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

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

FORD, Gerald R.

MAY 01 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

SUBJECT: BIWEEKLY STATUS REPORT

For the 4 week period ending April 16, United States oil imports continued their seasonal decline to a level of 6.75 million barrels per day. However, this was nearly a million and a half barrels (28 percent) more than last year and 820,000 barrels per day more than 1973, before the embargo and major price increases.

Total petroleum demand, at 16.91 million barrels per day, stands at virtually the same level as in 1973, but is 5.8 percent more than 1975. All of the increase since 1973 can be attributed to motor gasoline demand which, at 7.04 million barrels per day, is 5.4 percent higher than three years ago. Demand is certain to reach an all-time high this summer. (Motor gasoline demand for the week ending April 6 was 7.27 million barrels per day, as compared to the record level of 7.55 million reached for the week ending on the 1975 Fourth of July holiday.) Residual demand continues to be far below the 1973 level, 12.4 percent below for the most recent 4-week period, while distillate and other products are almost at the 1973 levels. Demand for distillate and residual fuel oil continues to be very close to the forecast while motor gasoline was 420,000 barrels (6.4 percent) higher.

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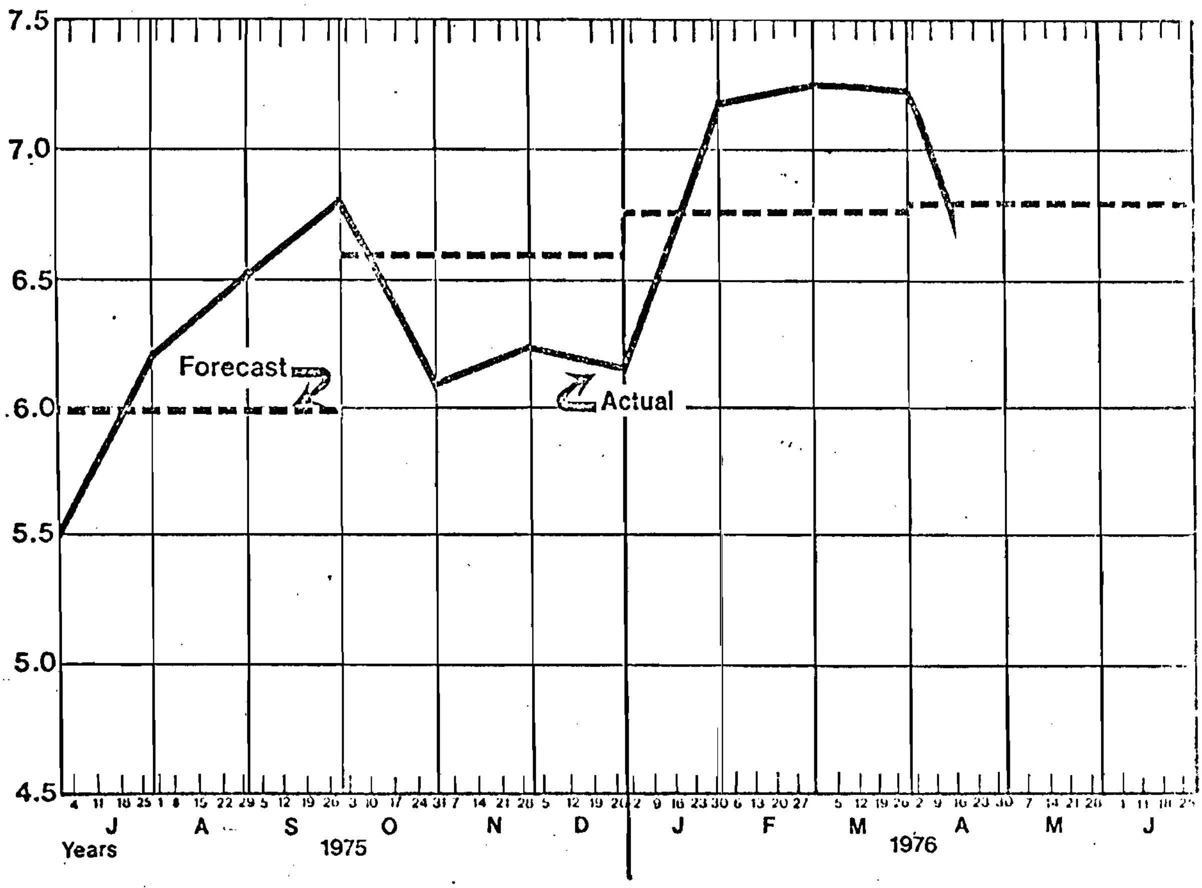
Figure 1

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

Millions of Barrels per Day

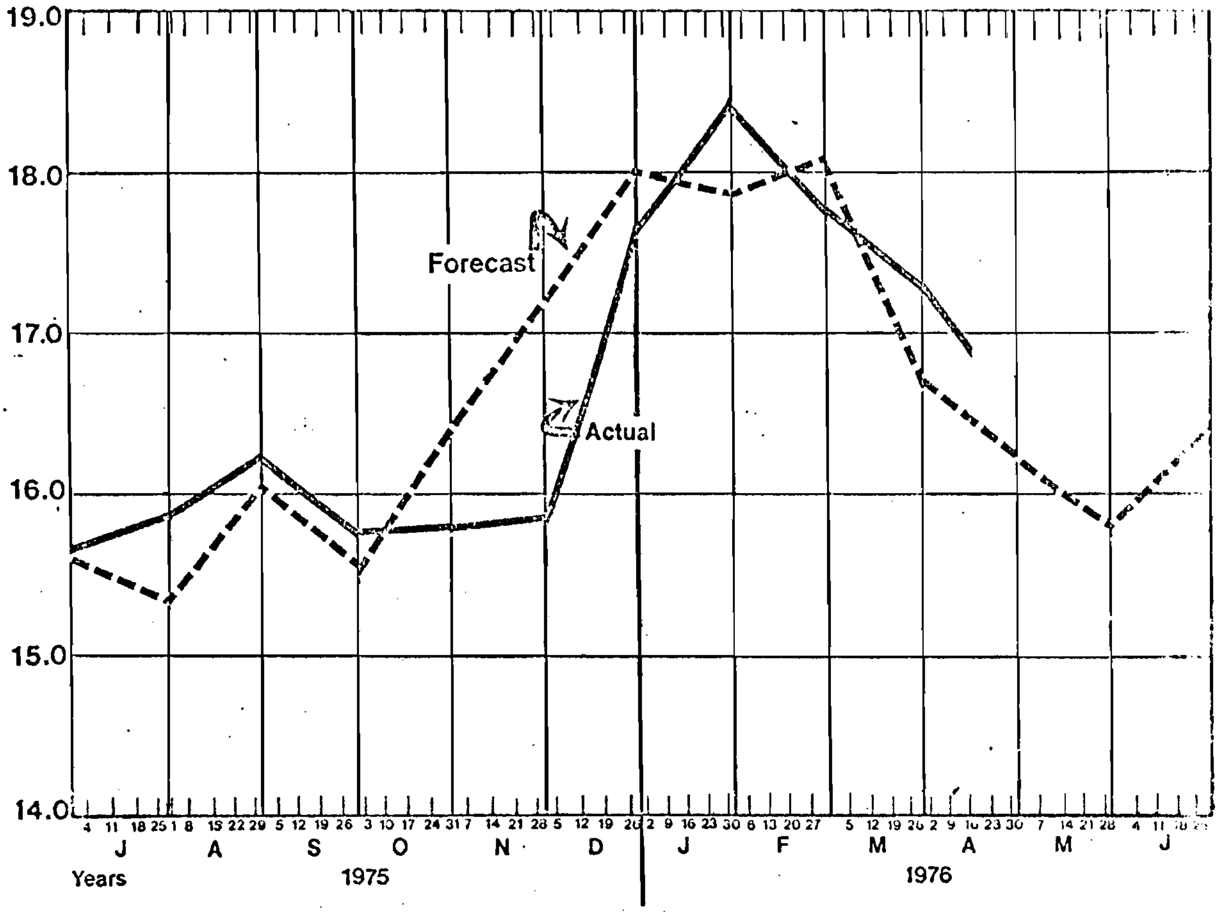


- For the 4 weeks ending April 16, total imports averaged 6.75 million barrels per day. This was 1.49 million barrels per day more than the 1975 level, 1.13 million barrels per day more than the 1974 level, and 820,000 barrels per day more than 1973.

Figure 2

Total Apparent Demand for Petroleum Products

Millions of Barrels per Day

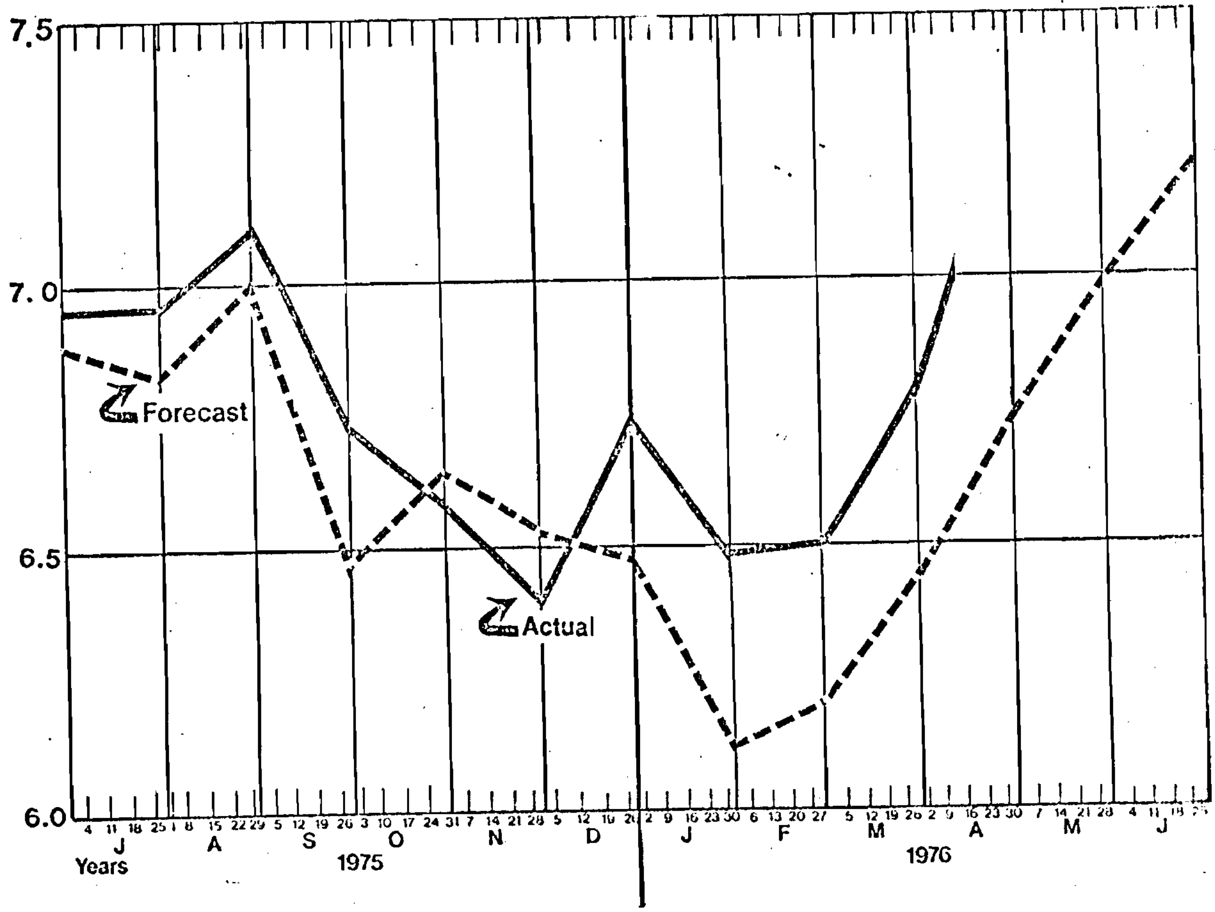


o Total petroleum demand during the 4 weeks ending April 16 was 16.91 million barrels per day. This was 930,000 barrels per day (5.8 percent) more than the corresponding period in 1975 and 450,000 more than 1974, but virtually the same level as in 1973, before the embargo and price increases.

Figure 3

Apparent Demand for Motor Gasoline

Millions of Barrels per Day

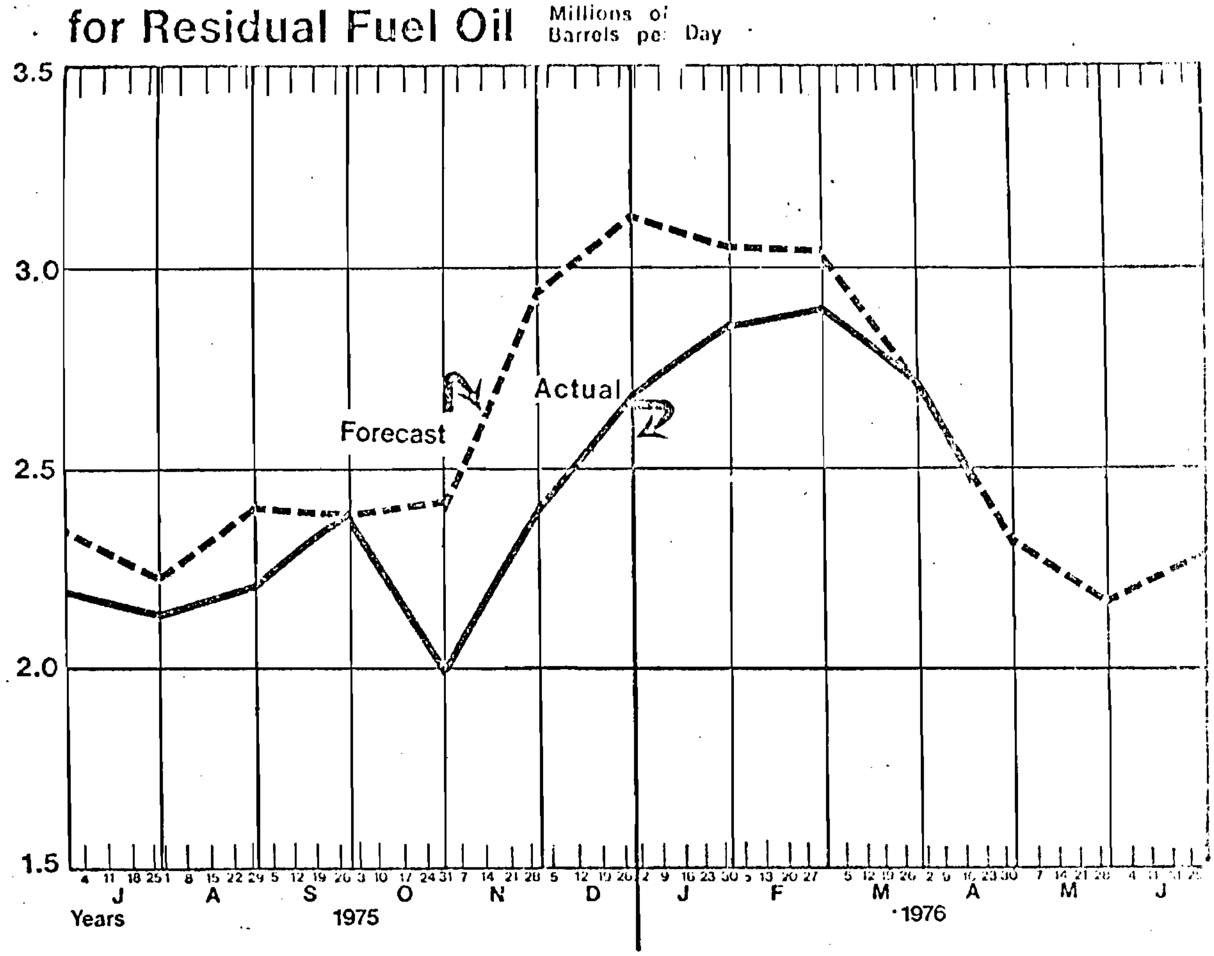


- For the 4 weeks ending April 16, motor gasoline demand was 7.04 million barrels per day, 420,000 (6.4 percent) above the forecast. This was 530,000 barrels per day (8.1 percent) higher than in 1975. 820,000 barrels per day higher than in 1974, and 370,000 barrels per day higher than in 1973.

