The original documents are located in Box 2, folder: "Memoranda to the President, March 1976" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

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FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 2, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB /S/

SUBJECT: Implementation of Energy Policy and Conservation Act Amendments to the Allocation Act

Following your signing of the Energy Policy and Conservation Act (EPCA) on December 22, 1975, FEA has been actively implementing the provisions of the EPCA that amend the Emergency Petroleum Allocation Act. Our goal is deregulation to the maximum extent possible, together with a price structure that will lead to more exploration and recovery of domestic oil.

A summary of the steps we have taken toward this end are set forth below for your information.

I. <u>Decontrol and Elimination of Unnecessary Regulations</u>

On December 31, 1975, in accordance with your announced intention of removing extraneous regulations as quickly as possible, FEA eliminated its rule limiting price increases on gasoline and middle distillates to once a month since this rule was no longer serving an essential regulatory function. FEA has also recently announced elimination of its profit margin restrictions on refiners. In addition, FEA has issued proposals to allow greater latitude with regard to the deferred recovery of non-product costs by refiners.

Hearings were held in thirteen different locations throughout the United States during February to re-evaluate the continuing necessity for FEA's price and allocation regulations. Strong sentiment was expressed at these hearings for the rapid removal of price and allocation controls from all refined petroleum products.

Before the re-evaluation hearings, FEA started the decontrol process by proposing the exemption of residual fuel oil from price and allocation controls. Hearings on this proposal will be held on March 9. FEA intends to submit the proposed exemption to the Congress before April 1, and complete decontrol of residual fuel oil could then occur subject to disapproval by either House of Congress.

FEA is currently preparing detailed analyses of the impact of decontrol of gasoline, middle distillate and greases and lubricants. Assuming the necessary findings can be made, proposed exemptions for these products should be issued in the first week of April, with final submissions to Congress during May. Finally, FEA intends in the near future to ask for public comment on further proposals to permit increased flexibility under its regulations and to eliminate extraneous regulations.

II. Crude Oil Pricing Policy

FEA held hearings in January on the first stage of implementing the new crude oil pricing policy of the EPCA. The final rule adopted on February 1 established a two-tier price system to comply with the statutory $7.66 per barrel composite price constraint. Under this system, old oil is priced at the lower tier price averaging $5.25 per barrel while new oil and stripper well oil is priced at the upper tier price averaging $11.28 per barrel. Special rules were also adopted for unitized fields to provide greater incentives to enter into unit agreements for using enhanced recovery techniques.

On February 26, a notice of proposed rulemaking was issued on the second stage of implementing the crude oil pricing policy. This rulemaking addresses how the 10 percent combined inflation and production incentive adjustments to the $7.66 composite price should be applied to upper and lower tier prices. It also considers further incentives for old oil producers to increase production.

After the final second stage rules are adopted in late March, the third stage will then consider the extent to which adjustments in excess of the 10 percent limitation are necessary to provide the proper level of incentive to optimize domestic crude oil production. FEA intends to conclude this last stage of rulemaking by the end of April so that, if necessary, a proposal may be submitted to the Congress at the earliest legal time under the EPCA, May 1, to adjust crude prices above the 10 percent limitation. Such a proposal would be effective if not disapproved by either House.

III. Modifications to Existing Programs to Conform with EPCA

Changes in FEA's entitlements or crude cost equalization program have been proposed to take account of the new upper tier ceiling on domestic crude oil prices. This proposed rulemaking also considers eliminating the competitive advantage in the East Coast residual fuel oil market that Amerada Hess has enjoyed under the current entitlements program and that was substantially increased by the removal of the $2 crude oil import fee.

FEA has further proposed modification of the small refiner's exemption from the entitlements program established by the EPCA. Such a modification must be submitted to the Congress under the EPCA review provisions before becoming effective. FEA considers a change necessary to avoid undue economic and competitive advantages for certain small refiners.

Amendments have also been proposed to the refiners' crude oil allocation program (buy-sell program) to make certain this program is only used for supply purposes and not cost equalization purposes. Interim final rules have been adopted to conform the existing crude oil producer allocation program (supplier-purchaser freeze) with the new pricing policy until a revised program can be developed.

Finally, new regulations on the use of "banked" or unrecovered increased crude oil costs, the proportionate allocation of costs and the passthrough of crude oil cost decreases were issued on February 1 to implement new restrictions in the EPCA. Generally, these amendments use the maximum extent of the statutory authority in order to allow refiners the necessary flexibility to conduct their affairs without causing market distortions.

3/8/76 J. [illegible] read and concurred per D. Haney — Sent by hand to Dr Connor — GL

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 8, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB /S/

SUBJECT: YOUR QUESTIONS RE DECONTROL AND PRODUCTION INCENTIVES

The following summary sets forth FEA's current and planned steps to remove controls on refined petroleum products and to provide additional incentives for domestic crude oil production.

I. Decontrol of Refined Petroleum Products

- o A public hearing on a proposal to exempt residual fuel oil from price and allocation controls will be held March 9. FEA intends to submit the proposed exemption to Congress by April 1.
  - Prior to exempting residual fuel oil, the East Coast market situation caused by Amerada Hess's competitive advantage must be resolved. This will be done by March 31.
- o Proposals to decontrol gasoline, middle distillates, and greases and lubricants will be prepared for issuance during the first week of April, available to be submitted to Congress in May.
- o A proposal to exempt a product from controls becomes effective if not disapproved by either House of Congress within 15 legislative days.

II. Crude Oil Production Incentives

- o By the end of March, final rules will be adopted on the application to upper and lower tier crude oil prices of the 10 percent combined inflation and production incentive adjustments to the $7.66 composite crude oil price.

- Another rulemaking will be issued during April to consider the extent to which adjustments in excess of the 10 percent limitation are necessary to provide the proper level of incentive to optimize domestic crude oil production.

  - Additional incentives for deep horizon wells, offshore leases, stripper wells and tertiary and other enhanced recovery methods will be considered, in addition to the California crude pricing differential.

  - A higher adjustment level is also necessary merely to keep upper and lower tier prices constant in real dollar terms.

- FEA intends to submit to the Congress its proposal to increase crude oil prices above the 10 percent limitation on May 3, the earliest legal time under the EPCA. This proposal will be effective if not disapproved by either House within 15 legislative days.

- No substantial short-term price increases are anticipated from this proposal, but average crude oil prices will be significantly higher at the end of the 40-month controls period than otherwise if Congress allows the proposal to become effective.

FZ signed orig
3/9

FEDERAL ENERGY ADMINISTRATION

MAR 1 0 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

SUBJECT: BIWEEKLY STATUS REPORT

The January index of industrial production was 4.9 percent higher than January 1975, contributing to the 1.5 percent increase in total petroleum demand for that month over last year.

Although degree days for the 4 weeks ending February 20 were 10.5 percent fewer (warmer weather) than for the same period last year, total demand, at 18.16 million barrels per day, was 570,000 barrels (3.2 percent) higher than last year. Demand will continue to grow throughout the year as the economy recovers, but implementation of your energy program can still keep our embargo vulnerability roughly stable.

Imports of crude oil and refined products for the 4 weeks ending February 20 reached an all-time high of 7.18 million barrels per day. Crdue oil imports, at 5.06 million barrels per day, reached a record level and were 1.2 million barrels per day above last year.

U.S. exports to major oil exporting countries (excluding Canada) totalled $12.6 billion in 1975 compared with $8.1 billion in 1974 and $4.5 billion in 1973. Exports to OPEC countries totalled $10.8 billion, $6.7 billion and $3.6 billion, respectively.

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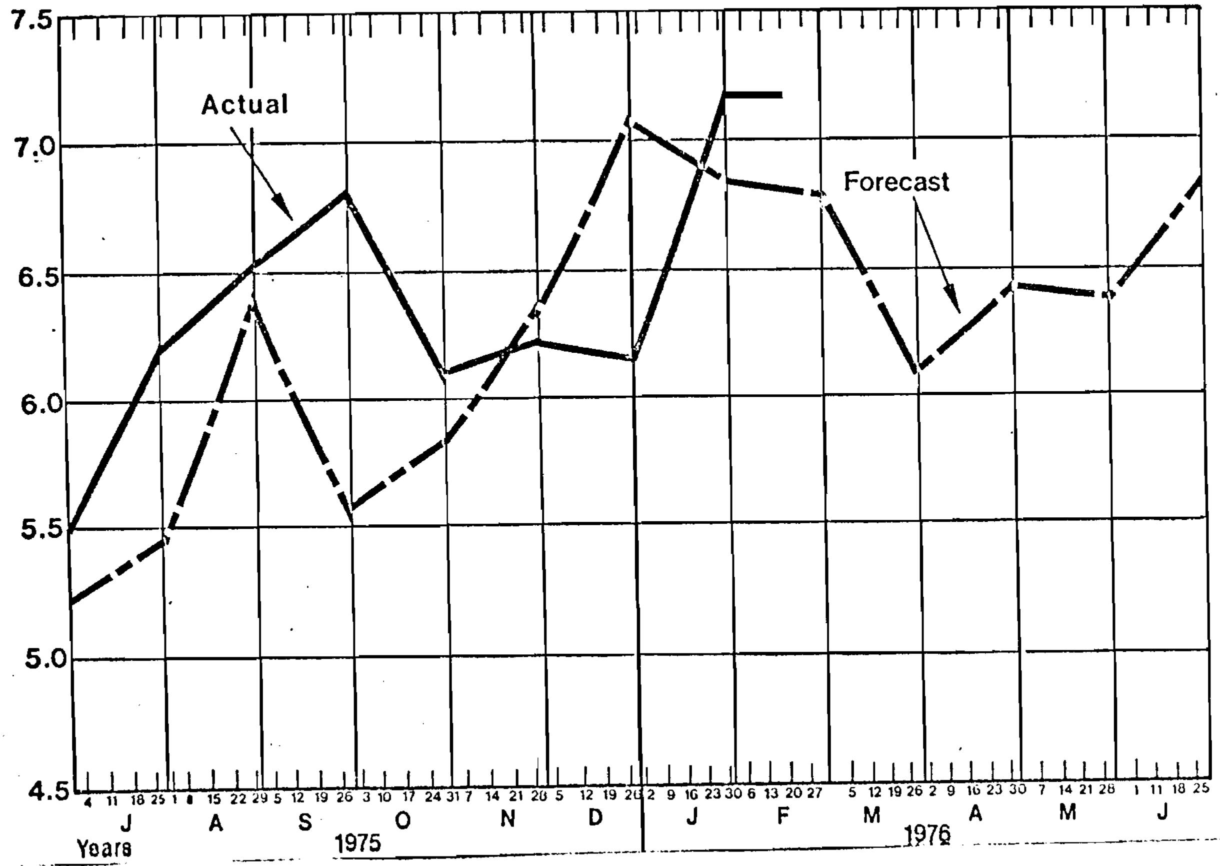
Ford, Gerald R.

