The original documents are located in Box 2, folder: “Memoranda to the President, December 1-11, 1975” of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

[ca. 12/1/75]

Was not sent

Revised 12-1 or 2

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE DEPUTY ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

SUBJECT: Status of Natural Gas Legislation

The Energy and Power Subcommittee of the House Interstate and Foreign Commerce has completed action on a natural gas bill that:

- adopts a short-term emergency provision similar to that passed in the Senate; but

- rejects any long-term solution such as deregulation.

Chairman Dingell is strongly opposed to deregulation at this time, arguing that his committee will have to study the overall natural gas situation for some months before it can begin to develop an adequate solution to the nation's natural gas shortages.

The full Committee will take up the Subcommittee bill soon after the Thanksgiving Recess, although no date has been set. Many members, perhaps even a narrow majority, of the committee favor a Pearson-Bentsen approach to deregulation, but Dingell will probably be successful in his efforts to keep his bill from being amended to include a deregulation title. He is also working to get a rule out of the Rules Committee to prevent his bill from being amended on the House floor.

Our current discussions indicate that we have enough votes on the House floor to amend the Dingell short-term emergency bill with a Pearson-Bentsen type long-term deregulation provision. Consequently, legislative efforts are focused as follows:

- Attempt to amend the Dingell short-term bill in full-committee with an improved Pearson-Bentsen provision. If unsuccessful ,

- Work with the Rules Committee to insure that the Dingell bill is reported under a rule that will allow it to be amended. Work in this regard is already under way in concert with our efforts in full committee.

- Continue to work with selected House members to insure a successful vote for a Pearson-Bentsen amendment on the House floor if the way for such a vote can be paved.

Dingell is aware of our efforts. If we are successful with the Rules Committee, he is likely to follow a strategy similar to that adopted by Senator Magnuson in the Senate earlier this year of keeping the bill from coming up for floor action. We are doing what we can to forestall this possibility.

It should be noted that House action on natural gas does not appear to be related to your decision on the Omnibus Energy Bill developed by the Conference Committee. This could change, but the situation is stable at the current time.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

December 4, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

Attached is our analysis of the Conference Energy Bill.

We have seen virtually all of the language which will go into the Conference report. As of this evening there are several sections still to be completed. The finished conference report may be filed on Saturday with the first vote coming in the Senate late next week.

For the most part, the material in this package represents FEA analysis. We sent earlier copies to your senior advisers and are now sending them copies of this semi-final draft. A completed paper, including comments by all of your advisers and their recommendations will be on your desk when you return.

Jack Marsh, Max Friedersdorf and I met for sometime with Rhodes, Brown, Broyhill, Fannin and Hansen today. It is our view that they will support your decision on this bill whatever it may be. However, they asked that we give them an early signal a day or so before your announced decision so that we can work together to maximize the support of Republican Members.

I suggest that you hold off your final decision until you have had the benefit of the recommendations of all your advisers. You may want to have one more meeting with Rhodes, Brown, Broyhill, Fannin, Hansen and Scott.

Attachment

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: H.R. 7014/S. 622: The Energy Policy and Conservation Act

The Committee Report on the Energy Policy and Conservation Act (H.R. 7014/S. 622) is now completed and in final printing. Although floor action on the bill will probably not occur until after your return from China, we do have sufficient information on the bill to evaluate its provisions and obtain the views of your advisors.

In evaluating the desirability of signing this bill into law, four factors should be considered:

- The acceptability of the pricing provision.
- Reactions to the legislation and likely events if it is vetoed or signed.
- The impacts of the legislation on your energy and economic goals.
- Other major elements of the bill and their desirability.

These evaluations and the views of your advisors are contained in this memorandum as follows:

I. Analysis of Pricing Provision

- Tab A: Description of the Pricing Provision
- Tab B: Comparative Price Scenarios
- Tab C: Energy Impacts of Alternative Price Scenarios

- Tab D: Economic Impacts of Alternative Scenarios
- Tab E: Ability of Provision to Lead to Decontrol
- Tab F: Alternatives to Acceptance of Plan
- Tab G: General Conclusions
- Tab H: Reasons to <u>Reject</u> Conference Bill
- Tab I: Reasons to <u>Accept</u> Conference Bill
- Tab J: Recommendations of Advisors

II. <u>Analysis of Other Provisions</u>

I recommend that you review the attached analysis and meet with your advisors to discuss the bill and their views soon after you return from China.

Attachment

I

TAB A
Description of Pricing
Provision

TAB A

DESCRIPTION OF THE PRICING PROVISION

The pricing provision in the Energy Policy and Conservation Act is an amendment to the Emergency Petroleum Allocation Act that mandates the following changes:

- The existing price control scheme (i.e. old oil at $5.25 per barrel and new oil uncontrolled) is replaced with a "domestic composite" control methodology. All domestic oil is initially controlled at an average price of $7.66 which can be increased as follows:

  - The composite may be increased monthly at the discretion of the President by an amount equal to the GNP deflator throughout the life of the program. An additional three percentage points may also be added at the discretion of the President through February, 1977 to provide a production incentive, but the total upward adjustment (GNP plus production incentive) cannot exceed 10 per cent per year unless further authority to modify the adjustment is obtained.