- Demand for the week ending April 6 was 7.27 million barrels per day. Clearly the all-time record demand level of 7.55 million barrels per day, reached last year during the week ending on the Fourth of July, will be surpassed this year, probably well before Independence Day.

Figure 4

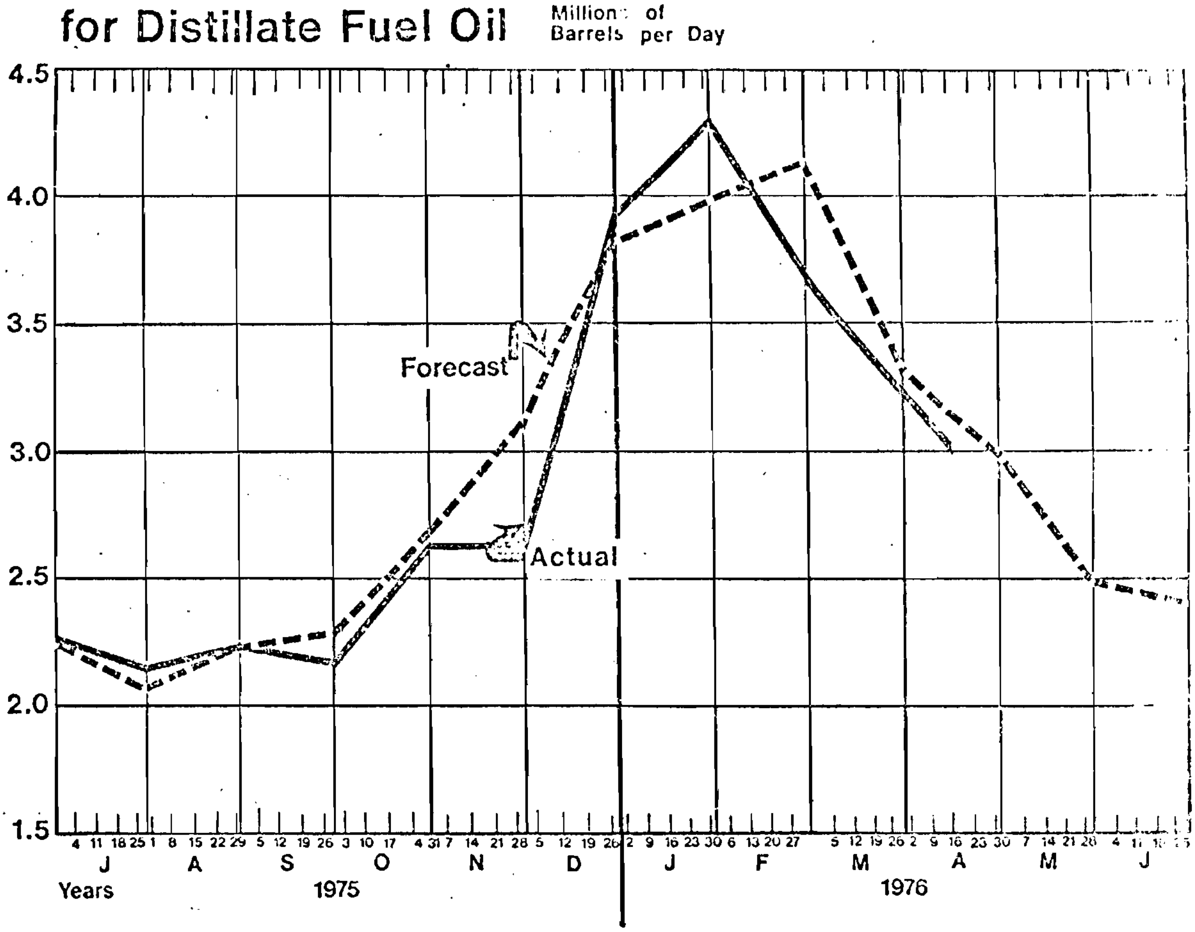
Apparent Demand for Residual Fuel Oil



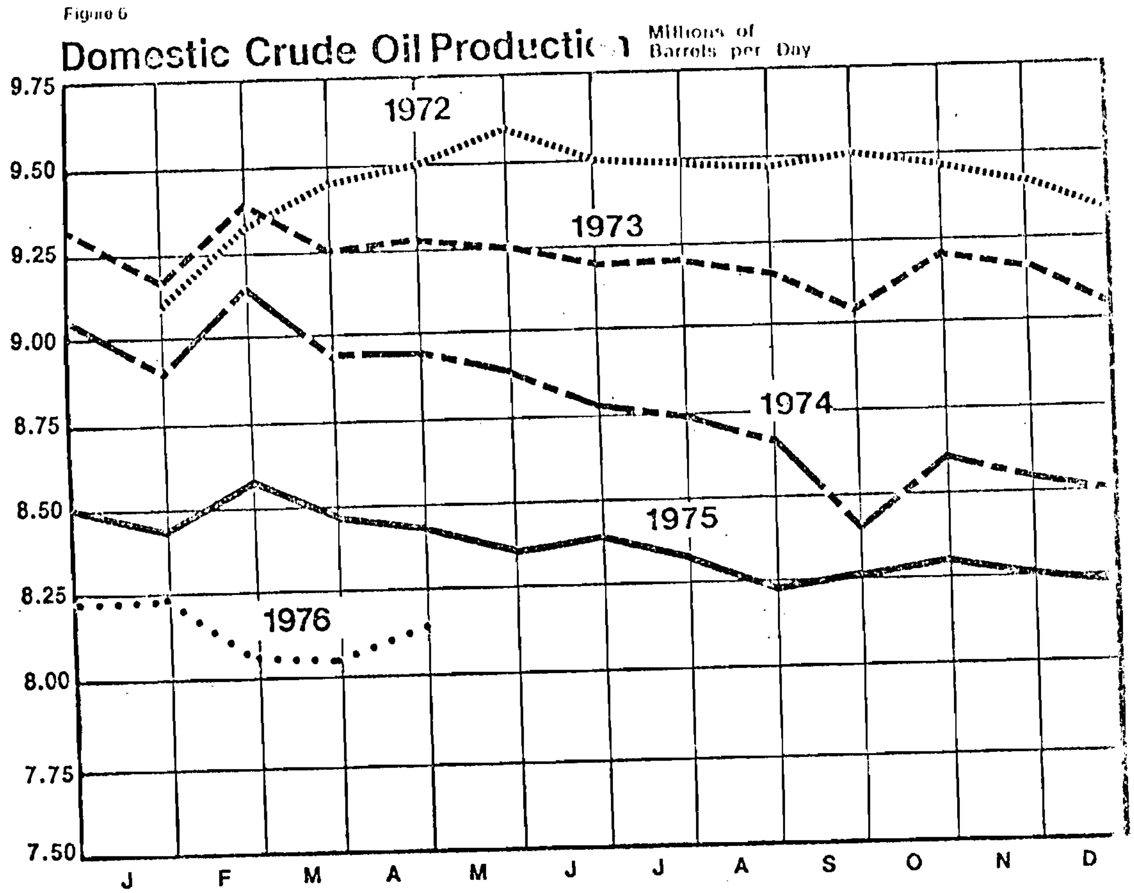
o Residual demand for the 4 weeks ending April 16 was 2.50 million barrels per day, exactly as forecast for the second reporting period in a row. This was 80,000 barrels per day more than the corresponding period in 1975 and 120,000 barrels per day more than 1974, but 350,000 (12.4 percent) below 1973, before price increases.

Figure 5

Apparent Demand for Distillate Fuel Oil

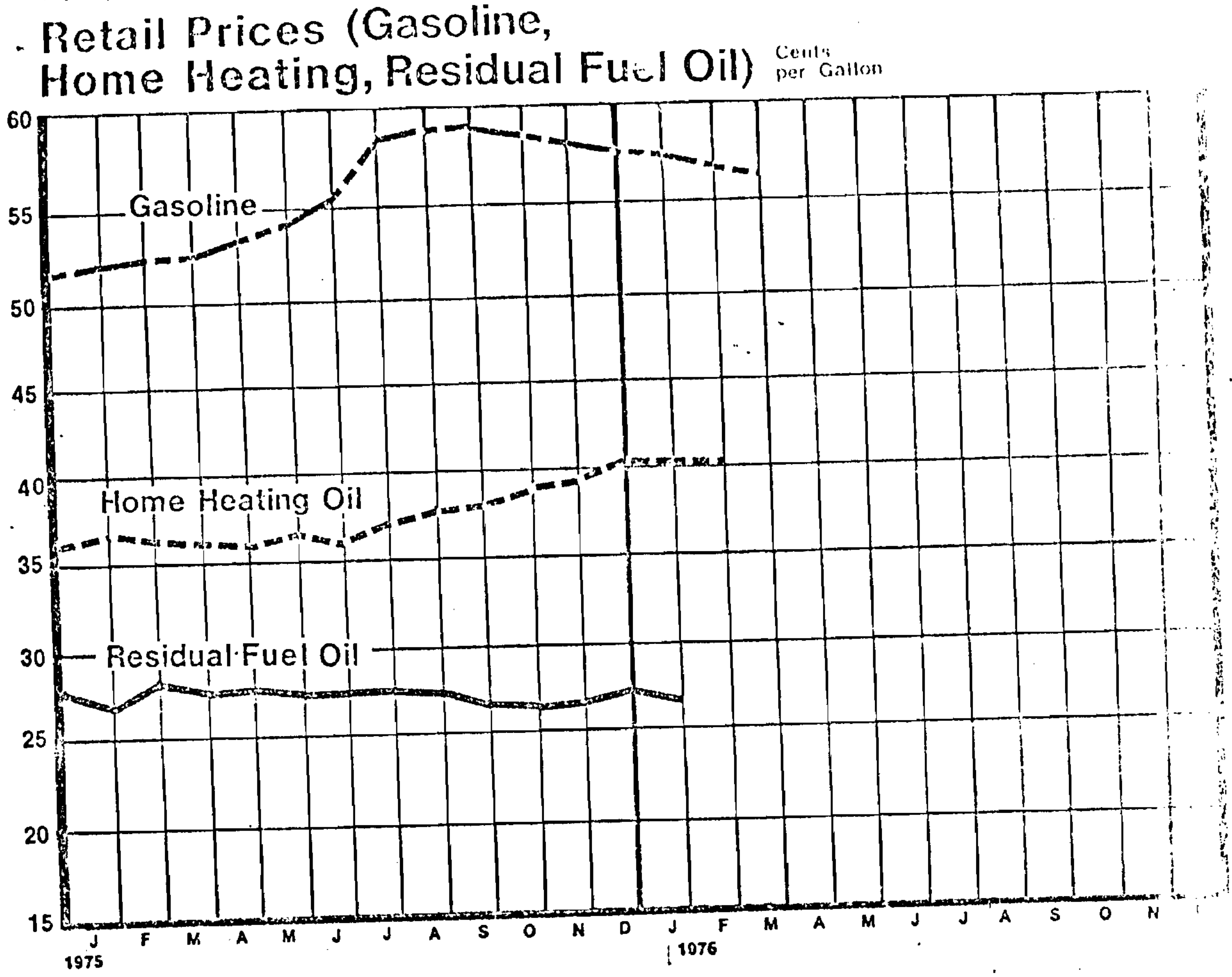


o Apparent demand for distillate fuel for the 4 weeks ending April 16 continued to be close to the forecast, at 3.03 million barrels per day. It was 40,000 barrels per day below the same period of last year and 80,000 below the same period of 1974, but 30,000 (0.8 percent) higher than 1973.



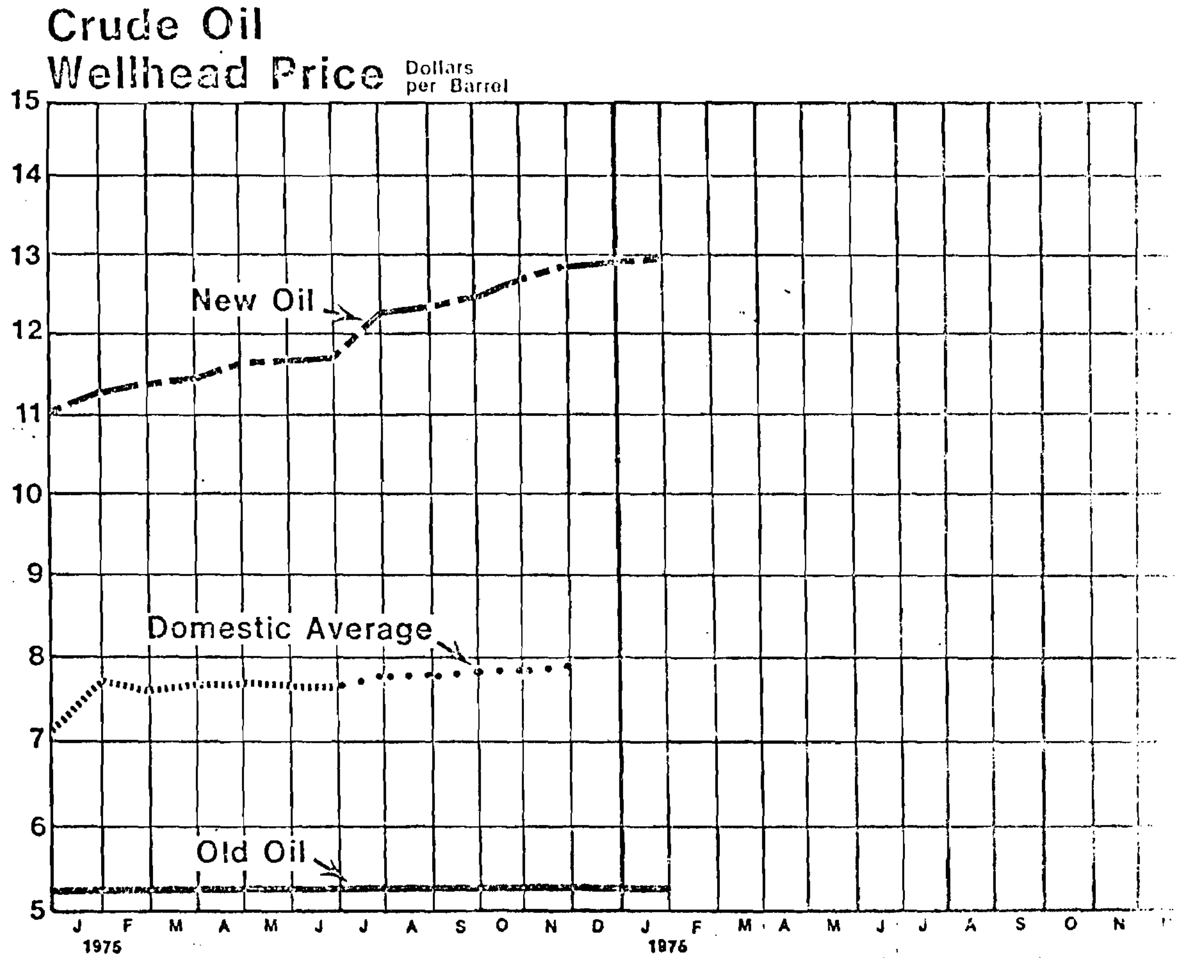
(No new data since last report.)

