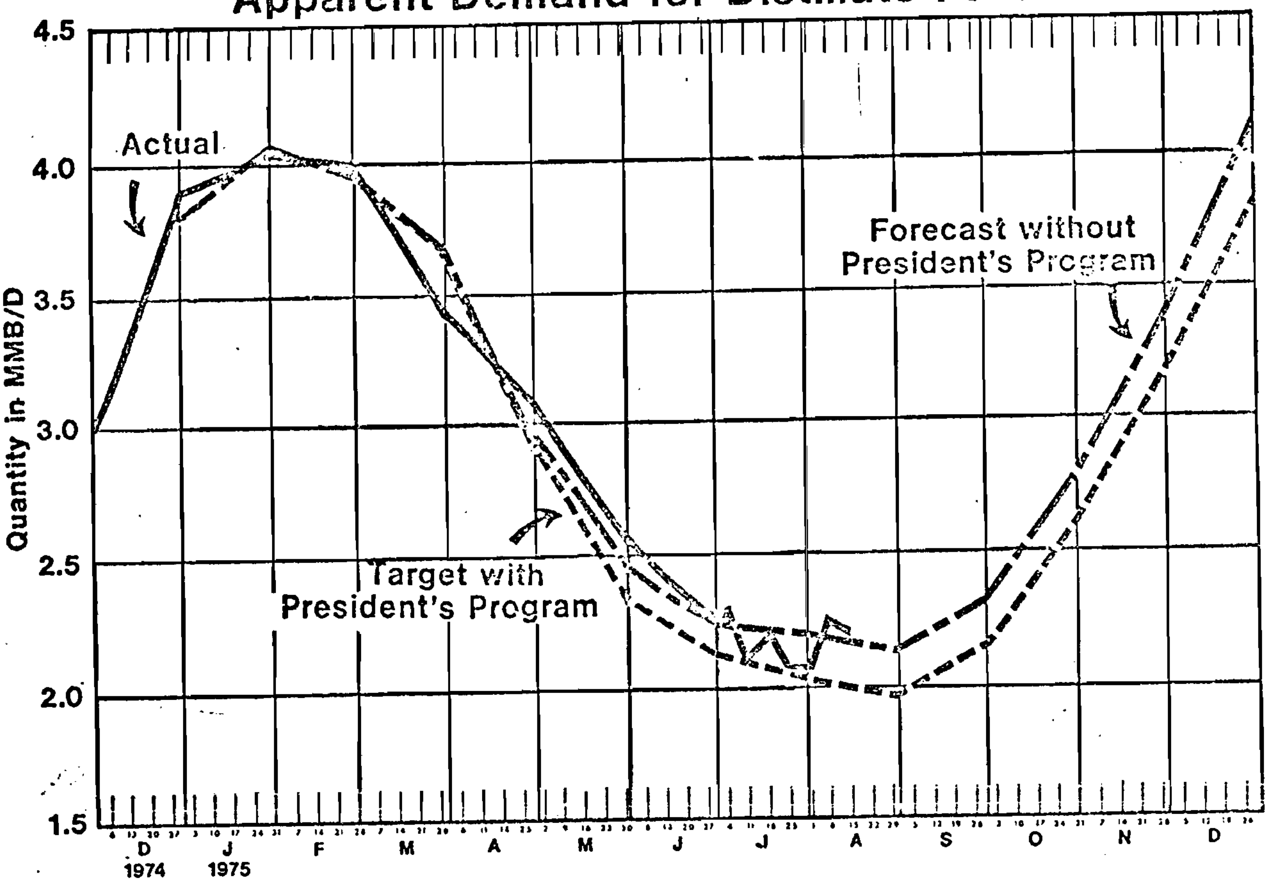
Figure 4



- For the 4 weeks ending August 15, apparent demand for residual fuel oil was 2.31 million barrels per day, which was 400,000 above the forecast and undoubtedly reflected increases in the level of industrial production which, according to the Federal Reserve Board's index increased by 0.5 percent in both June and July. July demand was 12.0 percent below July 1974; the index of industrial production for the month of July was 11.7 percent below last year.

Figure 5

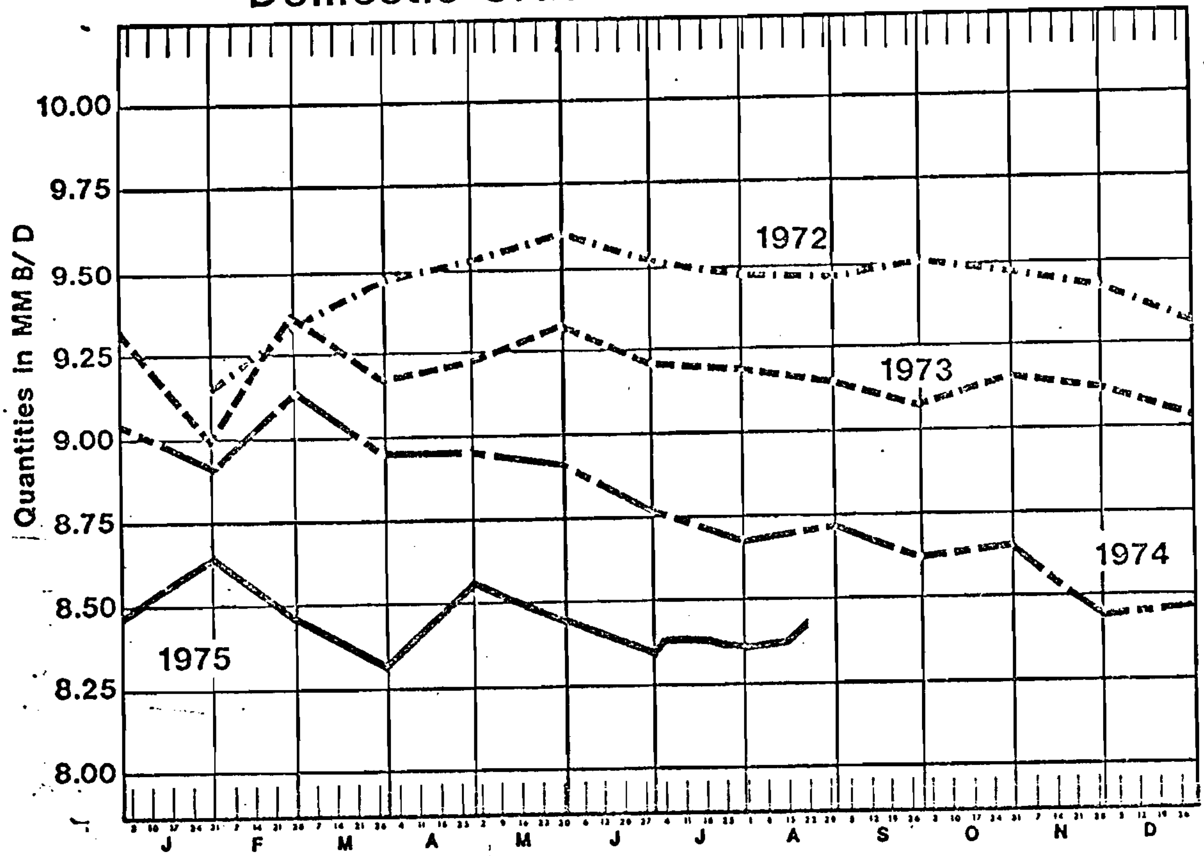
Apparent Demand for Distillate Fuel Oil



o Apparent demand for distillate fuel oil for the 4-week period ending August 15 was 2.21 million barrels per day, 30,000 barrels per day above the forecast and 120,000 barrels per day below last year.

Figure 6

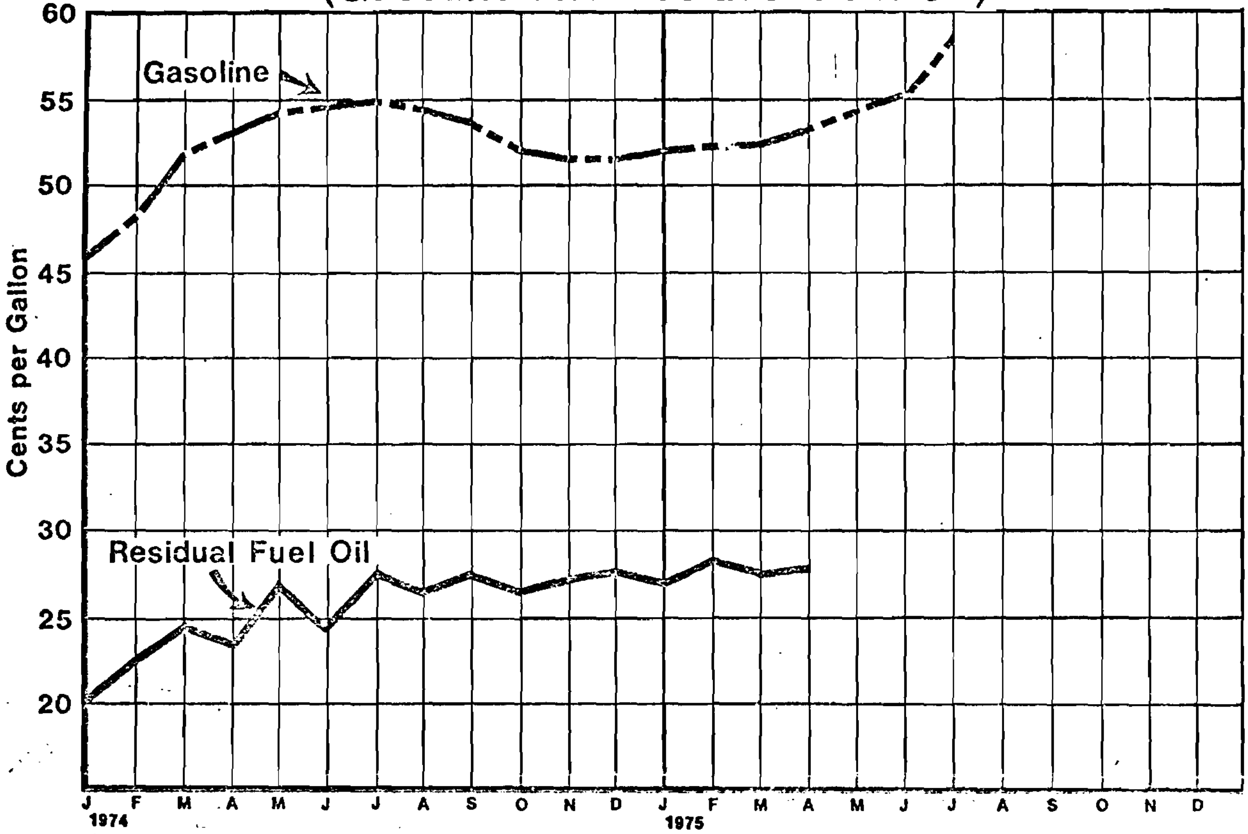
Domestic Crude Oil Production



- Production of crude oil for the 4 weeks ending August 15 was 8.37 million barrels per day, 3.9 percent below August 15, 1974 and 9.0 percent below August 15, 1973.

Figure 7

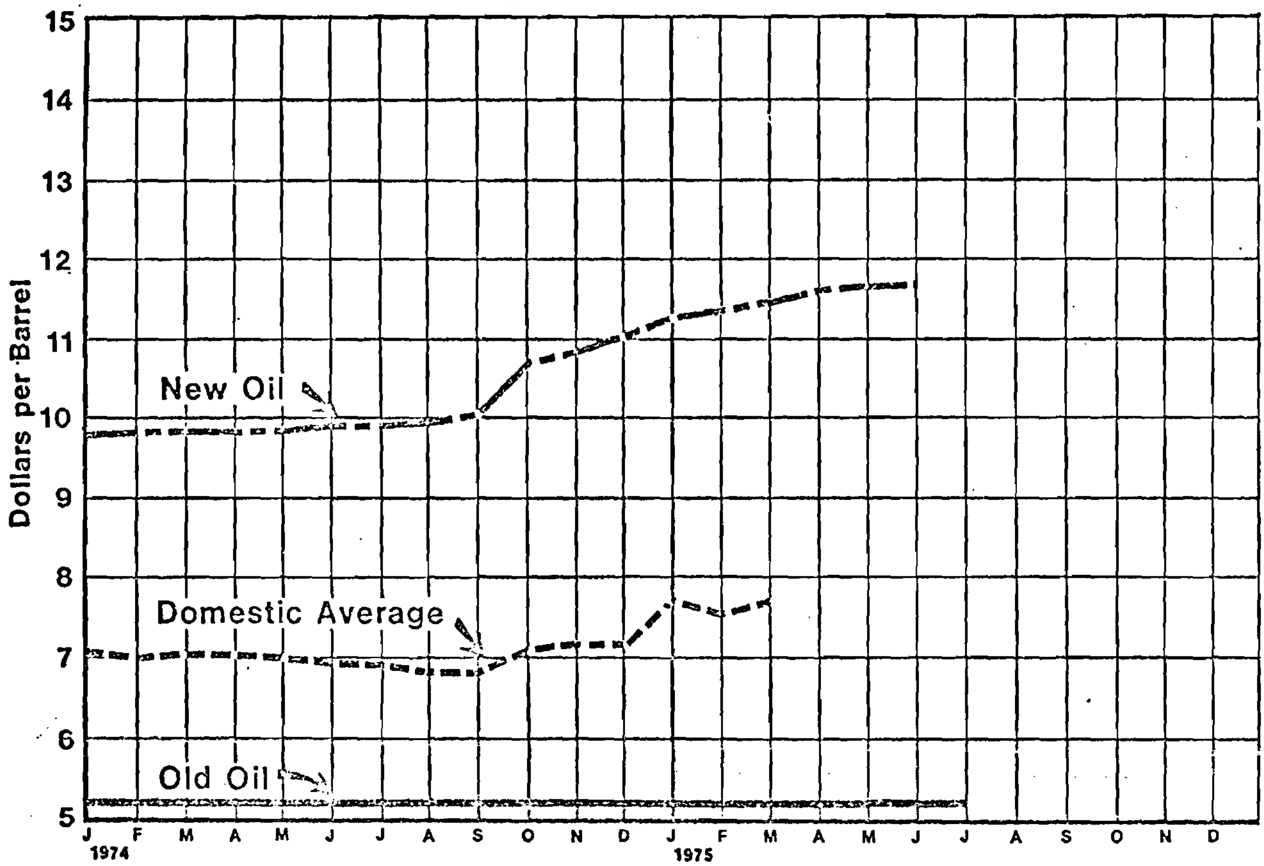
Retail Prices
(Gasoline and Residual Fuel Oil)