  - On February 15, 1977, the President submits his recommendations regarding both the appropriate size of the production incentive escalator for the remainder of the program and the new ceiling limitation on the total inflator. The recommendation becomes law if not disapproved by either House of Congress. If disapproved, the President may submit another recommendation.

  - Increases over and above the initial 10% limitation may be made at any time during the 40 month life of the program upon a Presidential recommendation that is not disapproved by either House. These recommendations can be submitted every 90 days and are maintained for the life of the program if approved.

  - Alaskan oil can be excluded from the composite price calculation upon a recommendation of the President that is not disapproved by either House. This exclusion, the effect of which is to raise the average price for all domestic oil, cannot occur until April 15, 1977 (approximately six months before Alaskan oil will begin to flow through the pipeline).

- The President is provided flexibility to set various prices for different categories of oil or fields in order to assure maximum production provided the composite level is not exceeded.

- The mandatory control program converts <u>automatically</u> to standby at the end of 40 months. It can only be maintained in full mandatory status by the President based upon certain findings. Congress cannot prevent the conversion to standby except, of course, by passing a new law. Consistent with our IEA obligations, the standby authorities expire 30 months after the 40 month conversion to standy controls.

- The President is authorized to dismantle as much of FEA's regulatory program as possible (primarily price and allocation controls on wholesalers and retailers which are the bulk of those currently controlled by FEA). Each such deregulation action, if not disapproved by a one House vote is permanent. The objective here, which is underscored in the Conference Manager's Report, is to reduce FEA's regulatory program to a crude price control system as soon as possible coupled with entitlements to insure the competitive viability of refiners who do not have access to low priced oil.

TAB B
Comparative Price
Scenarios

TAB B

COMPARATIVE PRICE SCENARIOS

I. General Information

The price provision initially controls all domestic crude oil at an average price of $7.66. If one assumes that the recent OPEC price increase has been fully rolled-through in domestic prices (which is not the case), the current average price of domestic oil is approximately $8.75. If the calculation is made without the $2.00 import fee in place, the current price of domestically produced crude oil is an estimated $7.95. The actual price of domestic crude oil, however, in the absence of the fee would be equal to slightly less than the $7.66 reflected in the bill since the OPEC price increase has had very little impact on domestic prices at this point in time.

In evaluating the price effects of this program, comparisons with the existing controls program or the 39 month program are heavily influenced by the status of the import fee and the assumptions made about the rate of escalation that will be allowed by the Congress. Given current legal uncertainties with the fee, it has been removed for comparative purposes.

The pricing provision is evaluated and compared to other programs (e.g., immediate decontrol, the 39 month proposal) according to three alternatives that reflect different Congressional outcomes in response to future Presidential recommendations:

- Unfavorable Congressional action, i.e., with the 3% escalation disapproved after February 1977 and no exemption of Alaska from calculation of the composite price. (An unlikely outcome.)

- Moderate Congressional action, i.e., with the 10% escalation through the 40 months and Alaska exempted. (A minimum outcome.)

- Favorable Congressional action, i.e., a 12% administrative rate approved by Congress during the first year, a 15% rate approved for the second and successive years, and Alaskan oil exempted. (A possible outcome.)

II. Comparative Price Impacts of Alternative Scenarios

	Average Domestic Price ($/Bbl.)				
	1/76	1 Yr.	2 Yr.	3 Yr.	40 mos. 1/
Current Controls	7.95	9.11	9.84	11.02	11.14
39 Month Program	7.95	8.96	10.74	12.97	13.45
Immediate Decontrol	12.00	13.90	14.65	15.37	15.58
Conference Bill					
Unfavorable	7.66	8.43	9.02	9.65	9.88
Moderate	7.66	8.43	9.27	11.00	11.39
Favorable	7.66	8.58	9.87	12.33	12.98
Est. World Price 2/	13.00	14.40	15.15	15.87	16.08

1/ 39th month shown as 40th for comparative purposes.
2/ Assumes that actual OPEC prices increase at about 5% per year.

III. Range of Opportunities for Decontrol of "Old" Oil

Differing amounts of "old" oil can be controlled depending upon the assumptions that are made regarding future Congressional action and the maximum price that is to be allowed for any domestic oil. The following examples illustrate the range of opportunities according to alternative Congressional actions.

- If "new" oil is allowed to float with OPEC prices, then at the end of 40 months:
  - 39% of the old oil can be decontrolled with "favorable" Congressional action;
  - 2% of the old oil can be decontrolled with "moderate" Congressional action; and
  - None of the old oil can be decontrolled with "unfavorable" Congressional action, and would require rolling back some portion of the new oil.
- With "favorable" Congressional action, 80% of old oil could be decontrolled by the end of 40 months, and the new oil cap would be about $13.65.
- With the "moderate" assumptions, 80% of old oil could be decontrolled if a cap on new oil was maintained at about $12.00.

- With "unfavorable" Congressional action, 80% of old oil could be decontrolled after 40 months if the cap is set at about $10.30.

