The original documents are located in Box 3, folder: "Memoranda to the President, July 1976" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461
JUL 7 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb /s/ Z

SUBJECT: Proposed Joint Resolution Expressing Congressional Commitment to National Energy Independence

During recent Senate hearings on the FEA extension legislation it became apparent that despite widespread Congressional lip service at the time of the Embargo and the unequivocal goal of the Administration's energy program, there is still no real Congressional acceptance of the objective of attaining national energy independence by 1985. It also became clear that the need for resolution of the difficult energy policy issues has become obscured by Congressional focus on issues of governmental organization associated with extension of the FEA.

One way to deal with these problems would be to suggest to Congress that it go on record with the Administration, in this Session, in support of the proposition that attainment of national energy independence by 1985 is a major national objective towards which future specific policy actions should be directed. Passage of a joint resolution to this effect would appear to be a logical vehicle for such a statement, which when enacted would have the force of law.

If enacted, such a resolution would provide a useful commitment and reference point to evaluate the merits of future legislation, as well as to provide a benchmark to measure the effectiveness of the legislative response to our energy vulnerability. The attached draft resolution adopts a "bare bones" approach to this concept, recongizing that, if acted upon by the Congress, it likely would be embellished significantly during the legislative process. Another approach would be to anticipate this effect, and to transmit instead a substantially more comprehensive proposal that would contain appropriate recitals qualifying the objective of energy independence by other values, such as public health, preservation of the environment, and the need to foster competition in all segments of industry.

I recommend that, after staffing by the Domestic Council, a resolution substantially like that which is attached be transmitted to the Congress for its consideration.

Attachment

DRAFT

94th CONGRESS
2D Session

H. J. RES. _____

IN THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES

June ____, 1976

JOINT RESOLUTION

Relating to the attainment of national energy independence.

Whereas the oil embargo of 1973-1974 cost the nation $20 billion and 500,000 additional unemployed; and

Whereas this dependence on foreign oil impaired the ability of the United States to provide for its national security and that of other nations; and

Whereas, notwithstanding recently enacted legislation, the dependence of the United States upon insecure foreign energy sources is increasing and is even greater today than in the period prior to the oil embargo of 1973-1974; and

Whereas the people of the United States must be apprised that, despite the absence of the conditions which prevailed during the embargo, our dependence on foreign oil and resulting vulnerability to another embargo have increased; and

Whereas the United States must reduce unnecessary energy consumption, increase energy conservation efforts, and stimulate domestic energy production so as to reduce dependence on foreign oil; and

Whereas the United States possesses the energy resources, technological capability and financial resources necessary to become independent of foreign sources of energy for its basic needs; now, therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That, in recognition of the serious nature of the Nation's continued dependence upon foreign sources of energy, it is hereby declared to be the policy of the United States to become independent of foreign sources for its basic energy needs by 1985, and to achieve such independence by reducing our energy imports to such a level where the economic and national security impacts of an embargo can be completely offset by use of strategic petroleum reserves and other practical emergency measures.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

July 13, 1976

OFFICE OF THE ADMINISTRATOR

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ELLIOT RICHARDSON
FRANK ZARB

SUBJECT: STATUS REPORT ON THE EXTENSION OF FEA

As you know, the Conference Committee considering the House and Senate passed bills extending the FEA failed to complete its work before FEA's statutory expiration on June 30 and the Congressional recess. FEA was consequently extended for 30 days (until July 30) to give the Committee additional time to resolve key differences between the two bills.

I. Senate and House Bills

A list of the House and Senate amendments is attached, along with brief comments on each (Tab A). In general, the amendments fall into several categories:

- desirable amendments from the Administration's point of view (e.g., the Bartlett and Montoya amendments to exempt stripper wells and enhanced recovery from price controls; several measures included in your original energy program, including several conservation provisions;

- amendments favored by many of the conferees that are objectionable, in varying degrees, to the Administration because they are unworkable, duplicative of existing law, or inappropriate policies for the Federal Government (e.g., some of the conservation amendments offered by Kennedy, part of the provisions requiring new data submissions from industry);

- minor amendments that are either acceptable or can be easily fixed in conference.

We intend to continue to work with the House and Senate conferees and their staffs in an effort to delete or modify those provisions that are objectionable to the Administration, and to keep those provisions that are favored or acceptable.

II. Possible Outcomes

Four possible outcomes are apparent: (1) a bill that will have to be vetoed; (2) no action by the Conference; (3) another 30-day extension of FEA; and (4) a bill that you can sign.

- In the event you veto the bill, or if Congress does not complete action on a long-term extension before July 30, you have decided to continue FEA's functions intact in an FEO created by Executive Order; that Executive Order has been staffed and is ready.

- There is no need to decide at this point how to handle a Congressional request for another 30-day extension; should that eventuality appear likely, a decision paper will be prepared.

- If you sign an extension, you may wish to combine signature with another initiative, for example, a request for improved Executive Branch energy organization (organizational alternatives are being analyzed by OMB/ERC).

Regardless of which course you finally take, your action should be accompanied by a strong statement outlining the energy measures that your Administration has asked the Congress to enact and which have not yet received Congressional approval. This is especially true if the bill that finally emerges must be vetoed because of the Kennedy conservation provisions. It will also be important for your statement to summarize your own conservation initiatives, explain why those initiatives are superior to the Congressional proposals, and thereby demonstrate your leadership in this area. That statement will be ready for your review the week before final action becomes necessary.

Max Friedersdorf agrees with the strategy outlined above.

Attachment

	House Bill	Senate Bill	Comment
1. Length of extension	18 months	15 months	Either is acceptable.
2. Authorization for 1977 funding	Basically, same as Pres. bud., but authorizes $62.5M for regulatory programs instead of $47.8M, and $13.1M for rate demos as opposed to $0.	Basically, same as Pres. bud., but auth. $40.6M for conservation instead of $12.6M, and $10M for rate demonstrations.	Conference Committee (CC) has completed action - took whichever was higher for each function in each bill; no cause for veto.
3. $3 million solar commercialization authorization	Stricken from bill on the floor.	Amendment adopted by Senate.	No cause for veto; likely to be retained in conference.
4. Computer services to public on Project Indep. Eval. Model	Approved by House. FEA required to provide computer time on reimbursable basis for those who want to run PI model on computer.	No provision	Creates resource and management problems; no cause for veto.
5. Transfer of FEA functions if Act expires.	No provision.	° storage to Interior ° policy analysis to ERC* ° data collection to Commerce ° voluntary and mandatory conservation to Commerce ° coal conversion to EPA * ° price controls to FPC* ° allocation to Interior* ° international programs to State	Prefer House bill - Senate distribution unacceptable, particularly those noted with asterisks; House sympathetic to FEA concerns.
6. Appliance labelling program	No provision.	Transferred to Commerce	Richardson has sent letter expressing opposition to Senate bill.
7. Plan and report on energy and natural resources reorganization.	No provision	Due to Congress by 12/31/76.	No problem
8. ERC extension.	No provision.	To Sept. 30, 1977.	No problem.

	House Bill	Senate Bill	
9. Annual report on Federal conservation programs	No provision.	Approved by Senate. 1st report due 7/1/77.	ERDA and OMB oppose; FEA favors.
10. Joint annual report by FEA-ERDA	No provision.	Single report required to maximum extent feasible.	FEA not opposed; ERDA opposes.
11. 15-day EPA review of FEA regulations affecting the quality of the environment	No provision.	Percy amendment to delete was approved. Review period remains at 5 days.	No problem.
12. 60-day Cong. review of FEA rules and regulations.	Adopted on floor by 226 to 147. Congress can veto any any FEA regulation by concurrent resolution within 60 days.	No provision.	Cause for veto, but should be dropped in conference since House and Senate conferees oppose.
13. Separate plans to exempt price and allocation decontrol of petroleum products	Adopted on floor by 200-175.	No provision.	Problematical, but not cause for veto; likely to be retained by CC.
14. Restrictions on retroactive use of new interpretations of regulations to bring civil actions or remedial orders against marketers of petroleum products	Adopted on floor in objectionable form.	Percy amendment adopted.	Provision can be improved in CC to be acceptable to FEA.