(No new data since last report)

Figure 8

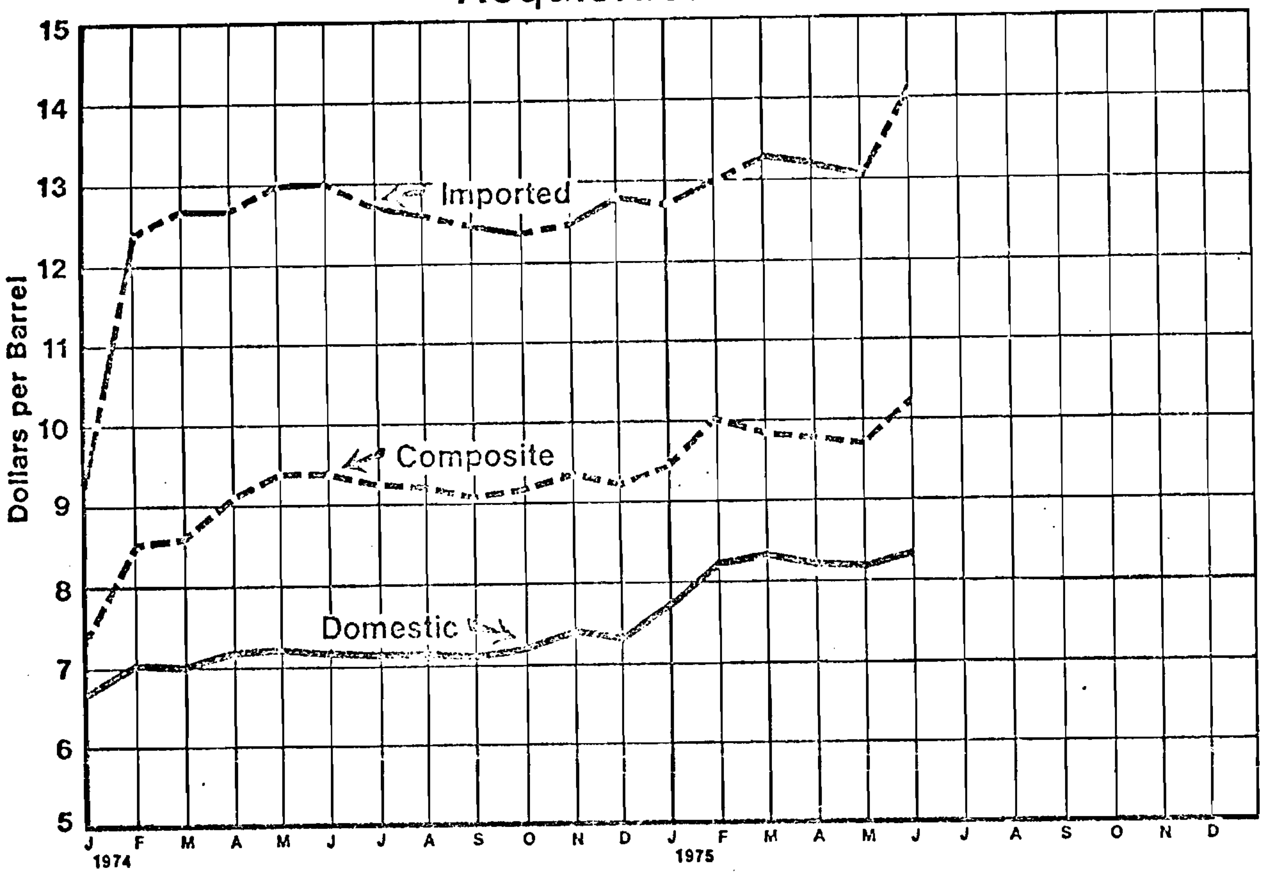
Crude Oil Wellhead Price



- The average domestic wellhead price for March was \$7.71, 8 cents above the February price. This increase reflects a higher percentage of uncontrolled oil (38 percent in February versus 40 percent in March), and increases in the new oil price.

Figure 9

Crude Oil Refiner Acquisition Cost

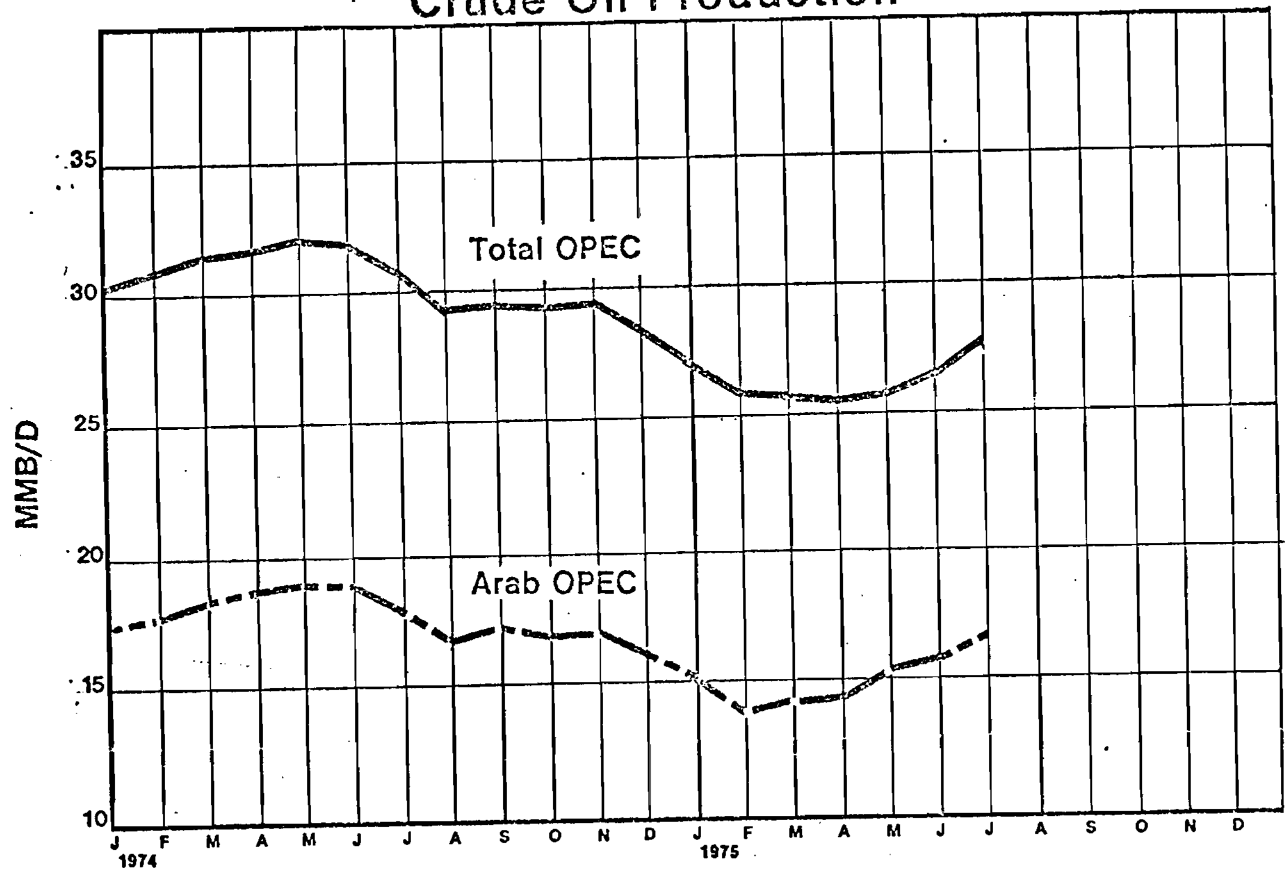


- o The cost of imported crude petroleum to refiners during June was $14.15 per barrel, 88 cents above the revised May figure of $13.27. This increase reflects the impact of the second one-dollar per barrel impact fee imposed June 1.

- o The average refiner acquisition cost for domestic crude oil during March was $8.38 per barrel, 5 cents above the revised May figure.

- o The composite cost of all crude petroleum to refiners was $10.23 per barrel, an increase of 44 cents above the revised May figure of $9.79 per barrel.

Figure 10
OPEC Countries
Crude Oil Production



- Revised data indicate that crude oil production in OPEC countries increased during July by 1.1 million barrels per day or 4.5 percent to a total of 27.9 million barrels per day. Production of Arab members accounted for essentially all the gain as their output increased 5.7 percent.

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries, plus estimated refinery gains, plus net imports of products plus or minus net changes in primary stocks of products is used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly figures through June from FEA's Weekly Petroleum Reporting System and Monthly Petroleum Reporting System, and 4-week moving averages from the API Weekly Statistical Bulletin thereafter for tables 1 and 6. Demand after June estimated for tables 2, 3, 4 and 5 by FEA primarily from the Bulletin. Tables 7, 8, 9 and 10, from FEA.

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

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

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

President's Mid-Term Energy Goals
(1975 - 1985)
Quarterly Progress Report, 2nd Quarter 1975

President's Mid-Term Energy Goals
(1975-1985)
Quarterly Progress Report, 2nd Quarter 1975

Categories	President's 1985 Goal	Current Industry Projections	1975 Progress 1st Quarter	1975 Progress 2nd Quarter
Electric Power Plants				
o Nuclear	200 New	157 by 1985	2	3
o Coal-Fired	150 Major New*	184 by 1984	0	6
Coal Mines	250 Major New	123 by 1980		
Oil and Gas Wells	Indefinite			
o New Wells		--	8,568	7,977
o Rotary Drilling Rigs in operation		--	1,628	1,604
o Acres leased on Outer Continental Shelf (1000 Acres)		--	626	407
Oil Refineries	30 Major New	3 New/4 Expansion by 1980	0	0
Synthetic Fuel Plants	20 Major New	15 by 1985		
Vehicle Gas Mileage	40% Increase in MPG in New Domestic Cars by 1980	--	*8.1%	*11.4%
Insulation of Homes	18 million homes retrofitted by 1985	--	0.8 million	0.6 million

* Increase over 1974 models.

HIGHLIGHTS

Electric Power Plants

Nuclear : Goal - 200 Major New Power Plants, 1975-1985

- Industry currently projects 157 major new plants with a capacity of 165,200 MWe during the period 1975-1985.
- Schedules for 12 plants have slipped beyond 1985 during the second quarter of 1975.
- During first six months of 1975, 5 plants with a combined capacity of 5,300 MWe began commercial operation.

Coal Fired : Goal - 150 Major New Coal Fired Plants by 1985

- Industry projects 184 major new plants on line by 1985 with a capacity of 100,500 MWe.
- During first six months of 1975, 6 plants with a capacity of 2,800 MWe began commercial operation.

Coal Mines : Goal - 250 Major New Mines by 1985

- During first six months of 1975, 7 major new mines with an ultimate annual capacity of 11.8 million tons became operational.
- Industry has firm commitments for 123 major new mines by 1980, on target for final goal.

Oil and Gas Wells: Goal - Drilling of Many Thousands of New Oil and Gas Wells by 1985

- During first six months of 1975, 16,545 new wells were drilled.
- During first six months of 1975 as compared to first six months of 1974:
  - 12% increase in number of wells drilled.
  - 17% increase in average number of rotary drilling rigs in operation.
  - 5% increase in number of acres leased on the Outer Continental Shelf.

Oil Refineries : Goal - 30 Major New Oil Refineries by 1985

- During first six months of 1975, capacity expansion totaled 16,500 barrels per day
- Total increased capacity of 134,000 barrels per day is currently projected by industry; only 25% of the December 1974 projection.

Synthetic Fuel Plants : Goal - 20 Major New Synthetic Fuel Plants by 1985

- Under favorable financial and regulatory assumptions:
  - industry currently plans 15 plants by 1985.
  - first coal to gas plant scheduled in 1978.
  - first coal to oil plant scheduled in 1980.