IV. <u>Price Per Gallon Impacts of Alternative Price Scenarios</u>

	Change in Price Per Gallon(¢) 1/				
	1/76	1 Yr.	2 Yr.	3 Yr.	40 mos.
Current Controls	(1.7)	(.2)	1.5	3.2	3.8
39 Month Program	(2.5)	(.3)	2.9	5.4	6.2
Immediate Decontrol	6.0	6.2	8.0	8.5	9.1
Conference Bill					
Unfavorable	(2.9)	(1.7)	(.3)	.4	.6
Moderate	(2.8)	(1.5)	.3	2.2	2.8
Favorable	(2.8)	(1.0)	.6	3.4	4.3

1/ All estimates assume full pass through of dealer margins and are compared to the current price. Figures in parentheses represent decreases, but it is unlikely that price reductions will flow through completely to the "pump". Further, the price changes here are related solely to product price changes and do not include any other factors such as increased rents, labor costs, and so forth.

TAB C
Energy Impacts of Alter-
native Price Scenarios

TAB C

ENERGY IMPACTS OF ALTERNATIVE PRICE SCENARIOS

I. General Information

Your January 15 State of the Union proposals set goals to reduce imports by 1 and 2 million barrels per day for 1975 and 1976 respectively. Even if these programs were implemented now, their effects would be delayed a year, i.e., 1976 and 1977 because of the time that has elapsed as we attempted to reach agreement with the Congress.

The energy pricing provision of the Conference bill holds out the promise of complete decontrol in 40 months -- with all the positive effects on oil supply and conservation, but its short-term effects are less desirable than your previous proposals. Shown below are the expected energy impacts under each of these various pricing alternatives, excluding other elements of your program.

II. Energy Impacts of Alternative Price Scenarios

	Domestic Production 1/ (Thousands Bbbl/day)		
	After 1 Year	After 2 Years	After 3 Years
Current Controls	10,120	10,120	11,220
39 Month Program	10,220	10,420	11,620
Immediate Decontrol	10,220	10,420	11,720
Conference Bill			
Unfavorable	10,070	10,120	11,220
Moderate	10,070	10,170	11,620
Favorable	10,070	10,170	11,620

	Consumption (Thousands bbl/day)		
	After 1Year	After 2 Years	After 3 Years
Current Controls	18,512	19,547	20,467
39 Month Program	18,517	19,495	20,368
Immediate Decontrol	18,279	19,225	20,144
Conference Bill			
Unfavorable	18,604	19,679	20,637
Moderate	18,604	19,658	20,542
Favorable	18,597	19,649	20,410

1/ The basis of calculation used to derive these estimates is consistent with the approach used all year. However, some analysts argue that the short-term production effects are more significant.

	Imports (Thousands Bbl/day)		
	After 1 Year	After 2 Years	After 3 Years
Current Controls	7,992	9,027	8,847
39 Month Program	7,897	8,675	8,348
Immediate Decontrol	7,659	8,405	8,024
Conference Bill			
Unfavorable	8,134	9,159	9,007
Moderate	8,134	9,088	8,522
Favorable	8,127	9,079	8,393

If the other short-term measures you requested as well as the current pricing provision are enacted, the following net import savings would result compared to a continuation of current controls and a removal of the fee.

	Import Saving (Thousands Bbl/day)		
	After 1 Year	After 2 Years	After 3 Years
39 Month Program	625	1,112	1,309
Immediate Decontrol	863	1,382	1,633
Conference Bill			
Unfavorable	388	628	650
Moderate	388	699	1,135
Favorable	381	708	1,264

In summary, the current pricing provision plus your other proposed actions show substantially less savings than your original goals or 39-month plan, but is still a positive program to reduce imports.

The long-term supply, demand and import effects depend upon what happens after 40 months. If price controls end, then by 1985 the full positive effects of decontrol will be felt. If controls continue, these benefits will be greatly reduced, but the impact is completely dependent on the form of controls ultimately extended. If, for example, a composite price were set which merely escalates at the rate of the GNP deflator, imports could be 5-7 million barrels per day higher by 1985.

TAB D
Economic Impacts of
Alternative Scenarios

TAB D

ECONOMIC INDICATORS UNDER ALTERNATIVE
ENERGY PRICING POLICIES

(numbers in parentheses include compensating fiscal policy)

Policy 1/	1976			1977			1978		
	GNP ($B 1958)	Unemployment (% Change)	Inflation (% Change)	GNP ($B 1958)	Unemployment (% Change)	Inflation (% Change)	GNP ($B 1958)	Unemployment (% Change)	Inflation (% Change)
Current Controls									
39-Month Decontrol									
Immediate Decontrol									
Conference Bill									
Unfavorable 2/									
Moderate 3/									
Favorable 4/									

FIGURES TO BE SUPPLIED BY CEA

1/ All cases assume no import fees
2/ Assumes Alaskan oil under composite; allows the controlled price of oil to rise at 10 percent annually until February 1977 and at 7% thereafter.
3/ Excludes Alaskan oil from composite and allows the controlled price of oil to rise by 10 percent annually.
4/ Excludes Alaskan oil from composite; allows the controlled price of oil to rise by 12 percent until February 1977 and 15 percent thereafter.