	House Bill	Senate Bill	Comment
15. Voluntary rate structure guidelines for State regulatory commissions	No provision.	FEA required to prepare such within 180 days and update annually.	Likely to be retained by CC; OMB has minor problems, but should be acceptable.
16. Grants to States for consumer office represenatation at State rate hearings	No provision.	$2M in 1977.	Unacceptable; opposed by FEA OMB; Dom. Council, Commerce, Justice.
17. TVA consumer services office (Brock amendment)	No provision.	Independently operated consumer services office established by TVA would qualify for assistance under #15 above.	Unacceptable; opposed by FEA, OMB, Dom. Council, Commerce, Justice.
18. Uniform system of standards, procedures, and methods for the accounting for and measurement of all phases of production and marketing of crude oil.... (Dole)	No provision.	Adopted on Senate floor.	Unacceptable; likely to be dropped by CC.
19. Entitlement subsidy for new refineries (Wallace & Wallace)	No provision.	Adopted on Senate floor.	Unacceptable; likely to be eliminated or rendered harmless by CC, even though supported by Javits, Buckley, and Cong. Brown.
20. Extension of coal loan program to expanded and abandoned mines.	No provision	Adopted on Senate floor.	Likely to be accepted by CC; unacceptable, but not cause for veto.

	House Bill	Senate Bill	Comment
21. Exemption from price controls (including composite) of stripper production and some enhanced recovery production	No provision.	Adopted on Senate floor. (Stripper by a vote of 61-29).	Although opposed by some conferees, provision could be retained by CC as part of a compromise.
22. Separate Data Office in FEA and new data requirements.	No provision.	Adopted on Senate floor by vote of 46-45.	Separate data office is acceptable, but amendment includes other objectionable provisions; problem areas are likely to be fixed by CC, however.
23. Kennedy Conservation Amendments	No provision.	Adopted on Senate floor.	
(1) Thermal efficiency standards for new buildings.			Virtually identical to legislation submitted by President in January 1975.
(2) Weatherization assistance for low income population.			Similar to President's proposal, but authorization is higher ($200 vs. 165) and has role for CSA opposed by FEA and Administration; bill passed earlier by House (but locked in another conference committee) is preferable; problems can probably be eliminated in conference.
(3) State Conservation grant program.			Duplicates existing State grants program, with additional mandatory actions; can probably be made to conform to existing law in conference.

	House Bill	Senate Bill	Comment
(4) Loans and loan subsidies for homeowners			Program is a complicated, and less efficient attempt to replicate President's tax credit proposal; would "duplicate" tax credit if credit is passed; although objectionable and likely to be ineffective, program is not cause for veto in-and-of itself. Opposed by all relevant agencies.
(5) Loans and loan subsidies for small businesses			See comment on (4) above; in addition, energy savings from program would be negligible.
(6) $4 billion in loan guarantees for industrial conservation			Unacceptable - program is unmanageable, ineffectual and costly. Although CC would be amenable to changes to improve program, staff currently sees no way to solve problems. Tax credit or accelerated depreciation preferred by FEA and Treasury if alternative proposal should be advanced.

cc [illegible]

THE WHITE HOUSE

WASHINGTON

July 21, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK G. ZARB

FROM: JAMES E. CONNOR JEC

SUBJECT: LNG Import Policy

The President has reviewed your memorandum of July 14 on the above subject and has approved your recommendations as follows:

Issue 1. How should LNG imports be limited?

Option 2 approved

Issue 2. Should the ERC take a position on how LNG imports are priced?

Option 2 approved

Issue 3. Should the ERC issue any criteria or rules to govern or influence government financial assistance to LNG import ventures?

Option 1 approved

Issue 4. Should the ERC recommend that FPC require contingency plans before approving LNG projects.

Option 1 approved

Please follow up with the appropriate action.

Also, as we discussed, you will be required to develop a press plan. Please get back to me on this.

cc: Dick Cheney

Zarb

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

JUL 14 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: LNG IMPORT POLICY

Last February, when your new LNG import policy was announced, you asked the ERC to develop methods of implementation and to reassess the policy in light of progress on deregulation of natural gas prices. The enclosed memorandum is the product of an intensive analysis of this issue by the ERC and presents four issues for your resolution.

Enclosure

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FEDERAL ENERGY ADMINISTRATION

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Enclosure

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cc: AE (2)
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Zarb

DECLASSIFIED
E.O. 12958, Sec. 3.5
NSC Memo, 11/24/98, State Dept. Guidelines
By dal, NARA, Date 6/16/04

~~CONFIDENTIAL~~

CONCURRENCES								
SYMBOL								
SURNAME								
DATE								

FEA-F-47

OFFICIAL FILE COPY

EXECUTIVE SUMMARY
LNG IMPORT ISSUE PAPER

BACKGROUND

In your February Energy Message, you announced a strong concern about the Nation's growing dependence upon imported liquefied natural gas (LNG) and directed the Energy Resources Council to implement a national LNG policy. The policy announced in February would balance the need for supplies with avoiding excessive dependence, and would enable the U.S. to import at least one trillion cubic feet (Tcf.) of LNG by 1985. The ERC was also directed to review the acceptable level of dependence based upon progress towards domestic price deregulation.

Since the Energy Message, the following has developed:

-- The ERC held public hearings in Washington and Los Angeles. Industry participants supported flexibility in the level of gas imports; California air pollution control officials supported LNG imports to ease Southern California's air quality problems.

-- The FPC has now approved 0.4 Tcf. of LNG imports, and about 3.3 Tcf. of additional projects are pending or in the planning stage.

-- Progress on deregulation has been discouraging.

-- The ERC LNG Import Task Force has completed an in-depth analysis of the dependence issue and economic criteria for assessing dependence.

SUMMARY OF KEY CONCLUSIONS

Risks

There are several key risks associated with LNG imports:

-- Risk of supply disruption

- Of the five countries most likely to export LNG to the U.S. (Algeria, Nigeria, Indonesia, Iran, and U.S.S.R.), 4 are members of OPEC, only one (Algeria) has embargoed us before, and a few are unstable politically or technically. There is not a high likelihood of concerted supply disruption among all these five nations (given their diverse political interests), although a smaller grouping of these countries could embargo the U.S.

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- It is easier to target an LNG embargo than an oil embargo because there are large capital investments, long-term contracts, sophisticated technology, and dedicated markets involved.

- The LNG Import Task Force has categorized the security of these five potential exporting countries as follows:

  relatively secure - Indonesia, Iran

  relatively insecure - Algeria (mainly for political reasons), Nigeria (for political and technical reasons), and the U.S.S.R. (mainly for technical reasons)

- Disruptions of supply for technical reasons are not likely; however, start-up problems could occur in countries without previous LNG projects. There could also be a technical problem in the U.S. which could force shut-down of all LNG facilities (in the unlikely event of a fire, for example).

- The impacts of a supply disruption depend upon many factors, including import dependence in each region. Dependency upon imported gas from approved and pending projects (assuming all come to fruition) would range from 15-30 percent in each region receiving LNG imports. The greatest individual pipeline dependency is 50 percent with Southern Natural Gas Co.

  ° If natural gas prices remain regulated at current levels, almost all LNG imports would be needed to serve high priority (residential and small commercial) customers and none for new growth.

  ° If deregulation occurs soon, no LNG imports would be used for high priority needs and over half for new growth.

-- <u>Risk of arbitrary price hikes</u>

° Since LNG contracts are long-term, with dedicated facilities, there is a risk of price hikes (which grows over time as facilities are put in place). LNG prices are now linked to oil prices, but could be tied to higher cost synthetic fuels in the future.

° Price actions are likely to occur by several countries if one action proves successful.

-- Risk of insufficient natural gas supply

- There are likely to be significant shortfalls in natural gas supply and LNG may be needed to meet high priority (residential) needs. The use of LNG for high priority customers may be viewed as dangerous from the standpoint of the effects of a supply interruption; alternatively, the lack of gas to supply residential needs may have equally adverse effects.

Contingency Planning

The LNG Import Task Force found that the United States has no arrangements for dealing with an LNG import embargo or a demand for higher prices supported by the threat of cessation of deliveries. A suggestion for mitigating the adverse regional or local impacts of a cutoff would be to recommend that the Federal Power Commission (FPC) require contingency plans for dealing with an embargo from potential importing companies.

Siting and Safety Concerns

Although the FPC has jurisdiction over site selection of LNG import facilities, there are fragmented and conflicting responsibilities for LNG control and safety among Federal agencies and, to a certain extent, state governments. State officials have recently criticized the case-by-case reactive approach followed by the FPC. Further, the FPC has asked the ERC to address the administrative and legal problems associated with this issue. The ERC has agreed to take on this responsibility and will report back to you in 3-4 months on further actions that may be needed.