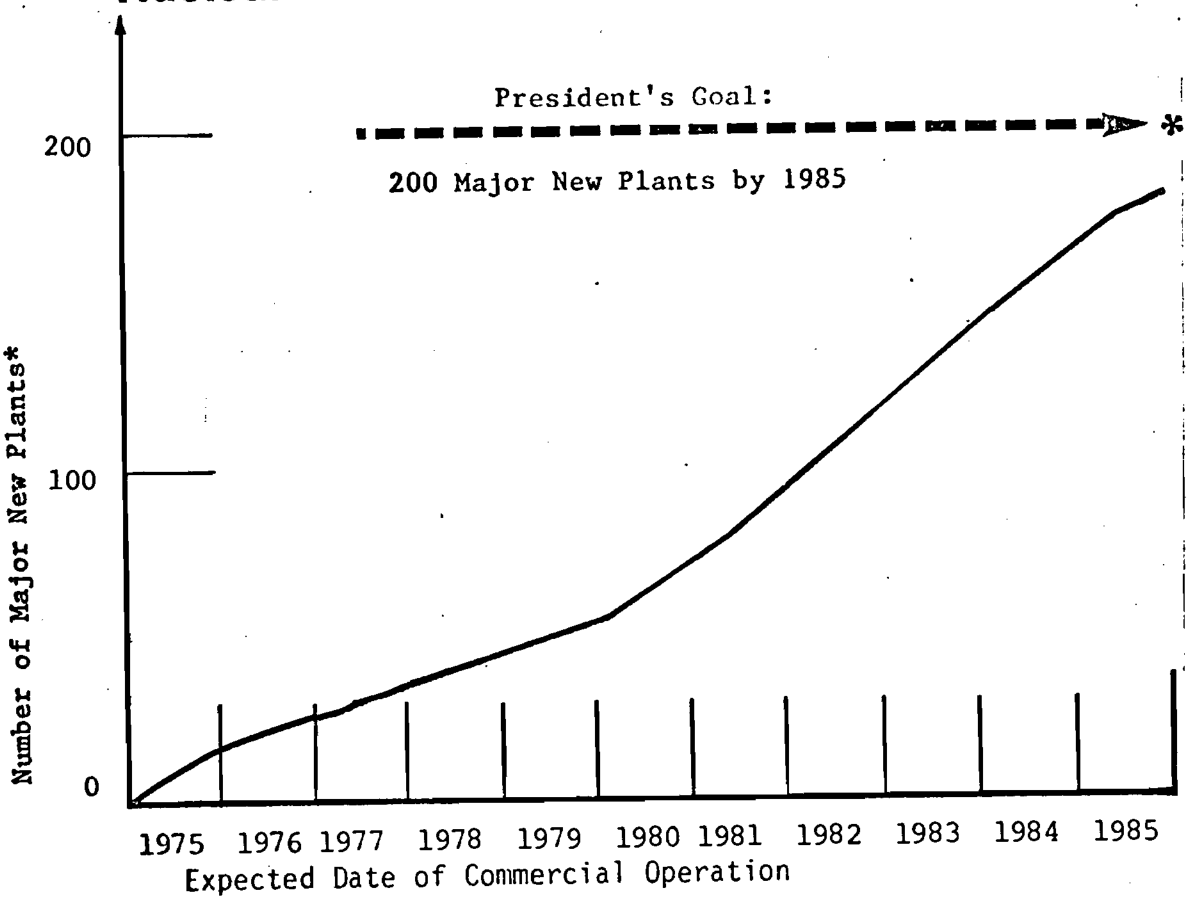
Vehicle Gas Mileage : Goal - 40% Increase in the Average Miles Per Gallon in New Domestic Cars by 1980

- During 1st and 2nd quarters of 1975 there was increased production of American cars with greater gas efficiencies.
- For 2nd quarter of 1975 as compared to last quarter of 1974:
  - average gas economies for all cars increased from 14.6 to 15.1 miles per gallon.
  - 41% reduction in the fraction of cars in the under 13 miles per gallon category.
  - 74% increase in the fraction of cars in the 17 to 20 miles per gallon category.

Insulation of Homes : Goal - Insulation of 18 million homes by 1985 (retrofitted)

- During just six months of 1975, 1.4 million homes have been retrofitted with attic insulation.

Nuclear Power Plants

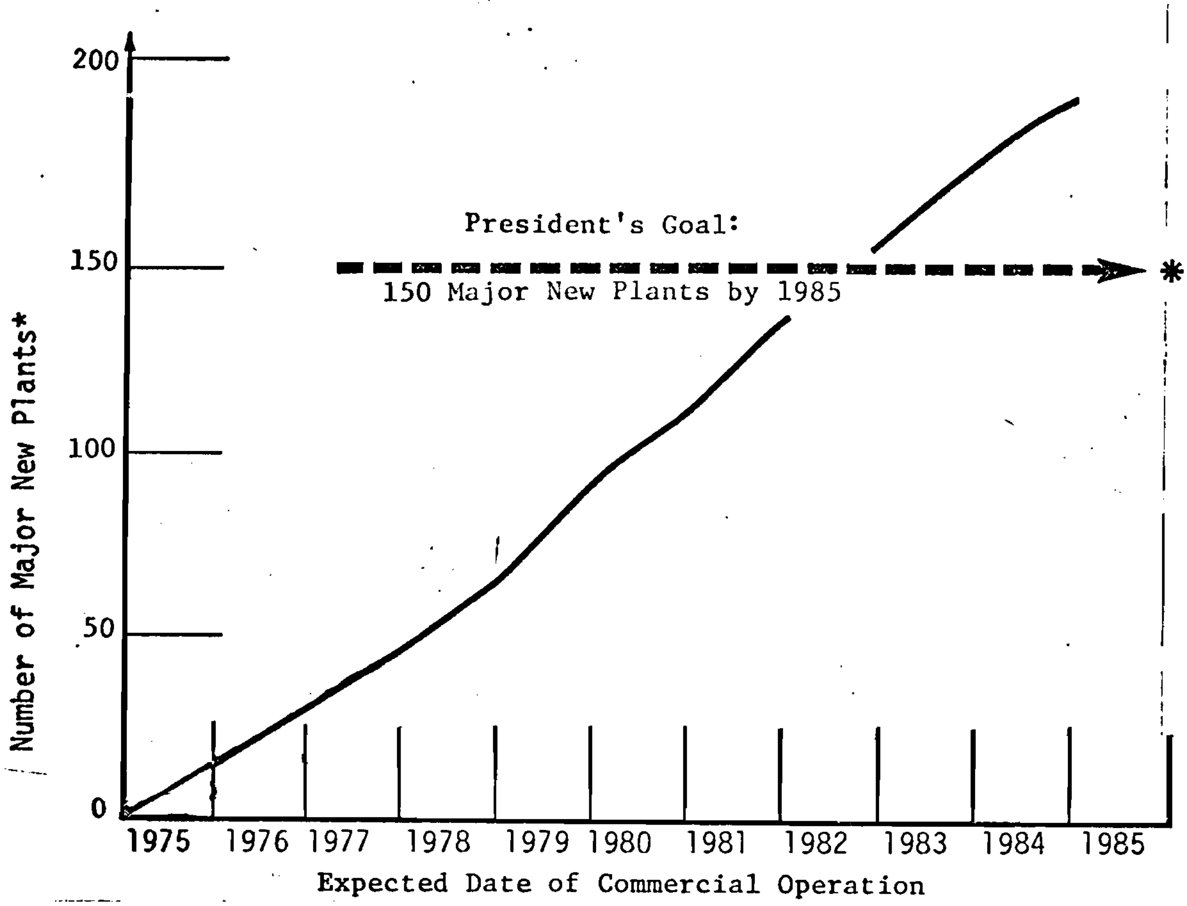


	Status as of 1/1/75	Additions, 1st Qtr. '75	Additions, 2nd Qtr. '75	Current Status	Cumulative new plants on line*										
					1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Number**	43	3	2	48	14	21	30	38	46	63	84	106	127	146	157
Capacity (1000 MWe)	28	2.1	1.6	31	11	18	27	34	43	62	84	109	133	153	165

* Based on public announcements by electric utilities of contract awards and planned dates of commercial operation.

** Number is for commercially operating plants only; also there are five non-major plants with capacities less than 300 MWe.

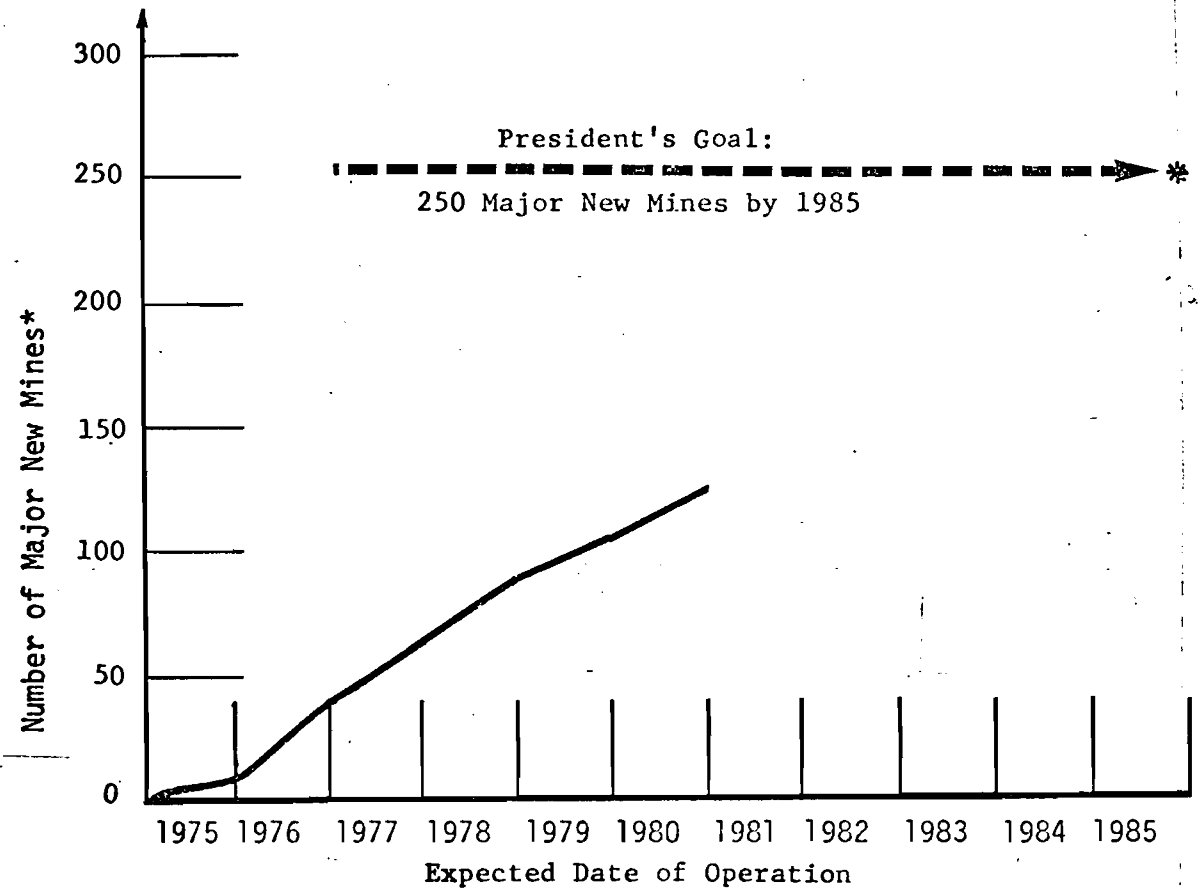
Coal-Fired Power Plants



	Status as of 1/1/75	Additions, 1st Qtr.'75	Additions, 2nd Qtr.'75	Current Status	Cumulative major new plants on line*										
					1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Number	186	0	6	192	13	27	46	66	94	115	136	154	173	184	NA
Capacity (1000 MWe)	155	0	2.8	158	8	15	26	36	51	62	74	83	93	100	NA

*Planned plants with capacity greater than 300 MWe, as reported to FPC under Order Number 383-3.

Coal Mines



	Status as of 1/1/75	Additions, 1st Qtr. '75	Additions, 2nd Qtr. '75	Current Status	Cumulative major new plants on line*										
					1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Number*	590	6	1	597	8	39	61	89	102	123	(data not available)				
Capacity* (million tons)	440**	2.8	9.0	452	17	56	79	131	165	269					

* FEA estimate of new mines with at least 200,000 tons annual capacity.

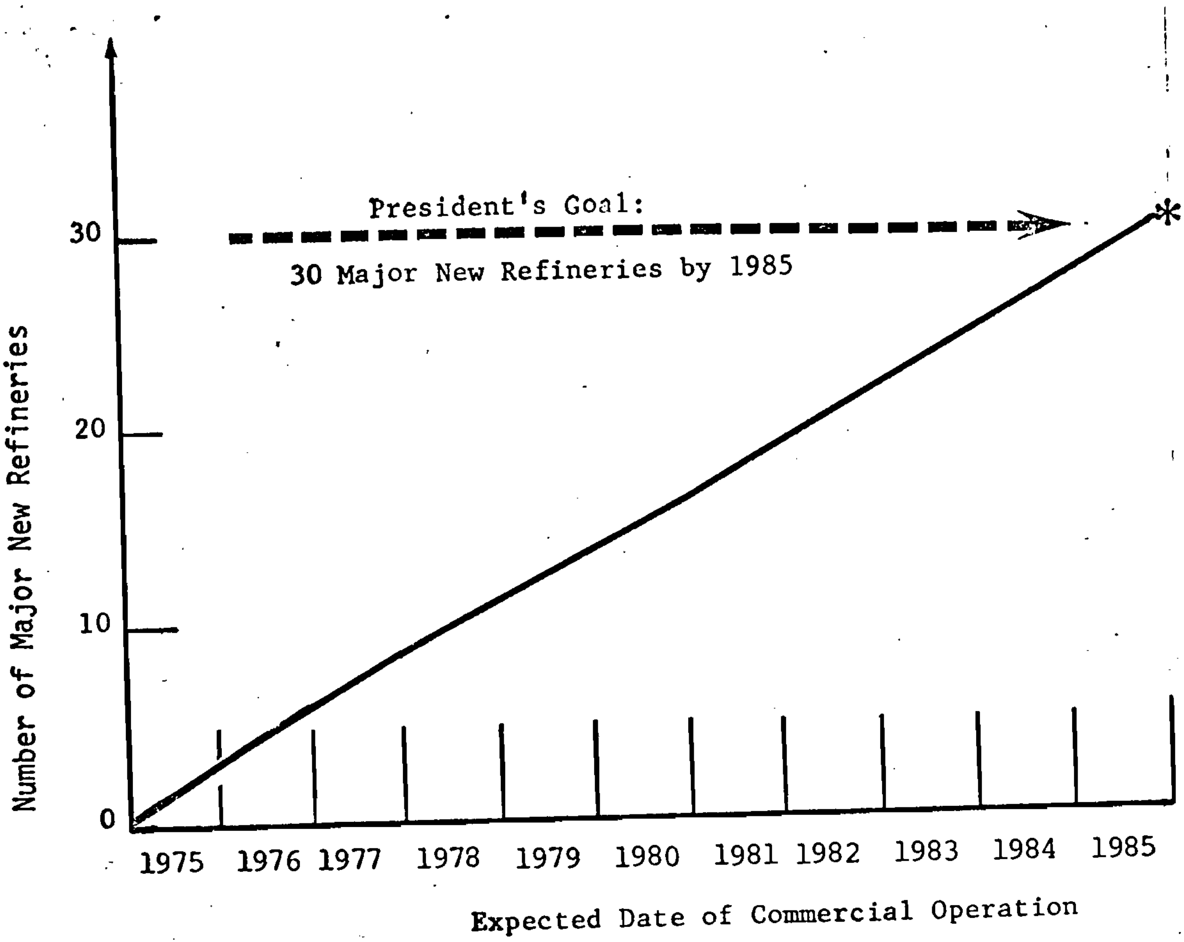
** Total 1974 production for all U.S. mines was 590 million tons.