Figure 7



(No new data since last report.)

Figure 8

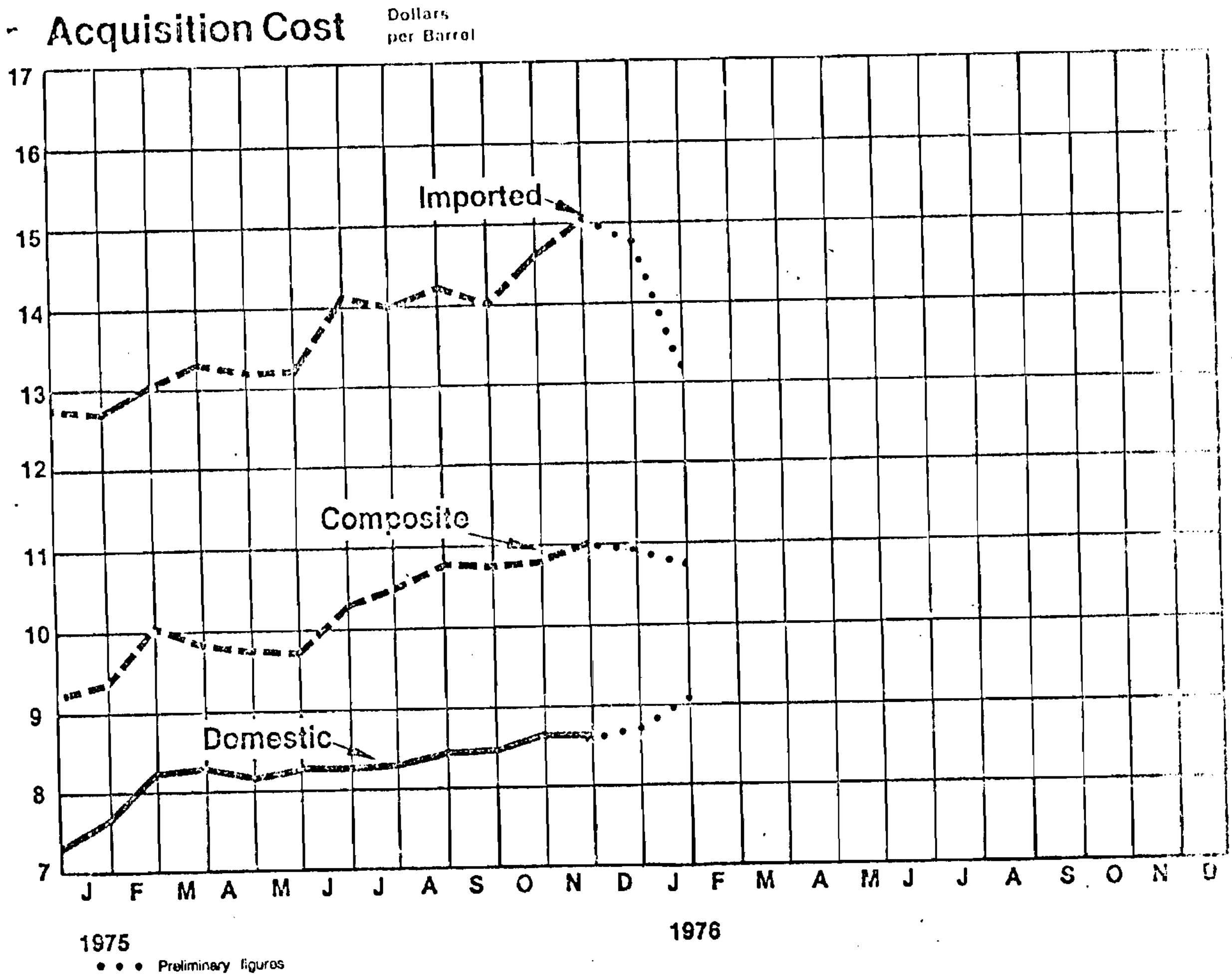


Note. June through November 1975 figures for the Domestic Average are estimated.

(No new data since last report.)

Figure 9

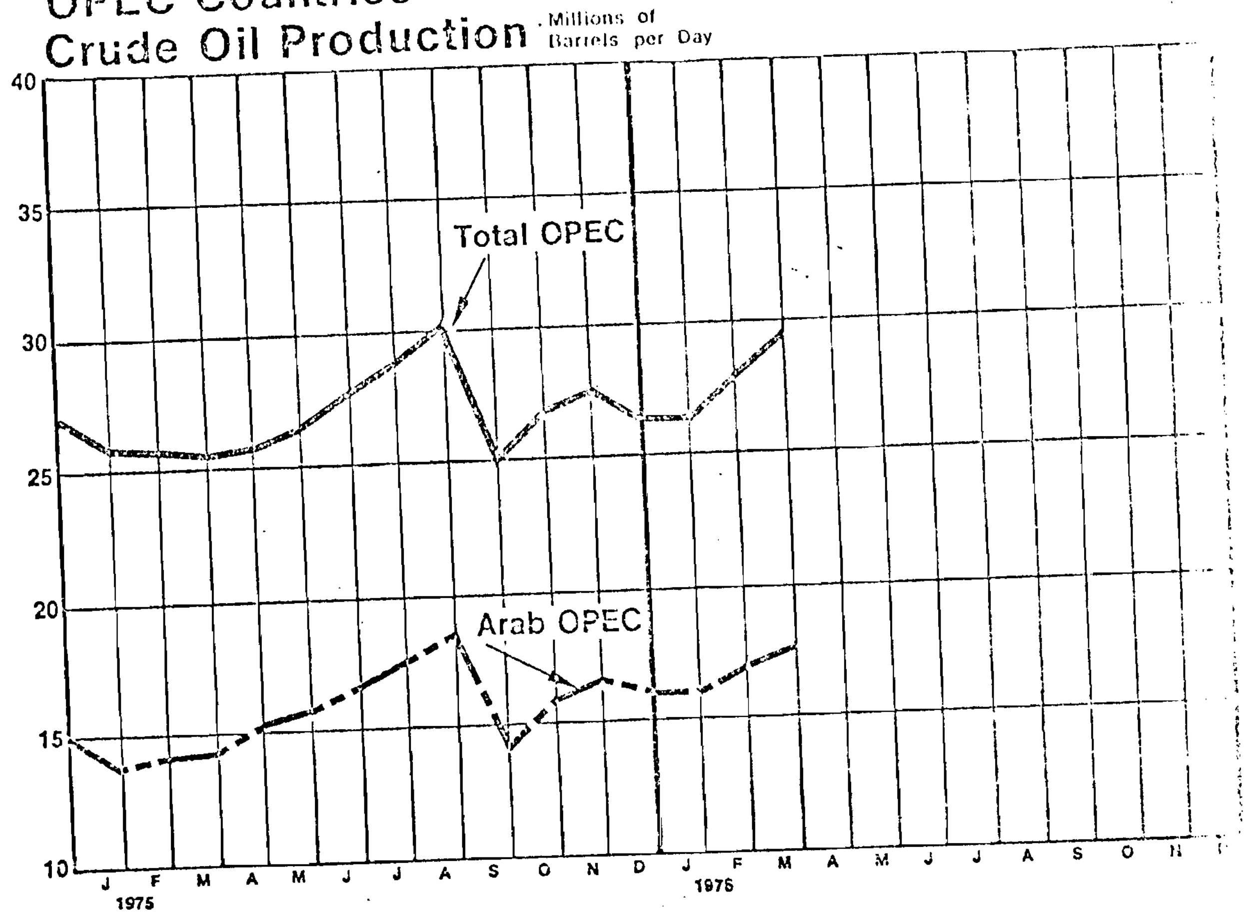
Crude Oil Refiner Acquisition Cost



(No new data since last report.)

Figure 10

OPEC Countries Crude Oil Production



o Crude oil production in OPEC countries during March 1976 totaled 29.7 million barrels per day, the highest since September 1975 when production was abnormally high because of the announced 10 percent OPEC price increase affective October 1975. Most of the March 1976 increased production was from non-Arab OPEC members, particularly Iran and Venezuela. Saudi Arabia accounted for essentially all of the Arab OPEC production increase.

[ca. 5/1/76]

DRAFT

STATEMENT FOR MAY 1

Three and one-half months have passed since I presented the Nation and the Congress with a comprehensive program to achieve energy independence by 1985. Events since then have further increased the importance of both the goal and the specific program. The policy I put forth was not an easy solution. It contained 13 separate legislative measures to solve this critical problem. It was, and remains today, the only comprehensive and workable national energy program. Because of the seriousness of the problem, I also moved to cut energy demand and increase supply to the maximum extent within my administrative discretion. I announced a three step increase in the fees on imported petroleum starting last February 1 and complete decontrol of old oil prices by April 1.

After imposition of the first dollar of the additional import fees, the Democratic leadership in the Congress requested that I delay further actions for 60 days to give them time to evaluate my proposals, to formulate an alternative comprehensive energy plan and to enact legislation. I granted that delay in the spirit of compromise, in spite of the fact that we have already waited much too long to make the hard energy decisions our country needs.

In the 60 days that followed, a number of Congressional energy programs have been introduced and considered, some progress has been made, but much less has been accomplished than I had hoped and it does not appear that a comprehensive energy plan will be enacted shortly. Thus, I again must make a difficult decision.

Events Since January 15

Since my January State of the Union Message, there has been no improvement in the situation in the Middle East. The tensions that exist only heighten my belief that we must do everything possible to avoid increasing our dependence on imported oil in the months ahead. If we fail to act decisively, our vulnerability to an embargo will double in just three years. The economic consequences of such vulnerability are unacceptable. Even if no embargo were likely, such growing dependence would leave this Nation at the mercy of new price increases by the Arab cartel.

The domestic situation is now more favorable than it was in January. The economy is showing signs of improvement as business activity increases and consumer spending grows. But upturn will result in greater demand for imported oil. At the same time, however, it will put us in a better position to absorb the adjustments that greater energy conservation will require.

I do not want to outline a totally bleak picture. There are some encouraging signs in the Congress. Both the House Ways and Means Committee and the Interstate and Foreign

Commerce Committee have been working diligently on energy legislation. Both Chairmen Ullman and Dingell have done an outstanding job in trying to formulate a comprehensive energy program. After extensive hearings and discussions, their efforts embody many elements of the philosophy and strategies of my comprehensive energy program. While constructive legislation is possible, several potentially disastrous proposals are also being seriously considered. These actions threaten to reduce domestic production, increase vulnerability, impose new and more burdensome regulations and government control over our society.

The Senate has also conducted many hearings, but the only legislation which has passed is a bill that would impose mandatory restrictions within 60 days on recreational and leisure travel, hours of business operation, and commercial lighting. This bill is ineffective, unrealistic, would result in unwarranted government control of personal freedoms, and would cause unforeseen economic consequences. The legislation was passed in a spirit of noncooperation and will be vetoed if it ever reaches my desk.

The months ahead can result in agreement between the Administration if we are diligent and honest. But I fear that the Congress could easily pass politically popular legislation which will not only not solve our energy problem, but will have serious economic impacts. From my many years in Congress, I know how easy it is to become embroiled in endless debate over the tough actions that are needed while moving quickly to enact legislation full of rhetoric and high sounding purpose, but short of substance. I cannot stand aside and let this happen. And the country cannot afford the economic impacts or international consequences of the growing import vulnerability which inevitably would occur.

Actions Announced Today

While I am very encouraged by the direction and diligence of Chairmen Ullan and Dingell and look forward to working out an effective and meaningful program, I must also be a realist. The distance to go before final legislation is on my desk, is long, and in many ways the timing and substance is beyond the control of the individual committee chairman. As a result, another 30 day delay now would only seem that I would have to make the same decision again and again in the months ahead. While I feel the Congress can pass comprehensive legislation and possibly do it very quickly, I feel compelled to take certain administrative actions to get moving again:

-- First, I have directed the Federal Energy Administrator to implement a program to steadily phase out price controls on old oil over two years, starting July 1, 1975. This program will not proceed until public hearings are completed and a plan is submitted for

Congressional approval. While I am eager to work with the Congress, and have compromised on my original intention to fully decontrol at this time, I cannot afford to wait indefinitely for this much needed action.

-- Second, I am imposing the second dollar import fee on crude oil and a $.60 per barrel fee on imported petroleum products.

These two important actions that I have set in motion will help achieve energy self-sufficiency by 1985, stem increasing vulnerability during the next few ciritical years, and will accomplish this without significant economic impact. Nevertheless, these actions alone are not enough and the Congress must act rapidly on a more comprehensive energy program which includes broader energy conservation and supply actions. I pledge to work with the Congress in this endeavor, and to the extent comprehensive and effective legislation is passed by the Congress which conflicts with my administrative actions, I stand ready to modify them. What I cannot do is stand by as more months elapse and our vulnerability grows. My administrative action must fill the gap. The country can afford no less.

[ca. 5/1/76]

PRESIDENTIAL TALKING POINTS FOR THE 5:30 MEETING ON MAY 1 ENERGY ACTION

1. Rog Morton, I understand that Frank and others have been working around the clock with the Congress to reach some compromises on our energy program. Before discussing the options paper I think Frank should bring us up to date on these discussions.

2. Would anyone else like to add their views on the current situation?

3. Frank, why don't you go over the options in the paper and generally describe the advantages and disadvantages of each?

Hanes' OK on interoffice memo -- see attached

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

MAY 05 1976

OFFICE OF THE ADMINISTRATOR

FORD, Gerald R.

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: PETROLEUM EXPLORATION AND DEVELOPMENT TRENDS

Recently claims have been made that petroleum drilling activity has decreased as a result of the passage of the Energy Policy and Conservation Act (EPCA) and that the Act should be repealed. It is too early to tell what will happen in 1976, although available information does not indicate that total drilling activity will differ significantly from that of 1975.

Two leading indicators provide information which help to predict the effects on future production: (1) drilling activity as measured by the number of rotary rigs in operation, and (2) plans for capital expenditures for exploration and production. The attached illustrations summarize data on these two indicators. Based on this information we see little reason to believe that the oil development trend has been significantly affected by the passage of the EPCA. However, we will closely audit developments in the weeks ahead.

Drilling Activity

Two charts are attached showing drilling activity for the period 1961-1976, one the basic data and the second the seasonally adjusted figures. Prior to the embargo, drilling activity gradually slowed down and showed within each year a strong seasonal fluctuation. January and February drilling activity was always significantly less than the peak which occured at the end of the previous year. The pattern was the result of tax policies and weather. After the embargo this pattern changed significantly: drilling activity increased very sharply and the seasonal fluctuation was not as pronounced.

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On the seasonally adjusted chart, we have noted the timing of the passage of the EPCA. As you can see, it is too early to tell if the passage of the EPCA in December 1975 will significantly affect drilling activity. Only three months of data are now available for 1976. December has historically been the peak month of the year for drilling activity. The seasonally adjusted chart indicates that, after removing historical seasonal fluctuations for this time of year, no significant change in drilling activity followed the passage of the EPCA.