Figure 1

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

Millions of Barrels per Day

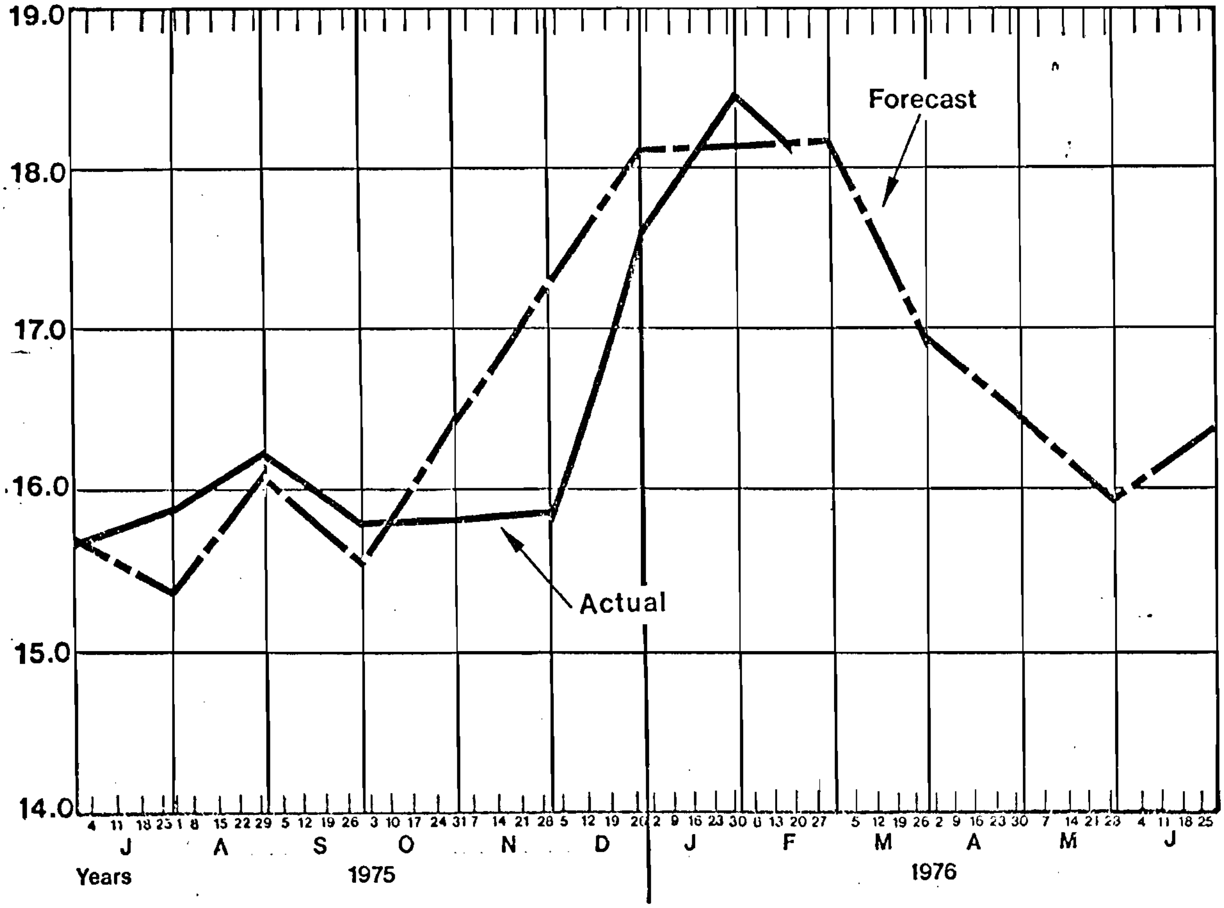


o For the four weeks ending February 20, total imports averaged 7.18 million barrels per day, an all-time high. Crude oil imports, at 5.06 million barrels per day, also reached a record level and were 1.2 million barrels above last year. Product imports, at 2.12 million barrels per day, were about 330,000 barrels per day lower than last year.

Figure 2

Total Apparent Demand for Petroleum Products

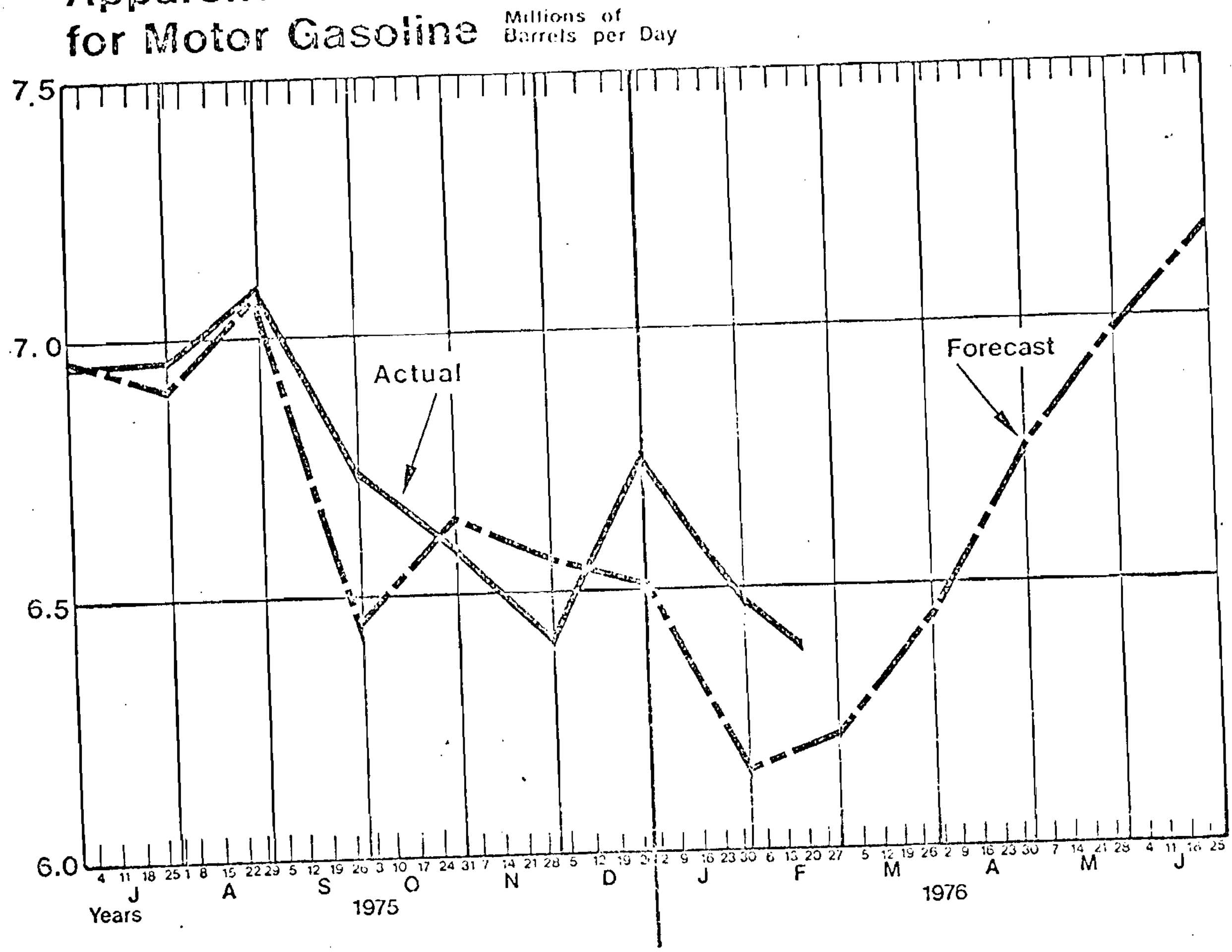
Millions of Barrels per Day



o Total apparent demand for the 4 weeks ending February 20 was 18.16 million barrels per day, 570,000 above last year and 640,000 above 1974 during the embargo, but 430,000 below 1973.

Figure 3

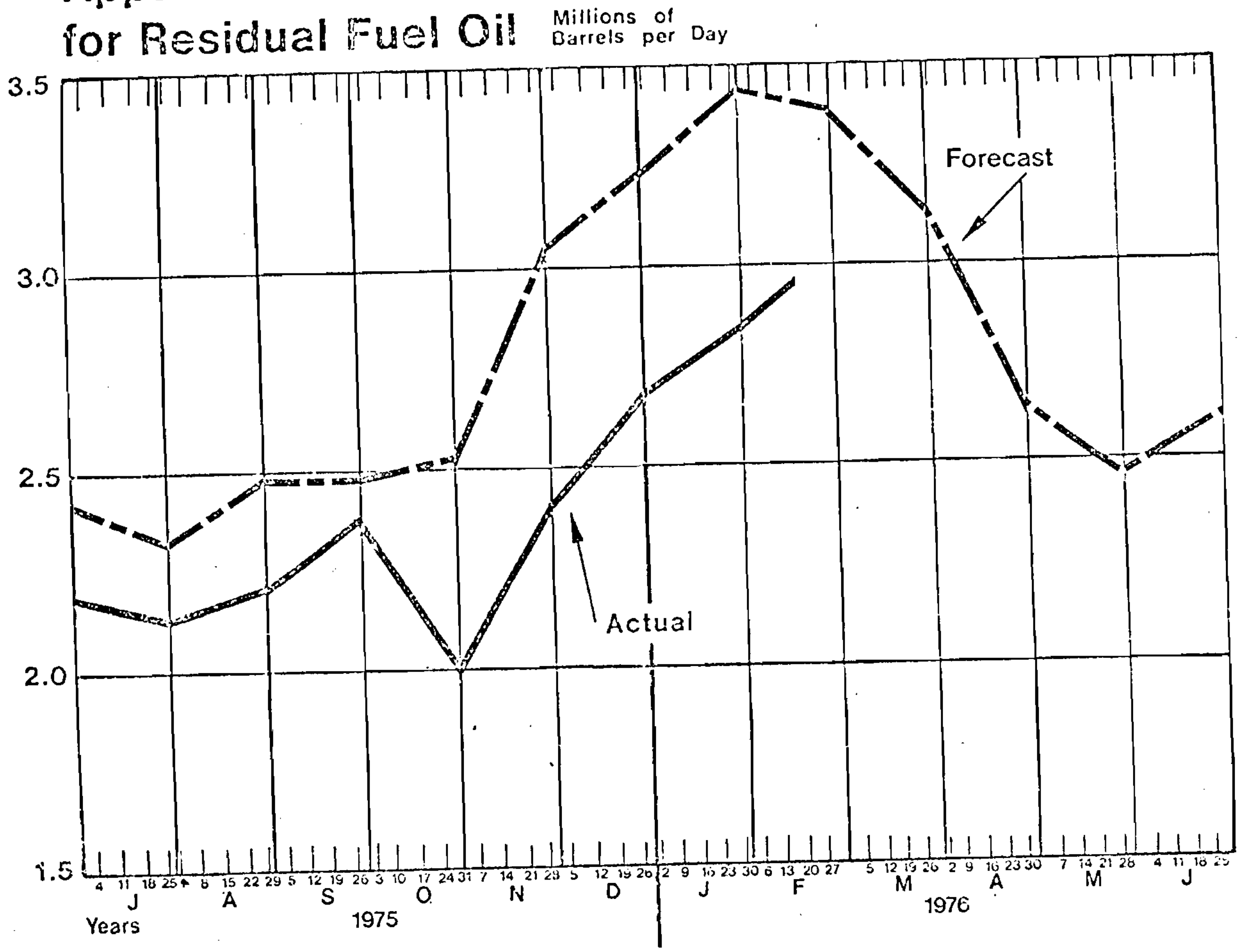
Apparent Demand for Motor Gasoline



o For the 4 weeks ending February 20, motor gasoline demand was 6.39 million barrels per day, 300,000 barrels per day above 1975, 620,000 above 1974, and 290,000 (4.7 percent) above 1973.