Oil and Gas Wells

	1973	1974		1975	
	Yearly Total	Yearly Total	Jan-June	Jan-June	Percent Change from Jan-June 1974
New Wells Drilled*	26,592	31,698	14,718	16,545	+12.4
Average Number of Drilling Rigs in Operation	1,194	1,475	1,386	1,616	+16.6
Outer Continental Shelf Lease Sales (1,000 Acres)	1,033	1,762	986	1,033	+ 4.8
Domestic Supply of Steel Drilling Pipe and Tubing (1,000 Tons)	1,678	2,022	876**	1,022**	+16.7**

* Includes oil wells, gas wells, and dry holes
** January through May

Oil Refineries

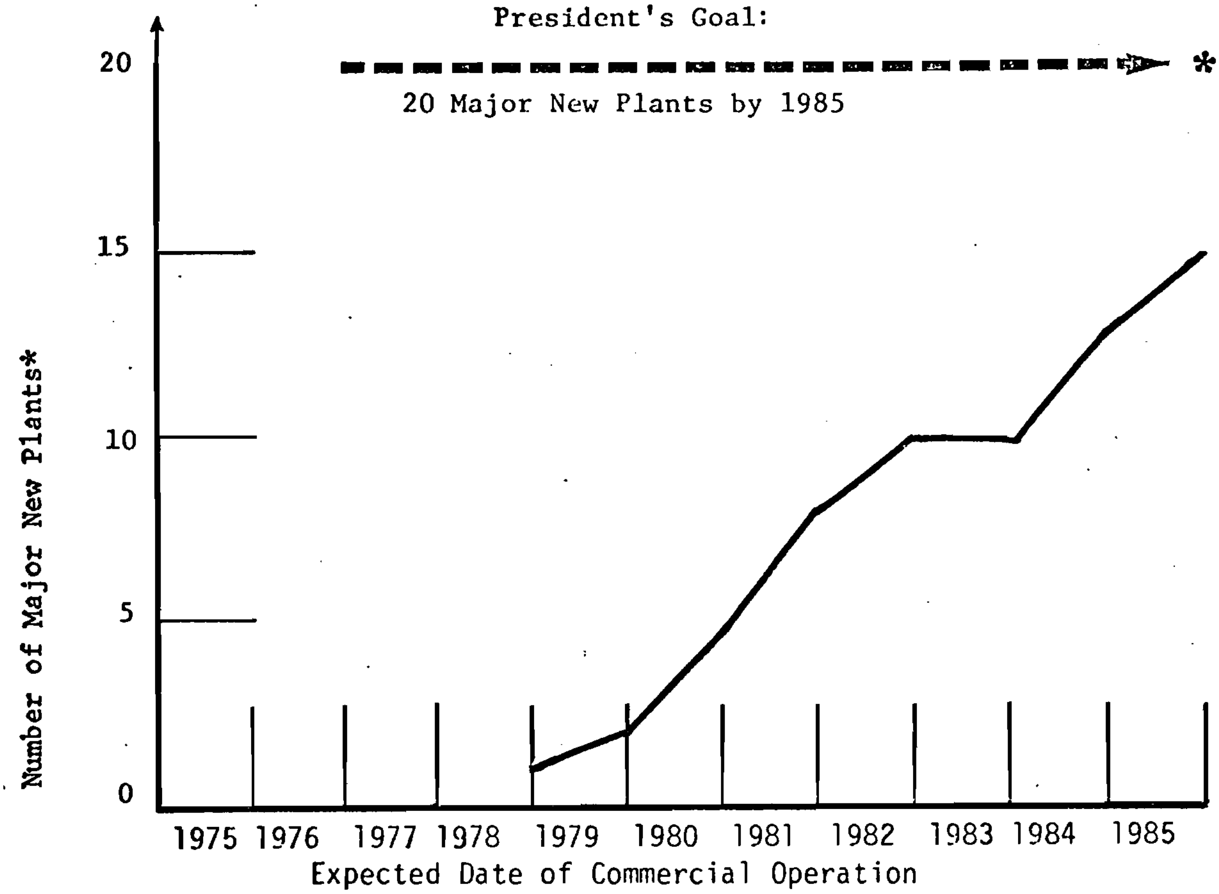


	Status as of 1/1/75	Additions, 1st Qtr. '75	Additions, 2nd Qtr. '75	Current Status	Cumulative additional crude distillation requirements**			
					1975	1976 - 1977	1978 - 1980	1981 - 1985
Number	283	*	*	283	*	7	13	24
Capacity (1000 bbl per day)	14,791	4.5	12.0	14,807	134	1,367	2,618	4,953

* Expansion of existing plants only.

** Projections for 1976-1985 are Project Independence estimates.

Synthetic Fuel Plants (Coal Gasification)



	Status as of 1/1/75	Additions, 1st Qtr. '75	Additions, 2nd Qtr. '75	Current Status	Cumulative plants on line*										
					1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Number	0	0	0	0	0	0	0	1	2	5	8	10	10	13	15
Capacity** (MMcf/day)	0	0	0	0	0	0	0	250	788	1138	1888	2388	2588	3308	3608

* Based on industry plans, which are contingent on future availability of capital and favorable regulatory policies.

** Two of the plants coming on line in 1980 will also produce synthetic oil with a combined capacity of 14,000 Bbls/day.

Automobile Fuel Economy
Domestic Production
Model Year 1975
(Preliminary Data)*

Miles/Gallon (City and Highway Driving	Percent of Production		
	April-June 1975	January-March** 1975	October-December** 1974
Under 13	14.9	21.7	25.1
13 - 14.9	40.5	41.5	40.6
15 - 16.9	19.1	18.7	17.2
17 - 19.9	20.6	13.5	11.9
20 or more	4.9	4.6	5.2
Average Fuel Economy, All Cars (Miles/Gallon)	15.1	14.7	14.6

* Final data will be based on official production figures for the different automobile configurations. This data is not yet available.

** Revised.

DEFINITIONS

"Major" power plant	--	Capacity of more than 300 MWe.
"Major" coal mine	--	Capacity of more than 200,000 tons per year.
"Major" oil refineries	--	Capacity of 100,000 barrels per day; expansion of existing facilities, as well as construction of new facilities will be included.
"Major" synthetic fuel plants	--	Capacity of more than 100 MMcf per day; specifically excludes plants with petroleum feedstocks.
"Average" vehicle gas mileage	--	Based on EPA gas economy tests, and weighted by 55 percent urban and 45 percent rural driving.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

September 5, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Announcement of Actions to Offset the Effects of Immediate Decontrol

We have completed work on a limited number of legislative proposals designed to deal with some of the micro impacts of immediate decontrol. These actions are viewed as necessary by your advisors not only to avoid unacceptable short term transitional problems in the market place as controls expire, but also to enhance our ability to sustain your veto of the six-month extension of the control program. The only issue at this point centers around the appropriate time for you to announce these initiatives.

I recommend that you announce your intentions to seek such legislation at the Bi-partisan Leadership Meeting this morning and that your announcement be followed up by Ron Nessen at his regular morning briefing and in your speech to the White House Conference in Seattle. The rationale for this recommendation is as follows:

- With the override vote on your veto scheduled next Tuesday or Wednesday in the Senate, an announcement today would give the proposals sufficient time to have their proper effect on the override vote. If we wait until your return, the proposals may not have any beneficial effect on the override vote.

- Announcement today would enable us to use the proposals to defuse Congressional hearings beginning today in the Senate (Jackson) and continuing through next Tuesday in the House (Dingell).

Talking points explaining the proposals are attached for your use at the Bi-partisan Leadership meeting if you agree with the recommendation. I will also work with the speechwriters to have appropriate remarks included in your Seattle speech.

Attachment

TALKING POINTS
PROPOSED MEASURES TO DEAL WITH IMPACT OF
IMMEDIATE DECONTROL

BI-PARTISAN LEADERSHIP MEETING

- As you know, I will veto the six-month extension of the Emergency Petroleum Allocation Act. This appears at the current time to be the only way to get this country moving on an effective path to energy independence.

- Although there are many views regarding the impact of decontrol on the economy, I am convinced that the macro impacts are containable, particularly with the elimination of the $2.00 import fee which I have promised to do if the veto is sustained.

- There will be, however, some micro impacts associated with decontrol, at least during a short-term period of transition to the free market. Of particular concern are:

  1. Small, independent refiners who do not have access to low cost crude and who have remained competitive by virtue of the crude oil entitlements program;

  2. Users of propane (farmers, petrochemical manufacturers, etc.) who may either lose their propane to curtailed natural gas users or face dramatically higher prices; and,

  3. Independent marketers or retailers, primarily of gasoline and heating oil.

- To avoid transitional problems in these areas, I will propose legislation designed to deal with specific problems on a carefully targeted basis. These measures, which will be just as effective as the allocation program, but much more efficient, will include the following:

  1. A direct subsidy to small, independent refiners that will be equivalent in value during the first year to their subsidy from the entitlements program and will phase out to zero over three years.

  2. Allocation and price controls of liquified petroleum gases such as propane to assure a stable supply of these important fuels to farmers and curtailed natural gas users at reasonable prices.

  3. Specific authority for retail dealers to go into court regarding any possible unfair contract changes initiated by major oil companies -- authority such as provided to automobile dealers in 1956.

- I will also continue to work with the Congress to develop a windfall profits tax with appropriate plowback provisions and rebates to the American consumer.

- Frank Zarb is here to elaborate on these proposals if you so desire.

September 5, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: FRANK ZARB

SUBJECT: Suggested Language for the President's Reaction to Action by Senate Democratic Conference Related to Oil and Control

I was disappointed that the Senate Democratic Conference did not vote to accept a compromise program. Instead, they elected to again delay focusing on this difficult and important national issue.

I cannot allow this nation to continue to drift with indecision blocking the development of a firm energy program. This is particularly important at this time when producing nations are meeting to discuss increasing prices American consumers will have to pay for imported oil.

The only real opportunity for a compromise and progress is for the Congress to uphold my veto of legislation designed to delay facing up to difficult energy issues.

I believe there are enough Congressmen and Senators who feel as strongly as I do on this urgent matter to vote in favor of sustaining my veto.

9/15 Distributed at mtg to: Tuthill ... Reesner ...

FORD, GERALD

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

SEP 9 1975

MEMORANDUM TO THE PRESIDENT

Through: Rogers C. B. Morton, Chairman, ERC
Frank Zarb, Executive Director, ERC

From: Acting Secretary of the Interior Kent Frizzell

Subject: Senate Bills 521 and 586 on Outer Continental Shelf Leasing

The Senate in July passed two bills relating to Outer Continental Shelf (OCS) leasing: S. 586, Amendments to the Coastal Zone Management Act, and S. 521, Amendments to the OCS Lands Act. S. 586 passed by a vote of 73-15, S. 521 by 67-19. House action on one or both bills is expected before the end of the year, and perhaps as early as November. In this memorandum, your guidance is requested on what stance the Administration should take on key provisions of these bills during House consideration.

Acceleration of OCS leasing is expected to raise domestic oil production by 3 million barrels a day by 1985. The first of the frontier area lease sales are about to be held: off Southern California in November, in the Gulf of Alaska in December, and off New Jersey in May. The imminence of these sales has brought considerable criticism of the leasing program and a number of requests for delay, and is in part responsible for Senate passage of S. 521 and S. 586. Interior has been moving to accommodate criticisms where possible, but has refused all requests for delay in the schedule.

ERC members generally agree that certain features of the Senate bills would be desirable program changes: authority to lease whole geologic structures rather than just 5,760-acre blocks, to extend the primary term of leases up to 10 years if necessary, to permanently disapprove development on a lease for extraordinary environmental reasons, to use lease terms different from those now authorized, and to provide for State review of development plans. However, there are other provisions which will cause delays in the leasing program by increasing the required coordination with States or by creating additional exposure to litigation, and provisions which would force unwise changes in lease terms and procedures. The bills also carry significant increases in budgetary costs for program administration.

Below we seek your guidance on major provisions which we find objectionable or on which we disagree among ourselves.

DEVELOPMENT PLAN APPROVAL

Interior is now promulgating regulations which would give States 60 days' review (without a veto) of development plans, and require lessees to supply additional information to States about on-shore facilities. S. 521 contains similar review provisions but goes further:

- development plans are submitted to Interior, governors, and to regional advisory boards with State membership, for 120 days of review, with mandatory public hearings.
- the plan itself is to contain both information about OCS facilities under Federal jurisdiction, and information about facilities in areas under State jurisdiction, which would expand Federal regulatory approval functions to areas not now under Federal jurisdiction.
- the Secretary must require modification in the plan if its safety or environmental provisions, including those affecting the coastal zone, are inadequate; he may not require modifications inconsistent with an approved coastal zone plan or with "any valid exercise of authority by the State;"
- the plan must include a "maximum efficient rate" of production (MER), which will be reviewed by Interior; the lessee must operate at no less than that rate (and since it is a maximum, at no more than that rate).
- Interior may disapprove a plan if the lessee fails to show he can comply with applicable laws, or because of extraordinary geologic or environmental risks which the plan cannot be modified to meet. At present Interior cannot totally disapprove a plan; it can only require modifications.

Changes that should be made

a) Public hearings should be required only when in the Secretary's judgment they are needed. Many development plans will be minor and should not require hearings.

b) The plan itself should not be required to contain information on facilities located on lands over which the Federal government does not now have jurisdiction; such information should be separately available to States. There should not be a required Federal approval of facilities outside present Federal jurisdiction.

c) The language in the bill barring plan modifications inconsistent with a coastal zone plan or any valid exercise of State authority should be removed. If consistency of development plans with coastal plans is to be required, it should be done explicitly by amendment to the Coastal Zone Act; "any valid exercise" is so broad a phrase that it is very difficult to tell what legal exposure for Interior is involved, but will surely lead to extended litigation.

d) All language on MER should be removed. Interior now has authority to impose MER regulation, but rarely does so because in most cases on the OCS there is nothing to be gained by it. On leases as large as 5,760 acres, and certainly on leases covering whole structures (which S. 521 would authorize), the onshore problem which MER was intended to remedy (too many small owners pumping too rapidly from a single pool) rarely exists; and there is no evidence that the opposite problem, pumping too slowly, exists except possibly in the case of natural gas, where the removal of price controls is the proper remedy, not MER regulation. The administrative cost of MER regulation on every lease would be very high, and the effort would be mostly wasted.