The drop in drilling activity in the early part of 1976 is similar to the pattern for the last twenty years. For the 20-year period, 1956 through 1975, the average number of active rigs in March was 294 less than the previous December. The March 1976 rig activity was 253 less than that of December 1975. This information does not indicate that a significant and persistent decline in drilling activity is occuring in 1976.

Capital Expenditures

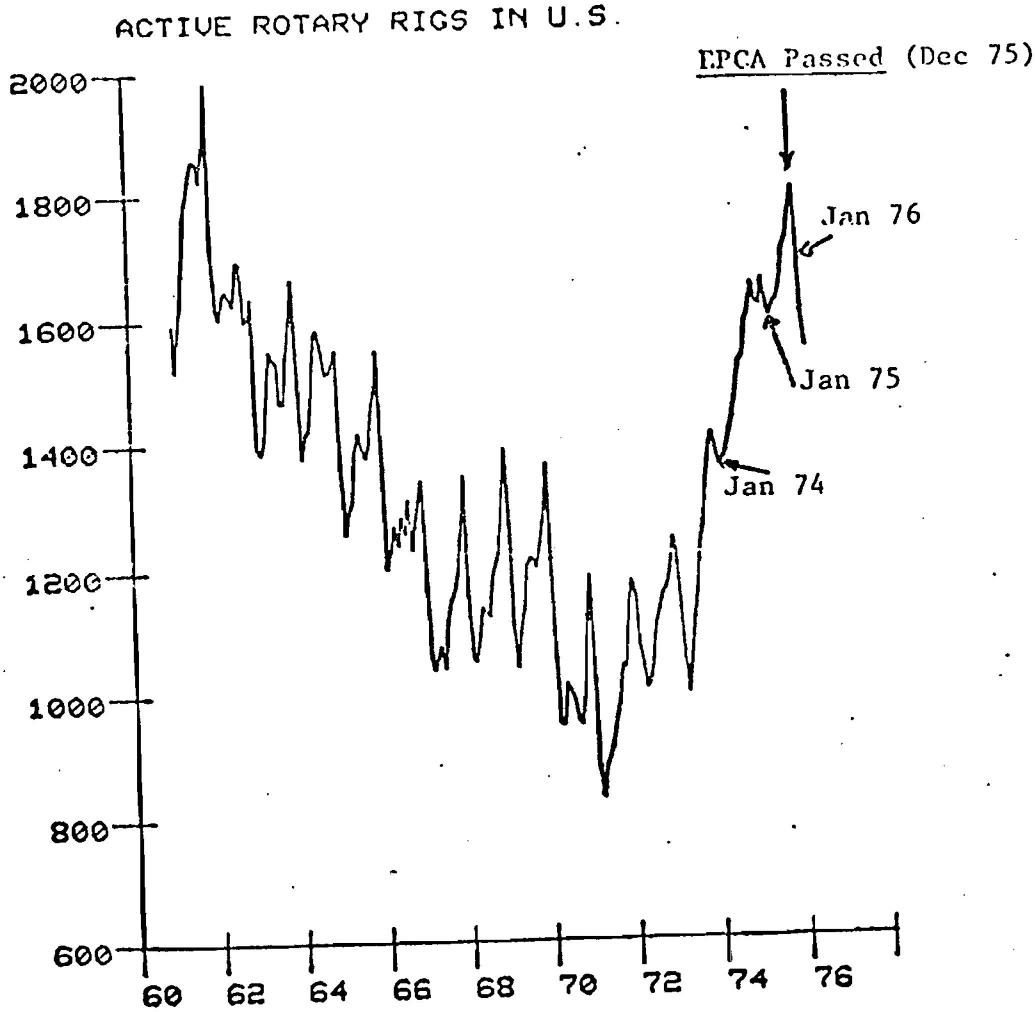
The attached tables show recent data on capital expenditures in the petroleum industry and projections for 1976. Expenditures are an indication of the resources being put into energy development and are thus a leading indicator of future activity. Table 1 shows that total projected expenditures for 1976 are $26.5 billion in current dollars, about the same as the record high level of $26.4 billion in 1975 and over twice the 1972 amount of $12.7 billion. The expenditures for exploration and production alone are expected to reach $16.4 billion in 1976. It is significant that high levels of expenditures are projected for 1976 despite the fact that profits declined by 25 percent in 1975 as compared to 1974.

Other forecasts support these trends. In Table 2 a Commerce Department survey of the plant and equipment component of spending shows a planned increase of 11 percent over 1975. The Commerce Department data differs from Table 1 in that it excludes expenditures for the Trans-Alaska Pipeline and non-plant and equipment expenditures such as lease acquisition, geological and geophysical work, and drilling. While Table 2 shows a larger increase in funding from 1975 to 1976, the functional definitions are different than those in Table 1 and the data are less relevant as a leading indicator because expenditures for drilling are excluded.

In summary, based on our best information about leading indicators, I would tentatively conclude that the EPCA legislation has not significantly affected petroleum development. Later data, however, could alter this conclusion. I will keep you informed.

4 Attachments

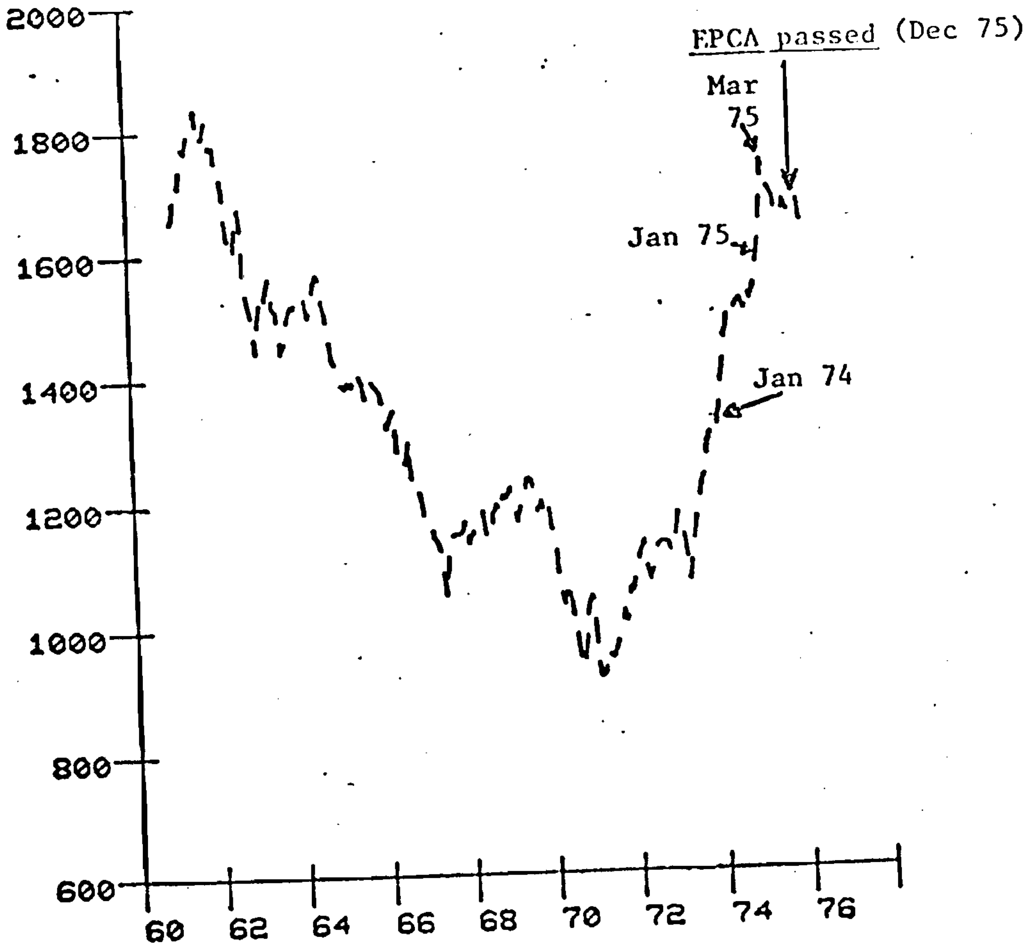
Chart 1



Source: Hughes Tool Company

Chart 2

ACTIVE ROTARY RIGS IN U.S.- Seasonally Adjusted



Source: Hughes Tool Company

*Census X-11 seasonal adjustment program was used.

Table 1. Trends in Capital and Exploration Expenditures for the Petroleum Industry*
(billions of current dollars)

	1972	1973	1974	1975	1976(p)
Drilling and exploration	5.7	6.7	7.3	8.3	8.5
Production	.9	1.7	2.1	4.4	6.7
OCS lease bonus	2.3	3.1	5.0	1.1	1.2
Sub-total: Exploration and production	$8.9	$11.5	$14.5	$13.8	$16.4
Refining	1.0	1.1	2.5	2.7	1.8
Petrochemicals	.3	.3	.8	4.3	2.3
Marketing	1.2	.9	.7	.8	.8
Transportation	.8	.9	1.8	3.4	3.3
Other	.6	.7	1.3	1.4	1.9
Total	$12.7	$15.3	$21.5	$26.4	$26.5

Source: Oil and Gas Journal--Totals may not add due to rounding.

p = projected.

* Similar trends as shown in this table emerge from other sources such as McGraw-Hill and Chase Manhattan Bank. McGraw-Hill studies include forecasts of spending and also show an increase in 1976 total expenditures and exploration and production expenditures relative to 1975 and prior years.

Table 2. Domestic Petroleum Plant and Equipment Outlays (billions of dollars)

	1975	Expected 1976
Total	10.51	11.63
Production	5.08	5.95
Transportation	0.83	0.83
Refining and Petrochemicals	2.89	3.07
Marketing	0.54	0.46
Other	1.18	1.31

Source: Department of Commerce

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461
MAY 17 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: BIWEEKLY STATUS REPORT

Motor gasoline demand for the 4 weeks ending April 30 was 7.15 million barrels per day, 490,000 barrels per day (7.4 percent) more than the same period in 1975 and 5.3 percent higher than 3 years ago in 1973. Stocks equaled 31.5 days supply compared with 34.4 days in 1975.

Total demand was 16.33 million barrels per day, 4.2 percent higher than 1975 but 2.3 percent less than in 1973. Demand for distillate fuel oil was 5.9 percent below 1975 and residual demand was just about the same, while demand for "other products" was 8.2 percent higher than last year.

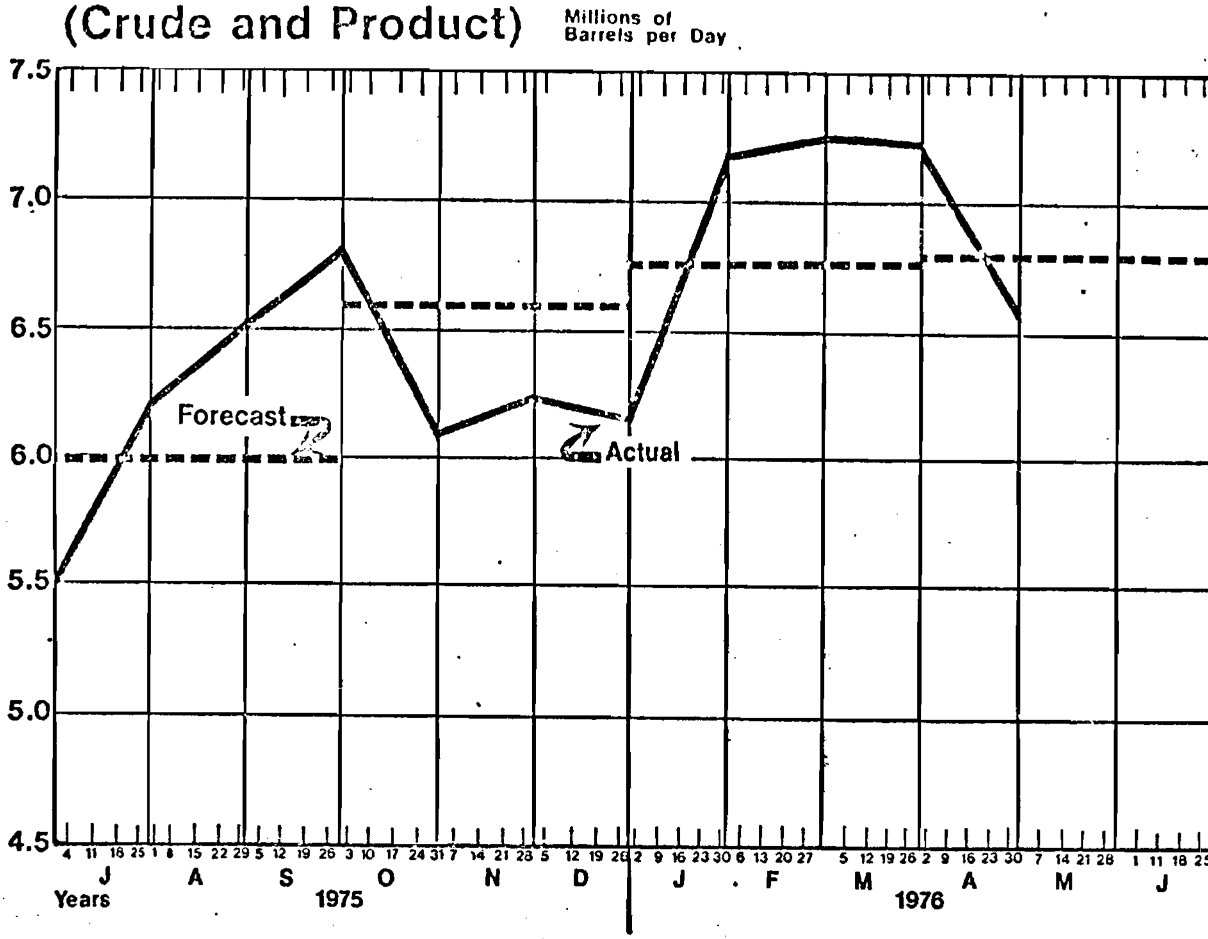
Imports, at 6.61 million barrels per day, continued to be about 1.5 million above last year.

Degree days for the 1975-76 heating season (September 1 through April 30) totaled 10 percent fewer (warmer weather) than during the 1974-75 season. Consumption of residual fuel oil during the same period was 6.2 percent less than in the comparable 1974-75 period and demand for distillate was 3.4 percent less.

The cost of oil imports into the United States, including Puerto Rico and the Virgin Islands, was $8.02 billion in the first quarter of 1976. We estimate total 1976 imports will cost $35.17 billion, compared with $27.04 billion in 1975, $26.47 billion in 1974, and $8.30 billion in 1973. United States exports of all commodities to the major oil exporting countries (excluding Canada) were up 19.8 percent in the first two months of 1976. We project total 1976 exports of $15.0 billion to these countries, compared with $12.57 billion in 1975, $8.14 billion in 1974, and $4.54 billion in 1973.