TAB E
Ability of Provision
to Lead to Decontrol

TAB E

ABILITY OF PRICING PROVISION TO LEAD TO DECONTROL

The pricing provision contained in the Energy Policy and Conservation Act converts automatically to standby at the end of 40 months and can only be maintained in full mandatory status beyond that time by the President on the basis of certain findings. Congress cannot prevent the conversion to standby except, of course, by passing a new law.

The extent of the pressure on the President to maintain the program at the end of 40 months will be a function of the prevailing "gap" between composite domestic prices and world prices. This in turn will be a function of:

- The prices charged at the time by the members of OPEC; and

- Our success in achieving increased inflators in the composite price through our 90 day actions.

The difference between current domestic prices and what the uncontrolled price would be if the import fee were removed is slightly above $4.00 per barrel. If OPEC continues to increase its price with inflation and we fail in our attempts to increase the inflator (e.g., follow the unfavorable scenario above), the gap will be almost $6.00 after 40 months and the President will be under considerable pressure to maintain the program at the end of 40 months (see Table below).

If, on the other hand, OPEC is unable to increase its price to fully keep pace with inflation or we are successful in our efforts to increase the inflator (e.g., the moderate or favorable scenarios above), the gap will be small and the pressures on the President to maintain the program will be reduced significantly or eliminated. Under moderate assumptions about the Conference bill, the price differential would range from $1.93-$4.19 per barrel, depending upon future OPEC price increases; under favorable conditions, the range would be $0.34-$2.60 per barrel.

DIFFERENCES IN DOMESTIC COMPOSITE AND DOMESTIC OIL PRICES UPON TERMINATION OF CONTROLS

	IF FURTHER OPEC PRICE INCREASES			IF NO FURTHER PRICE INCREASES		
	Domestic Composite Price ($/BBL.)	Domestic Prices Upon Termination of Controls	Difference ($/BBL.)	Domestic Composite Price ($/BBL.)	Domestic Prices Upon Termination of Controls	Difference ($/BBL.)
Current Controls	11.14	15.58	4.44	9.85	13.32	3.47
39 Month Program	13.45	15.58	2.13	13.32	13.32	--
Immediate Decontrol	15.58	15.58	--	13.32	13.32	--
Conference Bill:						
Unfavorable	9.88	15.58	5.70	9.88	13.32	3.44
Moderate	11.39	15.58	4.19	11.39	13.32	1.93
Favorable	12.98	15.58	2.60	12.98	13.32	0.34

TAB F
Alternatives to
Acceptance of Plan

TAB F

ALTERNATIVES TO ACCEPTANCE OF PLAN

Critics of the pricing provision contained in the Energy Policy and Conservation Act have suggested several alternatives to an acceptance of the provision, including a continuation of current controls, immediate decontrol, or submission of a modified 39-month plan. We have examined these alternatives and have concluded that the only realistic alternative to acceptance of the plan in the near term is immediate decontrol. The "near term" aspects of this option are critical, however, given the likelihood of reactive and punitive legislation in the future after decontrol had been allowed to raise prices, cause competitive problems for some refiners, increase propane prices and industry profits, and so forth. An assessment of the alternatives is provided in the following.

- Extension of Current Controls

  In our view, an extension of current controls is not a viable alternative. If the Congress could be persuaded to accept such an extension, it would be coupled with the establishment of a cap on new oil and no escalator or other changes to allow us to dismantle large segments of the FEA regulatory program. The extension would be either until next March or until the spring of 1977, making the shape of the control program a major subject of debate in the election.

  It is, however, highly unlikely that Congress would agree to an extension of current controls. Dingell, Jackson, and others, believe that the Conference pricing provision is the best compromise we can hope for: if it is not acceptable, then the only alternative is decontrol. It should be noted that an effort was made to adopt a simple extension of current controls during the Conference without any success when it looked like we were going to end up with a very punitive pricing schedule.

- Decontrol

  Immediate decontrol is clearly the best policy from an energy self-sufficiency point of view and the only realistic alternative to the Conference pricing provision.

If decontrol is achieved through the sustaining of a veto of the Conference bill, the Democratic strategy would likely be to hold off on any further action until prices and profits went up, several independent refiners failed, propane prices and supplies became a serious problem for farmers and rural households, and the issue was debated in the primaries or general election campaigns.

This delay could be followed sometime next summer by Congressional attempts to re-legislate controls (probably even more stringent than current controls) or to pass a windfall profits tax, divestiture legislation or other punitive measures.