Decision	Agree	Disagree	Other
Change a)			
b)			
c)			
d)			

Interior: Agree with all changes

LEASE TERMS

Present law authorizes sale of 5,760-acre leases with a primary term of 5 years, either by bonus bid with a fixed royalty of no less than 12-1/2 percent, or by royalty bid with a fixed bonus. All leases heretofore have been sold by bonus bid, with the exception of a limited experiment with royalty bidding in September 1974. S. 521 makes the following changes:

- it authorizes leasing of whole structures, traps, or "economic units," with a primary term of 5 to 10 years, at the Secretary's discretion;

- it authorizes eight alternate bidding systems in addition to the two presently authorized;
- it directs Interior to conduct experiments with four new systems over the two years following enactment;
- in frontier areas it limits the use of the present bonus bid, fixed royalty system to no more than 50 percent of the total acreage unless the Secretary determines that the limitation would delay development.

Changes that should be made

a) The 50 percent limitation should be removed. It may have the effect of forcing Interior to lease large acreages, not merely experimental tracts, under untested systems. Since little is known about these new systems, the result could be a failure to receive fair market value for the tracts, wasteful exploration or development practices by lessees, or severe unexpected administrative problems in managing the leases.

b) Minimum royalties in some leasing alternatives are set at 16-2/3 percent, but should be reduced to at least 12-1/2 percent, the minimum in current law. This is especially important for frontier areas where operating costs may be very high, and too high a royalty rate could bring either early shut-down or failure to develop the lease at all after exploration was complete.

c) Minimum profit shares of 60 percent in some leasing alternatives should be reduced to 20 percent, if these systems are to be useful in high-cost areas of the OCS. Excessively high rates could prevent development of some otherwise commercial tracts.

d) The "undivided working interest" leasing alternatives should be authorized for use with either profit shares or royalties, at the Secretary's discretion. Profit shares have theoretical advantages which should be tested by experimentation; but royalties are proven practicable and should be authorized if a satisfactory profit share system cannot be worked out.

Decision	Agree	Disagree	Other
Change a)			
b)			
c)			
d)			

Interior: Agree with all changes

BASELINE STUDIES

Section 27 of S. 521 transfers to Commerce the OCS environmental baseline and monitoring studies presently conducted by Interior. This will present Interior with significant management problems since these studies have become an integral part of information gathering for leasing decisions, and since their completion is an essential part of the leasing program and must be accomplished in close coordination with other Interior activities. Over half of the research under the current Interior-managed program is already carried out by Commerce under a memorandum of agreement which allows NOAA scientific expertise and facilities to be used while maintaining the established management direction of Interior.

Change that should be made

Section 27 should direct the Secretary of the Interior, not the Administrator of NOAA, to conduct environmental baseline and monitoring studies.

Decision

Agree ________________

Disagree ________________

Other ________________

Interior: Agree

COASTAL ENERGY FACILITY IMPACT PROGRAM

Section 307 of S. 521 and Section 102 (13) of S. 586 contain similar provisions for impact aid funds administered by Commerce:

- $200 million per year for three years for grants and loans to coastal states based on proven or projected adverse impacts on their coastal zones from federally-related energy developments.
- $100 million per year in formula grants to coastal states which are adjacent to OCS production or which take OCS production ashore.

Currently, no revenues from OCS production are shared with States, and no funds are provided specifically for aid to States affected by OCS development. In the long run, OCS development will bring increases in the tax base of affected areas, but for as long as a decade demands for more public services may outrun increased revenues. The exact size of the fiscal shortfall is conjectural, especially before OCS exploration has revealed the location and quantity of oil and gas.

Options for change

a) Retain provisions of S. 586 and S. 521. Many State governments have called for revenue sharing or impact aid as an integral part of the accelerated OCS leasing program, and the provisions of these bills are a reasonable approach to the problem. They are both more modest in cost and more closely targeted on OCS impacts than many other proposals which have been made. They will help states cope with genuine adverse impacts, and may help avoid costly state-initiated delays in the leasing program.

b) Transfer impact aid program to Interior. Interior believes that the impact aid provisions of S. 521 and S. 586 should be retained for the reasons given under Option a), but that administration of the program should be lodged in Interior. It is Interior whose leasing program drives the dominant OCS portion of the impact aid program, and Interior which has the greatest stake in efficiently operating a program which meets States' genuine impact needs. Coordinating the actions of the three parties directly interested in leasing decisions--Interior, the States and industry--is complex enough already without unnecessarily introducing a fourth party. Commerce's interest in protecting the coastal zone is assured through its approval of coastal zone plans with which all OCS-related activities must be consistent. Finally, the Commerce-linked limitation of aid to areas under approved coastal zone plans is too narrow geographically to accommodate all likely OCS impacts, and would deny all impact aid to a State which decided not to adopt such a plan.

c) Delete impact aid provision. OMB believes that no OCS impact aid is necessary, and that none should be granted. It estimates the entire OCS-generated need for new public facilities at only \$200-\$600 million over a 12-year period, far less than the \$300 million per year in the Senate bills. Furthermore, OMB feels that this limited need can be adequately taken care of by retargeting current Federal aid, which already accounts for about 20 percent of total State expenditures.

Decision

Option a) ____________ ____________ ____________

Option b) ____________ ____________ ____________

Option c) ____________ ____________ ____________

Interior: Support Option b

OMB: Support Option c

OCS ADVISORY BOARDS AND STATE GOVERNORS

Section 29 of S. 521 authorizes the Governors of coastal states to establish regional Outer Continental Shelf advisory boards. The Boards' or the Governors' recommendations to the Secretary of the Interior regarding the size, timing, or location of a proposed lease sale or a proposed development plan must be accepted unless the Secretary determines that they are not consistent with national security or other overriding national interests. Interior is currently setting up a national OCS advisory board, with regional policy groups and technical working groups attached to it. The Interior approach is preferable because (1) it will allow issues to be considered from a national as well as a regional perspective; (2) it will combine policy level and technical groups in a mutually beneficial working arrangement; and (3) it will keep the board's role an advisory one. This new board will be an outgrowth of the present OCS Research Management Board which has operated successfully in the past to advise Interior on its leasing decisions.

Change that should be made

Section 21 and all references elsewhere in S. 521 to regional OCS advisory boards should be deleted, and the Interior Department allowed to proceed under existing authority to set up its National OCS Advisory Board. If any Advisory Board is mentioned in the Act, it should follow the Interior model, and there should be no presumption that the Secretary would either accept or reject its recommendations or those of the Governors involved.

Decision

Agree ____________

Disagree ____________

Other ____________

Interior: Agree

OIL SPILL LIABILITY

Section 23 of S. 521 makes lessees strictly liable for damages from OCS oil spills, up to a limit of $22 million. A non-profit fund financed by fees on OCS oil production would be liable for any damages beyond this limit. These provisions are inferior to the approach taken in the Administration's Comprehensive Oil Pollution Liability and Compensation Act (H.R. 2162). The Administration bill is more specific about eligible claimants, recoverable damages, and administrative and legal procedures for rapid claim settlement, and more comprehensive in its coverage of spills from tankers and deep-water ports as well as OCS wells.

Change that should be made

The oil spill liability provisions of S. 521 should be deleted in favor of the Administration bill, H.R. 2162.

Decision

Agree ____________

Disagree ____________

Other ____________

Interior: Agree

EXPANSION OF ENVIRONMENTAL AND COASTAL ZONE REQUIREMENTS

At two points, Section 18(c) and 28, S. 521 specifies in some detail the contents of environmental impact statements which are to be written in connection with the program. These sections expand the previous scope of NEPA in two ways: some of the information specified has not heretofore been required in EIS's, and the very fact of listing such requirements places in statute what had formerly been only in CEQ guidelines or in judicial decisions. The effect may be to expand greatly the number of points on which an EIS could be attacked through court suit under NEPA.

S. 586 expands to Federal leases the current requirement of the Coastal Zone Management Act that Federal permits and licenses be consistent with approved State coastal zone plans. S. 521 additionally extends the consistency requirement to Interior-ordered changes in development plans. Since no State yet has an approved plan, there is no experience with how the consistency requirement will work, but it has the potential of delaying OCS leasing operations, and it therefore seems unwise now to expand the list of Federal actions which are subject to it.

Changes that should be made

a) Eliminate sections 18(c) and 28 from S. 521. NEPA would then apply to OCS leasing just as it does to other Federal programs.

b) Remove the provision from S. 586 applying the coastal zone consistency requirement to leases, and remove the provision from S. 521 applying it to changes in development plans.

Decision	Agree	Disagree	Other
Change a)	________	________	________
b)	________	________	________

Interior: Agree with both changes

DATA SUBMISSION AND RELEASE

Geological and geophysical (G&G) data submission by permittees and lessees to the government, and their release by the government to the public, are now determined primarily by regulation. Interior recently proposed new regulations which have the general effect of providing more data to the government at less cost than before, and of speeding release to the public in order to enhance competition in lease sales and to reduce wasteful duplication of data collection. S. 521 requires that both permittees and lessees make available to Interior all their G&G data and interpretations, and that Interior hold them confidential until release would not damage the competitive position of the company.

Changes that should be made

a) The Secretary should not be directed to require submission of data or interpretations, but only authorized to do so. In some cases the data would not be useful, and handling it would simply involve unnecessary costs. The term "interpretations" is vague, but in some meanings the bill could require an unenforceable attempt to get companies to reveal highly valuable and easily disguised or adulterated information products.

b) The Secretary should be authorized to release G&G data whenever in his judgment it would be in the public interest to do so, taking into account the need to maximize the level of competition, to protect the legitimate property rights and competitive position of the lessee, and to reduce wasteful duplication of expenditures for information gathering, processing and interpretation. These are the considerations which lie behind the specific timetables for G&G data disclosure incorporated in proposed new Interior Department regulations.

Decision	Agree	Disagree	Other
Change a)	____	____	____
b)	____	____	____

Interior: Agree with both changes

GOVERNMENT EXPLORATORY DRILLING

S. 521 authorizes and directs Interior to conduct exploratory drilling in areas which the Secretary determines should be explored by the government for national security or environmental reasons, or to expedite development in frontier areas. Such drilling is limited to areas not included in the 5-year leasing schedule. A total authorization of $500 million is provided. Interior believes that it now has authority to conduct exploratory drilling in areas either planned or not planned for leasing. S. 521 differs from present law in that Interior is not only authorized but directed to carry out drilling where the Secretary determines that the necessary conditions exist.

Change which should be made

Interior should be "authorized" but not "directed" to carry out exploratory drilling.

Decision

Agree ____

Disagree ____

Other ____

Interior: Agree

GEOLOGIC MAPPING

Section 19(c) of S. 521 requires Interior to produce bathymetric, geological, and geophysical maps of areas to be leased, based on non-proprietary data, at least six months prior to all lease sales conducted on or after June 30, 1977. At present, such maps are not prepared specifically for lease sales, and those that are produced are based in part on proprietary data when this can be done without violating the terms of data collection contracts. Proprietary data are normally much less expensive (on average, one-twentieth as expensive) as non-proprietary data, because they are derived from group contracts, while Interior normally would have to be the sole contractor for non-proprietary data. The S. 521 increase in cost of mapping over the present program could be as much as $100 million per year. It is not clear that such maps would be useful enough to justify this cost. Interior now has authority to prepare such maps if it considers them necessary.

Change that should be made

Eliminate Section 19(c).

Decision

Agree ______________________

Disagree ______________________

Other ______________________

Interior: Agree

8/29 - EC retype
9/2 - Kuhn w/memo to Ford
9/5 - to fz
9/9 - back to erd

SEP 11 1975

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb Frank G. Zarb

SUBJECT: Energy R&D Initiatives

From time to time, you are asked about your energy R&D initiatives. The attached chart may be helpful in explaining how you have already taken steps to increase funding and ensure a balanced program.

For FY 1976, your amended budget request for energy R&D would provide about $2 billion in budget authority, but actual expenditures will lag somewhat at about $1.7 billion.

The percentage increases for solar and other advanced energy systems, along with conservation, are noteworthy.

Attachment

R/EAKuhn/ef:jh:rm 3442:x6037:9/10/75
cc: Exec. Sec (2)
Official
Reading
Signature
Originating
ERD
bcc: Donald Rumsfeld
Retyped:AE:9/11/75:x8241:rm 3309 to correct format

Federal Government Actual Expenditures In R,D&D for Alternative Energy Sources
($ Millions, rounded)

	FY 1975 (actual)	FY 1976 (Est.) (President's Budget)	Percent (change)
Energy Sources:			
Solar	$ 9	67	+645
Geothermal	15	33	+120
Fusion	147	230	+ 56
Oil Shale	4	11	+175
Conversion Technologies:			
Synthetic Fuels (includes coal liquifaction & gasification)	138	211	+ 53
Advanced Energy Systems	13	31	+138
Nuclear Fission (including breeder reactors and nuclear fuel cycle)	619	678	+ 10
Other:			
Basic Research	135	145	+ 74
Environmental	115	141	+ 23
Conservation	18	57	+217
Other Fossil Programs	70	121	+ 73
Total	$1283	1725	+34

9/15 - to Gail -
Returned original
to Energy Statistics
for printing & distribution
* Picked up by
E. Snyder
Data Publications
254-3564
9/16 *

SEP 15 1975

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb Frank G. Zarb

THROUGH: Rogers C.B. Morton

SUBJECT: Biweekly Status Report

Imports and total demand continue to be above the forecast for the four week period ending August 29, however, the disparity did decline in both areas.

Apparent demand was 15.83 million barrels per day--120,000 barrels above the forecast, compared with 270,000 for the 4 weeks ending August 15. Demand was 980,000 barrels per day below 1974 and 1,340,000 below 1973.