Further conclusions and a more detailed description of the issues are contained in the issue paper attached at Tab 1. A summary of the issues and agency positions are presented below.

ISSUE 1. How should LNG imports be limited?

Option 1. Set a rigid LNG import limit for the nation (1 Tcf. per year) and utilize authorities under Section 232 of the Trade Expansion Act to implement this policy.

-- This option is the toughest approach to LNG imports within the framework of previously announced policy;

would limit LNG imports to about 5 percent of total consumption; and would be mandatory. **However, there is no assurance that suppliers** other than Algeria will emerge quickly.

Option 2. Indicate that no more than 0.8-1.0 Tcf. per year of LNG imports from any country would be acceptable, but that a national dependency target level of about 2 Tcf./yr. is considered acceptable. This option would be implemented through a combination of Executive Branch policy guidance to the FPC, coordinated intervention at FPC hearings, and the threat of using Trade Expansion Act authorities.

-- This option views the individual country dependency as a critical factor and attempts to promote diversification of sources. It also recognizes that LNG imports may be needed for residential use.

-- There is reason to believe that Option 2 can work without use of the Trade Expansion Act, given the reaction by industry and potential exporting countries to the February LNG policy statement, and the interest by the FPC in Executive Branch guidance.

Agency Positions on Issue 1

Option 1 - OMB*

Option 2 - FEA, Commerce, Interior, State**, Treasury, CEA, EPA, CIEP, ERDA

* OMB would accept higher levels of imports only after adequate contingency plans are demonstrated to exist.

** State's vote is contingent upon incremental pricing being adopted as much as possible.

Presidential Decision on Issue 1

Option 1 - _____

Option 2 - _____

ISSUE 2. Should the ERC take a position on how LNG imports are priced?

This issue deals with whether the ERC should make a statement or recommendation on incremental vs. rolled-in pricing of LNG imports. The issue is extremely complex, because of possible FPC legal limitations, autonomy of local regulatory authorities, and administerability. The FPC has authority for regulating prices to pipelines.

There is little disagreement in the ERC that LNG imports needed for existing high priority residential customers cannot realistically be priced on an incremental basis. Incremental pricing to such customers may be unadministerable and inequities could result if some consumers were suddenly forced to pay for expensive LNG, while others pay for cheaper domestic natural gas. On the other hand, low priority customers (most industrial and utility) and new growth consumers probably should not receive LNG at rolled-in prices.

Option 1. The ERC should offer no guidance on LNG import pricing since it is in FPC's jurisdiction.

Option 2. The ERC should issue a policy statement on LNG import pricing to provide guidance within the Executive Branch, and for the FPC and local authorities. This statement would affirm the the need to assure rolled-in pricing to existing high priority consumers and incremental pricing to new customers. Implementation would be left to the FPC and local authorities and the ERC would continue to review the pricing issue in the context of all natural gas supplemental fuels.

Option 3. The ERC should recommend rolled-in pricing.

Option 4. The ERC should recommend incremental pricing.

Agency Positions on Issue 2

Option 1 - Treasury

Option 2 - FEA, Commerce, Interior, State, OMB, CEA, EPA, CIEP, ERDA

Option 3 -

Option 4 -

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Presidential Decision on Issue 2

Option 1 - _____

Option 2 - _____

Option 3 - _____

Option 4 - _____

ISSUE 3. Should the ERC issue any criteria or rules to govern or influence government financial assistance to LNG import ventures?

The Maritime Administration currently provides ship construction subsidies and mortgage guarantees for any ship to be built in the U.S. whose purpose is to engage in foreign trade. The Export-Import Bank provides loans and guarantees for overseas LNG facilities.

Option 1. Establish no additional criteria for limiting either Maritime Administration or Export-Import Bank financial assistance.

-- This option recognizes that these Agencies were established to further other U.S. goals (such as supporting shipbuilding activity and export of U.S. capital goods and services). Further, neither agency is likely to support an LNG project until approval is received.

Option 2. Establish criteria for controlling Maritime Administration and Export-Import Bank assistance to LNG import ventures.

Agency Positions on Issue 3

Option 1 - All ERC Agencies support Option 1.

Option 2 -

Presidential Decision on Issue 3

Option 1 - _____

Option 2 - _____

ISSUE 4. Should the ERC recommend that FPC require contingency plans before approving LNG projects?

There may be a need for requiring contingency plans for prospective LNG import projects. Such contingency plans could consist of increased natural gas storage, use of interconnections between pipelines, curtailments or cutoff of predetermined lower priority users, availability of standby sources, conservation, etc. The cost of increased storage could be more than one billion dollars.

Option 1. Recommend that the FPC adopt contingency plan requirements.

Option 2. Do not recommend any contingency plans.

Agency Positions on Issue 4

Option 1 - FEA, Commerce, State, CEA, OMB, Treasury, CIEP, ERDA

Option 2 - Interior

Presidential Decision on Issue 4

Option 1 - _____

Option 2 - _____

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TAB 1

LNG IMPORT ISSUE PAPER

BACKGROUND

In his February 26, 1976 Energy Message, the President announced a new national policy towards liquefied natural gas (LNG) imports. He stated:

> We expect imports of liquefied natural gas (LNG) to grow in the next several years to supplement our declining domestic supply of natural gas. We must balance these supply needs against the risk of becoming overly dependent on any particular source of supply.
>
> Recognizing these concerns, I have directed the Energy Resources Council to establish procedures for reviewing proposed contracts within the Executive Branch, balancing the need for supplies with the need to avoid excessive dependence, and encouraging new imports where this is appropriate. By 1985, we should be able to import 1 trillion cubic feet of LNG to meet our needs without becoming overly dependent on foreign sources.

The President's statement followed an Energy Resources Council (ERC) issue paper in which various agency positions were presented. His decision called for a reassessment of the one trillion cubic feet (Tcf.) per year target level if deregulation of new gas prices were not achieved and presented the 1 Tcf. level as an indicative target that could be exceeded if individual pending or proposed projects were found acceptable based on a case-by-case analysis.

The necessity for an LNG import policy is apparent. The absence of such a policy increases uncertainty among suppliers and consumers in the private sector and maintains divergent and often conflicting positions in the Federal Government. In the absence of an LNG policy, one OAPEC nation (Algeria) has emerged as a prospectively dominant supplier to the U. S. The continued absence of a policy also opens the possibility that we will repeat our oil import trends and then be forced to change consumption patterns, causing future economic disruption.

Table 1

SUMMARY OF LNG VENTURES

Country	Project		Volume per year/ Schedule date	Entry Points
ALGERIA	**Distrigas I***		**15 Bcf/1971**	**Everett, Mass.**
	El Paso I*		322 Bcf/1979	Cove Pt., Md. Savannah, Ga.
	Eascogas**		238 Bcf/1980	Providence, R.I. Staten Island, N.Y.
	El Paso II**		365 Bcf/1980	Cove Pt., Md. Savannah, Ga. Racoon Is., N.J.
	Distrigas IV**		43 Bcf/1976 (includes Distrigas I above)	Everett, Mass.
	Trunkline**		153 Bcf/1980	Lake Charles, La.
	Subtotal	1121 Bcf		
INDONESIA	Pacific Light**		197 Bcf/1981	Oxnard, Calif.
	Subtotal	197 Bcf		
NIGERIA	Nigeria I***		237 Bcf/1982	U. S. East Coast
	Nigeria II***		365 Bcf/?	U. S. East Coast and Southern Europe (division unknown)
	Subtotal	602 Bcf		
IRAN	Kalingas***		292 Bcf/1985	U. S. Gulf Coast and West Coast
	El Paso*** Iran		548 Bcf/1985	U. S. East Coast
	Subtotal	840 Bcf		
USSR	Yakutsk***		365 Bcf/1985	U. S. West Coast
	North Star***		547 Bcf/1985	U. S. East Coast
	Subtotal	912 Bcf		
	TOTAL	3672 Bcf		

* - Approved
** - Before FPC
*** - Under negotiation

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Since the Energy Message, the ERC Task Force on LNG imports has examined projected dependency for potential importing regions of the U.S., evaluated the supply possibilities and security of potential exporting countries, reviewed issues of regional concern within the U.S., and assessed possible implementing mechanisms at the Federal level. These results are summarized below.