Figure 4

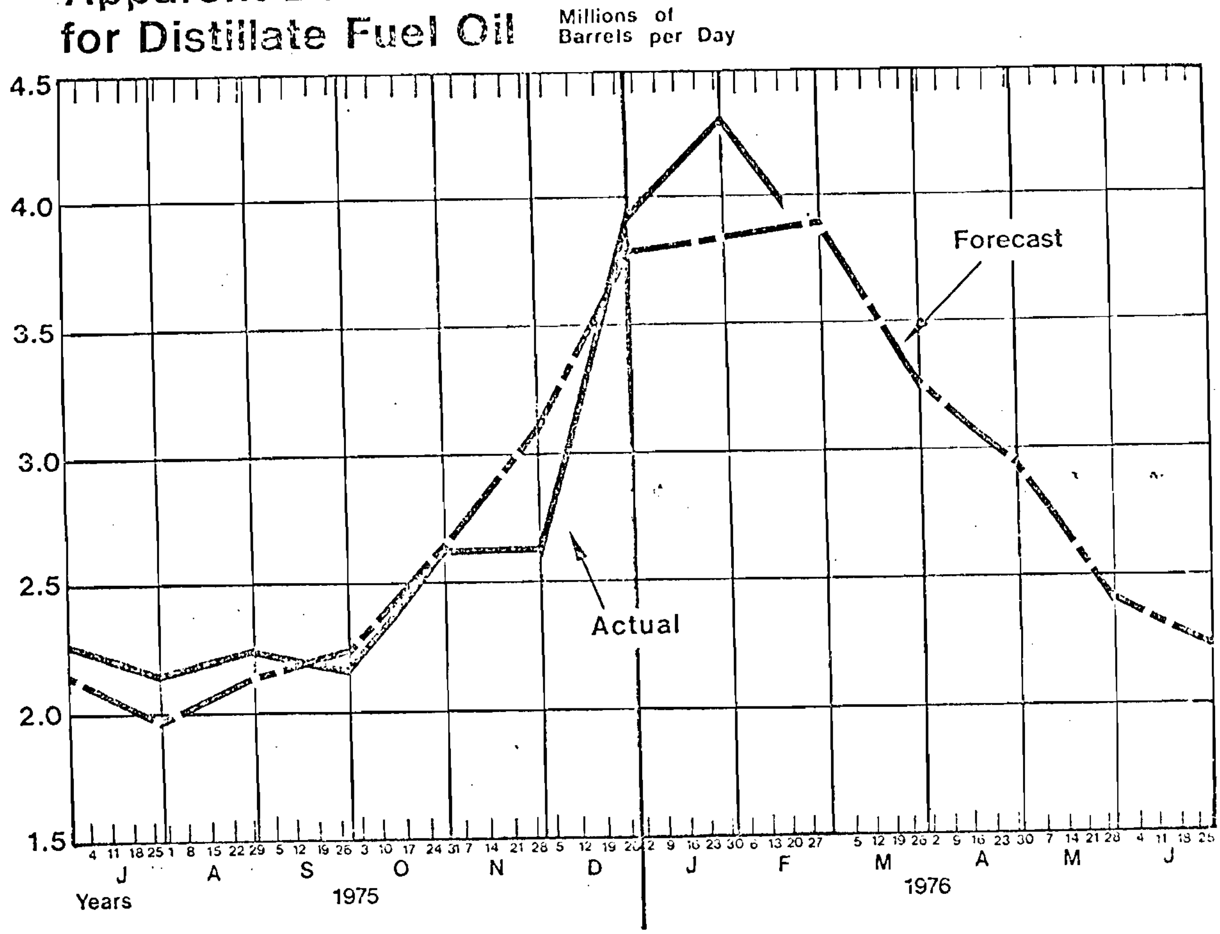
Apparent Demand for Residual Fuel Oil



o Demand for residual fuel oil for the 4 weeks ending February 20, at 2.96 million barrels per day, continued to run well below the forecast. It was 160,000 barrels per day below the corresponding period in 1975, 200,000 barrels per day above 1974 when the embargo was in effect, and 490,000 barrels per day below 1973.

Figure 5

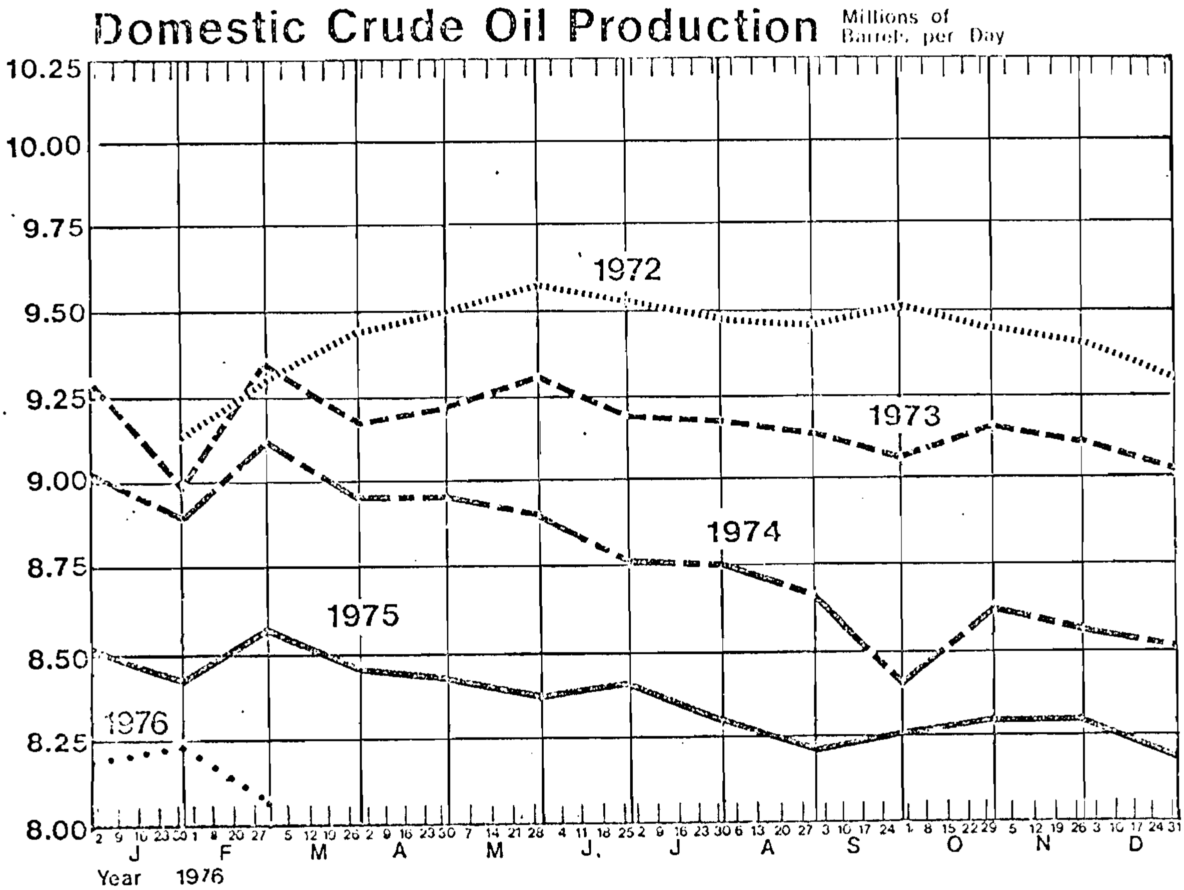
Apparent Demand for Distillate Fuel Oil



- o Apparent demand for distillated fuel oil for the 4 weeks ending February 20, at 3.99 million barrels per day, was 180,000 barrels per day (4.7 percent) above the same period of last year and 380,000 barrels per day above 1974, but 40,000 barrels per day below 1973.

- o The increase in demand undoubtedly reflected the increase in industrial production since degree days for the period averaged 10.5 percent fewer (warmer weather) than in 1975 and 15.0 percent fewer than normal.

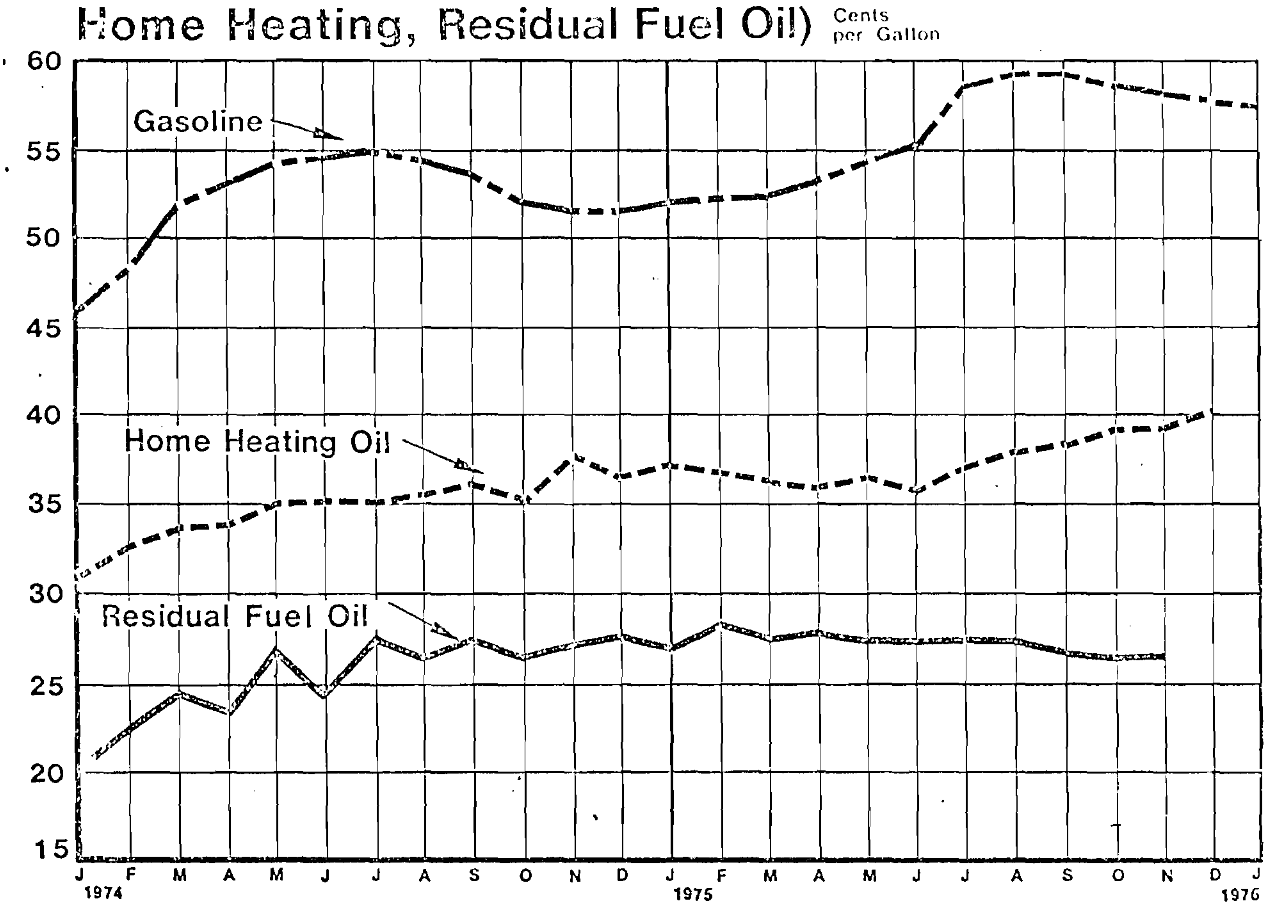
Figure 6



o Production of crude oil for the 4 weeks ending February 20 was 8.12 million barrels per day, according to API estimates, 4.9 percent and 10.6 percent below the corresponding 1975 and 1974 BOM figures.