TAB G
General Conclusions

TAB G

GENERAL CONCLUSIONS

Apart from the specific impacts of the price provision contained in the Energy Policy and Conservation Act, several major conclusions of a general nature can be drawn about the provision:

- The provision does not achieve the results of your 39 month proposal.
- In price terms, the provision is <u>worse</u> than current controls if one assumes the unfavorable case, roughly <u>equal</u> to current controls if one assumes the moderate case, and <u>better</u> than current controls if one assumes the favorable case.
- Apart from price, the program is better than current controls in that it allows and the Conference Manager's Report encourages FEA to dismantle its regulatory controls (price and allocation) on most of the industry (e.g., wholesalers, retailers, etc.).
- The provision is the best that could be achieved from this Conference Committee and probably <u>this</u> Congress (e.g., the Conferees started with a domestic composite price of $5.50 and no escalator and eventually stretched to the limit allowed within the scope of the Conference bill).
- The provision will provide <u>adequate incentive</u> and price coverage for production from domestic sources, although it gives up using the even higher prices we have sought to assure conservation.
- The provision reduces domestic oil industry revenues in the short-term by $600 million from 1975 rates, even though this is largely due to the removal of the tariff.
- The program is opposed by many in the oil industry and some in the Congress, particularly members from both parties who come from the producing states. They would prefer either a continuation of current controls or immediate decontrol.
- Some people believe that we can be more successful than even the favorable case in our attempts to increase the escalator.

TAB H

Reasons to Reject Conference Bill

TAB H

REASONS TO REJECT THE PRICING PROVISION

Major reasons for rejecting the pricing provision contained in the Energy Policy and Conservation Act include the following:

- The pricing provision falls short of your initial goals and your 39 month program. The Nation's ability to reduce its imports will be constrained, even though the program will move in that direction over time.

- There are other provisions in the bill that are undesirable, particularly the coal loan program and the GAO audit provisions (see below).

- The regulatory decisions required to implement the program will impose a heavy burden of responsibility on the FEA Administrator in determining how to price various categories of old oil.

- If decontrol is sustained, both initially and over the long-term, rejection of the bill would end a complex regulatory program and preclude a possible "evolution" of the program into other, more pernicious regulatory involvements by the Federal government.

- If the bill is accepted and we are not successful in escalating the price towards the world price over time, there is the risk that the program would not end after 40 months -- that controls would be continued indefinitely.

TAB I
Reasons to <u>Accept</u>
Conference Bill

TAB I

REASONS TO ACCEPT CONFERENCE BILL

The major reasons for accepting the pricing provision contained in the Energy Policy and Conservation Act include:

- The provision is the best that could be achieved from the Conference and probably the best from this Congress.

- While there appears to be an initial price rollback (largely due to the removal of the tariff), uncertainty over oil pricing policy will be significantly reduced, at least to the $7.66 plus the automatic GNP deflator level.

- Continuing debate over a windfall profits tax will be eliminated and pressures for divestiture will be cooled substantially.

- Although not everything we have asked for, the pricing provision does provide adequate incentive for most domestic production and we still have the ability to keep the pressure on for higher prices every 90 days.

- As outlined below, the bill contains many components of your original energy program.

- Acceptance of the provision will remove the pricing issue and, to a great extent, the petroleum industry from the election debate next year.

- If vetoed, complete decontrol might not last long and there would be repeated attempts at legislating a rollback either separately or as an amendment to numerous other related bills. Future measures could be less desirable than the current provision. The other parts of your energy program contained in the bill could not be achieved until after the election.

- The public will perceive acceptance as an agreement on energy policy between the Executive and Legislative branches, something an increasing number of people are calling for. This agreement and progress would be viewed by many as having been brought about by your efforts and pressure on the Congress.

TAB J
Recommendations of
Advisors

TAB J

RECOMMENDATIONS OF ADVISORS

TO BE SUPPLIED

II

II

NON-PRICING PROVISIONS OF H. R. 7014

The bill contains five of the provisions that were an integral part of the President's January 15 energy program:

- Strategic Reserves

  The provisions are close to the President's program. The early storage program, however, might force more storage in the first three years than we may have wanted for budgetary reasons. Although not tied directly to production from the Naval Petroleum Reserves, NPR legislation now in Conference will be connected to the Strategic Reserve program if approved.

- Standby Emergency Authorities

  Provides most of the standby energy authorities requested by the President. Some burdensome and complicated Congressional review procedures have been improved, but a limited number are still required.

- International Authorities

  Contains the authorities requested by the President to allow the United States to participate in the International Energy Program.

- Coal Conversion

  Language is virtually identical to that requested by the President.

- Appliance Labelling

  While generally consistent with basic mandatory labelling program included in the President's energy program, the bill contains discretionary authority to set mandatory standards that we did not want.

In addition to these elements, the legislation also provides an acceptable way to make allocation and downstream price controls standby, thereby eliminating a complex and unwarranted regulatory program. The bill removes the provision in the existing Allocation Act which requires resubmittal of decontrol actions to the Congress every 90 days.

There are several problem areas in the bill also:

- Auto Efficiency Standards

  Although the Conference bill includes a mandatory automobile efficiency program, the bill is virtually identical in its requirements to the President's voluntary agreement with the automakers through 1980. There may be a problem with the target established for 1985 (27.5 mpg.), but there is a provision in the bill to allow the target to be modified upon recommendation of the Secretary of Transportation.