Figure 1

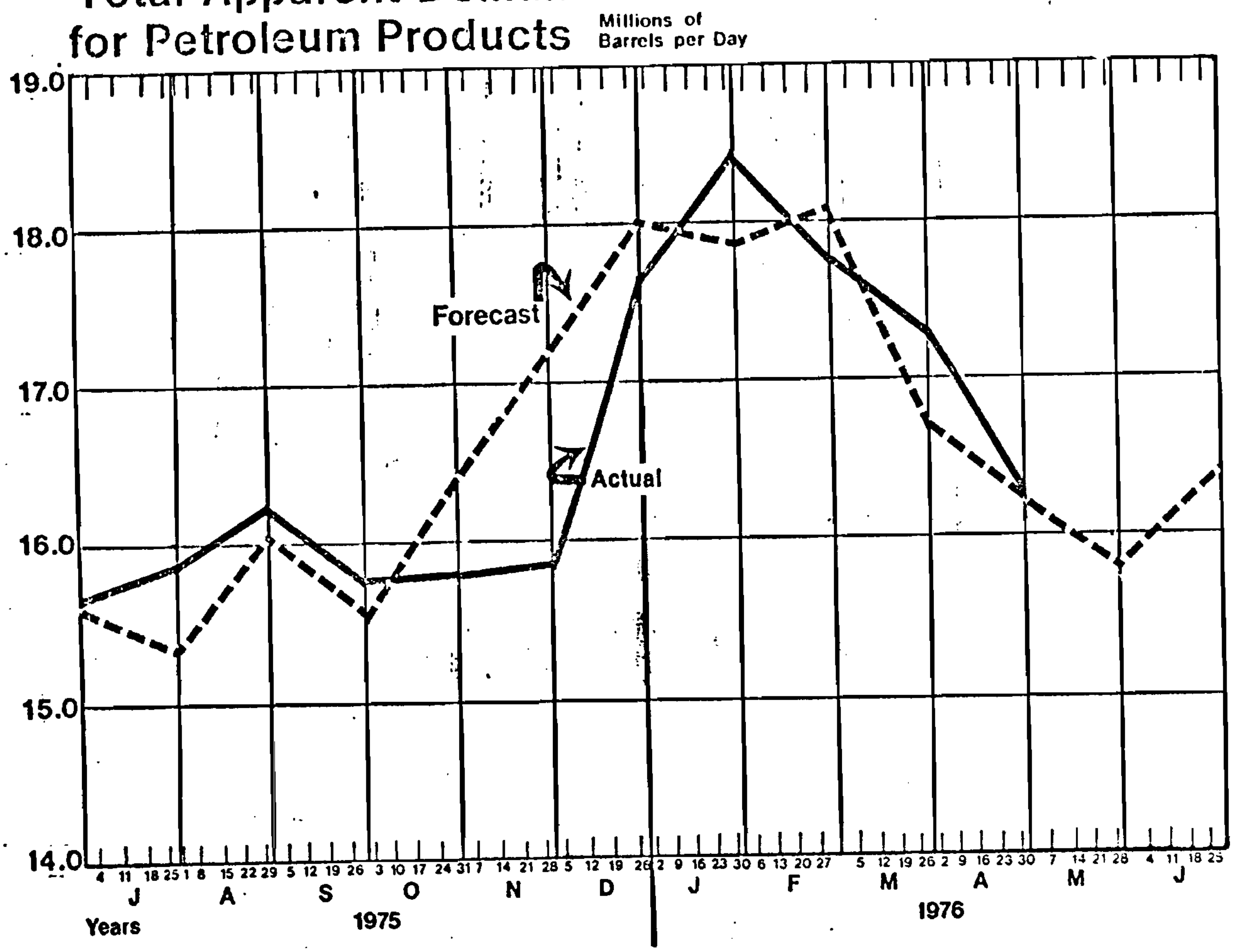
Total U.S. Petroleum Imports (Crude and Product)



o. For the 4 weeks ending April 30, total imports averaged 6.61 million barrels per day. This was 1.5 million barrels per day above the 1975 level, 330,000 barrels per day above the 1974 level, and 740,000 barrels per day above the 1973 level.

Figure 2

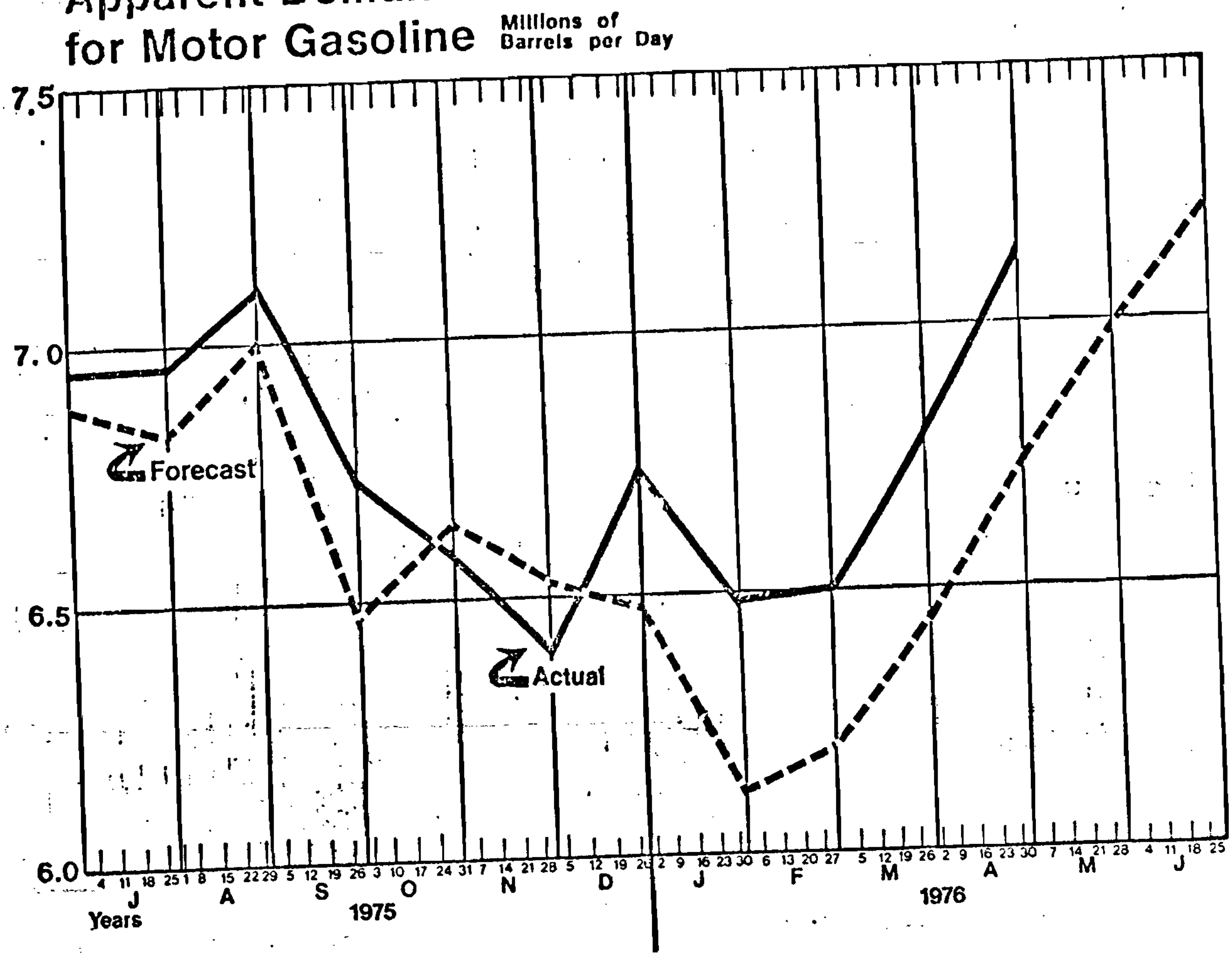
Total Apparent Demand for Petroleum Products



o Total petroleum demand during the 4 weeks ending April 30 was 16.33 million barrels per day. This was 660,000 barrels per day (4.2 percent more than the corresponding period in 1975, 150,000 less (0.9 percent) than in 1974, and 390,000 less (2.3 percent) than in 1973.

Figure 3

Apparent Demand for Motor Gasoline

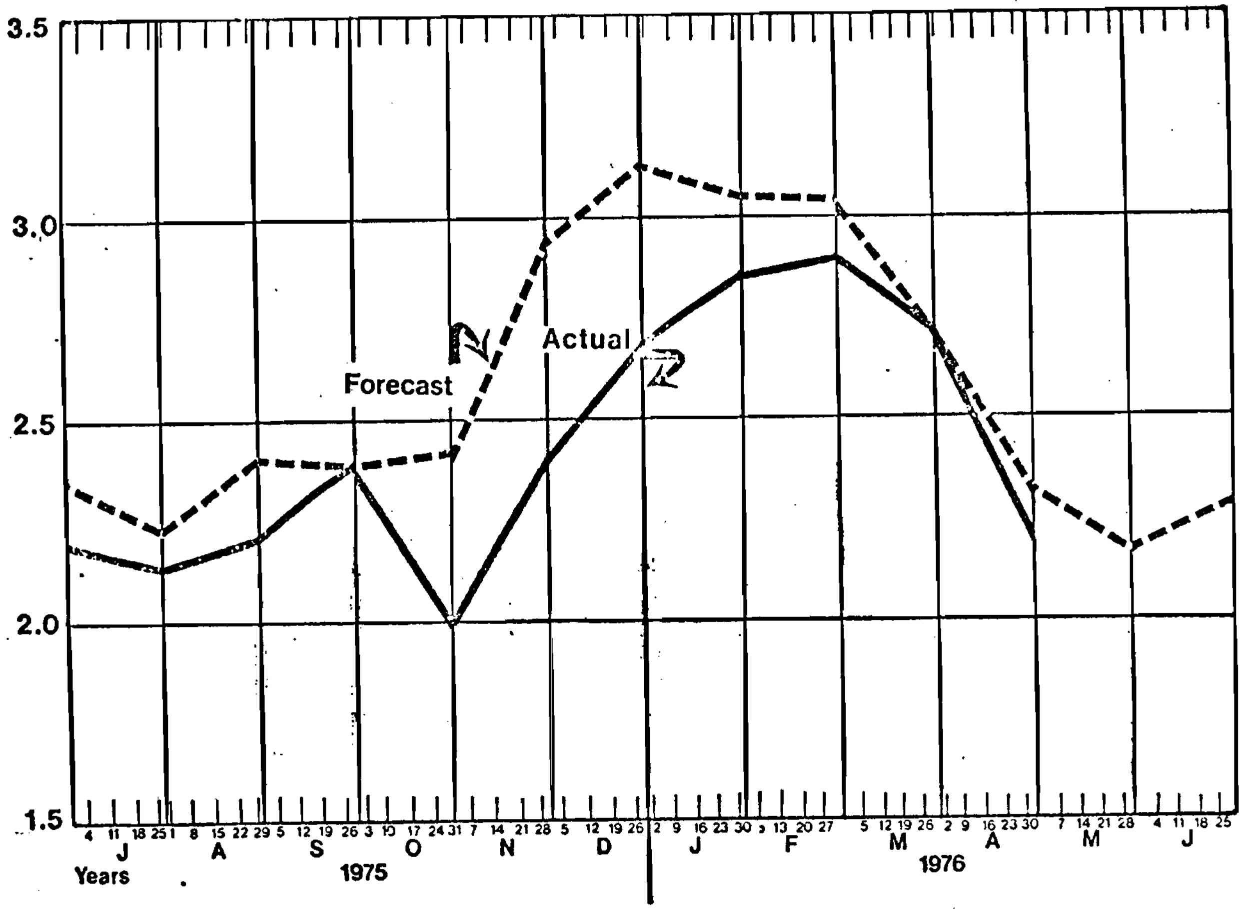


o For the 4 weeks ending April 30, motor gasoline demand was 7.15 million barrels per day. This was 490,000 barrels per day (7.4 percent) higher than in 1975, 680,000 barrels per day higher than in 1974, and 360,000 barrels per day (5.3 percent) higher than in 1973.

Figure 4

Apparent Demand for Residual Fuel Oil

Millions of Barrels per Day

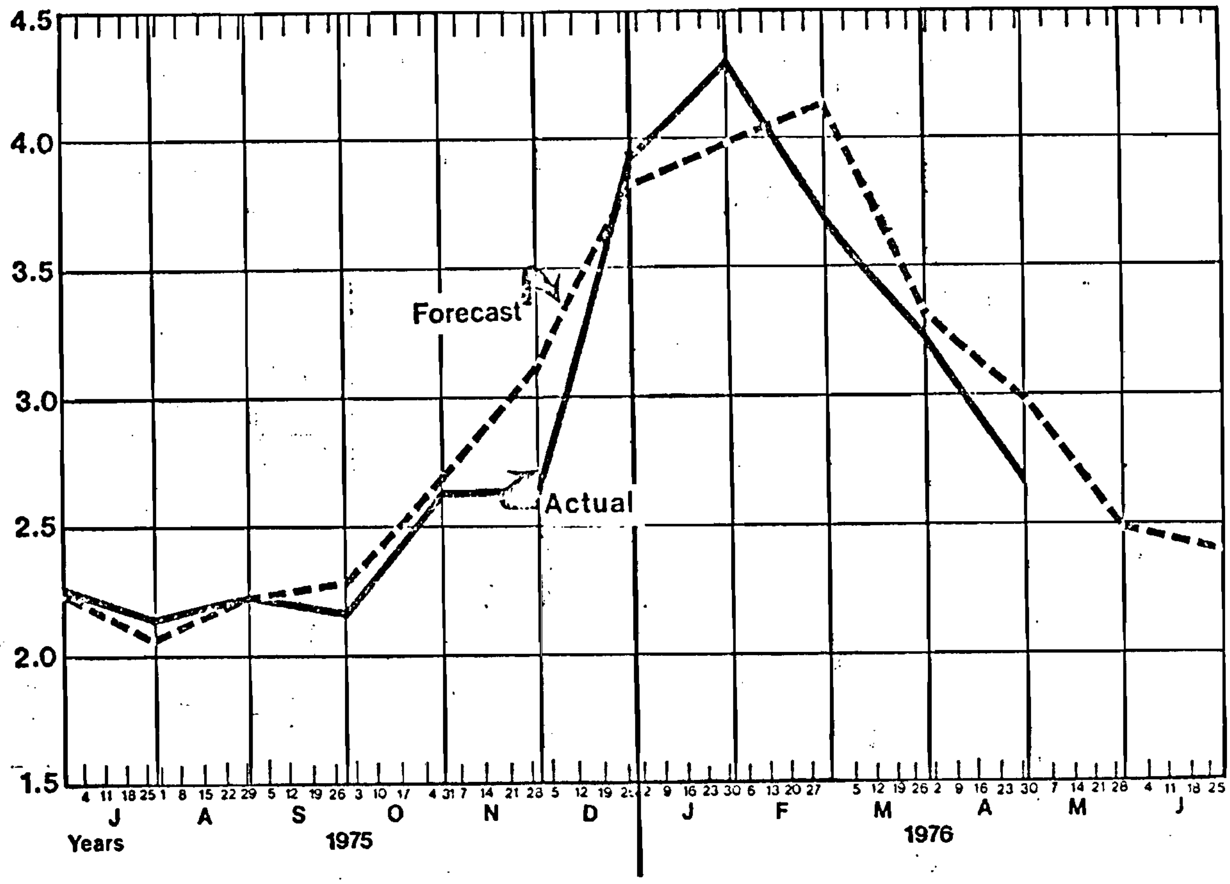


- o Residual demand for the 4 weeks ending April 30 was 2.22 million barrels per day. This was virtually the same level as last year, but 140,000 barrels per day (6.0 percent) below 1974 and 360,000 barrels per day (14.0 percent) below 1973.