Most of the major natural gas pipeline and distribution companies argue that 1 Tcf. is too small a volume of LNG imports to meet projected domestic needs and that there is little chance of a foreign LNG supply interruption, due to the dedicated nature of LNG projects. State and local government reaction to the target has been mixed, but all have welcomed the Executive Branch review of LNG import policy.

The ERC Task Force has conducted public hearings in Washington, D.C. and Los Angeles to record the views of interested parties. The major results from the hearings were considerable concern over safety and siting by state government representatives, strong support for flexibility in gas imports by industry participants, and - somewhat unexpectedly - strong support for LNG imports from state and local air pollution control officials in California.

Also in the period since the Energy Message, the outlook for favorable natural gas pricing legislation has become even more uncertain. The Senate's Pearson-Bentsen bill was defeated in the House and current attempts to compromise may not be successful.

SUMMARY OF TASK FORCE CONCLUSIONS

THE PERCEIVED RISKS

Designing a national policy for LNG imports entails balancing supply needs against the risk of becoming overly dependent on insecure supply sources. The LNG Import Task Force has identified the following important risks that must be weighed in implementing a policy:

Risk of politically motivated supply disruption

There are only five expected LNG exporting countries through the mid-1980's (See Table 1 for potential LNG exporters); four of these are members of OPEC; one, Algeria, is a member of OAPEC, and participated in the oil embargo.

Algeria is likely to supply 85-100 percent of U.S. LNG imports at least through 1980; however, Algeria's market share could decline to about 30 percent by 1985 if all potential LNG import projects come to fruition (admittedly an unlikely occurrence). As indicated in Table 1, the major potential LNG exporting countries are Algeria, Indonesia, Nigeria, the Soviet Union, and Iran. However, the only projects approved unconditionally thus far by the Federal Power Commission (FPC) are from Algeria; the other prospective suppliers are considerably behind Algeria. The Soviet Union, in particular, faces considerable technical, financial and political problems in getting its LNG projects started.

Thus, diversification of U.S. import sources is limited by the restricted number of potential suppliers. While other suppliers are possible, additional projects are unlikely to come to fruition in the near future. All of the pending and planned projects appear to have adequate gas reserves to support their export activities, with perhaps only Algeria reaching the limits of its gas reserves under a situation of maximum potential export activity to the U.S. and elsewhere by the mid-1980's.

The LNG Task Force has categorized these five potential exporting countries as either relatively more secure of less secure, as indicated below:

Relatively secure: Indonesia, Iran

Relatively insecure: Algeria, Nigeria, and the USSR

However, it is difficult to make a judgment at this time on the relative security of Algeria, USSR, and Nigeria. Algeria is the only country under consideration with actual experience with LNG exports, but it is politically less secure because of the greater likelihood of its participating in a future energy embargo against the U.S. The other two relatively insecure nations raise technical and political security problems. Despite the Soviets' excellent commercial record and their good record on gas deliveries in Western Europe, the 1600 mile pipeline would be built across permafrost, and is expected to be extremely difficult and costly to build and maintain. Although Nigeria is relatively close to market and its gas offers very easy access, internal political uncertainties, compounded by a lack of technical sophistication, pose security of supply problems.

There are several possible embargo scenarios:

- combined collective gas and oil embargo;
- collective gas embargo only;
- gas embargo by a single exporting country, possibly targeted at the United States.

It is easier to target an LNG embargo than an oil embargo; LNG exporting and importing infrastructure is tailored to specific projects because there are large capital investments, long-term contracts, sophisticated technology, and dedicated markets involved.

While the large capital costs of LNG projects ordinarily would exert pressure on producers to meet contracted deliveries to satisfy heavy debt service obligations, such economic considerations are not likely to prevent a short-term politically motivated LNG cutoff. Furthermore, even though Algeria has a strong need for foreign exchange revenues, oil is expected to yield three or four times the export revenues that will be earned by the LNG trade.

Alternatively, the exporting nations need revenues and since there is not expected to be a spot LNG market in the foreseeable future, an LNG embargo would be difficult to sustain over a long period. Nevertheless, LNG revenues foregone during a 3-6 month embargo can be recovered easily over the life of a long-term contract.

The impacts of a supply interruption on the U. S. depend upon many factors, including volume of LNG imported, regional dependency, sectoral distribution of use, and length of interruption.

All of the pipeline companies with approved or pending LNG ventures are currently experiencing substantial curtailments, and are likely to experience further declines in domestic supplies. As a result, some of the companies involved in LNG import ventures could become considerably dependent on LNG (as high as 50 percent of total sales volume for Southern Natural Gas Company by 1985).

With the exception of the Indonesian project which would have its terminal facilities in southern California, all of the pending LNG import ventures are expected to arrive at and largely supply the East and Gulf Coasts. Dependency on imported gas from the approved and pending projects is expected to range between 15 and 30 percent in each region. The dependency would be higher if, in addition, all currently planned projects were approved.

Recognizing the uncertainties of projecting consumption of LNG by various priority users on a particular pipeline or distribution system (uncertainties over natural gas pricing, reserve estimates, OCS leasing, pricing of LNG to users, distribution of Alaskan gas, etc.), the LNG Import Task Force nevertheless has examined several pipeline systems to determine how LNG would be used. Under a set of simplifying assumptions, the following results emerge:

- If new natural gas wellhead prices were deregulated quickly, no LNG imports would be required for priority one use (residential; small commercial), and over half would be used for new growth.
- On the other hand, with continued regulation, virtually all LNG imports would be needed to serve high priority customers (residential; commercial; and industrial users without conversion capacity), and none would be used to service new growth or for boiler fuel.
- Under continued regulations, but with extensive use of direct sales from the intrastate market to interstate pipelines and distributors, over half of the LNG would be for large commercial and firm industrial users; about one-third for boiler fuel; and about one-eighth for new growth.

Risk of supply disruption caused by technical problems

LNG is a difficult substance to process, handle, store, and transport; the technology has experienced some difficulties in the past. The Algerian technical problems seem to be resolved and the Task Force believes that technical disruptions are likely to be infrequent, and of short duration. It is possible, however, that start-up problems could be experienced in countries without previous LNG projects.

An unlikely, but conceivable, supply interruption could occur in the event of a major LNG safety failure or accident in the U. S., which could force the shutdown of other LNG facilities for a period of time pending investigation of the cause of accident. The economic effects in this event, of course, could be similar to or worse than an LNG embargo.

Risk of arbitrary price hikes

LNG imports are typically purchased under long term (20 year) contracts, with price tied to the cost of substitute fuel, currency fluctuations, etc. However, previous contracts have been renegotiated as energy prices have increased; while

LNG prices are now linked to oil prices, they could be linked later to synthetic fuels prices, which are expected to be considerably higher.

The risk of arbitrary price hikes grows over time as receiving facilities and distribution systems are financed and built. Moreover, the more important LNG revenues are to the producing country's development efforts, the more likely that country is to seek aggressively upward price revisions, after the U. S. market is dependent upon its LNG supplies. If technical problems impair the project's ability to make full deliveries, exporters may seek to make up the revenue difference with price hikes. The greater our dependence, the easier this is to accomplish; and the greater their dependence on the established market, the harder it is to accomplish. Further, it is conceivable that a price action could lead to a supply embargo if resistance is forthcoming.

Projects located in countries which have demonstrated integrity in other commercial transactions can be considered relatively more secure than other projects (although there is no way on insulating against arbitrary price increases).

Risk of increased dependency on imported energy

In the absence of any disincentive to LNG (or oil) usage, consumption patterns will continue to emphasize those fuels that are in declining domestic supply, because of regulated prices, utility rate adjustment procedures, and environmentally desirable burning characteristics. These factors may reduce incentives to develop renewable sources. There are obvious national security implications of being increasingly dependent on imported energy, particularly fuels that are becoming scarce in world trade over the longer-term.

Risk of insufficient natural gas supply

Given our current undiscovered resource estimates, and unless deregulation of new natural gas prices occurs quickly, there will be significant shortfalls of natural gas in the next ten years. This trend is evident in the figures cited earlier showing that LNG may be needed to meet residential demand.