- GAO Audits

  The bill authorizes the Comptroller General to conduct verification audits on its own or at the request of any Congressional Committee with respect to the books and records of persons who are required to submit energy information or data to FEA, FPC and the Department of the Interior or of all integrated oil companies. The GAO already has this authority when directed by a Congressional Committee, although not by individual Members. The provision is restricted, however, by further authorization and appropriation requirements for GAO to receive resources to carry out these provisions.

- Coal Loan Program

  A loan program of $750 million is authorized for small coal producers. Restrictions on criteria for loan availability, however, are similar to those contained in the proposed Energy Independence Authority Act.

In addition there are several discretionary authorities such as a Federal import purchasing authority and materials allocation which are bad precedents and which are unnecessary.

The budget impacts of the bill are currently under review, although they could be substantial as a result of the Strategic Reserve Program. A rejection of the bill, however, would also have substantial budget impacts as a result of the higher fuel costs to DOD and other agencies that would occur with decontrol.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

December 4, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: STATUS OF NATURAL GAS AND NPR LEGISLATION

Additional action has been taken this week in the Congress on two of your initiatives: natural gas and the Naval Petroleum Reserves. The following is an assessment of these actions and a summary of the steps we are taking to try to achieve a successful outcome.

NATURAL GAS

The Interstate and Foreign Commerce Committee has completed action on emergency natural gas legislation. In a single day of mark-up, the Committee:

- Adopted the Dingell short-term emergency bill with only minor changes.

- Rejected an attempt by Congressman Krueger to amend Dingell with an improved Pearson-Bentsen bill. The rejection was accomplished by a Stagger's ruling that any long-term gas amendments were non-germane.

- Rejected a further amendment by Krueger to change the Dingell emergency provision from a one-year bill to a seven year bill. This amendment, which would have had the effect of deregulating natural gas for seven years (e.g., as per the Governor Boren proposal), was defeated by a tie vote of 19-19. We came close.

The Dingell emergency bill is conceptually different but functionally equivalent to your own emergency proposal of allowing short-term (180 day) emergency sales at uncontrolled prices. There should be no difficulty in tying this emergency provision with the one passed by the Senate in conference. Compared to the Senate version, however, the bill is deficient in that it does not solve the long-term problem.

Dingell is trying to get a closed rule in Rules Committee to prevent any efforts to amend his emergency bill on the House floor with a Pearson-Bentsen type deregulation amendment. We are making an all-out effort, both to convince the Rules Committee to grant an open rule, and to achieve a deregulation amendment on the floor if the rules permit. Many people are convinced that we can win a deregulation amendment on the House floor if it can be considered.

NAVAL PETROLEUM RESERVES

The Conference Committee on the Naval Petroleum Reserves finally convened this week and is making good progress. To date, the Committee has agreed to the following:

- Full production of NPR's 1, 2 and 3 (i.e., no barrels per day limitation) for a period of six years.
- Retention of jurisdiction for NPR's, 1, 2 and 3 in Navy and transfer of NPR 4 to the Department of the Interior.

The only remaining issue to be resolved is the Special Fund to be created out of revenues from the NPR's that can be used to finance the strategic storage program and further development of the NPR's.

We are satisfied with the compromise solutions worked out by the Committee so far, particularly the way they avoided a Congressional impasse on this legislation over the jurisdictional issue. As you know, the House had voted to transfer all of the NPR's to the Department of the Interior and the Senate had voted to leave the NPR's in Navy.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

December 4, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: STATUS OF NATURAL GAS AND NPR LEGISLATION

Additional action has been taken this week in the Congress on two of your initiatives: natural gas and the Naval Petroleum Reserves. The following is an assessment of these actions and a summary of the steps we are taking to try to achieve a successful outcome.

NATURAL GAS

The Interstate and Foreign Commerce Committee has completed action on emergency natural gas legislation. In a single day of mark-up, the Committee:

- Adopted the Dingell short-term emergency bill with only minor changes.
- Rejected an attempt by Congressman Krueger to amend Dingell with an improved Pearson-Bentsen bill. The rejection was accomplished by a Stagger's ruling that any long-term gas amendments were non-germane.
- Rejected a further amendment by Krueger to change the Dingell emergency provision from a one-year bill to a seven year bill. This amendment, which would have had the effect of deregulating natural gas for seven years (e.g., as per the Governor Boren proposal), was defeated by a tie vote of 19-19. We came close.

The Dingell emergency bill is conceptually different but functionally equivalent to your own emergency proposal of allowing short-term (180 day) emergency sales at uncontrolled prices. There should be no difficulty in tying this emergency provision with the one passed by the Senate in conference. Compared to the Senate version, however, the bill is deficient in that it does not solve the long-term problem.

Dingell is trying to get a closed rule in Rules Committee to prevent any efforts to amend his emergency bill on the House floor with a Pearson-Bentsen type deregulation amendment. We are making an all-out effort, both to convince the Rules Committee to grant an open rule, and to achieve a deregulation amendment on the floor if the rules permit. Many people are convinced that we can win a deregulation amendment on the House floor if it can be considered.