Figure 5

Apparent Demand for Distillate Fuel Oil

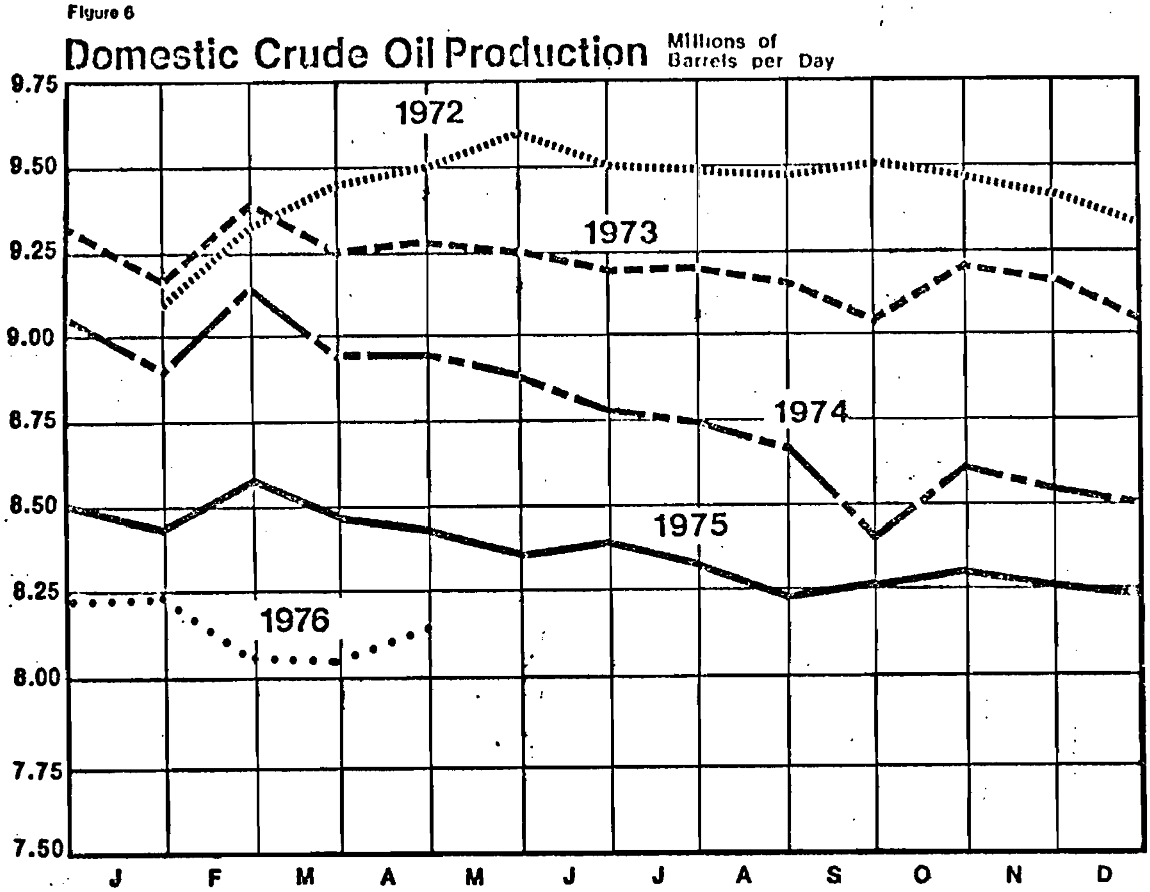
Millions of Barrels per Day



o Apparent demand for distillate fuel for the 4 weeks ending April 30 was 2.69 million barrels per day. It was 170,000 barrels per day below the same period in 1975 and 80,000 barrels per day below 1974, but was 130,000 barrels per day above 1973.

Figure 6

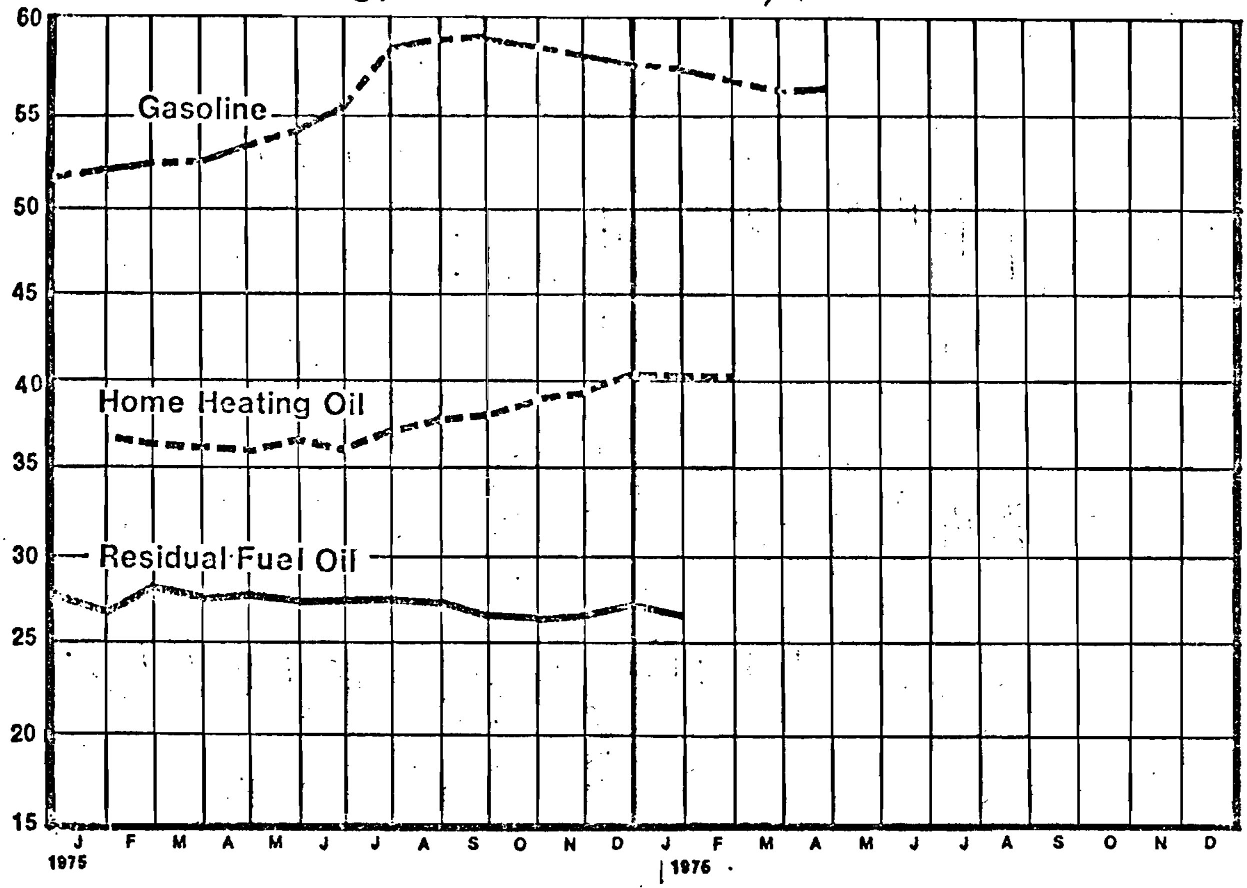
Domestic Crude Oil Production



(No new data since last report.)

Figure 7

Retail Prices (Gasoline, Home Heating, Residual Fuel Oil) Cents per Gallon

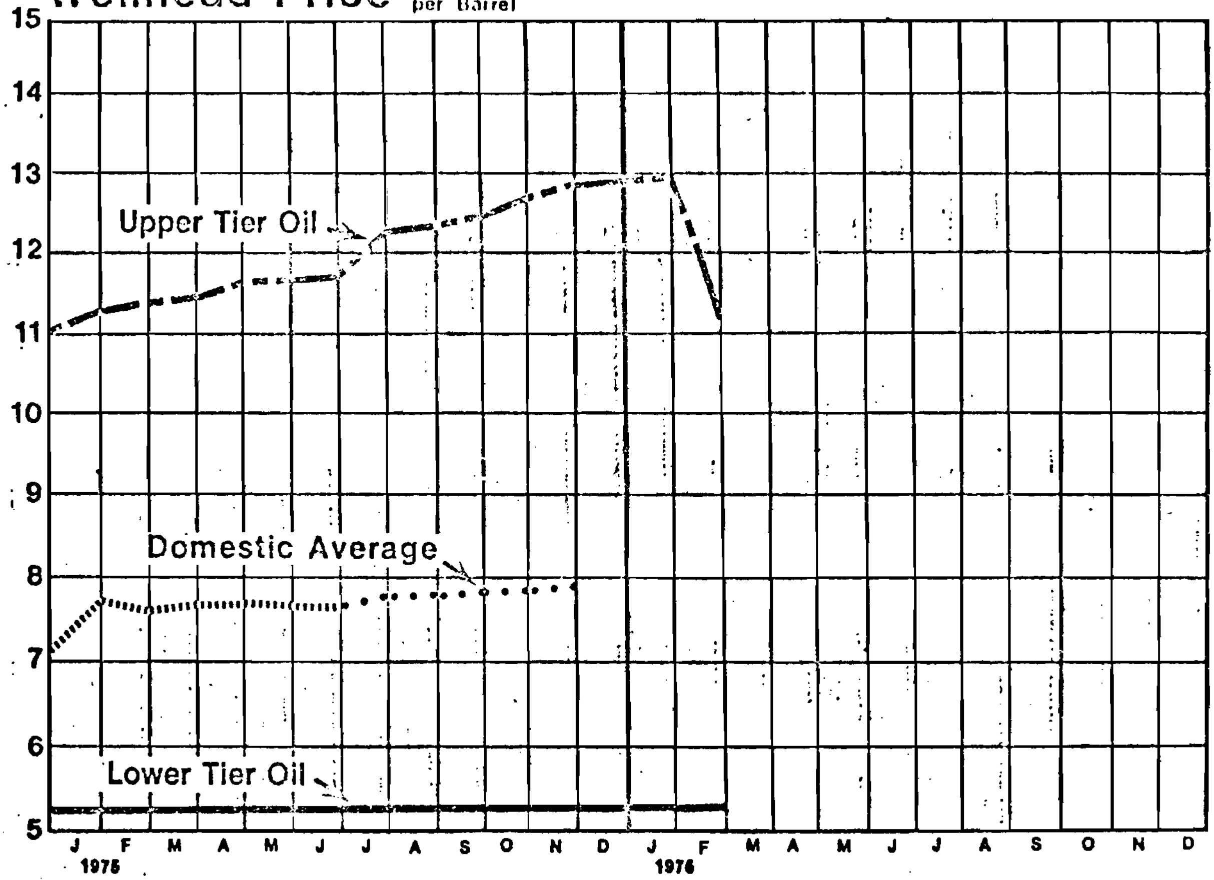


o During April, the national average retail selling price for regular gasoline was unchanged from its March level. This was the first time in 6 consecutive months that gasoline prices have not increased.

Figure 8

Crude Oil Wellhead Price

Dollars per Barrel



Note. June through November 1975 figures for the Domestic Average are estimated.

- During February, the average "upper tier" crude oil price was \$11.33 per barrel, \$1.60 below the "new" oil price in January. This decrease can be attributed to the rollback in new oil prices under the Energy Policy and Conservation Act of 1975.

- Upper tier ceiling prices are computed as the highest posted price for the same grade of crude oil in the same or nearest field on September 30, 1975, less \$1.32 per barrel.

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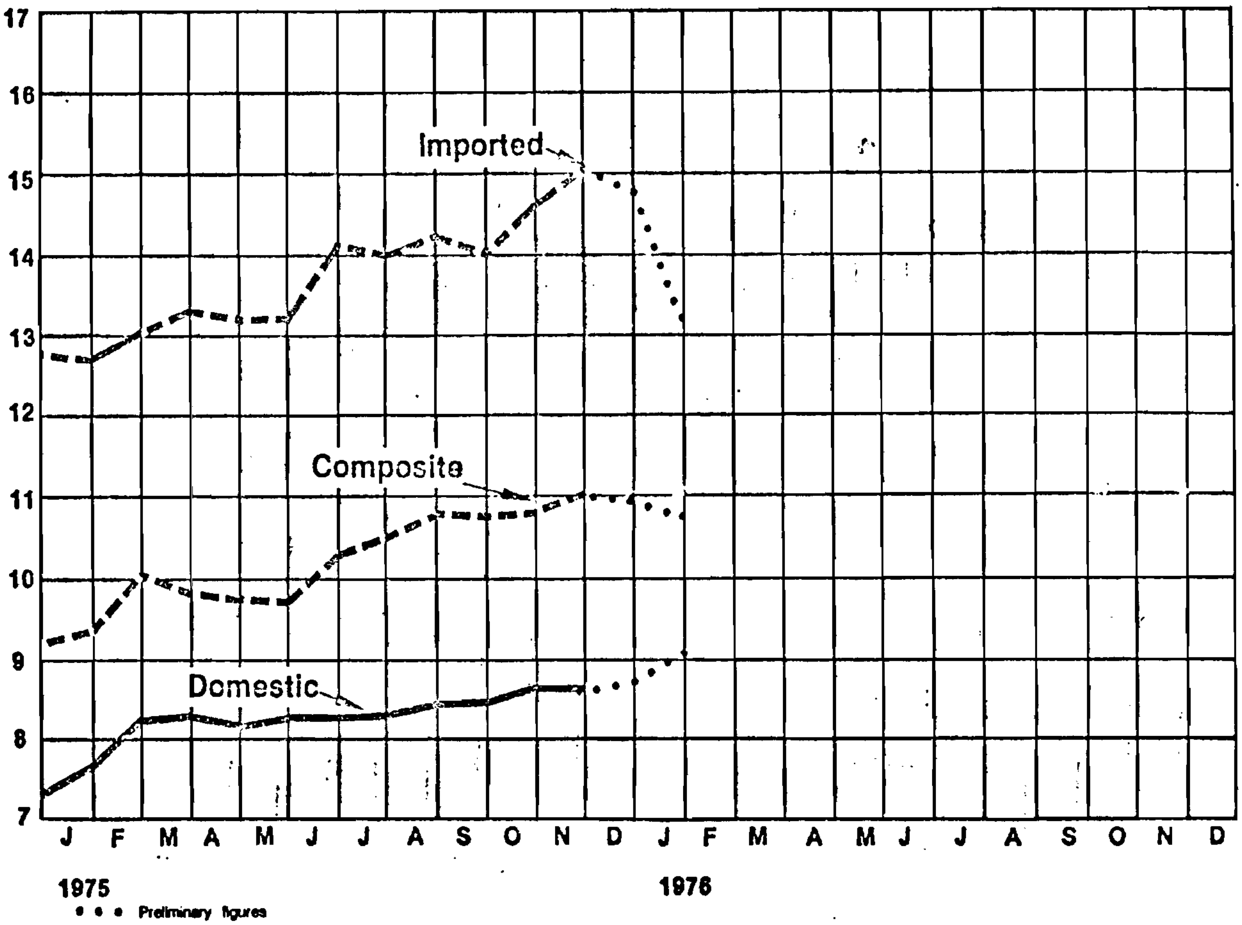
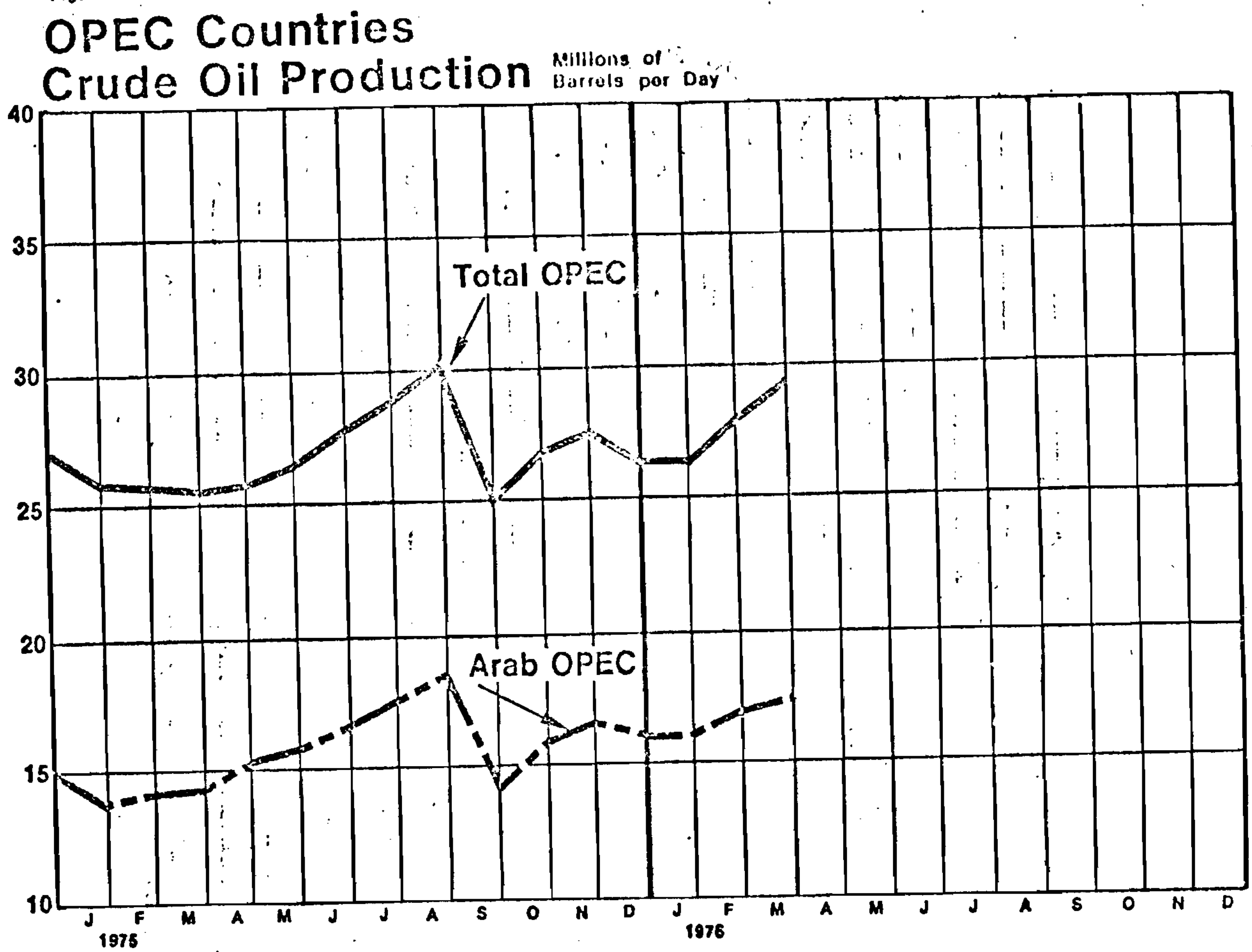
Crude Oil Refiner Acquisition Cost