As domestic natural gas supplies decline in the near future, economic dislocations are likely. Natural gas is a vital fuel, used by over 40 million residences and almost 200,000 industrial customers. Continuing and growing curtailments in the interstate market will lead to further movement of industry to the intrastate market (mainly in the South Central part of the country) and could lead to residential cutoffs and safety problems. Furthermore, significantly reduced volumes of natural gas in pipelines will lead to greater unit costs as pipeline capacity would be underutilized.

The use of LNG to supply high priority users (such as residential customers) presents a dilemma. On one hand, the impacts of interrupting residential supply are potentially severe; alternatively, the lack of gas to supply residential needs may have equally adverse effects. Thus, the relative risks of LNG supply for residential use must be weighed by policy makers in determining the appropriate policy actions.

LNG imports could alleviate, but not eliminate, these expected shortages. While a structural shift away from gas appears inevitable in some sectors, the rate and circumstances of such a shift are matters of intense policy concern.

CONTINGENCY PLANNING

The United States currently has no arrangements for dealing with an LNG import embargo or a demand for higher prices supported by a threat of a cessation of deliveries. In the latter situation, purchasers of LNG imports would likely concede the higher price rather than lose vital supply. While this high level of vulnerability argues for low import levels, there are ways to reduce vulnerability.

A suggestion for mitigating the adverse regional or local effects of a cutoff would be to require all long term LNG import ventures, except those already approved by FPC, to develop and have approved an LNG supply contingency plan at the time final approval is obtained from FPC (or when submitting for ERC review, depending upon the implementing mechanism chosen). The contingency plan would ensure continuity of gas supply to users (probably just for high priority users) of LNG for a specified period. The contingency plan would consist of any one or a combination of underground and LNG storage, predetermined exchange agreements through interconnections, curtailments or cutoff of predetermined lower priority users on the system, availability of standby supplemental sources of natural gas including SNG, conservation, and any other appropriate mechanism or procedures.

The requirement could be implemented by having the FPC issue regulations for contingency plans on all pending and planned LNG ventures. Further, after FPC review and approval of proposed plans it could allow costs of implementing the plan to be passed through to buyers of LNG, or, alternatively, rolled-in to all customers on the system. If, for example, each of the major pipeline systems with pending projects were required to store enough natural gas in underground reservoirs to replace six month's supply of the LNG imports going to high priority users, the investments, including gas costs, could range between $500-2,000 million, and costs would be up to 13 cents/Mcf. if rolled in to all gas consumers on the pipeline, or up to 34 cents/Mcf. if applied just to LNG consumers.

SITING CONCERNS

The Federal Power Commission (FPC) has jurisdiction over site selection of LNG import facilities. It evaluates proposed facilities to ascertain whether they meet the general standard of being in the public interest, and prepares environmental impact statements (EIS) for each proposed facility.

Recently, State officials have criticized the case-by-case reactive approach followed by FPC and have called for consistent, generalized siting criteria to be developed. On May 5, 1976, New Jersey, New York, Pennsylvania, and Delaware petitioned the FPC to hold in abeyance proposed applications for New Jersey and New York sites until the FPC establishes uniform safety standards for LNG sites. California officials are also pressing for uniform siting and safety criteria.

Other groups have complained about regulatory lag, lack of public hearings in the early phases of site selection, and FPC staff work. In response to the above petitions, an FPC notice on the desirability of developing new regulations in this area was issued recently and interested parties were requested to comment.

In the process of considering whether it should become involved in the siting issue, the ERC received a letter from FPC Chairman Richard Dunham. Mr. Dunham urged the ERC to address the administrative and legal problems associated with the fragmented and conflicting responsibilities for LNG control and safety among Federal agencies and to a certain extent state governments. Recognizing that such an effort could lead to expedited approval of favorable LNG projects, the ERC Task Force has agreed to take on this responsibility. It will report back to the President in 3-4 months on further actions that may be needed.

ISSUES

There are several key issues that have been identified by the LNG Import Task Force; these should be addressed promptly by the ERC. The major issue centers around a reassessment of the proposed LNG import target level in light of recent events, and around a method to implement the President's policy. This and other issues are discussed below.

ISSUE 1: How should LNG imports be limited?

Background

The President's Energy Message indicated that a target level of 1 Tcf. per year was not likely to result in too great a dependence upon foreign sources. He also indicated that the target level would be reassessed, based on whether natural gas price deregulation was achieved. Deregulation now appears uncertain and policy decisions must be made to reduce uncertainty in the private sector.

While there are a large number of combinations of Federal LNG policies and implementing mechanisms, the options listed under this issue represent the Task Force's effort to delineate realistically the range of alternatives, and to lay out a process for further action.

Initially, it should be noted that there are two basic approaches which can be taken with respect to implementation of the Task Force's recommendations. The first approach ("recommendatory action") involves presenting the Executive Branch views to the Federal Power Commission for its consideration. There are a variety of ways in which this can be done (e.g., interventions, request for rulemaking, etc.) but whatever approach is taken, it is always a recommendation, and not binding on the Federal Power Commission.

The second basic approach ("mandatory action") involves utilizing the President's authority to "adjust imports" under section 232 of the Trade Expansion Act. As with the recommendatory action, there are a variety of ways in which use of this authority could be structured. However structured, the use of this authority would result in the Executive Branch having the ability to mandate the desired results. It should be noted that use of section 232 authority does not necessarily preclude continuation of some FPC discretion. The President could, for example, simply set an overall limit and allow the FPC to determine which of the pending applications should be approved within that limit.

Under each of the options considered below, a requirement for contingency plans could be recommended to the FPC. The contingency plans are probably more important if a less stringent LNG import limitation is recommended. In any case, contingency plans may be desirable and will be considered as a separate issue below.

OPTIONS

Option 1. Set a rigid LNG import limit for the nation (one Tcf. per year) and utilize authorities under Section 232 of the Trade Expansion Act to implement this policy.

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Under this option, the Secretary of the Treasury, pursuant to section 232 of the Trade Expansion Act (TEA), would make a finding that imports of LNG threatened the national security. The President would then find that 1 Tcf./yr. is the maximum acceptable level of LNG imports, but the FPC would consider and approve individual projects within that limit. If this option is chosen, it is possible that all the LNG imports could come from Algeria.

Use of the TEA is recommended under this option as the only effective way to ensure rigid adherence to a 1 Tcf. limit. Note that under this option the 1 Tcf. figure could be raised to 1.5 or even 2 Tcf. if the ERC desires (perhaps because effective contingency plans are in existence), or could be periodically reassessed.

This option would represent the toughest approach to LNG imports within the framework of the previously announced Presidential decisions. It would limit liquefied gas imports to about 5 percent of total consumption; while, at best, oil imports would be about 30 percent of consumption. Such a limitation on LNG would recognize that gas imports are much less flexible than oil because it requires large capital investments, specialized markets, and long-term commitments.

Another approach considered under this option, but rejected by all members of the ERC would have the President establish a completely new mechanism for consideration of import applications and the Executive Branch review individual applications. The ERC would designate a lead Executive Branch agency, which would require companies to file data regarding their proposed projects and would bring its judgements to the ERC for approval. If the ERC fails to disapprove a project from a national security standpoint, the project would go to FPC for traditional review. ERC consideration would be limited to about 60 days.

Under Option 1, it would appear that the pending project with Indonesia (Pacific Lighting), for delivery to the West Coast, should not be disapproved from a national security standpoint (0.2 Tcf starting in 1981). This project, plus the 0.4 Tcf. already approved, would yield a total of about 0.6 Tcf. of approved projects.

The remaining 0.4 Tcf. could be one or a combination of other projects. The ERC would recommend no further major Algerian projects under this sub-option; the Distrigas IV project from Algeria, however, could be approved because of its very small size, and because it draws in part upon an unconditionally approved venture (Distrigas I).

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Pros:

- Most direct way of limiting total vulnerability.
- Would limit Algerian market share, if no further major Algerian projects are approved.
- Provides a strong signal that high priced imported energy sources are to be limited as a matter of national energy policy.

Cons:

- Foregoes some natural gas that may be needed to alleviate expected shortages.
- Setting a national limit, especially if above 1 Tcf. per year, could still result in significant regional dependency.
- Results in disapproval of projects now pending before FPC.
- Could damage relations with Algeria significantly.
- Any limit on gas imports could lead to greater dependency upon oil imports.
- Will almost certainly require an environmental impact statement (EIS). (This could be viewed as a "Pro" if the intention is to delay LNG projects.)
- There is no assurance that other suppliers will emerge quickly to fill the 0.4 Tcf. that remains.
- Will be viewed adversely by natural gas companies and large users.