Figure 7

Retail Prices (Gasoline, Home Heating, Residual Fuel Oil)

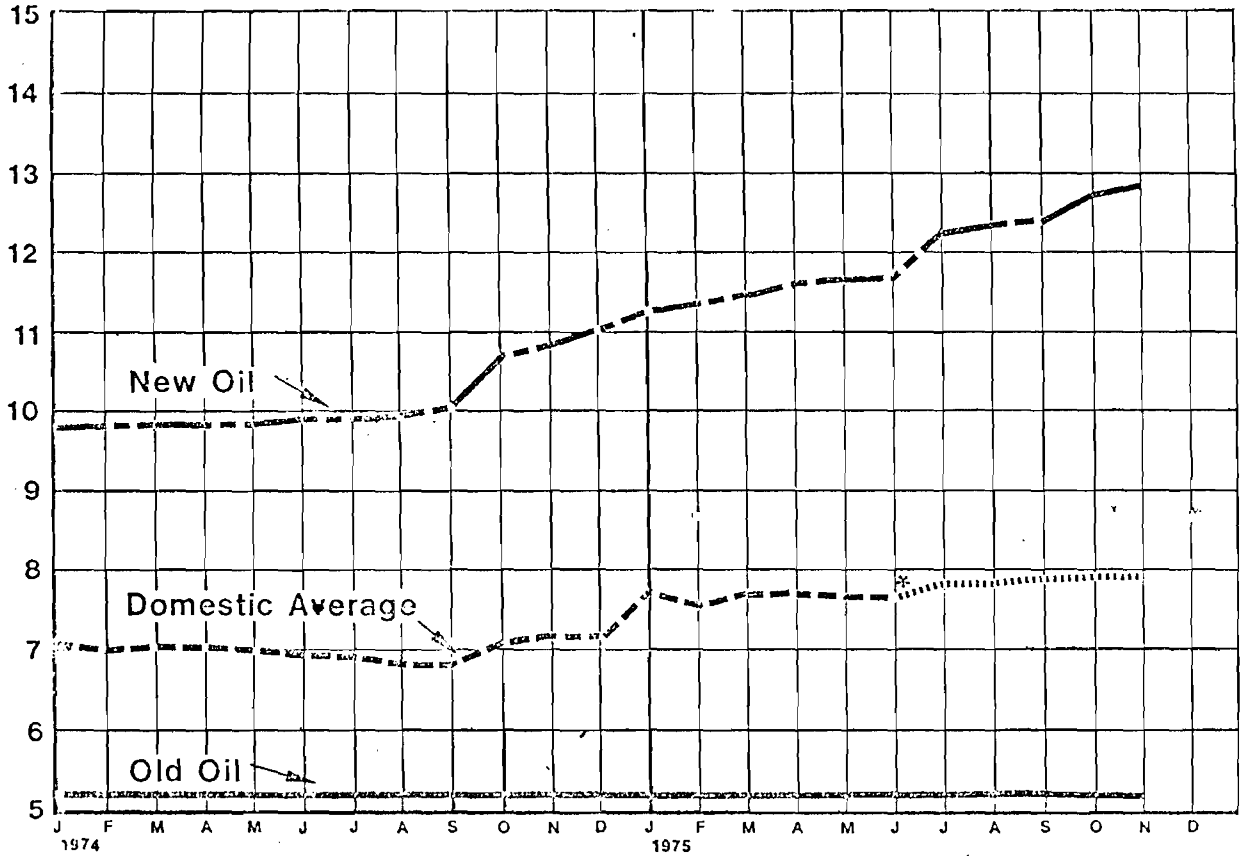


o The average retail selling price for regular gasoline decreased in January by 0.3 cent to 57.7 cents per gallon. This decrease continues the downward trend which began in October 1975.

Figure 8

Crude Oil Wellhead Price

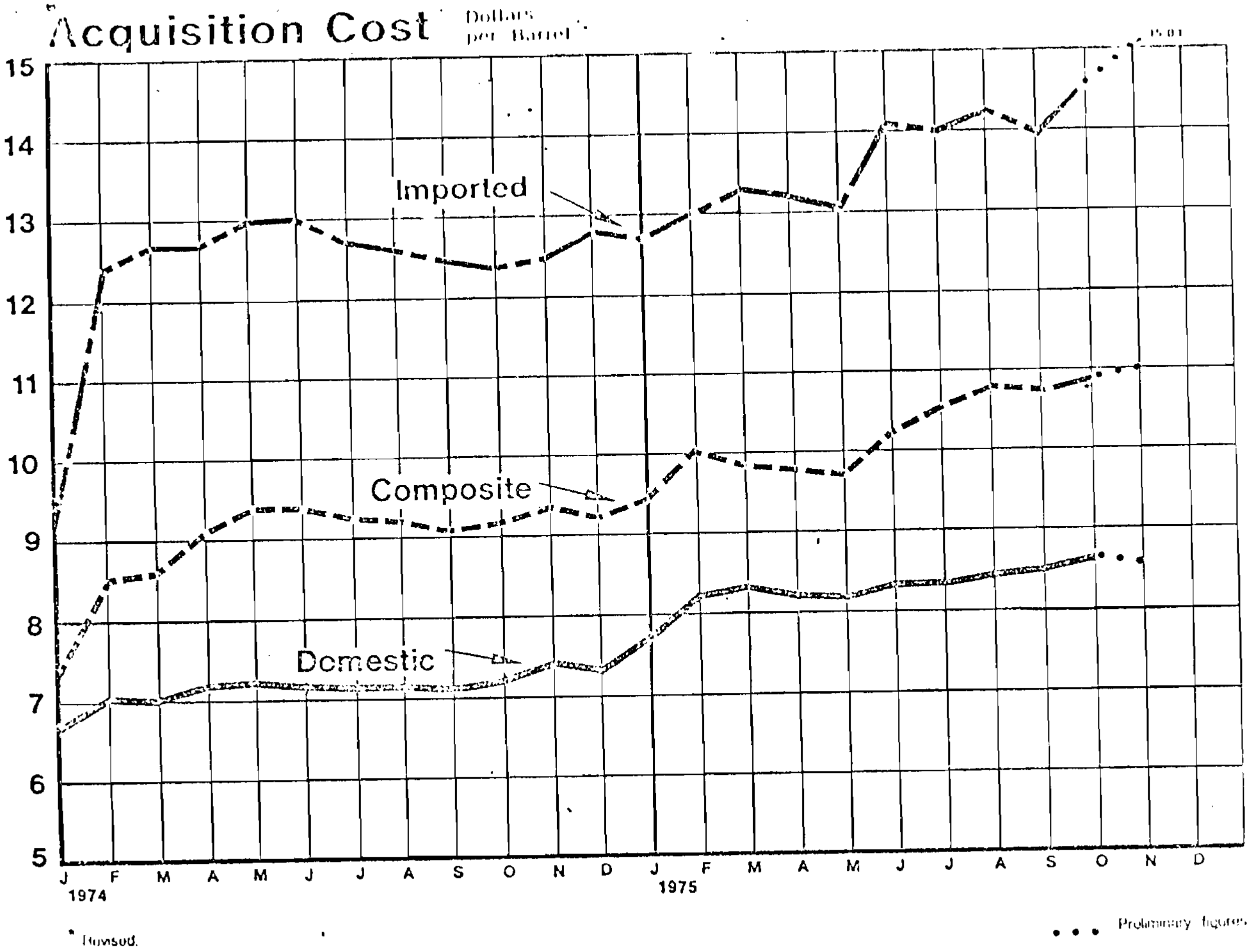
Dollars per Barrel



*Estimated from June through November, 1975

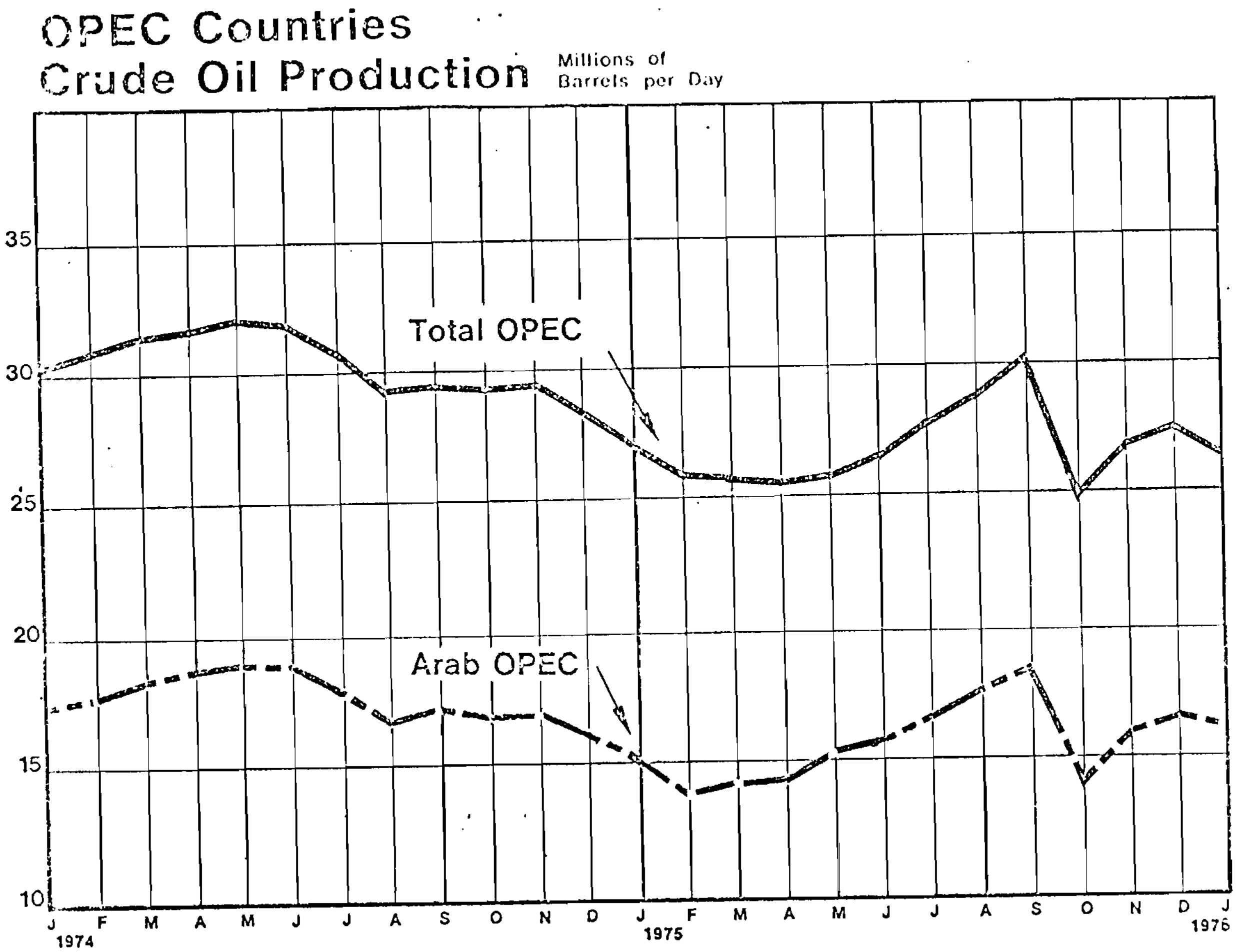
(no new data since last report)

Crude Oil Refiner Acquisition Cost



(no new data since last report)

Figure 10



o OPEC production dropped a significant one million barrels per day during January, averaging 26.6 million barrels per day. This decline reflects continuing conservation efforts of the major consuming nations and an especially warm winter in the Northern Hemisphere. The reduced supply was shared by most of the major producing countries.

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 data through January from FEA's Monthly Petroleum Reporting System, and 4-week moving average from the API Weekly Statistical Bulletin for 4 weeks ending February 20 (figure 1). Demand after January estimated for figures 2, 3, 4, and 5 by FEA primarily from the API Bulletin. Figure 6, BOM through September 1975; API monthly for October, November December and January; API projection for February. Figures 7, 8, 9, and 10 from FEA.