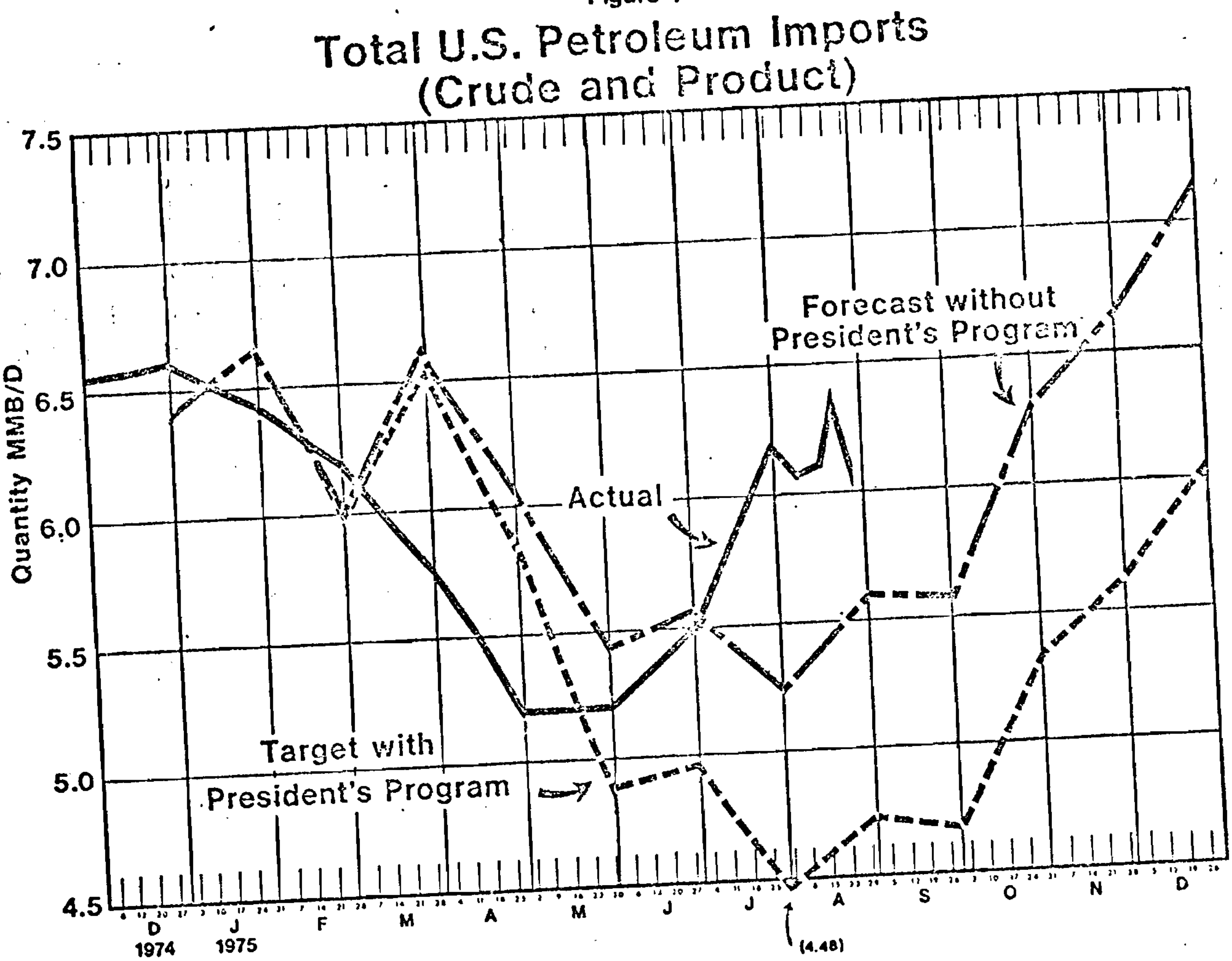
Imports averaged 6.10 million barrels per day, 510,000 above the forecast compared with 670,000 in the period covered by the last biweekly report. This was 280,000 below the same period last year and at almost exactly the 1973 level.

The only major product to indicate a demand level below the forecast was motor gasoline, at 6.94 million barrels per day, 30,000 below the forecast, 20,000 below last year and 170,000 below 1973.

cc: Official file AE2
Chron
Zarb Sig.
Zausner
Rathbun
Curtis
Dwyer
OES file

P:OES/O&GS:CDwyer:la:rm 7219:2000M:254-3382
1st para. changed:SMinihan:ec:x8241:rm 3309
Retyped:AE:9/15/75:x8241:rm 3309

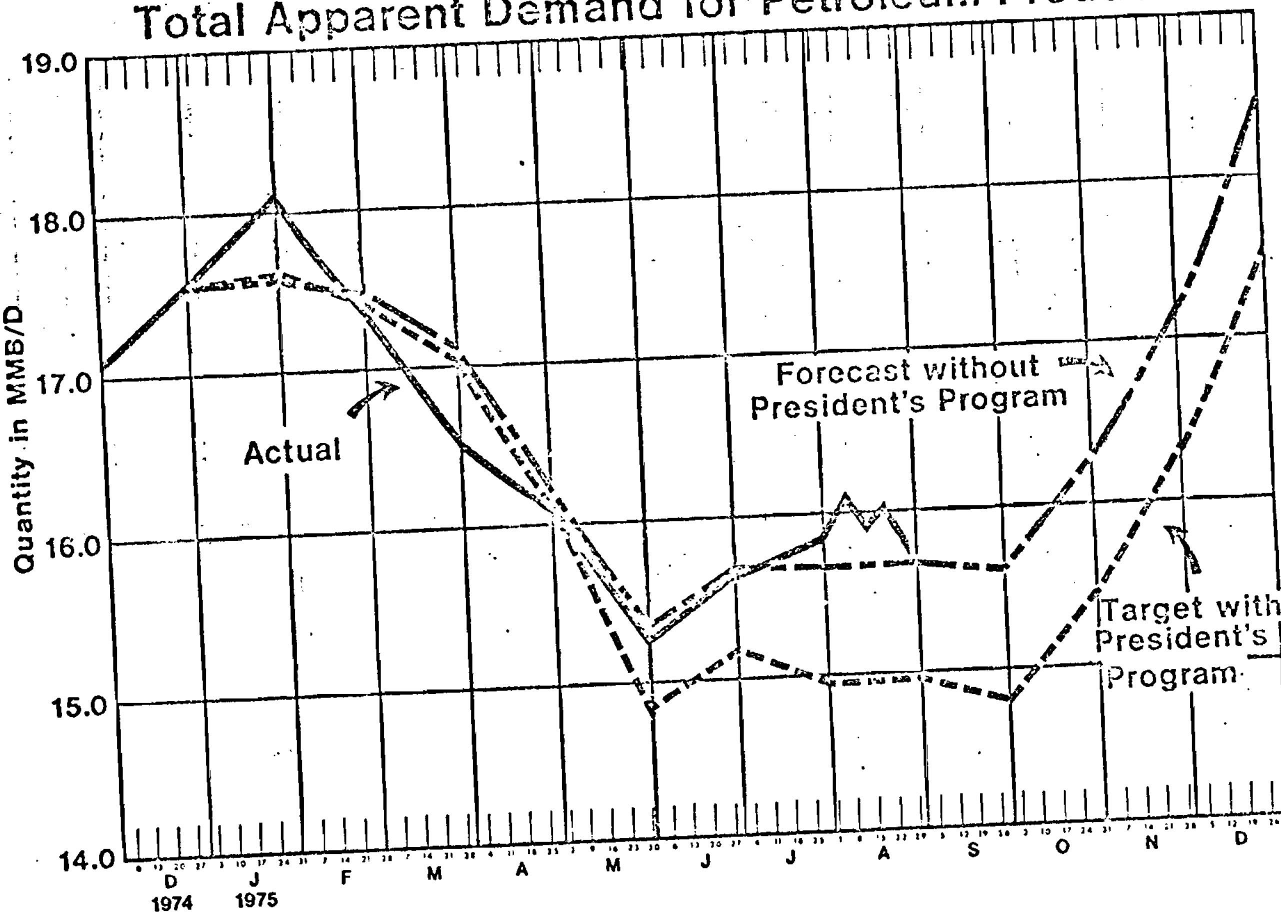
Figure 1



o For the 4 weeks ending August 29, total imports averaged 6.10 million barrels per day. This was 510,000 barrels per day above the forecast, 280,000 below the same period last year and at almost exactly the 1973 level.

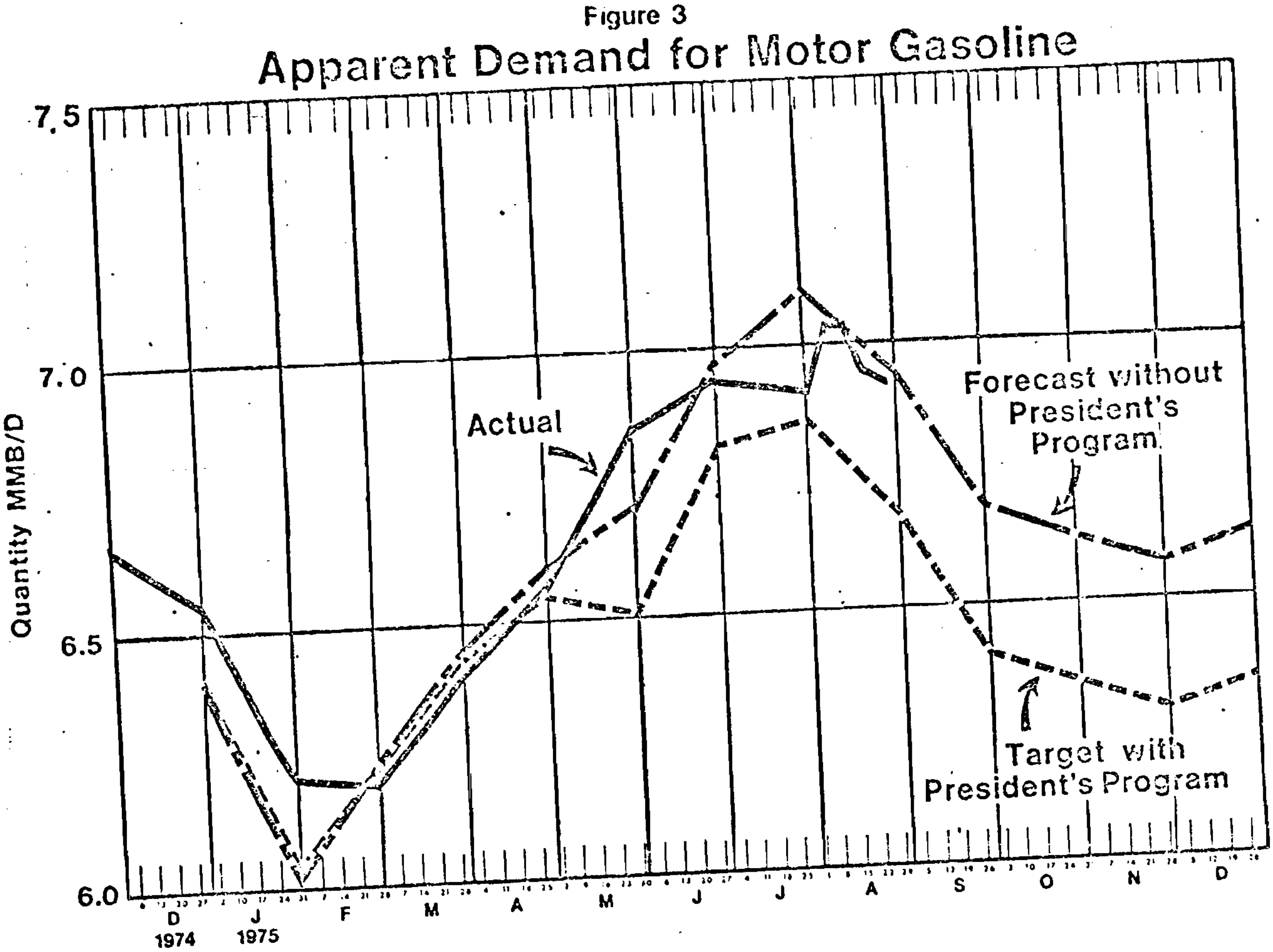
Figure 2

Total Apparent Demand for Petroleum Products



o Total apparent demand during the 4 weeks ending August 29 was 15.83 million barrels per day, 120,000 barrels per day above the forecast but 980,000 barrels per day below last year and 1,340,000 below 1973.