Option 2. Indicate that no more than 0.8-1.0 Tcf./yr. of LNG imports from any given country would be acceptable, but that a national dependency target level of about 2 Tcf./yr. is considered acceptable.

This option sets a rigid individual export country limitation, but leaves a rather loose national target. The national figure is intended to be a signal of a reasonable level of dependency, rather than a rigid quota.

The reason for setting country export limits is that there are several supply interruption and arbitrary price increase scenarios in which individual countries are likely to be a bigger problem than the group of potential gas exporters.

Of the five most likely exporters (Algeria, Iran, Indonesia, Nigeria, and U.S.S.R.), four are members of OPEC, a few have potentially unstable governments, and only one (Algeria) participated in the oil embargo. Thus, concerted supply disruptions among these five nations is not as likely as individual actions or actions by a smaller grouping of two or three within the five countries.

The specific figure chosen as an upper limit among individual exporting countries is difficult to formulate. However, the ERC believes that no one country should supply more than 40-50 percent of our potential LNG imports and that 1 Tcf. is an outside limit. Setting a rigid country limit would have the effect of promoting diversification.

There were two basic implementing mechanisms considered under this Option. One, which would utilize Trade Expansion Act authorities, was rejected by the ERC.

Under the other approach, the ERC would announce the basic policy explained in Option 2, indicate that coordinated Executive Branch testimony with respect to national security would be given at each FPC hearing for an individual project (and would assign FEA the lead role for arriving at coordinated testimony), and would imply that if the Federal Power Commission disregards the policy guideline, then the TEA could be imposed. The ERC may also recommend that contingency plans be adopted (see Issue 4).

Obviously, this approach is less sure than direct use of the TEA, but it may carry almost as much weight. The indications given the Task Force are that following the President's statement in February's Energy Message several companies and exporting countries became worried and began losing interest in projects. They reasoned that LNG projects face a difficult enough approval process, and that Executive Branch disapproval could be the "kiss of death." Thus, a strong ERC announcement of policy, followed by interventions and the veiled threat of the TEA, may be enough to discourage those projects that do not satisfy the policy.

Under Option 2, the most difficult decision will be which Algerian projects to disapprove, since approved and pending Algerian projects could supply 1.1 Tcf. With almost 0.4 Tcf. already approved from Algeria, there would remain about 0.4-0.6 Tcf. for additional Algerian projects. The candidate additional Algerian projects are:

Distrigas IV	43 Bcf
Eascogas	238 Bcf

El Paso II	365 Bcf
Trunkline	153 Bcf

The ERC Task Force seen no national security problems with allowing the Distrigas IV project because it builds on an already approved project which has facilities in place and does not create too much dependence. The other three projects would have to be carefully evaluated.

The basic advantages and disadvantages of this approach are indicated below:

Pros:
- Promotes greater diversification of sources while limiting overall dependency (especially since the U.S. is likely to be importing between 1.0-2.0 Tcf. by 1985 and at the outside, could import no more than 2.5 Tcf.).
- Potentially allows 2 Tcf. of gas supply that is probably necessary, given current supply outlook.
- Allows for flexibility until the deregulation and political questions are settled.
- Leaves open the possibility of increasing the level of imports above 2 Tcf., if further diversification can be achieved.
- A specific country export limit could be important if there should be a major long-term shutdown of LNG facilities in a particular country (e.g., if the exporting facilities were destroyed by sabotage).
- By establishing uniform country export limits, the U.S. avoids overt appearance of targeting against a specific country (Algeria).

Cons:
- Maximum limit for each country is somewhat arbitrary and can be defended only as a judgment call by policy makers.
- More open-ended on national import levels than Option 1; may impede necessary shifts away from natural gas.
- Since Algeria is the only country with pending or approved projects that exceed this limit, the country export criteria could be considered discriminatory.

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- Depending upon implementing mechanism chosen and decisions on specific projects, this could still yield high regional dependency.

- Does not explicitly account for variations in security of supply among exporting countries.

Regardless of the option chosen the next step would be to have the ERC issue a policy statement discussing its recommendations and major conclusions. The statement would include commentary on the issues that follow and would indicate the ERC's role on safety and siting concerns.

<u>Agency Positions on Issue 1</u>

Option 1 - OMB*

Option 2 - FEA, Commerce, Interior, State**, Treasury, CEA, EPA, CIEP, ERDA

* OMB would accept higher levels of imports only after adequate contingency plans are demonstrated to exist.

** State's vote is contingent upon incremental pricing being adopted as much as possible.

<u>Presidential Decision on Issue 1</u>

Option 1 - _____

Option 2 - _____

<u>ISSUE 2</u>: <u>Should the ERC take a position on the provisions for pricing LNG imports in the U. S. market?</u>

<u>Background</u>

The President has directed that both economic and national security criteria be met by proposed new LNG import projects. In keeping with the spirit of this directive, any ERC position on the pricing issue would address the broad general aspects of pricing policy, rather than deal with the details of the financial viability of the individual projects.

New natural gas supplies have traditionally been priced on a "rolled-in", or averaged basis to the consumer. An alternate approach would be to price the supplies to the consumer on a marginal or "incremental" basis, in order to present the consumer with the full economic cost of each new supply source. The FPC ordered incremental pricing in the <u>Columbia LNG</u> case (No. CP71-68) but this decision was reversed in the courts and remanded to the FPC because of insufficient justification, where a decision has not yet been reached. At this time the FPC does not appear to have a definitive position on the incremental vs. rolled-in pricing issue.

Preliminary analysis shows that the method of pricing could affect the size of LNG import market, and would affect the sectoral composition of demand. At the extremes, two outcomes should be avoided:

- LNG imports needed for existing high priority residential customers cannot realistically be priced on an incremental basis; it might not be administratively feasible to do this, and social inequities would inevitably appear to result from any attempt to draw such a distinction (such as forcing some existing residential customer to pay for LNG at a few times the price of domestic gas used by other residential customers).

- At the other extreme, insecure, expensive supplemental energy supplies, such as LNG, should probably not be made available to low priority domestic users, or in support of new growth, at rolled-in prices. Rolling in prices masks to the users the full economic and security costs of the resource, and provides disincentives to domestic supply development.

There remain several complex issues dealing with intermediate categories of users, provisions for curtailment, and response of state and local jurisdictions. Incremental pricing of LNG imports will probably reduce demand for LNG; however, if kept free from curtailment, the ultimate users of this LNG are likely to be lower priority users. Unless incremental pricing can be mandated all the way to the burner tip, which means consistent, supportive policies at the state level, the usefulness of incremental pricing as a means of controlling LNG imports may be largely offset through rolled-in pricing treatment in non-Federal jursidictions.

Option 1 - The ERC should offer no guidance on this aspect of the price issue, recognizing the primacy of FPC's jurisdiction in this area, and the need for state and local government resolution of distribution-level issues. The ERC, however, could commit itself to analyzing the pricing of all supplemental gas (LNG, synthetic gas from coal, and SNG).

<u>Pros</u>: - Avoids ERC intervention in a traditional area of FPC jurisdiction.

- ERC's influence over FPC on this issue is questionable.

- The Task Force's expertise in this question is much less than that of the FPC and is insufficient to project fully the effects of either pricing technique or the size and sectoral composition of LNG demand.

- Allows development of an analytical base in an extremely complex area.

- Avoids a pricing policy decision out of sequence with other LNG or natural gas policy decisions.

<u>Cons</u>: - Fails to address national security implications of overdependency which may arise due to pricing policy.

- Fails to address some undesirable outcomes (high dependency for low priority uses) that could be mitigated, if not totally avoided, through an Executive Branch statement of policy.

- May prolong natural gas usage in areas where alternative fuel substitution is feasible and desirable, assuming that traditional rolled-in methods are used.

- Creates further role for ERC in an area of questionable authority.

<u>Option 2</u> - The ERC should issue a policy statement on incremental pricing of LNG imports to provide guidance within the Executive Branch and for the FPC and local authorities. This statement would affirm the need to assure reasonably-priced gas supply to existing residential and small commercial customers, through rolled-in pricing where necessary, and the parallel need to avoid artificially-stimulated demand by low priority users, which would result from an extenstion of rolled-in pricing provisions to such users. The ERC would stress the need for incremental pricing of new demand growth, but would leave implementation to the FPC and local authorities. The ERC would also continue to review the pricing issue in the context of all natural gas supplemental fuels.