Geographical coverage -- The area covered by these data is the 50 States + D.C. "United States". "Imports" includes receipts from Puerto Rico and the Virgin Islands. In this, FEA follows BOM practice, as does API. Imports as reported by Census cover the "Customs area" which includes Puerto Rico. Imports, mostly of crude oil, into Puerto Rico are included while receipts, mostly of products, by the "United States" from both Puerto Rico and the Virgin Islands are excluded. Census reports imports into the Virgin Islands separately. For balance of payments purposes, Commerce totals imports into the United States and all of its territories and associated areas (but excludes butane, propane and some minor products from the total).

Forecast -- This is actually a composite "backcast"/forecast. The petroleum product demand forecast is based on a projection of the state of the economy, without implementation of the President's conservation program, and on the expectation of normal weather. In this case, the forecast is simulated from June 1975 to June 1976.

The backcast simulates petroleum demand from January 1975 to May 1975. Modifications are made to take into account actual weather and macroeconomic changes. However, with the forecast, it was assumed that the President's conservation proposals including the crude product fees were not implemented.

MAR 12 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: NATIONAL ENERGY OUTLOOK

I am very pleased to forward you your personal copy of the National Energy Outlook prepared by my staff. As you know, it is an update of the Project Independence Report and represents the first of an annual series of energy forecasts for this Nation.

Attachment

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FORD, Gerald R.

THE WHITE HOUSE

WASHINGTON

March 16, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK G. ZARB

FROM: JAMES E. CONNOR JEC

SUBJECT: NATIONAL ENERGY OUTLOOK

The President reviewed your memorandum of March 12, 1976 on the National Energy Outlook and made the following notation:

"Thanks / Excellent"

cc: Dick Cheney

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 23, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Z

SUBJECT: THE CALIFORNIA NUCLEAR INITIATIVE

The Initiative

- The June 1976 California statewide ballot will include the Nuclear Power Plants Initiative which, if enacted, would probably limit if not preclude nuclear power in the State. Passage would also provide impetus to the passage of similar legislation in a number of other states.

- Specifically, the California Initiative would (a) prohibit new plant construction and derate power levels of existing plants unless federal liability limits are removed, and (b) prohibit new plants and require additional derating of existing plants by 10% annually, unless the legislature by a two thirds vote within 5 years affirms the effectiveness of safety systems and waste disposal methods.

- The Initiative is supported by several coalitions of local and national anti-nuclear groups. "Citizens for Jobs and Energy," chaired by former Governor Edmund G. (Pat) Brown, opposes the initiative. The group includes utilities, labor unions, industry, and individuals.

- A field poll reported on March 3 indicated that 54% of California voters are aware of the initiative. Of the group polled:

  - One subgroup, shown only the initiative, was in favor of this anti-nuclear proposal by a 48% to 42% margin.

  - Another subgroup was shown the initiative <u>and pro/con arguments</u>. Fifty-two percent of this subgroup then opposed the initiative.

- Senator Tunney and seven California members of the House have taken public stands against this anti-nuclear initiative. One House member is publicly for it.

- California imports more than 50% of its total energy and 12% of its electricity from other states. About 10% of California's electricity is generated by nuclear power from three nuclear generating stations. Ten more units are in licensing or under construction.

<u>Relevant Actions by Federal Agencies</u>

- Actions by Federal agencies respecting the initiative are highly limited because:

  - Federal agency involvement in a State referendum could be counterproductive.

  - Federal credibility is not great.

- FEA has sponsored a University of Texas study, due in May, of the economic, social and environmental consequences on California and neighboring states of a California nuclear curtailment. ERDA has sponsored two analogous studies.

- A Committee of the California House (The Warren Committee) held hearings on the Initiative late last year. FEA, ERDA, and NRC testified on invitation.

- Bob Seamans and I are invited to appear before the Warren Committee in the spring.

Situation in Other States

- Moratorium legislation or initiative activity affecting nuclear power is pending or was proposed in 1975 in 22 other states.

Your Position

- Your latest comprehensive statement on nuclear power was included in your February 26 Energy Message to the Congress. The nuclear section of that message is attached as Tab A.

Attachment

From President's Energy Message - February 26, 1976

Nuclear Power

Greater utilization must be made of nuclear energy in order to achieve energy independence and maintain a strong economy. It is likewise vital that we continue our world leadership as a reliable supplier of nuclear technology in order to assure that worldwide growth in nuclear power is achieved with responsible and effective controls.

At present 57 commercial nuclear power plants are on line, providing more than 9 percent of our electrical requirements, and a total of 179 additional plants are planned or committed. If the electrical power supplied by the 57 existing nuclear power plants were supplied by oil-fired plants, an additional one million barrels of oil would be consumed each day.

On January 19, 1975, I activated the independent Nuclear Regulatory Commission (NRC) which has the responsibility for assuring the safety, reliability, and environmental acceptability of commercial nuclear power. The safety record for nuclear power plants is outstanding. Nevertheless, we must continue our efforts to assure that it will remain so in the years ahead. The NRC has taken a number of steps to reduce unnecessary regulatory delays and is continually alert to the need to review its policies and procedures for carrying out its assigned responsibilities.

I have requested greatly increased funding in my 1977 budget to accelerate research and development efforts that will meet our short-term needs to:

- make the safety of commercial nuclear power plants even more certain,
- develop further domestic safeguards technologies to assure against the theft and misuse of nuclear materials as the use of nuclear-generated electric power grows;
- provide for safe and secure long-term storage of radioactive wastes;
- and encourage industry to improve the reliability and reduce the construction time of commercial nuclear power plants.

I have also requested additional funds to identify new uranium resources and have directed ERDA to work with private industry to determine what additional actions are needed to bring capacity on-line to reprocess and recycle nuclear fuels.

Internationally, the United States in consultation with other nations which supply nuclear technology has decided to follow stringent export principles to ensure that international sharing of the benefits of nuclear energy does not lead to the proliferation of nuclear weapons. I have also decided that the U.S. should make a special contribution of up to $5 million in the next five years to strengthen the safeguards program of the International Atomic Energy Agency.

It is essential that the Congress act if we are to take timely advantage of our nuclear energy potential. I urge enactment of the Nuclear Licensing Act to streamline the licensing procedures for the construction of new power plants.

I again strongly urge the Congress to give high priority to my Nuclear Fuel Assurance Act to provide enriched uranium needed for commercial nuclear power plants here and abroad. This proposed legislation which I submitted in June 1975, would provide the basis for transition to a private competitive uranium enrichment industry and prevent the heavy drain on the Federal budget. If the Federal Government were required to finance the necessary additional uranium enrichment capacity, it would have to commit more than $8 billion over the next 2 to 3 years and $2 billion annually thereafter. The taxpayers would eventually be repaid for these expenditures but not until sometime in the 1990's. Federal expenditures are not necessary under the provisions of this Act since industry is prepared to assume this responsibility with limited government cooperation and some temporary assurances. Furthermore, a commitment to new Federal expenditures for uranium enrichment could interfere with efforts to increase funding for other critical energy programs.

3/22 gaul
Orig. to Steve
for Dispatch

FEDERAL ENERGY ADMINISTRATION

MAR 25 1976

Ford, Gerald R.

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

SUBJECT: BIWEEKLY STATUS REPORT

Oil imports for the single week ending March 5 reached 7.77 million barrels per day, an all-time high. As a result, imports for the 4-week period ending on that date averaged 7.40 million barrels per day, nearly 1.2 million barrels per day above the same period in 1975.

The 1975-76 heating season so far has been warmer than last year (4.0 percent fewer degree days since it began September 1). Only two months of the season--December and January--were colder than in 1974-75. As a result, distillate fuel oil demand, at an average of 3.19 million barrels per day, has been 3.3 percent below the previous heating season.

Both motor gasoline and residual fuel oil demand are up slightly over January as a result of the improvement in the economy. Motor gasoline demand, at 6.54 million barrels per day, was 4.2 percent higher than 1975 and 5.4 percent higher than 1973 before the embargo while residual demand was slightly below last year and 15.1 percent below 1973.

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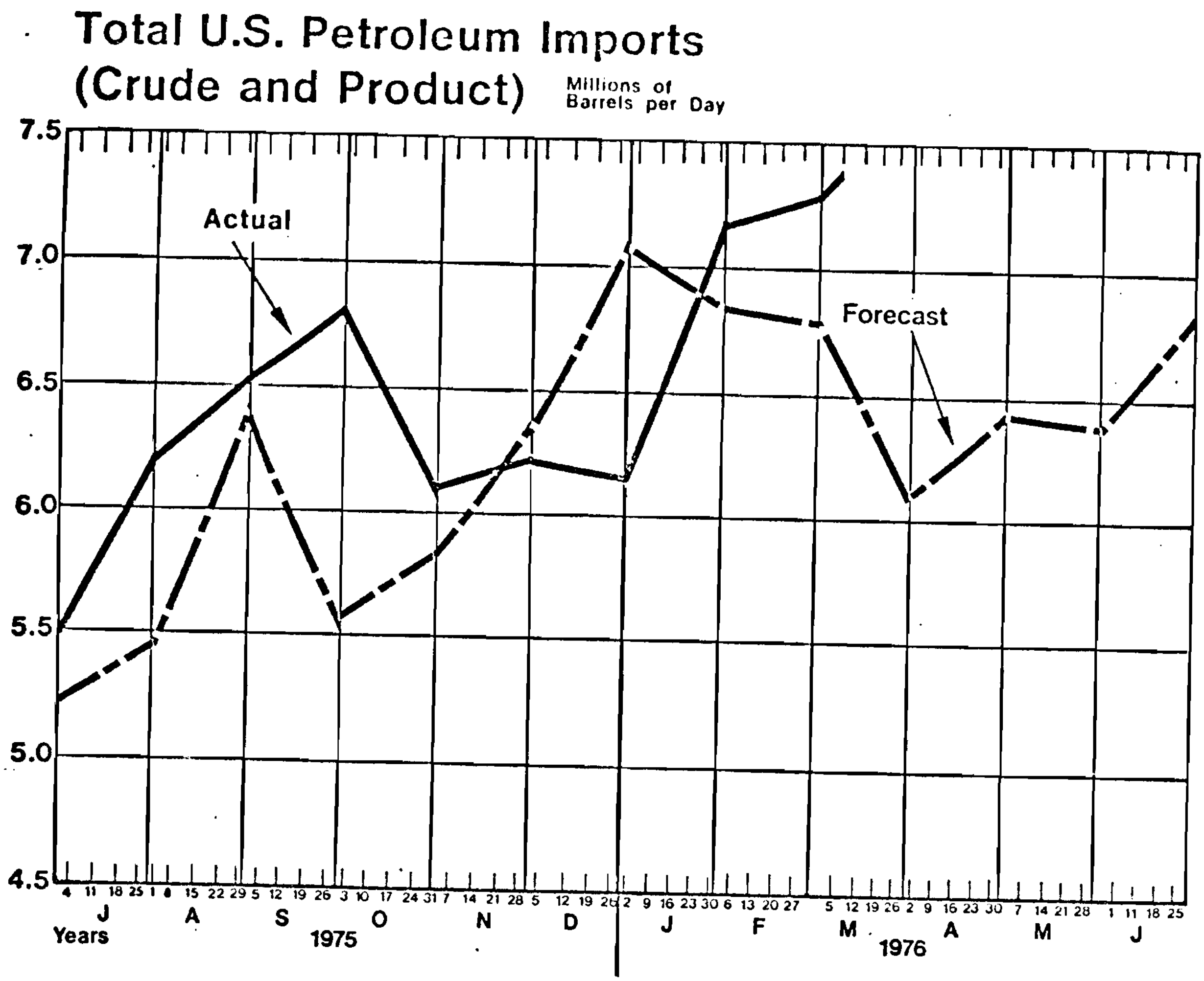
Figure 1