Dollars per Barrel



(No new data since last report.)

Figure 10



o The estimate of Arab OPEC crude oil production for March has been revised from 17.7 million barrels per day to 17.5 million barrels per day and total OPEC production has been correspondingly lowered to 29.5 million barrels per day.

DEFINITIONS

Apparent Demand: Because domestic demand for products in terms of real consumption is not available, a proxy, "disappearance from primary supply," is used. Total apparent demand for petroleum products is measured by inputs to refineries, plus estimated refinery gains, plus net imports of products, plus or minus net changes in primary stocks of products. (FEA does not measure secondary stocks, which are substantial for some products.) Apparent demand for individual refined products is measured as production plus net imports plus or minus stock change.

Actual Demand: Monthly import data for figure 1 are obtained from FEA's Monthly Petroleum Reporting System through December 1975. Import data for January, February, and March 1976, and for the 4-week moving average for the period ending April 30 are obtained from API's Weekly Statistical Bulletin. Actual demand data in figures 2, 3, 4, and 5 are calculated from API's Bulletin. Data in figure 6 are obtained from BOM through December 1975 and from API thereafter. Figures 7, 8, 9, and 10 are based on FEA data.

Forecast: Forecasts in the Biweekly Report are actually composite "backcasts"/forecasts. The forecast for petroleum product demand, which takes into account passage of the Environmental Policy and Conservation Act (EPCA) of 1975, is based on a projection of economic conditions, assuming normal weather.

Forecasts reported in this issue were revised on 3/12/76 and are simulated from September 1975 to June 1976. Backcasts of petroleum demand reported in this issue are simulated from January 1975 to August 1975. The backcasts are modified to take into account actual price, weather, and macroeconomic conditions.

Geographical Coverage: The importing area covered in this report is the 50 States and the District of Columbia. The data also include as imports receipts from Puerto Rico and the Virgin Islands. In this, FEA follows BOM practice, as does API. Imports as reported by the Census Bureau of the Department of Commerce include imports into the U.S. "customs area," which includes the 50 States and the District of Columbia plus Puerto Rico. Receipts by the 50 States and the District of Columbia from Puerto Rico and the Virgin Islands are excluded. Census reports imports into the Virgin Islands, which is not in the U.S. customs area, separately. The Bureau of Economic Analysis (BEA) of the Department of Commerce totals imports into the customs area and the Virgin Islands for balance of payments purposes. However, BEA does not include butane, propane, and some minor products in the balance of payments petroleum total.

[cn 5/10/76] [illegible] to John [illegible] to [illegible] to next agency.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY OF THE INTERIOR
SECRETARY OF COMMERCE
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Legislation on Offshore Oil and Gas Leasing--Information Memorandum

Background

Shortly after President Nixon announced accelerated leasing for offshore oil and gas in January 1974, public concern along the Atlantic coast, in California and in Alaska brought Congressional action to amend the Outer Continental Shelf Lands Act, under which the leasing program is carried out. The Senate passed S. 521, by a vote of 67 to 19, on July 30, 1975; the House version, H.R. 6218, is about to receive floor action, perhaps later this month.

Both bills are comprehensive versions of the OCS program. They extensively modify the leasing arrangements and provide for an oil spill liability fund as well as aid to States experiencing onshore impacts. The State aid provisions may become moot if the amendments to the Coastal Zone Management Act, which are now in conference and which also contain impact aid provisions, are modified to become acceptable to you and are signed into law.

Administration Position

The Administration has taken the position that the Senate OCS bill is unacceptable. It contains provisions that are expensive, wasteful, and potentially crippling to the leasing program, and it would seriously delay development of offshore oil and gas resources. The House bill as reported is much less objectionable; the minority on the Committee were joined by majority members from Louisiana and Texas in a series of close votes removing many of the worst provisions of the Senate bill.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

In our work thus far with the House committee (Ad Hoc Select Committee on the OCS, chaired by John Murphy of New York) we have maintained general opposition to the bill, and have twice written letters detailing Administration objections. In part, the Committee has responded positively and on the whole we feel that the House bill is now nearing acceptability if a limited number of additional changes are made, and if adverse floor amendments can be prevented.

Our general feeling is that the Administration should not accept significant impairment of the OCS leasing program, which is basically sound as it stands. On the other hand, there is something to be gained if a bill could be signed; present State opposition to new leasing off Alaska, California, and the Atlantic coast would be reduced, and leasing would undoubtedly be easier to accelerate.

Therefore, if you do not object, we intend to continue to work for an acceptable bill. The price of Administration acceptance, we are agreed, should be the changes we list below, plus at least a fair number of those less crucial but still important changes listed at Tab A. Avoiding adverse amendments on the floor will be a problem, as will the outcome of conference with an unacceptable Senate bill. We are by no means confident that we will be able to recommend signature of the final product, but the chances are good enough, and the outlook for sustaining a veto uncertain enough, so that we believe working for an acceptable bill is the best idea.

<u>Required Changes in H.R. 6218</u>

1. <u>Lease cancellation</u>. The bill requires cancellation of hazardous leases under criteria that are one-sided and has compensation provisions that are technically deficient. We feel cancellation should occur only after passage of time has clearly shown it to be necessary, and after full consideration of the advantages and dangers of continued production. Cancellation should be invoked only for hazards unanticipated at the time of lease issuance, and the lessee should be compensated for either the value of the lease at the time of cancellation, or his net expense on the lease, whichever is smaller.

2. <u>Limit on bonus bidding</u>. The bill limits use of the present bonus-bid system for lease sales to 90 percent of future acreage, and requires approval by both House and Senate to exceed the limit. We do not object to the 90 percent figure, provided it can be exceeded <u>unless</u> both Houses, by joint resolution, <u>dis</u>approve.

3. Information for States. The bill requires provision to adjacent States of privileged information developed by companies from geological and geophysical exploration. We feel that such information should be provided only if it will not unduly harm the competitive position of the companies involved.

4. Drainage of State lands. The bill requires joint Federal-State leases in the first three miles of Federal waters if the area contains oil or gas pools partly underlying State lands. We do not accept the joint-lease concept, which implies States' rights beyond the 3-mile limit and which gives States a potential veto over leasing of such lands. On the other hand, we are willing to provide arrangements for equitable division of revenues so that a State will not be financially injured by drainage.

5. Recommendations of Governors or Advisory Boards. The bill requires acceptance of leasing recommendations of Governors or Advisory Boards, unless we find them inconsistent with national security or overriding national interest. We feel that in the case of a nationally-owned resource not lying within the boundaries of any State, there should be no presumption of such acceptance, though we seek and encourage States' recommendations.

6. Environmental studies. The bill shifts Interior's extensive program of OCS environmental studies to Commerce. We are agreed that the primary purpose of the studies is to furnish information for Interior's leasing decisions, and that control should remain in Interior's hands.

7. Changes in safety regulations. The bill provides that no change in regulations may reduce the degree of safety on the OCS. We object to this restriction because it prevents balancing the advantages and disadvantages of new regulations, and because it could be a source of delaying litigation.

8. Authority to regulate. The bill strikes from present law the key sentence which, since 1953, has been the basis of regulations and court decisions defining Interior's regulatory authority. The sentence is not inconsistent with other parts of the bill, and we feel it should be retained.

9. Consistency with State coastal zone programs. The bill requires that leasing be consistent with State coastal zone programs, but drops the qualifying phrase which is present in the Coastal Zone Act itself, "to the maximum extent practicable." We feel the phrase should be retained, so that the standard of consistency is no higher for OCS leasing than for other Federal programs.

10. Best technology. The bill requires use of "the best available and safest technology, economically achievable." We oppose enactment of this phrase unless report language makes it clear that the costs and the advantages of new technologies can be balanced against each other, and the bill is amended to make clear that "economic achievability" is to be determined by Interior, not the courts.

11. Safety regulation. The bill makes multiple assignments of agency authority for safety regulations; sometimes as many as three agencies are directed to do the same thing, to no clear purpose or effect. We favor retention of the regulatory responsibilities in present law.

12. Marking of obstructions. The bill makes mandatory the Coast Guard's present discretionary authority to mark obstructions on the OCS for navigational purposes. We feel that discretion should be retained, because marking is not always helpful or necessary, and because the Coast Guard's liability in case of accident might otherwise be unacceptably expanded.

13. Impact aid. The impact aid provisions are identical to those in the House Coastal Zone bill now in conference. We object to them as being inconsistent with the Administration bill on this subject.

14. State authority. The bill forbids development plans to be inconsistent with "any valid exercise" of State or local authority. This is language taken from the Senate bill, which requires development plans to contain information about onshore facilities, but it is inappropriate in the House bill, which restricts the plans to facilities in Federal waters.

15. Requirement of due diligence. The bill bars issuance or extension of a lease if the applicant has not diligently performed his obligations on other leases. The provision is unnecessary, since due diligence on each lease is required elsewhere in the bill; it is unworkable, since it could lead to cancellation of a lease held jointly by several parties because of the lack of diligence of one of them on another lease.

16. Citizens' suits. The bill broadens the standing of citizens to sue under the Act well beyond provisions of other recent environmental laws. This raises the likelihood of nuisance suits.

17. Stratigraphic drilling. The bill requires offer of permits to drill in each frontier area at least one pre-lease-sale test hole, in a location most likely to contain oil or gas. Present policy is to keep these tests "off structure" so that no discovery of oil or gas will result, in order to gather useful geologic information but avoid pressure for further government exploration before leasing. Present policy should be retained.

If all of these changes were made, we think the House bill would be acceptable. We will continue to work with the Committee toward this end.

Thomas S. Kleppe
Secretary of the Interior

Secretary of Commerce

Frank G. Zarb
Administrator, Federal Energy Administration

Director, Office of Management and Budget

Other Administration Objections to H.R. 6218

1. Retroactivity. The bill applies new development plan requirements designed primarily for frontier areas to all leases on which production has not taken place, including hundreds of leases in developed areas of the Gulf of Mexico. The requirements should be applied to frontier areas only.

2. Deadline for preparation of 5-year plan. The bill prohibits leasing after June 30, 1977, unless a required 5-year plan has been prepared and approved. Eighteen months after passage of the bill should be allowed.

3. Principles for preparation of 5-year plan. The bill lays down requirements for preparing the 5-year schedule which are overly strict and could become sources of delaying litigation. Qualifying language should be added.

4. Reports of safety violations. The bill requires excessively detailed reporting of safety violations. Unnecessary expense would be avoided by redrafting these provisions.

5. Frequency of inspection. Unnecessarily frequent inspections are called for in the bill. Once-yearly regular inspections of platforms, plus a program of unannounced visits, would be adequate.

6. Regulations required. The bill requires issuance of regulations concerning duties of the Secretary himself, such as preparing annual reports and the 5-year program. Such a requirement would generate useless paperwork, and should be stricken.

7. Attorney General and FTC review. The bill requires Interior to provide Justice and FTC with information for their review concerning antitrust implications lease issuance or extension. The information requirement is too broad, and could become burdensome and a source of delay.

8. Regulations for subsurface storage. The bill requires Interior to issue regulations for all subsurface storage on the OCS, a requirement that is in conflict with the Energy Policy and Conservation Act, which assigns responsibility in the case of government facilities to the FEA.

9. Limitations on export. The bill adds requirements for Presidential findings and Congressional review to the normal procedures of the Export Administration Act. These are undesirable restrictions on executive powers.

10. Extending the term of a lease. Under certain conditions, the bill permits extension of the primary term of a lease to ten years from the normal five. To avoid undesirable pressure for extensions, this provision should be limited to leases containing such permission in their original language.

11. Development plan approval if environmental studies are incomplete. The bill says that an incomplete environmental study shall not "in itself" be grounds for refusing to approve a development plan. This question should be left to Interior's discretion, since in some cases the study may be important enough to be worth waiting for.

12. Compensation for leases cancelled because of safety violations or inability to comply with law. The bill fails to make clear that cancellation for these reasons would not entitle the lessee to compensation.

13. Revision of development plans. The bill restricts too narrowly the grounds for revision of development plans. If the requested revision is not contrary to the public interest, the mere convenience of the lessee should be sufficient.

14. Reimbursement for data costs. The bill provides for reimbursement of lessees but not permittees for reproduction costs of data acquired from them by Interior. The provisions should be the same for both.