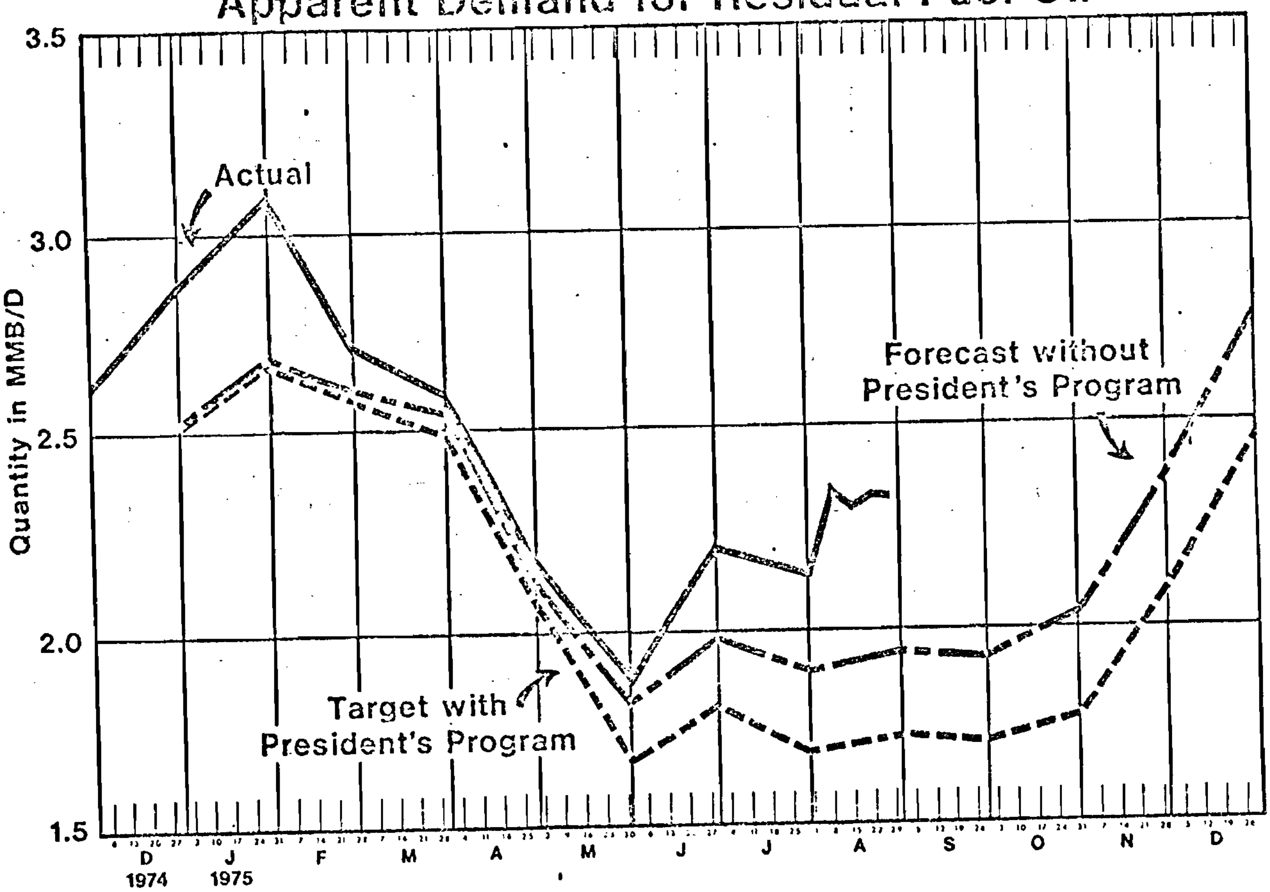
Figure 3



o Apparent demand for motor gasoline in the 4 weeks ending August 29 averaged 6.94 million barrels per day, 30,000 barrels per day below the forecast (the only major product below its forecast), 20,000 below last year, and 170,000 below 1973.

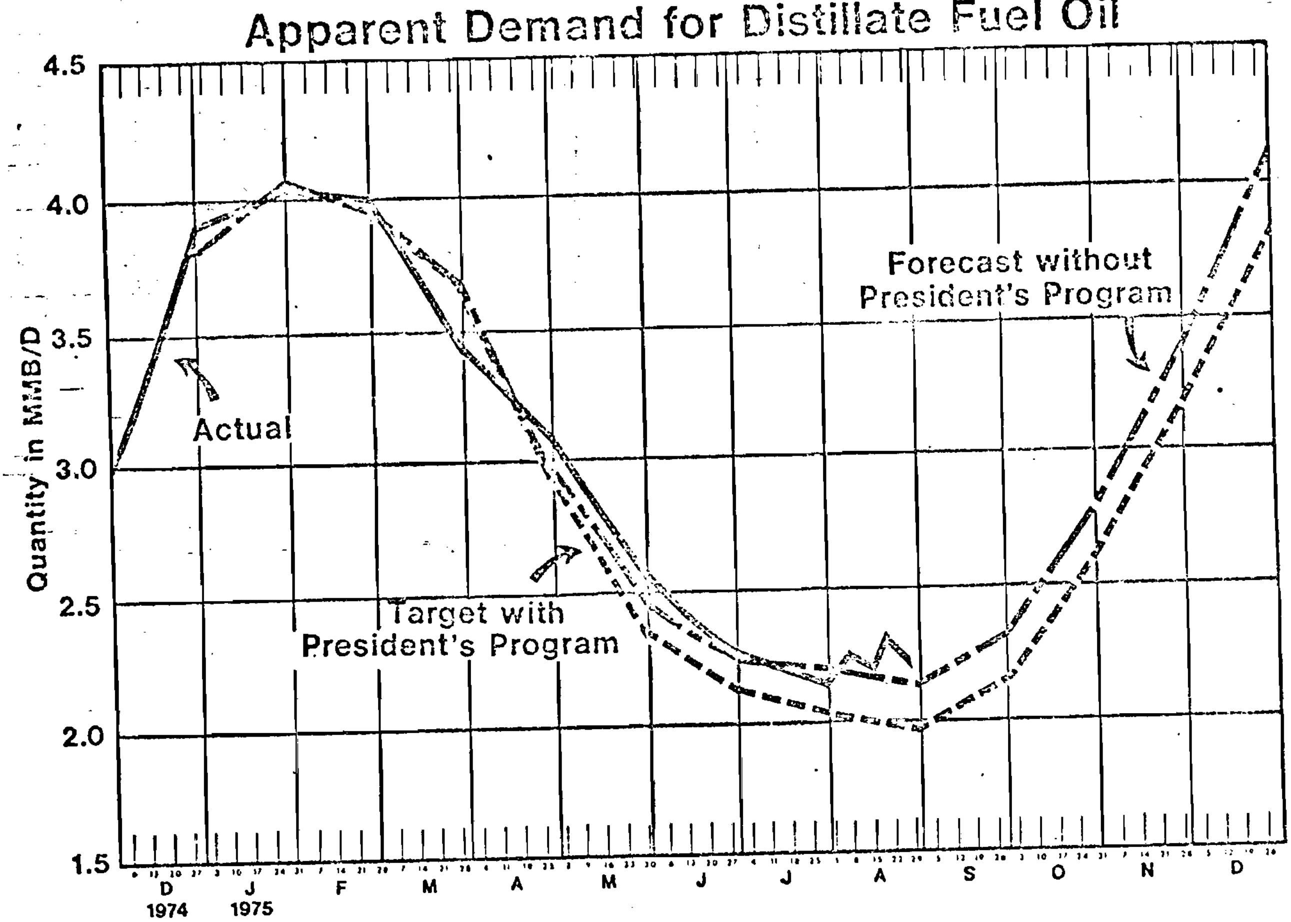
Figure 4

Apparent Demand for Residual Fuel Oil



o For the 4 weeks ending August 29, apparent demand for residual fuel oil was 2.33 million barrels per day, which was 410,000 barrels per day above the forecast, but 490,000 below last year. The level, however, was only 70,000 barrels per day below 1973.

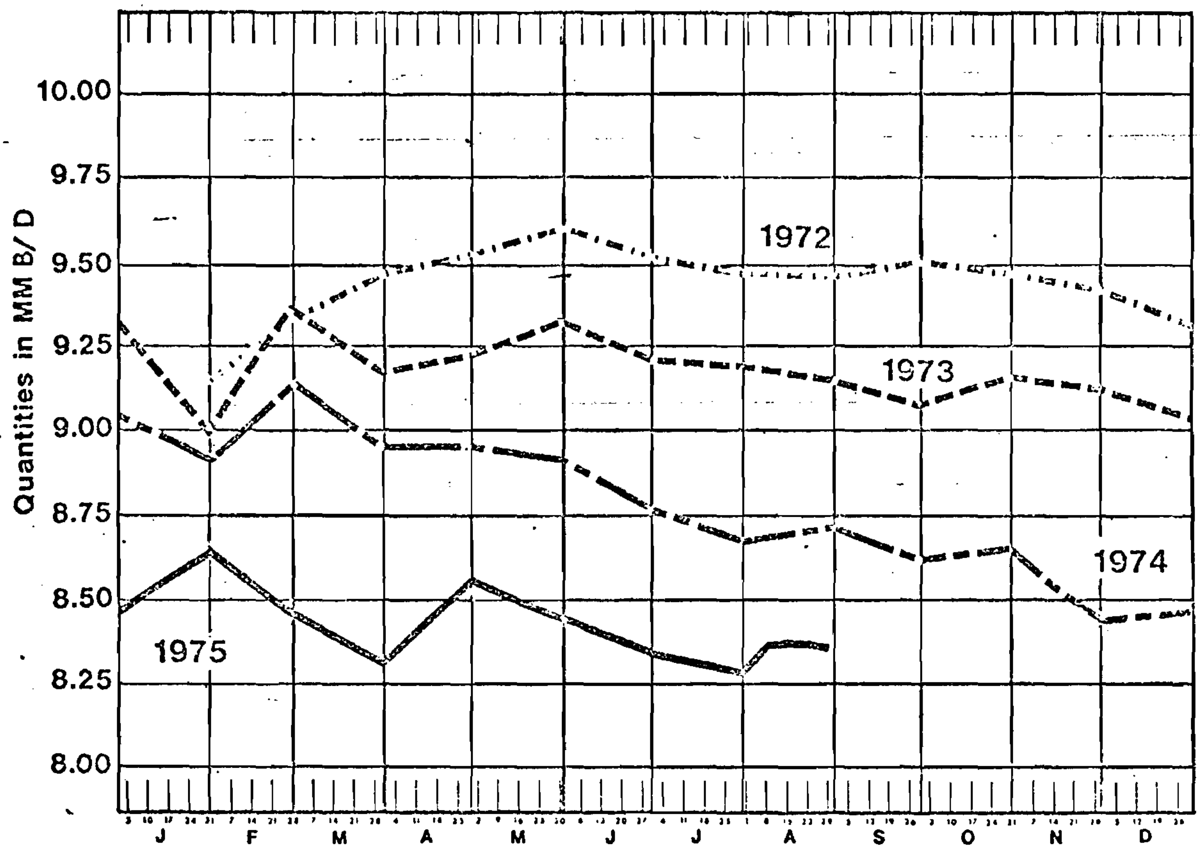
Figure 5



o Apparent demand for distillate fuel oil for the 4-week period ending August 29 was 2.22 million barrels per day, 60,000 barrels per day above the forecast and 100,000 barrels per day below last year.

Figure 6

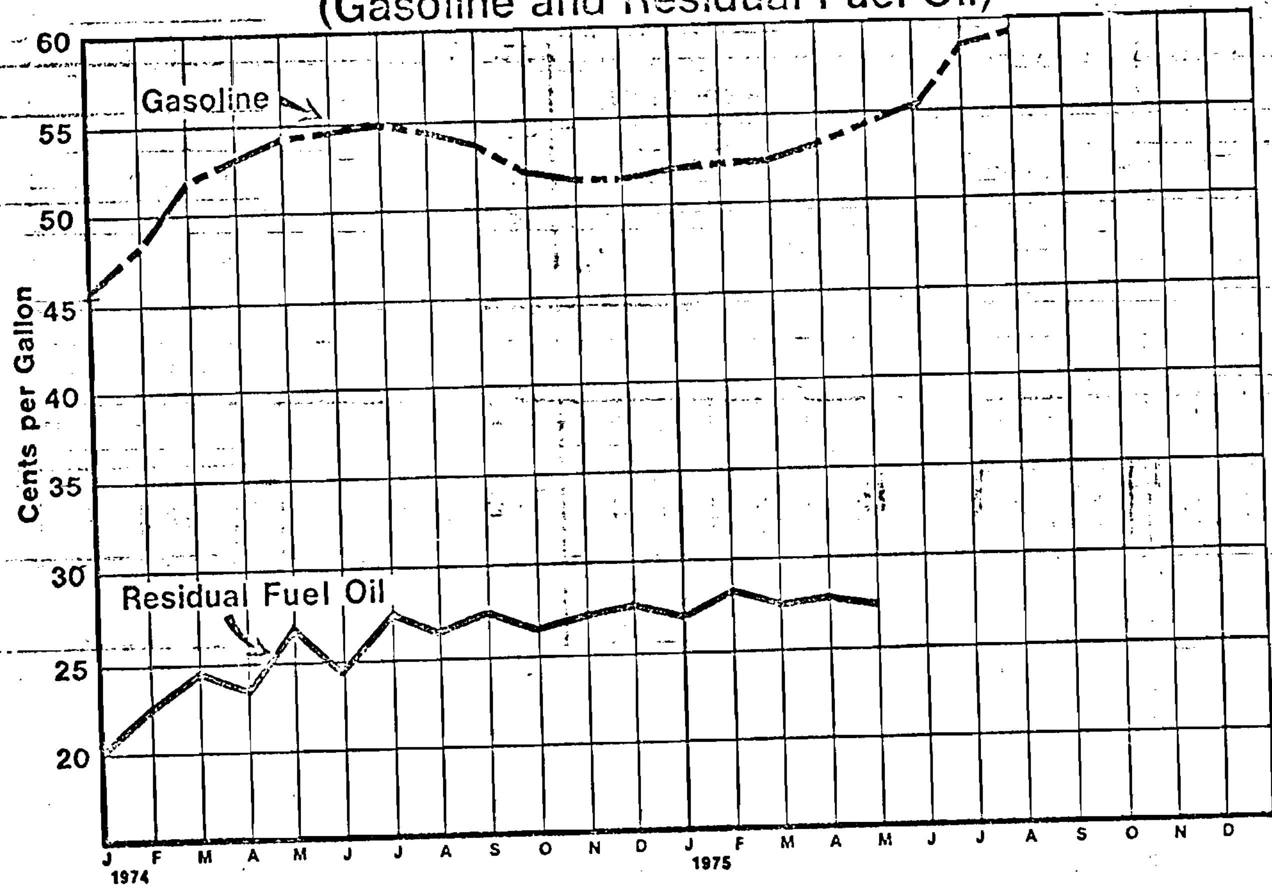
Domestic Crude Oil Production



- Production of crude oil for the 4 weeks ending August 29 was 8.36 million barrels per day according to API estimates, 6.3% and 11.2% below the corresponding 1974 and 1973 BOM estimates.