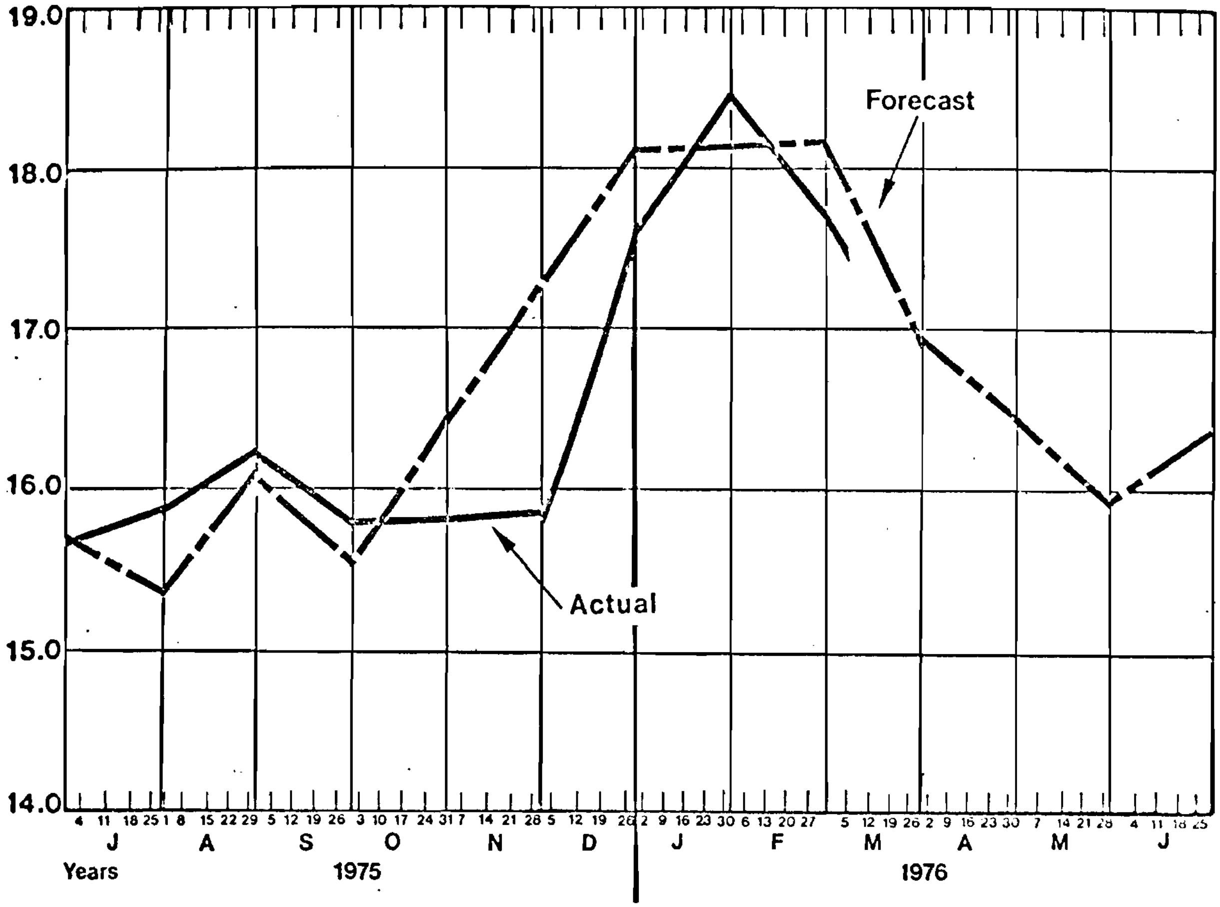
o Petroleum imports continued to climb during the 4-week period ending March 5, reaching an all-time average high of 7.40 million barrels per day. Crude oil imports, at 5.05 million barrels per day, were 1.12 million barrels per day above the corresponding period in 1975, while product imports at 2.35 million barrels per day, were 50,000 barrels higher than in 1975.

o Total imports for the one week ending March 5 averaged 7.77 million barrels per day, the highest one week average to date.

Figure 2

Total Apparent Demand for Petroleum Products

Millions of Barrels per Day

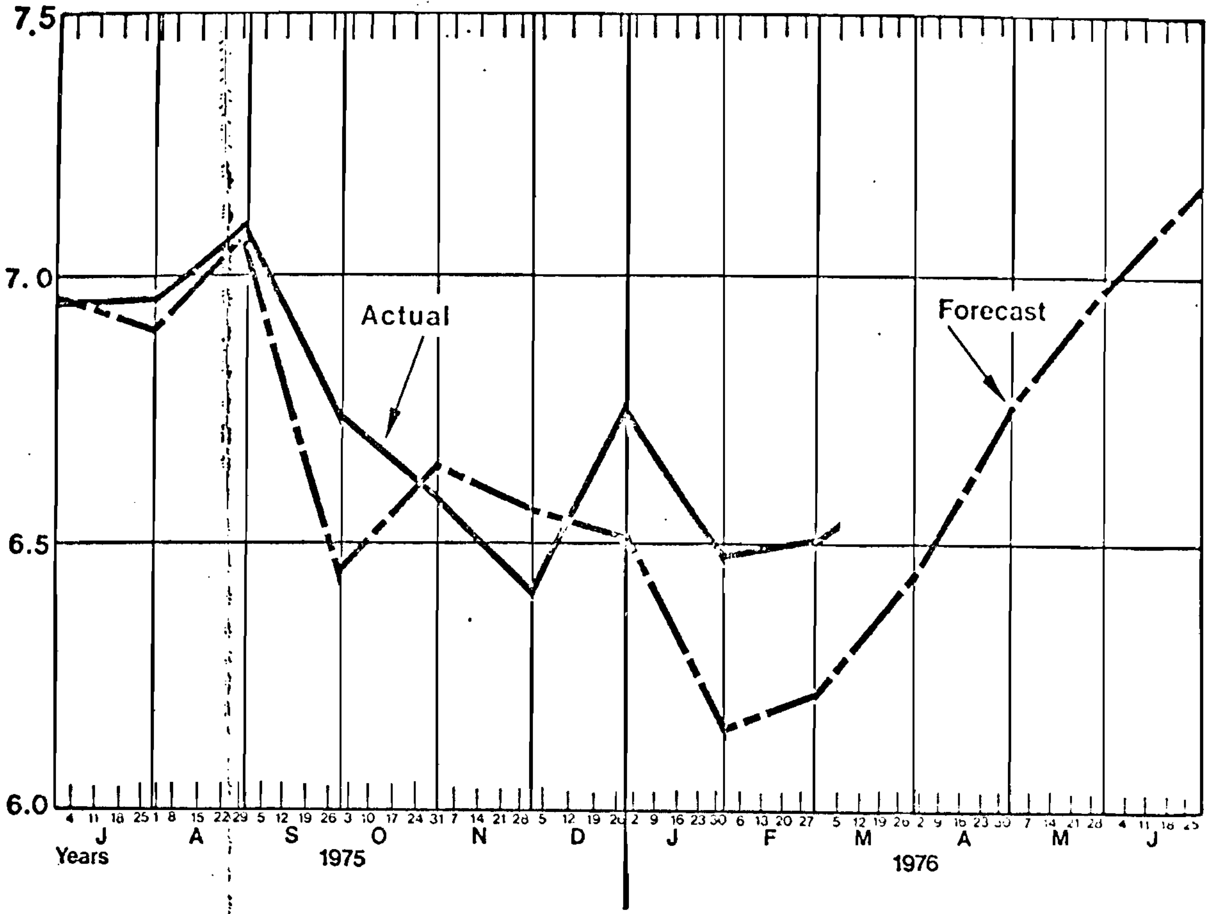


o For the 4-week period ending March 5, total petroleum demand was 17.54 million barrels per day. This was 80,000 barrels per day (0.4 percent) above 1975, and 640,000 above 1974, but 370,000 (2.1 percent) below 1973 prior to the embargo.

Figure 3

Apparent Demand for Motor Gasoline

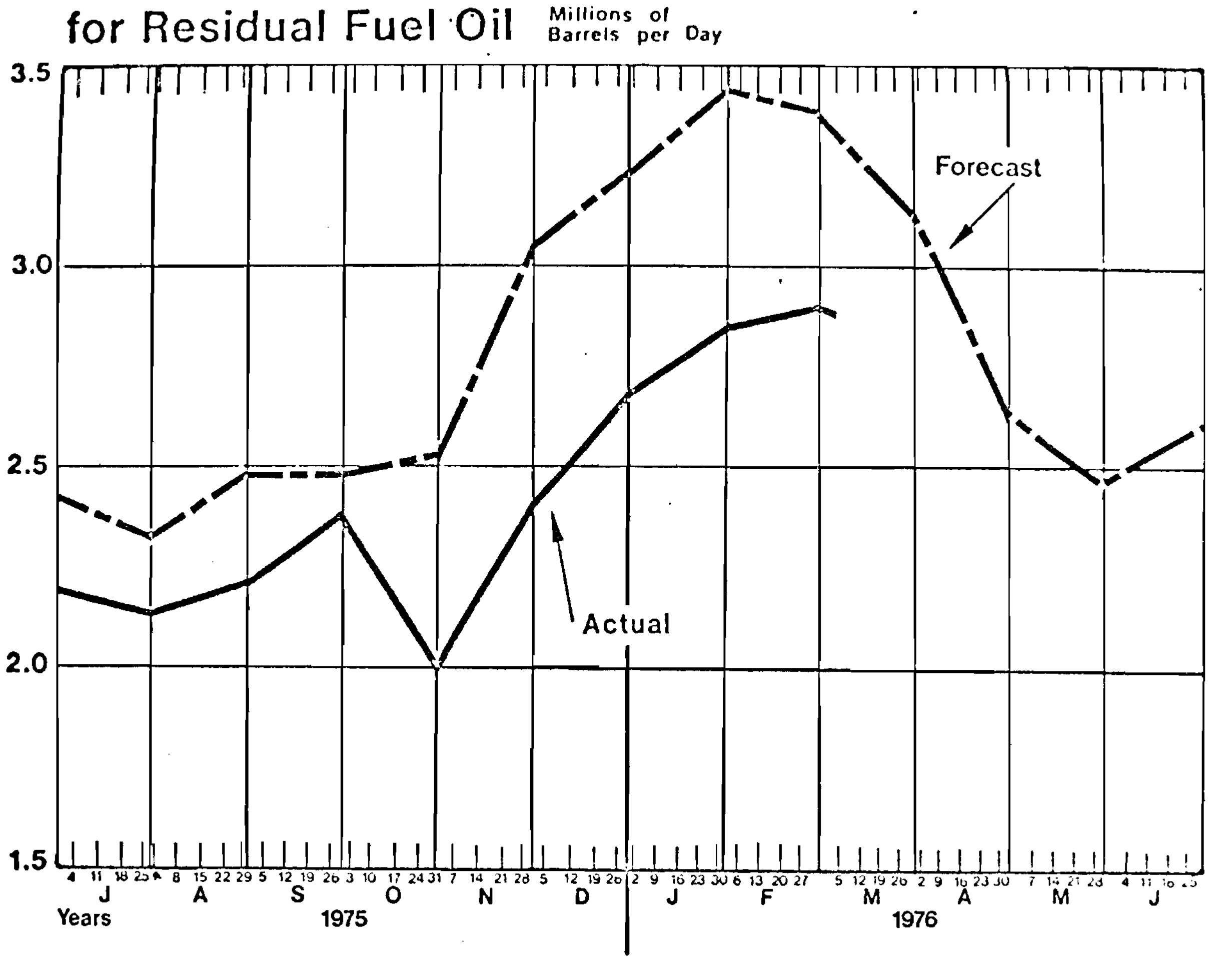
Millions of Barrels per Day



o Motor gasoline demand for the 4 weeks ending March 5 averaged 6.54 million barrels per day, up 55,000, (0.8 percent) from January This was 260,000 barrels per day (4.2 percent) above 1975, 660,000 (11.4 percent) above 1974 during the embargo, and 330,000 (5.4 percent) above 1973 before the embargo.