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<u>Pros</u>: - Deals promptly and explicitly with the most easily-remedied aspects of the price problem.

- Begins to put in place a market-oriented protective mechanism , i.e., incremental pricing to low priority users, diminishing the need for quota mechanisms.

- Likely to be popular by providing for spreading the risk of insufficient supply to high priority users.

- Reinforces current policies aimed at full energy resource costing.

<u>Cons</u>: - Commits the ERC to a statement on a highly complex and contentious technical problem.

- May prolong and compound the institutional uncertainty which has plagued LNG import ventures to date.

- May be difficult to administer, unless industrial customers are free from curtailment; and in that case, it could be politically unpopular to have industrial gas use uninterrupted, while residential use is curtailed.

<u>Option 3</u>. The ERC should recommend to the FPC a rolled-in pricing policy for all LNG imports.

<u>Pros</u>: - Rolled-in pricing is traditional, blends easily with current curtailment plans, and assures maximum LNG supply.

- Spreads the cost of the availability and development of supplemental supplies among all consumers.

<u>Cons</u>: - Masks the true cost of supplemental supplies, and thus provides a distorted signal to final users.

- Could impede inevitable structural changes in U.S. economy away from natural gas usage.

- Could be considered inequitable in cases where the gas is used by industrial consumers and paid for by residential and commercial customers.

- May impede action toward deregulation of gas prices.

- Will make it easier for exporting country to raise prices.

Option 4. The ERC should recommend to the FPC an incremental pricing policy for all LNG imports.

Pros:

- Dedicates LNG supply to users willing to pay full marginal cost for supplies, thus aiding economic efficiency.

- Tends to hold down the level of LNG imports, avoiding excessive dependency problems.

- Allows consumers to make decisions on future gas usage on the basis of full price information.

- May lessen the likelihood of price action by exporting countries.

Cons:

- Could deny supplemental gas supplies to high priority users.

- More difficult to administer than rolled-in pricing.

- If incrementally priced gas is subject to curtailment, there would be few customers (this could be viewed as a "Pro", if the desire is to limit LNG use).

- FPC authority to mandate incremental pricing to burner tip is unclear; may be subject to legal challenge.

Agency Positions on Issue 2

Option 1 - Treasury

Option 2 - FEA, Commerce, Interior, State, OMB, CEA, EPA, CIEP, ERDA

Option 3 -

Option 4 -

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Presidential Decision on Issue 2

Option 1 - ______

Option 2 - ______

Option 3 - ______

Option 4 - ______

ISSUE 3: Should the ERC issue any criteria or rules to govern or influence government financial assistance to LNG import ventures?

Background

Under the Merchant Marine Act of 1936, as amended, the Maritime Administration(MarAd) is authorized to grant ship construction subsidies and mortgage guarantees for any ship to be built in the U. S. whose purpose is to engage in foreign trade. To date construction subsidies for nine LNG tankers have been approved for a total of $198 million, while mortgage guarantees have been approved for 14 LNG tankers for a total exposure of one billion dollars. These include tanker requirements for the El Paso I and Eascogas projects.

Ship requirements for the pending projects involve a total of 24 ships of which 13 are expected to built in the U. S. The level of subsidy and mortgage guarantee commitments for these pending projects is not known at this time, but they could involve as much as $400 million for construction subsidy and about $1.2 billion for mortgage guarantees. The Maritime Administration program is designed to assist the U. S. shipbuilding industry in competition with other nations in the interest of national security and provides considerable employment. The actual level of subsidy or guarantee approved is subject to Congressional action. Lack of MarAd support may not prove a constraint to a particular project as the ships are available elsewhere.

Eximbank provides loans and guarantees for overseas LNG facilities. Total exposure to date is $350 million for the El Paso I LNG plant in Algeria. Loans have been granted for gas field facilities and pipeline compressor stations. The Task Force has informal understanding that Eximbank is not likely to lend more money to Algeria and has significant reservations about LNG projects.

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Further, review procedures are already in place for examining Exim loan requests and determining whether such requests should be granted. Specifically, all Exim loans above $30 million must be reviewed by a National Advisory Council consisting of the representatives of State, Treasury, and Commerce, and the heads of the Federal Reserve and Eximbank. Additionally, all loans of $60 million or greater must be submitted to Congress for their review at least 25 days prior to approval. National security input could be given through this mechanism. Eximbank is already limited to support transactions that are not counter to U.S. policy.

Option 1. Establish no additional criteria for limiting either MarAd or Eximbank financial assistance.

Pros:

- Neither agency provides assistance to projects importing LNG to the United States until the projects receive FPC approval.
- These agencies were established to further other U. S. goals (e.g., supporting shipbuilding activity, export of U. S. capital goods and services).
- Given the defined goals of these agencies, restricting the level of their involvement in LNG ventures would result in no savings to the taxpayers (since their financial assistance would go to other projects).
- In the case of MarAd, restricting its involvement could have a negative impact on supply (and perhaps price) security of LNG ventures, since U. S. ownership of tankers could deny use of ships to exporting countries during embargo. Further, in a short-term embargo the risk of guarantees are transferred from gas companies to the U. S. government.

Cons:

- Possibly foregoes an opportunity to control the level of LNG imports, since some projects may not be economically viable if financed in the private capital markets.
- Financial incentives are by their nature an additional element of market distortion.

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Option 2. Establish criteria for controlling MarAd and Eximbank assistance to LNG import ventures.

Pros:
- Would ensure that security of supply is given appropriate consideration in ventures receiving financial assistance.
- MarAd assistance may make it difficult to resist price increases, given the threat of cutoff and loss of repayment and possibly jobs.
- The criteria may be used to direct this assistance to projects deemed more desirable in terms of supply security.

Cons:
- Would make the LNG project approval process more complex than it currently is.
- Criteria to select certain ventures for financial aid would, of necessity, be complex and might appear arbitrary.
- Denying assistance to some ventures would be subject to legal challenge.

Agency Positions on Issue 3

Option 1 - All ERC Agencies support Option 1.

Option 2 -

Presidential Decision on Issue 3

Option 1 _____

Option 2 _____

ISSUE 4: Should the ERC recommend that FPC require contingency plans before approving LNG projects?

As indicated earlier, there may be a need for requiring contingency plans for prospective LNG projects. These plans could include storage requirements for high priority users, conservation, voluntary interpipeline transfers, conversion, etc. The FPC could issue contingency plan requirements as part of its approval process for new projects.

In addition to FPC contingency plan requirements, the Federal government could take a much stronger position towards future supply interruptions or price actions. The Federal posture could include implied actions stated by ERC, legislation to provide for allocations between pipelines in an emergency, etc.

Option 1. Recommend that the FPC adopt contingency plan requirements.

Pros:
- Provides greater supply security for high priority users.
- Forces the cost of vulnerability upon the user of LNG.

Cons:
- Storage would be expensive and is not useful in combatting long-term supply interruptions or price actions.
- It may be difficult to justify putting gas in storage when widespread shortages exist.
- Could create administrative cost and add to bureaucracy.

Option 2. Do not recommend any contingency plans.

Agency Positions on Issue 4

Option 1 - FEA, Commerce, State, CEA, OMB, Treasury, CIEP, ERDA

Option 2 - Interior

Presidential Decision on Issue 4

Option 1 _____

Option 2 _____

FEDERAL ENERGY ADMINISTRATION

MEMORANDUM FOR FRANK G. ZARB JUL 13 1976

FROM: BRUCE A. PASTERNACK

THRU: ERIC R. ZAUSNER (Sgd) Eric R. Zausner

SUBJECT: LNG POLICY PAPER

The attached folder contains a memo to the President outlining the LNG decisions needed and the full ERC issue paper. I have prepared an executive summary explaining the key conclusions and agency positions on the issues. As you can see, we have a fair amount of consensus (and I understand that the NSC and Bill Seidman will support our position).

I anticipate that the ERC policy statement and press release will require careful interagency coordination. While I will begin developing the statement later this week, I do not anticipate having anything ready for public distribution until late in the week of July 26.