15. Price per lease-share under "Phillips plan." The bill provides that all bidders for 1 percent lease shares under the Phillips plan system would pay the same price, regardless of their bids. This requirement unnecessarily handicaps an otherwise promising experimental bidding system.

16. Required environmental impact statement at development stage. The bill requires at least one EIS on development in each frontier area, but it is ambiguously worded, and could be interpreted to require one on each geologic structure, which would be unworkably burdensome.

17. Definition of "affected State." The definition now in the bill makes it possible for a State to be defined as "affected" by an oil spill from any vessel, not just one carrying OCS oil. This is inconsistent with the logic of the oil spill liability provisions elsewhere in the bill.

18. Proper term for OCS "structures." In referring to OCS "structures" such as wells and platforms, the bill fails to use language which is fully consistent with the 1958 Convention on the Continental Shelf.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

May 19, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Natural Gas Legislation

The Senate Commerce Committee approved a new natural gas bill (S.3422) yesterday in an effort to break the logjam that has developed on natural gas between the Senate and the House. The measure, which was approved 16-1, emerged late last week under the sponsorship of Pearson, Stevenson, Hollings, Fannin and others.

In general, the bill is an improvement over current regulations but less acceptable than the Pearson-Bentsen bill (S. 2310) that passed the Senate last year and the Krueger bill that failed by 3 votes in the House in February. Specifically, the bill:

- Establishes an initial rate of $1.60/MCF for all new onshore gas (compared to the current FPC rate of 52¢/MCF), escalates the initial rate quarterly according to inflation, and ends all regulation on onshore gas after 7 years;

- Establishes an initial rate for offshore gas of $1.35/MCF, escalates this initial rate quarterly according to inflation, and provides for a review - but not termination - of offshore regulation every 5 years.

S. 2310 and the Krueger bill would have terminated regulation of onshore gas immediately and phased offshore regulation out over a period of 5 years. Like these earlier bills, however, there is no extension of regulation to intrastate markets in S. 3422.

FEA has analyzed the bill. As indicated in the following chart, 1985 gas production that would result from the bill is significantly greater than current regulations, and less than S. 2310 or Krueger.

	Current Regulations	S. 3422	S. 2310	Krueger
1985 Production (TCF)	17.9	21.5	23.0	22.3

FEA has also reviewed other aspects of the bill and believes that technical amendments are needed to improve the workability of the bill. These amendments, of course, would only be necessary if S. 3422 were acceptable or could be modified to make it acceptable.

Current indications are that the bill has broad support (including some conservatives), and will likely pass the Senate with few, if any, changes. John Dingell has reviewed the bill and is ready to hold hearings and move the bill with some changes (possibly intrastate regulation) in the House. Although several industry associations announced opposition to the bill last week, it is not clear that strong opposition will continue. It is likely that many segments of the industry (with the exception of the majors) will ultimately support the bill.

I believe it is premature for the Administration to take a position on S. 3422. We need to talk to key Senators (e.g. Fannin, Tower, Long, etc.) and several of your advisors regarding various options prior to seeking your decision on our final position. Options to be assessed include:

1. Support S. 3422.
2. Accept the basic structure of S. 3422 but work to shorten the time frame for onshore deregulation (e.g. from 7 to 3-4 years) and end controls on offshore gas at some date certain in the future.
3. Oppose any bill short of S. 2310 and work for amendments on the Senate floor to bring S. 3422 into line with S. 2310.

We will submit a complete decision paper with views of your advisors early next week.

see Connor for complete pkg.

FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

FORD Gerald R.

May 20, 1976

MEMORANDUM FOR JIM CONNOR

FROM: FRANK G. ZARB Z

SUBJECT: FOLLOW UP ON 1976 COMBINED FEDERAL CAMPAIGN

Before the next Combined Federal Campaign kicks-off I feel it would be appropriate for the President to send thank you letters to the Agency and Department Heads, as well as to the Loaned Executives and Executive Committee, who worked so hard for the CFC to surpass their dollar goals.

In view of the fact that Dick Roudebush (the new CFC Chairman) has queried me concerning this request, I feel we should consider sending the letters, since it will assist him in next year's campaign. I know we discussed, and declined, ideas for a Presidential ceremony and also the mailing of special certificates for these individuals; but I really think a follow up thank you letter is necessary in order to gain their support again for next year's campaign effectiveness.

The only communications from the President on CFC were letters to the Co-Chairmen and memoranda to the Agency and Department Heads at the start, initiating their support, but never thanks after the completion of the campaign with the results being so outstanding.

Attached is the proposed draft letter from the President as well as the listing of names and addresses of the addresses.

Attachments

Presidential comments on your attached memo to him:

I don't like this.

Check with Scowcroft and me. Why should US ask Canada to R II if they act like this?

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461
MAY 24 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: CANADIAN NATURAL GAS PRICE INCREASES

The Canadian Government will soon announce an increase, probably effective in July, in the price of natural gas sold to US distributing companies. The present virtually uniform export price of $1.60 per thousand cubic feet (MCF), may rise an average of 24%, to $1.98 per MCF, with regional increases ranging from 12% to 31%. More than two-thirds of the gas affected is consumed in Northern California and the Pacific Northwest. Expected increases by area are as follows:

Northern California	Up 31%
Oregon and Washington	Up 15%
Montana	Up 12%
Minnesota, Wisconsin, North Dakota	Up 25%
Northern Minnesota (border)	Up 23%
Northern New York	Up 12%
Vermont	Up 12%

Canada has based its new prices on the cost of alternative energy in each area, with an adjustment, generally upward, for what each market will bear. This will be the fourth increase since 1973, and will result in an average price more than triple that of July 1974.

On May 18, Canada announced future increases in domestic gas prices of 12.4% in July, and an additional 7% in January 1977. This will bring Canadian gas to $1.50 per MCF next January, as compared to the proposed average export price of $1.98 per MCF this July. Canada also announced oil price increases to $9.75 per barrel by next January from the present $8.00.

Canada's domestic policy is gradually to raise domestic gas prices to the energy-equivalent value of oil; we can expect future annual increases in export prices as well.

Canadian energy officials offered to consult with us before announcing the proposed increases, and we are doing so, together with the State Department.

LIMITED OFFICIAL USE

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~~cc Hak~~
~~Nolin~~

~~FGZ has already talked to Scowcroft~~

THE WHITE HOUSE

WASHINGTON

May 28, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK ZARB

FROM: JIM CONNOR JEC

SUBJECT: CANADIAN NATURAL GAS PRICE INCREASES

The President reviewed your memorandum of May 24, 1976 on the above subject and made the following notation:

> "I don't like this. Check with Brent Scowcroft and me.
>
> Why should U.S. ask Canada to R. II if they act like this?"

Please follow-up with appropriate action.

cc: Dick Cheney

Presidential Statement on No OPEC Price Increase

I am encouraged by the OPEC oil cartel decision announced today in Bali not to increase the international price of oil.

This decision was an economically responsible one for the world's economy which is just beginning to recover from recession and adjust to existing high oil prices. In today's interdependent world, a stable and growing world economy is in every country's interest and the United States looks toward further improvements in the relationships between oil producing and consuming countries.

However, this decision should not lead us to lessen our drive toward energy independence. In my first State of the Union Message I put before the Congress a complete program for significantly reducing our dependence on imported oil over the next ten years. While some of the legislation I requested has been passed by the Congress, much more needs to be done.

The program I proposed consists of five fundamental parts:

1. Maximizing energy conservation
2. Full development of domestic oil and gas reserves
3. Doubling of domestic coal production
4. Substantial increase in our nuclear power capacity
5. Completion of a national petroleum storage program

The plan I sent to the Congress addressed each of these areas as well as focusing on our post-1985 requirements with legislation and an increased research and development budget to expedite the development of advanced technologies such as solar energy.

This country cannot afford to have the price and supply security of so vital a commodity controlled by other countries. Even without a price increase this year, American conusmers will pay $35 billion for imported oil as compared to $27 billion last year, and only $3 billion in 1970.

The responsibility to reverse this situation rests with the United States Congress which has been unable to face up to the energy problem and pass the program that I requested.

FGZ 5/28/76

#2B

Presidential Statement on OPEC Price Increase

OPEC has raised the price of imported oil. As a result the American consumers will pay more.

In my first State of the Union Message I put before the Congress a complete program for significantly reducing our dependence on imported oil over the next ten years. While some of the legilsation I requested has been passed by the Congress, much more needs to be done.

The program I proposed consists of five fundamental parts:

1. Maximizing energy conservation
2. Full development of domestic oil and gas reserves
3. Doubling of domestic coal production
4. Substantial increase in our nuclear power capaity.
5. Completion of a national petroleum storage program

The plan I sent to the Congress addressed each of these areas, as well as focusing on our post-1985 requirements with legislation and an increased Research and Development budget to expedite the development of advanced technologies such as solar energy.

The cartel has taken full advantage of our dependence on their oil and this year American consumers will pay $ 35 billion for imported oil as compared to $27 billion last year, and $ 3 billion in 1970. This country cannot afford to have the price and supply security of so vital a commodity controlled by other countries.

The major responsibility for reversing this situation rests with the United States Congress which has been unable to face up to the energy problem and pass the program that I requested.

This price increase should act as a reminder to every member of Congress that facing the difficult choices required to develop a comprehensive energy policy will be less painful than the increased costs every American consumer must pay for foreign oil.

Per Judy ...
This was ... J. H. ...
F.Z. Didn't
Carried to W.H. 5/28

FEDERAL ENERGY ADMINISTRATION

MAY 28 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB /s/ John A. Hill for

SUBJECT: NATURAL GAS LEGISLATION

BACKGROUND

As indicated to you last week, the Senate Commerce Committee has approved a new natural gas pricing bill (S. 3422) in an effort to break the House-Senate impasse on such legislation. The bill was approved in Committee by an 18-1 vote and has considerable bipartisan support (Senators Pearson, Stevenson, Hollings, Fannin, Brooks, and Stevens are among its sponsors).

MAJOR PROVISIONS OF THE BILL

In general, the bill is an improvement over current regulations, but is less acceptable than the Pearson-Bentsen bill (S. 2310) that passed the Senate last year and the Krueger bill that failed by 3 votes in the House in February. The major provisions of this new bill are:

- Establishes an initial base rate of \$1.60/mcf for all new onshore gas (compared to current FPC base rate of about \$0.52/mcf), which is adjusted quarterly to reflect inflation, and ends all regulation for new onshore gas after 7 years.

- Establishes an initial base rate for new offshore gas of \$1.35/mcf, adjusts this initial rate quarterly at the rate of inflation, and provides for a revision -- but not termination -- of offshore ceiling price regulation every 5 years.

- Leaves the intrastate gas market unregulated.

- Continues to regulate both onshore and offshore old gas.

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cc: AE (2) Zausner (1)
Pasternack (2) Hill (1)
Christie (2) Zarb (1)

CONCURRENCES

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- Contains several other provisions dealing with agricultural priorities, regulation of synthetic gas, conversion of natural gas boiler fuel use, and incremental pricing to boiler fuel users. The bill does not contain any of the short-term emergency measures to alleviate curtailments requested by the Administration or encompassed in S. 2310.

ANALYSIS OF THE BILL

As indicated in Table 1, the bill would result in significantly greater natural gas production in 1985 than would occur under current regulations, but less than with S. 2310 or the Krueger bill.

Table 1
Natural Gas Production Estimates

Bill	1985 Production (Tcf)
Present Regulations	17.9
S. 2310	23.0
Krueger	22.3
S. 3422	21.3

Most of the increased production would flow into the interstate market and could reduce significantly expected curtailments and shortages. However, although the gap between interstate and intrastate prices will be narrowed, some market distortions will remain. Our review of the other aspects of the bill shows a need for some technical amendments to make the bill more workable. However, with the exception of a possible desire for higher base prices onshore and offshore and assurance of eventual deregulation offshore, the bill is reasonably close to the Pearson-Bentsen bill you indicated you could accept a few months ago.

PROGNOSIS FOR THE BILL

It appears that the bill has broad support (including some conservatives), and is likely to pass the Senate with few changes. While it is also possible that the bill could pass the House in a similar form, liberal members of the House will try to lower the allowable price and extend regulations to the intrastate market, and it is likely that the bill will be changed.

OPTIONS

The bill is currently held together by a fragile coalition of liberals and a few conservatives, with support from both sides of the aisle. Major modifications to the bill are likely to break apart this coalition. It is also likely that if this bill is not enacted, there will be no natural gas legislation enacted by this Congress. Thus, the basic decision will be whether to accept this bill largely as is or to give up on this legislation. The major options are:

Option 1. Announce Administration support for the bill in substantially its current form.

Pro:
- Would galvanize bipartisan support to assure Senate passage and enhance chances for success in the House.
- Could be politically popular.
- Would support a reasonably good bill that could alleviate future natural gas problems.

Con:
- Early support may not be necessary to assure passage and could limit flexibility later.
- Support at this time may be considered as a point of departure by the House from which to bargain.
- Would represent a shift from support of Pearson-Bentsen.
- Premature support could subject Administration to criticism by conservative members of Congress and the gas industry, which may ultimately accept bill, but only after all avenues are pursued.

Option 2. Defer public announcement of a position on the bill at this time, and work to amend the bill on the Senate floor or in the House. The following are possible amendments:

- Raise the initial price.
- Shorten the time frame for achieving onshore deregulation from 7 years to 3-5 years.
- Phase out regulations for offshore gas over a 5-7 year period.
- Other technical amendments, including deletion of troublesome boiler fuel restrictions.

<u>Pro</u>: - By withholding announcement of support, maximum flexibility is preserved along with greater bargaining strength with the House.

- Allows possibility for making the bill more acceptable.

- Preserves philosophical position with conservatives.

<u>Con</u>: - Lack of support could jeopardize bill's chances in the House.

- Major modifications to the bill could break apart the coalition.

If Option 2 is chosen, the following strategy in the Senate may be desirable:

1. Indicate that the current bill is inadequate because onshore deregulation is too slow, deregulation of offshore gas is at best uncertain, and the ceiling prices are too low.

2. Seek amendments to S. 3422 to make it correspond to the Pearson-Bentsen bill (S. 2310).

3. If unsuccessful in amending the bill to correspond to S. 2310, seek amendments to improve the bill as indicated in Option 2 (while recognizing that amendments could destroy coalition of support).

4. If unsuccessful with these amendments, withhold support and seek better bill on the House side (although a better bill would be hard to achieve in the House).

<u>Option 3.</u> Announce opposition to the bill and intention <u>to veto</u> if passed in its present form.

<u>Pro</u>: - Maintains stance on Pearson-Bentsen and strict conservative support.

- If a decision is ultimately made to veto the bill, an early indication may be helpful to sustain the veto.

<u>Con</u>: - Puts President in a veto posture, since this bill is likely to pass, and could mean no natural gas bill this year if veto is sustained.

The bill and the options outlined above have been reviewed by your advisers. All agree that the bill has substantial merit if it is the best we can expect from the Congress this year. Several agencies (e.g., Interior, HUD and ERDA) agree with Option 1. Others (e.g., FEA and CEA) lean towards Option 2, but not at the expense of breaking apart the coalition of Senators supporting the bill.

Before making your decision on which course of action to adopt, we recommend:

- That you meet with Senators Pearson, Stevens, Fannin, Bellmon, Hansen, Bartlett, and Tower so that you may have the benefit of their views on how best to handle this legislation.

- That following this meeting you meet with your advisers to get their detailed positions.