Figure 4

Apparent Demand for Residual Fuel Oil

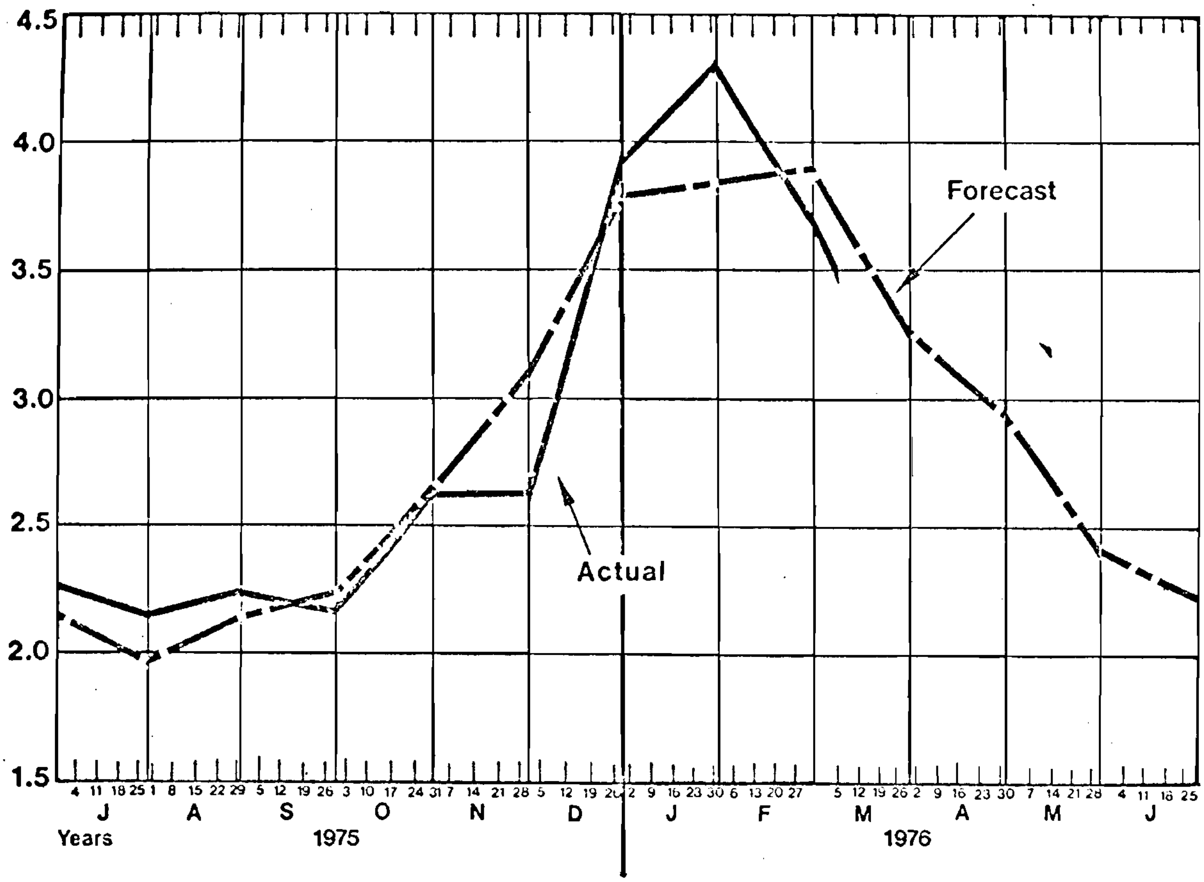


o Demand for residual fuel oil for the 4 weeks ending March 5 averaged 2,88 million barrels per day, up 17,000 (0.6 percent) from January. This was 10,000 barrels per day below 1975, 140,000 barrels per day above 1974, and 510,000 (15.1 percent) below 1973.

During the 1975-76 heating season to date (since September 1) demand for residual has averaged 2.53 million barrels per day, 430,000 barrels per day (14.5 percent) below 1975. Degree days, on the other hand, were 4.0 percent fewer than last year (warmer weather).

Figure 5

Apparent Demand for Distillate Fuel Oil



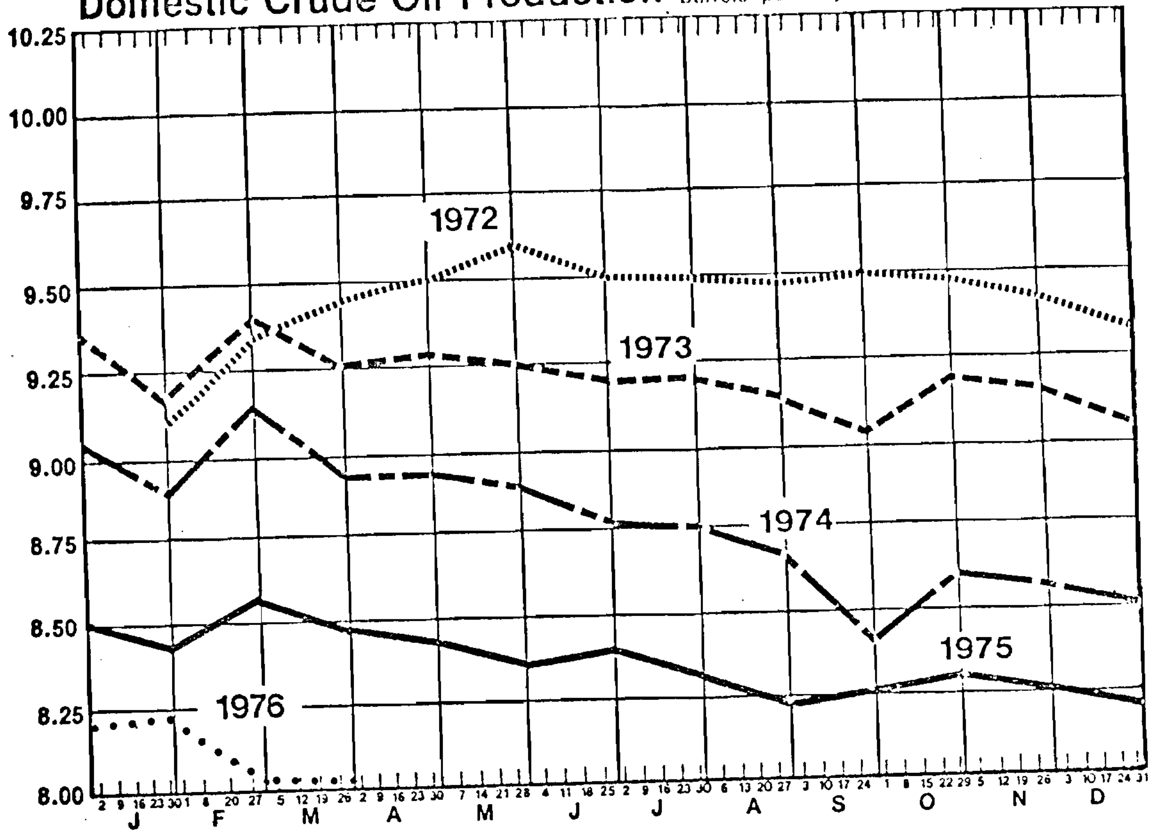
o Distillate fuel oil demand for the 4-weeks ending March 5 averaged 3.51 million barrels per day, 250,000 barrels per day (6.5 percent) below 1975, 220,000 below 1974, and 300,000 below 1973 prior to the embargo. The weather for the 4-week period was much warmer than last year, 28.9 percent fewer degree days.

The 1975-76 heating season so far has shaped up as follows: September through November, warmer than 1974-75, December-January, colder, and February, warmer. The net result has been 4.0 percent fewer degree days (warmer weather) than last year and 9.3 percent fewer than normal. Distillate demand for the heating season so far has averaged 3.19 million barrels per day, 110,000 barrels per day (3.3 percent) below the 1974-75 season.

Figure 6

Domestic Crude Oil Production

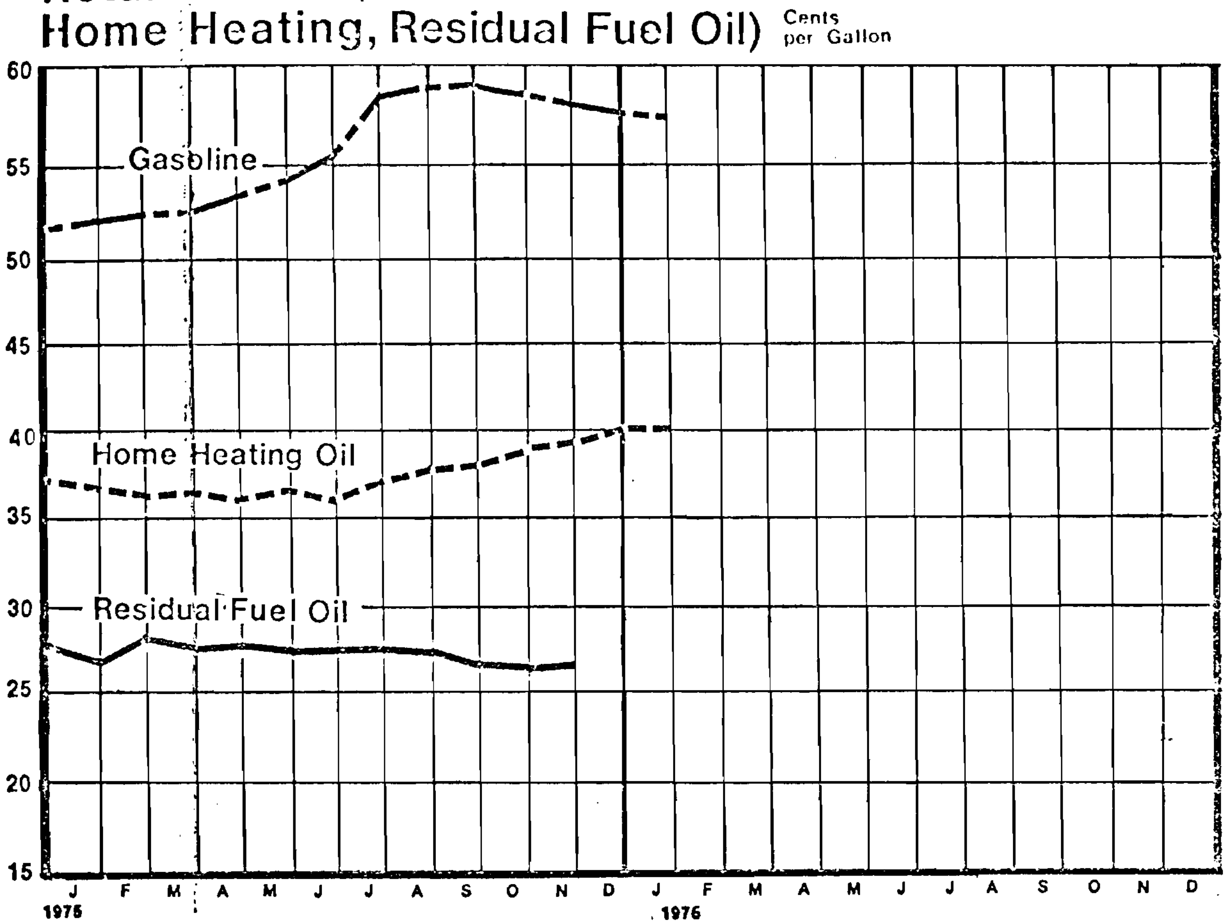
Millions of Barrels per Day



o The API's estimate of average crude oil production for the month of March is 8,05 million barrels per day, 5,0 percent below 1975 and 10.1 percent below 1974.