NAVAL PETROLEUM RESERVES

The Conference Committee on the Naval Petroleum Reserves finally convened this week and is making good progress. To date, the Committee has agreed to the following:

- Full production of NPR's 1, 2 and 3 (i.e., no barrels per day limitation) for a period of six years.
- Retention of jurisdiction for NPR's, 1, 2 and 3 in Navy and transfer of NPR 4 to the Department of the Interior.

The only remaining issue to be resolved is the Special Fund to be created out of revenues from the NPR's that can be used to finance the strategic storage program and further development of the NPR's.

We are satisfied with the compromise solutions worked out by the Committee so far, particularly the way they avoided a Congressional impasse on this legislation over the jurisdictional issue. As you know, the House had voted to transfer all of the NPR's to the Department of the Interior and the Senate had voted to leave the NPR's in Navy.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

December 9, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

Attached is an update of the analysis of the Energy Policy and Conservation Act.

While we still need to incorporate some of the comments from some of your advisers the attached represents a fairly comprehensive review.

This book includes the economic analysis as prepared by CEA, shown in Tab B.

Attachment

FC

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

December 9, 1975

MEMORANDUM FOR JACK MARSH
MAX FRIEDERSDORF

FROM: FRANK G. ZARB

SUBJECT: MEETINGS WITH VARIOUS CONGRESSIONAL LEADERS CONCERNING THE ENERGY BILL

I thought you might be interested in the following, and you may want to send it along to the President.

1) I met with John Tower last night at some length. While he still is not thrilled with the energy bill, his rhetoric was substantially subdued. No threats similar to the ones we heard at the last leadership meeting. He's going to fight for veto, but I don't think his fight is as highly pitched as previously.

He did make a point at commenting on situs picketing and he spent considerable time telling me why that bill absolutely must be vetoed.

2) Breakfast meeting with Fannin, Hansen, Bartlett, McClure and Hatfield

Fannin and Hansen argued that they now understand why it may be best for the President to sign the energy bill. It is clear to me that both of them, as well as Hatfield, will support the President if he decides to sign. Bartlett and McClure are still on the other side of the question, with McClure substantially less vehement as he has been to date.

They all leaned on me heavily with respect to situs picketing. Fannin was the most outspoken concerning how that bill, in his view, must be vetoed.

3) Further Discussions with Bud Brown

Bud Brown is now clearly arguing to defend the signature by the President with the energy bill. While he could go either way, he and Broyhill have come a long way in understanding why signature could be in the best interest of the country, as well as industry.

The bill will probably go to the Senate floor toward the end of this week, and we are going to have to give our people some kind of signal, I think. What do you think?

December 10, 1975

Not sent

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Removal of $2 Crude Oil Import Fee

As you know, the Emergency Petroleum Allocation Act again expires on December 15. You have previously opposed any further extension of this authority except as part of an acceptable comprehensive energy bill. Thus, unless the Energy Policy and Conservation Act is signed, immediate decontrol of crude oil prices would occur next Tuesday.

Last August, you stated that, to cushion the economic impact, the $2 supplemental import fee on crude oil would be removed in the event of immediate decontrol. In November, during the negotiations on the omnibus energy bill, it was represented that if the conferees adopted an acceptable pricing provision, the $2 import fee would be removed. On the basis of this assurance, the conferees deleted a provision from the conference report which conditioned increases above the $7.66 average domestic price on the prior elimination of the fee.

Therefore, no matter what decision is made on the Energy Policy and Conservation Act, we are now committed to removing the import fee. The only eventualities in which continuation of the fee might be considered are if the Congress were to override a veto of the Energy Policy and Conservation Act or if some other form of extension of the current Allocation Act ultimately resulted.

RECOMMENDATION:

To prevent any withholding of crude oil imports in anticipation of the removal of the fee, and to reiterate the commitment to the conferees, I recommend the removal of the $2 import fee effective December 1, if, upon completion of your review, you decide to sign the Energy Policy and Conservation Act or immediate decontrol results. If you concur, I shall make this announcement tomorrow, before the House votes on the Conference report. I shall phrase the announcement to give you the flexibility to maintain the fees in the unlikely event that an unacceptable bill is enacted over your veto or another form of extension of controls results.

______ Agree

______ Disagree

______ Comments:

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

December 11, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: STATEMENT REGARDING REMOVAL OF TARIFF

You recall we had a discussion earlier on the need to make some kind of statement regarding our intention to make a decision concerning the tariff removal effective December 1.

Alan Greenspan felt that we should place certain caveats in such a statement. We have, therefore, worked one out which has the approval of Lynn, Greenspan, Seidman and Morton. A copy is attached.

With your approval we will make a low key announcement this week.

Attachment

4 Dec 16 memo to Cannon w/ ↑ attached

STATEMENT REGARDING CIRCUMSTANCES AND TIMING
RELATED TO POSSIBILITY OF TARIFF REMOVAL

Price controls under the Emergency Petroleum Allocation Act expired at midnight December 15, 1975. However, the Congress has under consideration the Energy Policy and Conservation Act which, if enacted, will extend this authority.