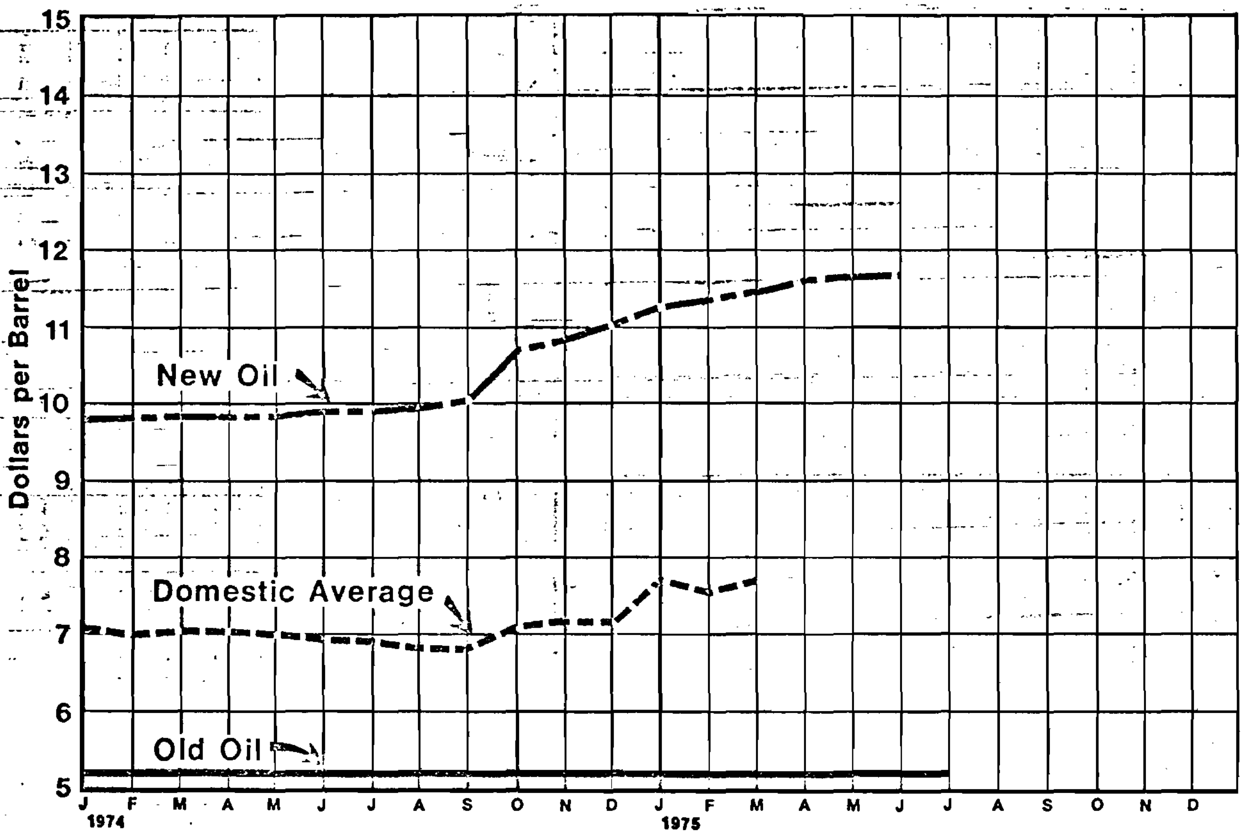
Figure 7

Retail Prices
(Gasoline and Residual Fuel Oil)



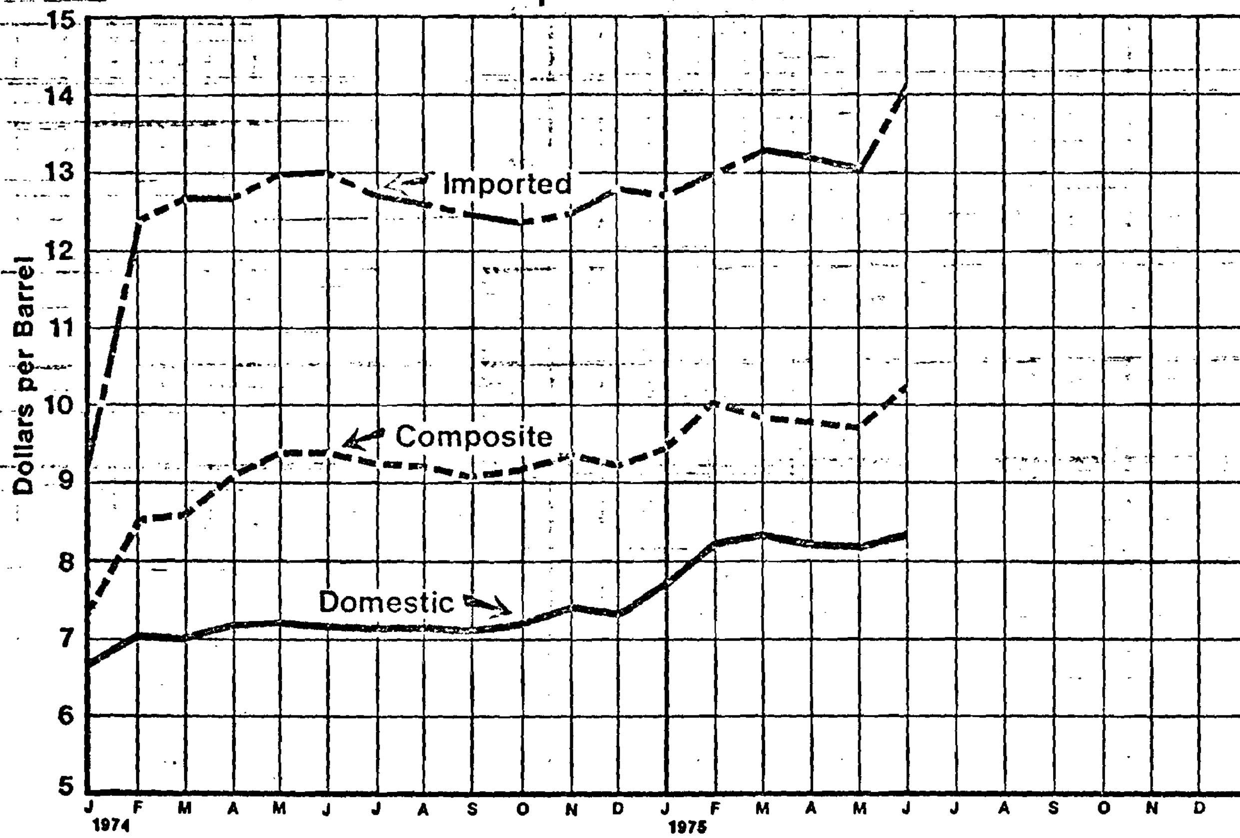
- o Residual fuel (no new data since last report).
- o The average retail price for regular gasoline during August was 59.2 cents per gallon, an increase of 0.5 cents over the June price of 58.7 cents per gallon.

Figure 8
Crude Oil Wellhead Price



(No new data since last report).

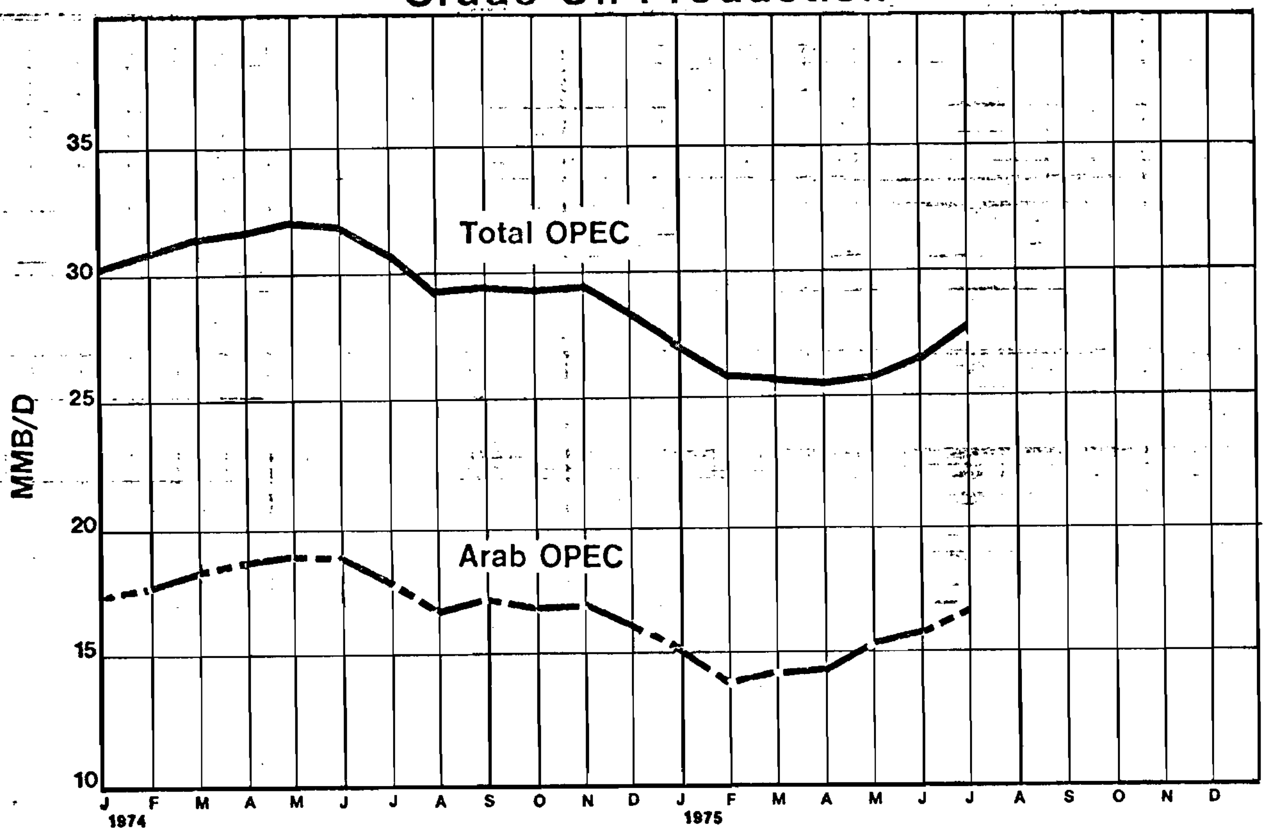
Figure 9
Crude Oil Refiner Acquisition Cost



(No new data since last report).

Figure 10

OPEC Countries Crude Oil Production



(No new data since last report).

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries plus estimated refinery gains, plus net imports of products plus or minus net changes in primary stocks of products are used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly figures through July from FEA's Weekly Petroleum Reporting System and Monthly Petroleum Reporting System, and 4-week moving averages from the API Weekly Statistical Bulletin from 4 weeks ending August 8 for tables 1 and 6. Demand after July estimated for tables 2, 3, 4, and 5 by FEA primarily from the Bulletin. Tables 7, 8, 9, and 10 from FEA.

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

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

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

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

September 15, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb FGZ

The following summarizes your instructions relating to the Administration's position concerning oil decontrol.

1. Simple Extension of Control Authorities

We will be prepared to accept the simple extension as passed by the Congress which will extend controls to October 31. We would further be willing to agree that an administrative decontrol program will not be submitted to Congress before October 20. We would strenously object to any legislative limitations to your authorities as part of any simple extension.

The White House Press Office in response to questions will indicate that we are dismayed that the Senate would throw unneeded preconditions into the extension discussion at a time when we should be examining mutually acceptable long-term solutions to the pricing issue.

2. Legislative Phase Out of Controls

Max Friedersdorf will be provided with an "Oil Pricing Act of 1975," putting in legislative language the 39-month program you submitted to the Congress prior to the August recess. We will attempt to get the maximum number of co-sponsors on this legislation.

With regard to press questions we will indicate that we welcome the Congressional initiative to legislate the 39-month decontrol program.

3. General Press

Our public position will be to emphasize the importance of the underlying issue, of which decontrol is only one small part, e.g., the President's program for energy independence and lessening vulnerability to the oil cartel. While oil decontrol will ultimately result in higher prices, the alternative is higher prices with increasing vulnerability. That alternative would effectively have us providing investment dollars to support the cartel with American consumers paying the price.

We will report to you frequently indicating developments as they unfold.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

September 15, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Z

SUBJECT: OIL DECONTROL

BACKGROUND

Last week, the House passed a simple 60-day extension of oil allocation and price controls. On the Senate side, action was delayed by the Democrats' attempts to make the 60-day extension begin on date of enactment, effectively a 75-80 day extension, and prohibitions on sending any administrative decontrol plan to Congress during the first 45 days of the extension.

With respect to a substantive compromise, action has been minimal and there are some indications that the House will attempt to pass some form of decontrol as part of H.R. 7014 -- an unacceptable bill which includes among other things, a mandated gasoline shortage.

STRATEGY

While we will attempt to get a simple 45-day extension, it is likely that we will get a somewhat longer (60 day) extension, possibly with other restrictions. Although such a bill is inconsistent with your agreement with the Democratic leadership, we feel we have no alternative but to sign it if it is reasonble. However, we should make clear it is a bad faith effort by some Members of Congress to insert preconditions in the joint process. To this end, we have attached some suggested talking points for your Tuesday press conference.

With respect to the compromise on decontrol, we are now putting your 39-month administrative proposal into legislative form and will work to get a large number of co-sponsors to submit it after the Senate acts on the simple extension. This should keep attention focused on your proposal. We will try to get this legislation to the floor for a vote in the Senate. If this fails, it may be bottled up by Jackson in the Senate Interior Committee. If this occurs, I'm sure we can bring a lot of public attention to bear on the politics of such an action.

TALKING POINTS
ON
DECONTROL

1. As you know, the Democratic leadership requested an additional 30-45 days to attempt another compromise on oil decontrol. I agreed to such an extension of price controls if there was some assurance that an acceptable compromise could be reached.

2. The House passed a simple 60-day extension but the measure is now tied up in the Senate over whether the act should in effect last 75-90 days and also preclude my authority to submit any administrative decontrol plan for 45 days.

3. The leadership asked for a simple extension and I said I would sign one if there appeared to be a good faith effort to reach agreement on the pricing issue leading to a complete and comprehensive energy policy.

4. I don't know how we can reach a compromise in 60 days if after 15 days Congress is still arguing over a simple extension. I would hope we could get down to a serious non-partisan attempt to make a first step toward a complete American program to achieve independence.

FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

September 15, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR DICK CHENEY

FROM: Frank G. Zarb /S/

Attached is a summary of today's meeting. I will up date it once a week from now on. As we get nearer the end of September we will roll in a proposed response to OPEC price increases, etc.

I have given copies to John Marsh, Max Friedersdorf, and Alan Greenspan. Did you want to give a copy to Bill Greener in Ron Nessen's absence?

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

September 15, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

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part, e.g., the President's program for energy [illegible] and lessening vulnerability to the oil cartel. While