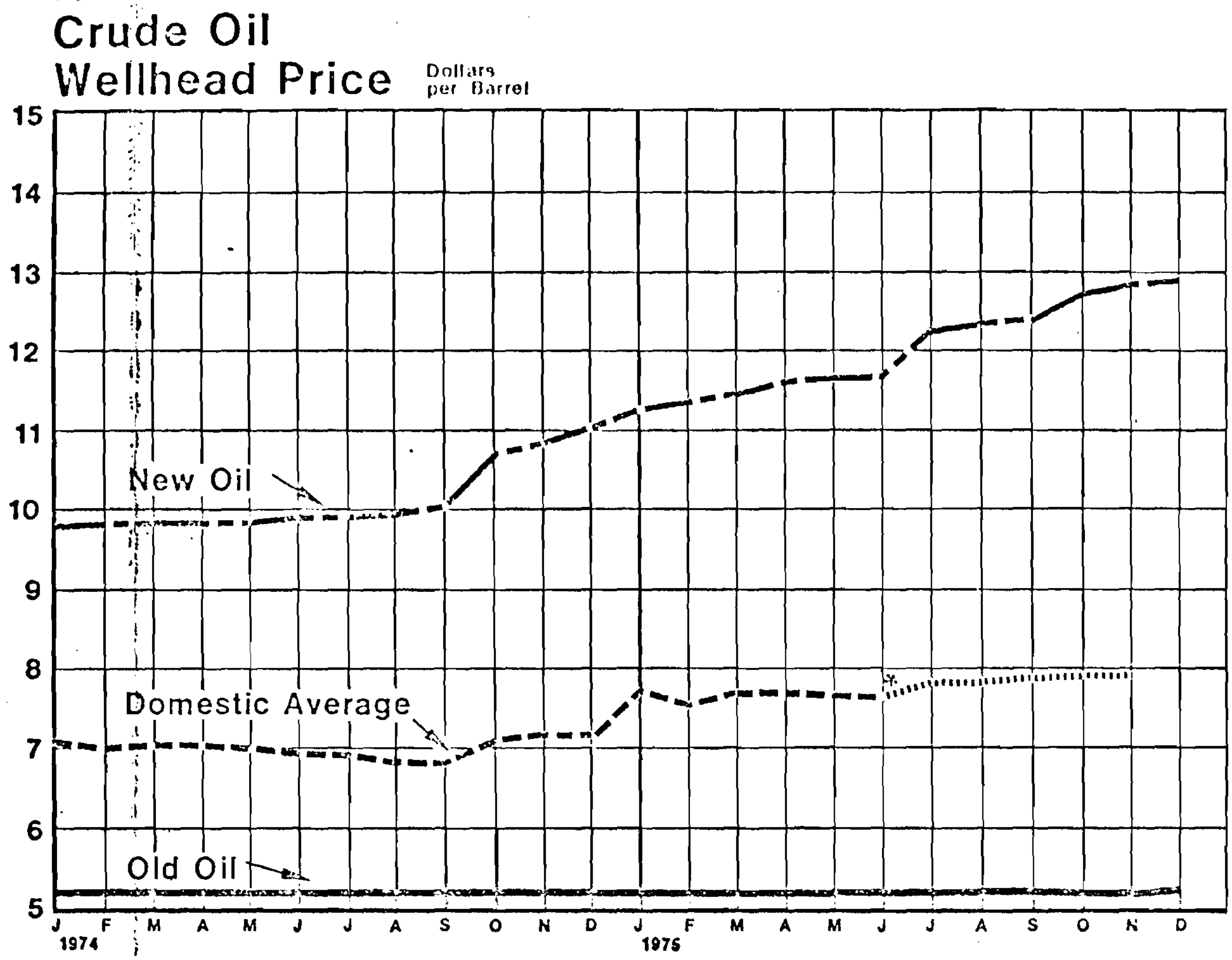
Figure 7

Retail Prices (Gasoline, Home Heating, Residual Fuel Oil)



o During January, the average selling price for heating oil sold to residential customers was 40,1 cents per gallon, unchanged from the December price.

Figure 8

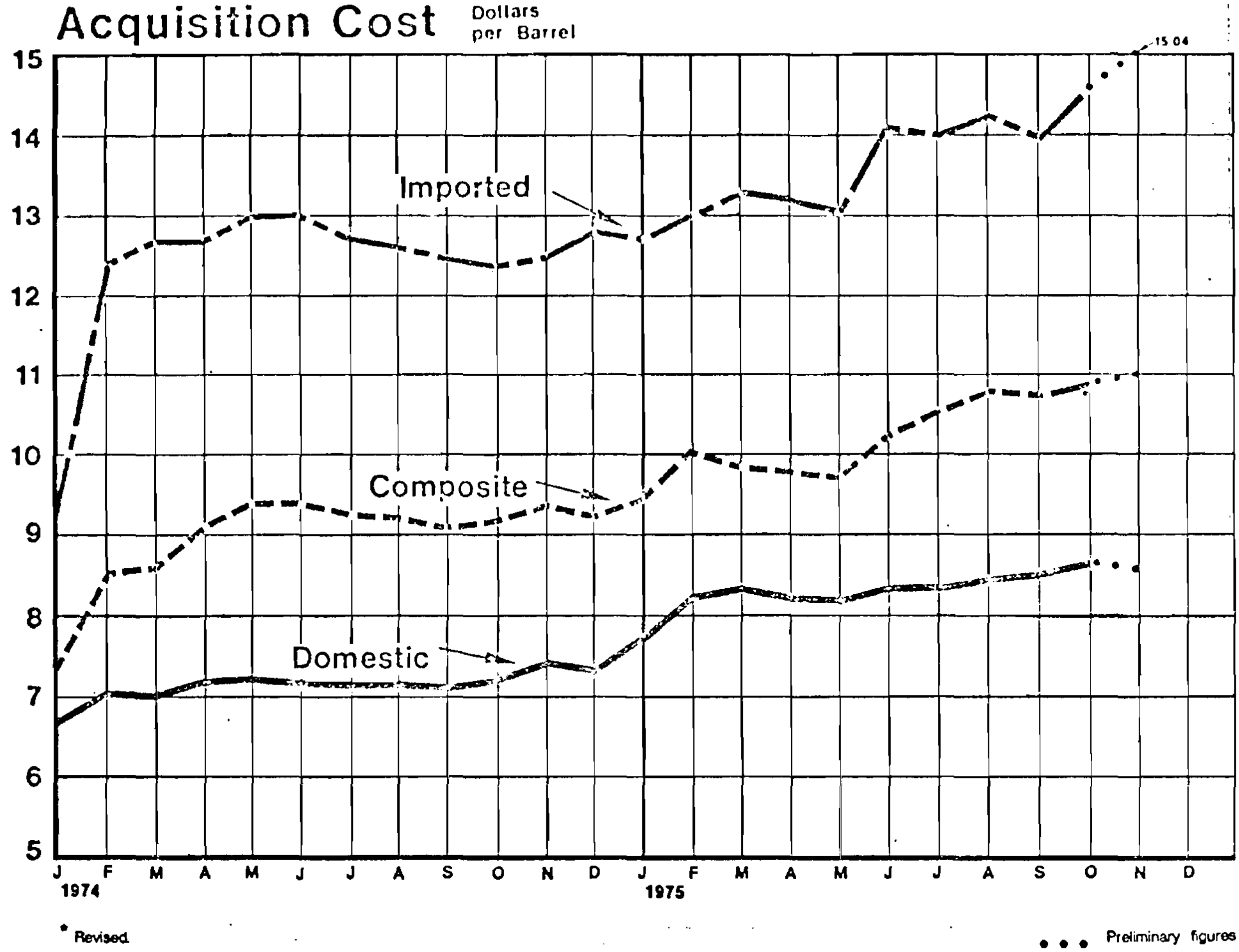


*Estimated from June through November, 1975

o During December, the average domestic "new" oil price was $12.95 per barrel, 6 cents above the November price.

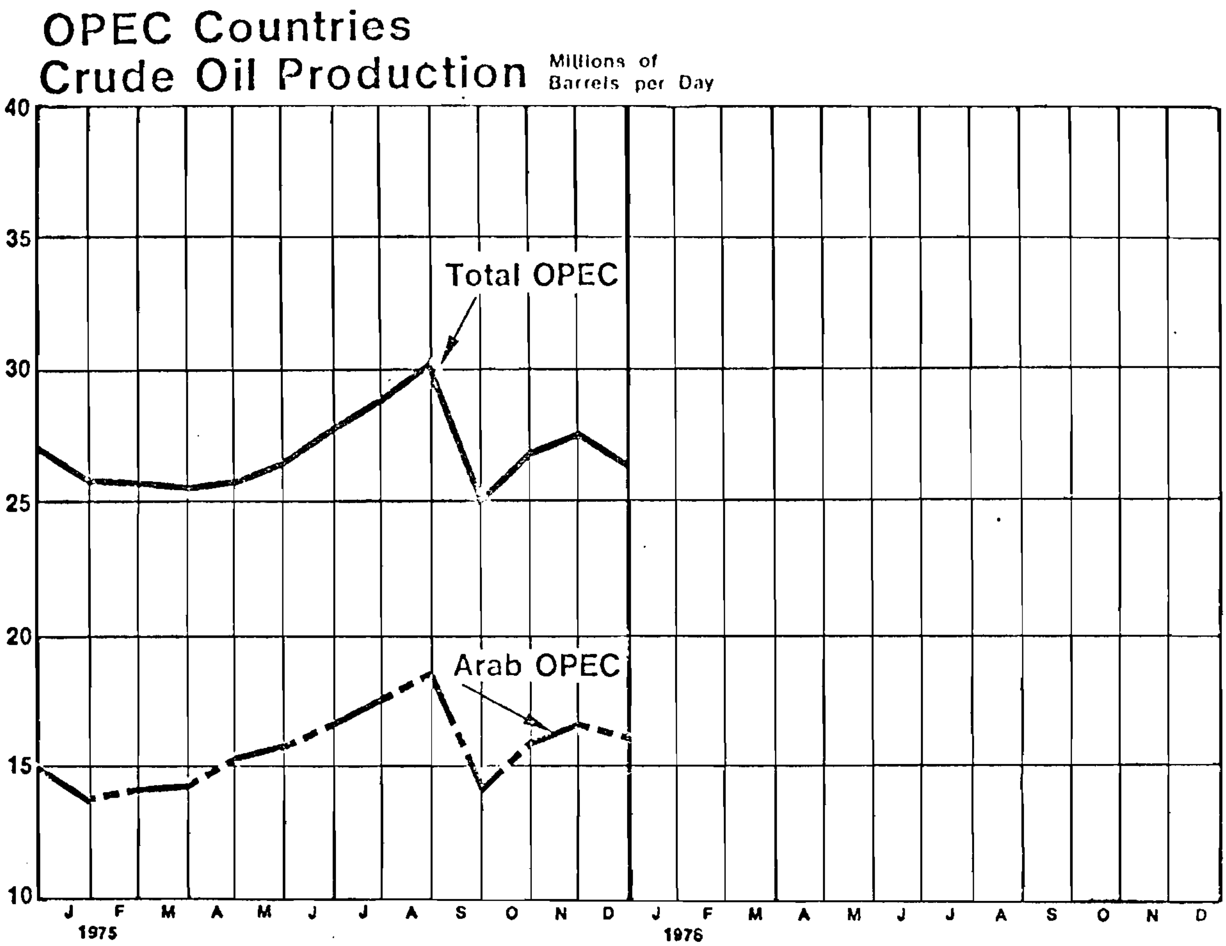
Figure 9

Crude Oil Refiner Acquisition Cost



(no new data since last report)

Figure 10



(no new data since last report)