Under certain circumstances, the $2 import fee on crude oil might be removed as part of the final resolution of this situation. First, if price control authority expires, the President has previously indicated that the $2 import fee would be lifted to cushion the economic impact of immediate decontrol. Second, if the President were to decide to sign the Energy Policy and Conservation Act, the $2 import fee would also be removed in conjunction with the new pricing policy incorporated in that bill.

Under other circumstances, it is possible that the import fee could be retained.

Because such different results may occur, importers must operate in an environment of uncertainty which, in turn, causes economic distortions. For example, prudent importers may curtail imports of crude oil in order to avoid possible inventory losses if prices subsequently fall due to the removal of the import fee.

Therefore, to eliminate possible market distortions from developing, the President has decided to make any removal of the crude oil import fee, whether as a result of immediate decontrol or a decision to sign the Energy Policy and Conservation Act, effective retroactively as of December 1, 1975.

Date: 12/12/75

Office of the Administrator

To: The President

The last time we met with John Tower the subject of "stacked rigs" was discussed. The attached graph shows what has been happening.

Frank

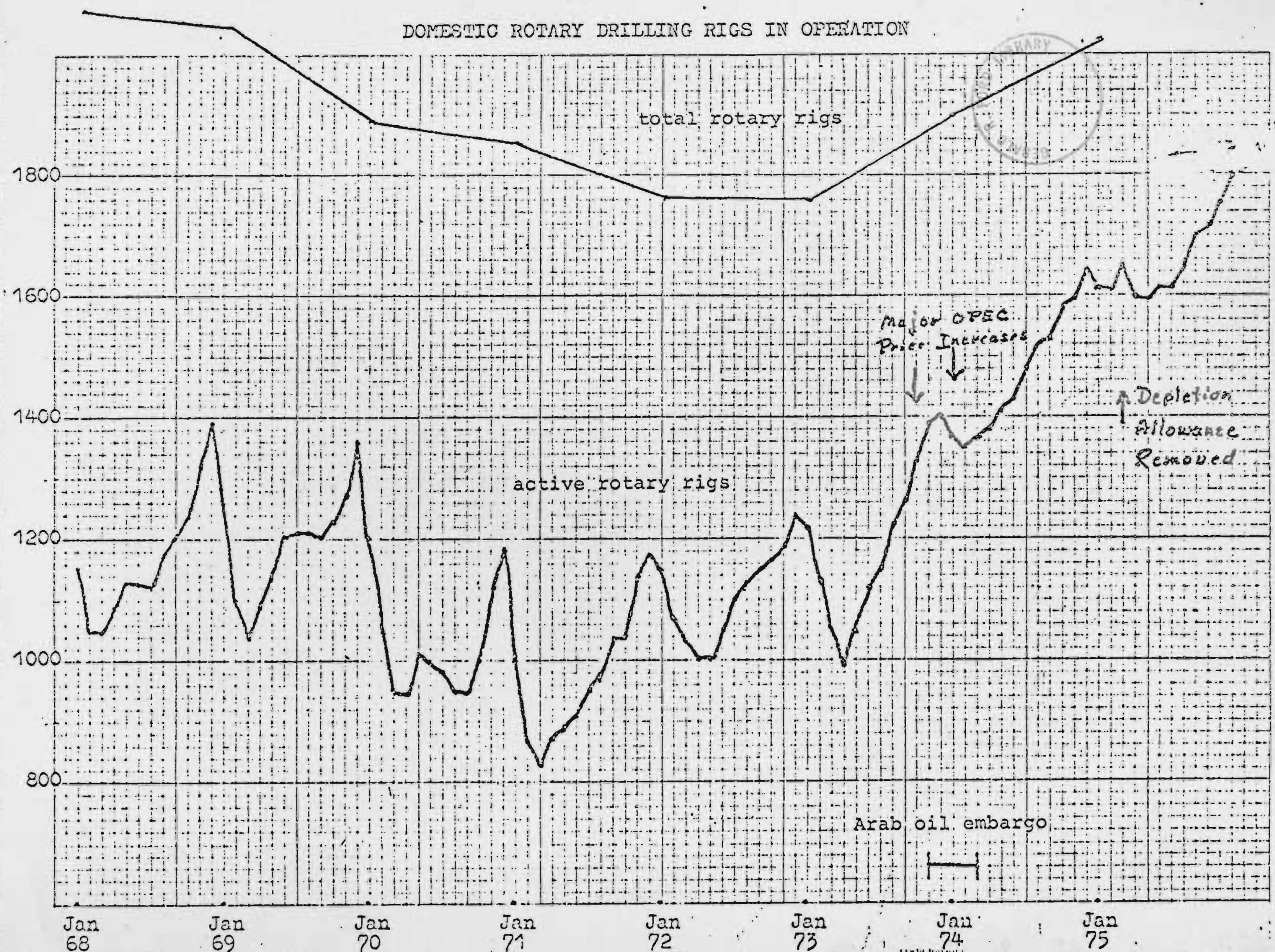
Attachment

Federal Energy Administration

Room 3400

Ext. 6081

DOMESTIC ROTARY DRILLING RIGS IN OPERATION



* December data are for the first week of the month.