Attachment

P&PE:BPASTERNACK:cam:7/12/76:x6187:rm 4109

cc: AE (2)
Zausner
Pasternack (2)
ZARB

DECLASSIFIED
E.O. 12958, Sec. 3.5
NSC Memo, 11/24/98, State Dept. Guidelines
By dal, NARA, Date 4/16/04

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CONCURRENCES

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SURNAME								
DATE								

FEA-F-47

OFFICIAL FILE COPY

THE WHITE HOUSE

WASHINGTON

July 15, 1976

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ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ELLIOT RICHARDSON
FRANK ZARB

FROM: JAMES E. CONNOR JEC

SUBJECT: STATUS REPORT ON THE EXTENSION OF FEA

The President reviewed your joint memorandum of July 13 on the above subject and made the following notation alongside the paragraph quoted:

"Yes" "Regardless of which course you finally take, your action should be accompanie by a strong statement outlining the energy measures that your Administration has asked the Congress to enact and which have not yet received Congressional approval"

Please follow-up with appropriate action.

cc: Dick Cheney

INFORMATION

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

JUL 20

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

THRU: ELLIOT L. RICHARDSON

FROM: FRANK G. ZARB

SUBJECT: STATUS REPORT: ALASKA PIPELINE

The Executive Committee of the Energy Resources Council met this morning to receive an interim report from Under Secretary Barnum on his fact-finding trip to Alaska last week and to discuss several activities which Secretary Kleppe currently has underway in connection with the issues investigated by John Barnum.

Working under the coordinating auspices of the ERC, the two Departments will prepare a joint report that should be ready for your review by early next week. This report will lay out the problem areas, indicate corrective actions that will be needed, and the possible impact of those actions on the costs and completion date of the pipeline.

Although it is premature to come to any final conclusions, Alyeska and the relevant government agencies are already at work on the following:

- Reexamining and correcting any problems associated with the 3,995 questionable welds detected in the Alyeska audit of the 1975 welding program.
- Rechecking, as a result of the Arthur Anderson Report prepared for the Department of the Interior, the other 30,800 welds completed during the 1975 welding program which the Alyeska audit determined to be acceptable. The procedure to be used in this rechecking effort is still under review.
- Establishing unquestionable quality control procedures for all post-1975 welds, including those already completed in 1976.

Both Interior and DOT are firm in their position that all outstanding questions will be resolved before use of the pipeline is permitted; the structural and environmental integrity of the pipeline cannot be relaxed in any way. Both departments are still guardedly optimistic that all corrective actions can be completed on the pipeline in time to permit operation of the system by mid-1977, the current target.

Interior and DOT officials will be testifying tomorrow before the Senate Interior Committee providing information along the above lines.

The final report of the Arthur Anderson Company -- which raises substantial questions as to the acceptability of past quality control procedures -- has been given to House and Senate Committees and will become public either today or tomorrow.

After reviewing the final report from Arthur Anderson Company, Secretary Kleppe concluded that additional instructions must be issued to Alyeska. Under Secretary Frizzell has today dispatched a letter to Alyeska which provides as follows:

- Submit a plan for producing fully auditable records of all welds completed in 1975.

- Complete two radiographs for all future welds and provide one to the Department of the Interior.

- Immediately establish a technique for marking each weld in a manner that is visible to the naked eye and by x-ray so that all radiograph film can be positively identified with each weld; or, if this is not technically feasible, develop an acceptable alternative.

- If an acceptable marking technique or alternative is not approved by Interior, welding must be stopped by 10:00 A.M., July 25. (Interior is confident that welding will not need to be stopped.)

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

July 21, 1976

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB F.

The attached editorials summarize fairly well the position taken by a number of Democrats in the Congress, as compared to your Administration, on the subject of divestiture.

Attachments

NEWSDAY July 18, 1976

Break Up Big Oil? A Yes and No

By Frank G. Zarb

Breaking up the big oil companies is worth supporting *only if* the new organizational structure would help the nation and the American consumer.

Reorganization would be acceptable *only if* it would improve our ability to insulate the American economy from the effects of an actual or threatened oil embargo, diminish the control of the Organization of Petroleum Exporting Countries over the world price of oil; and result in more abundant and secure oil supplies at lower prices for the American consumer. These should be the criteria for any evaluation of divestiture or reorganization proposals.

However, there is strong reason to believe that the bill now before the Senate actually would undermine efforts to produce more domestic oil, strengthen OPEC's power to determine oil prices and increase consumer costs. The legislation proposes a radical departure from the government's traditional antitrust function and seems to ignore the question of its impact on our need for energy self-sufficiency.

On June 15, the Senate Judiciary Committee approved a divestiture bill, thus setting the stage for a legislative battle which could determine the form of government-business relations for years to come.

The bill would essentially prohibit a large oil company from engaging domestically in any two of the following major industry functions: production, pipeline transportation, or refining-marketing. This could result in less abundant, less secure and more costly supplies of petroleum for American consumers.

Those who equate integrated oil company operations with anticompetitive behavior have made the false assumption that independent refiners and marketers do not have sufficient access to crude oil and finished products, such as gasoline, since the major integrated companies, through ownership of their own crude oil production and the pipeline transportation system, can exclude the independents, thereby limiting their ability to compete.

In actual practice, there is every indication that the major oil companies themselves do not have anything approaching iron-clad control over crude supplies. For example, the 18 major oil firms that would be affected by the pending legislation produce only 60 per cent of the crude oil necessary to run their refineries, the remainder being imported or purchased in the domestic market. Of the 18, only one is totally self-sufficient in domestic crude oil.

The facts also suggest that the independent marketers have a high degree of access to refined products. In 1975, for instance, almost 18 per cent of refiner gasoline production was bought by "unbranded," independent marketers. When you include the "branded independents"—privately owned enterprises that happen to trade under major company brands—domestic refiners in that same year sold more than 80 per cent of their volume of gasoline and more than half their volume of distillates (diesel fuel, No. 2 heating oil, etc.) to independent marketers.

Frank G. Zarb is administrator of the Federal Energy Administration and executive director of the Energy Resources Council. He formerly lived in Lloyd Harbor.

Nor does the purported control of the majors over large volumes of crude supplies seem to have impeded the entry and expansion of independent refiners in the market. Between 1951 and 1975, eight companies began refining operations and a total of 22 independent refiners increased their individual refining capacities to more than 50,000 barrels a day. They built or acquired the new capacity to refine almost 3 million barrels a day over the same period, and as of Jan. 1, 1975, they accounted for 20 per cent of all the crude oil refining capacity in the United States.

In fact, as The Washington Post pointed out in a recent editorial opposing the Senate divestiture bill, ". . . since World War II a number of new independent refineries have been successfully established. One of them . . . has grown fast enough to now be on the list of companies that would be broken up by this bill."

Another area in integrated oil company operations where anticompetitive behavior could occur is in the pipeline transportation system, which is heavily dominated by the major oil companies largely because of the substantial amounts of capital needed to build and maintain it. However, the system is closely regulated by the Interstate Commerce Commission, which prohibits rate discrimination and requires that the system be operated as a common carrier serving all shippers.

The domestic oil industry as it is currently organized is clearly capable of meeting the extremely high capital and technical demands of increased exploration, development and production, given certain governmental actions to establish a stable, predictable climate favorable to those activities. The process of divestiture, on the other hand, would force the oil industry into a period of instability and uncertainty.

This period of flux could involve a decade or more of litigation to adjudicate the numerous conflicting claims of all those with a direct interest in the outcome of divestiture. During this period capital spending by the affected companies would be sharply reduced, and industry management efforts would be diverted from the development of environmentally sound energy supplies to the administrative problems associated with divestiture. The net result of both would be to reduce domestic energy supplies and increase dependence of imported oil.

It is simply naive to expect any corporation to restructure itself radically without experiencing a period of decreasing productive activity. In addition, companies affected by divestiture would have reduced incentives and capabilities to make large capital investments while they are faced with such uncertainty. In short, expecting the U.S. oil industry and the financial community to cooperate productively and efficiently and make an uninterrupted contribution to national energy goals during a prolonged process of divestiture is not realistic.

The process of divestiture might result in an industry in which capital could be raised only at comparatively higher interest rates, leading to increased operating costs, and, ultimately, to higher consumer prices—precisely the opposite of the effect sought by the proponents of divestiture.

And should the proponents of divestiture then seek to restrain the resulting higher prices through controls, the ability of the fragmented domestic oil industry to engage in greater productivity would be further curtailed, leading to even greater vulnerability to interruptions of supply and increases in the price of imported oil.

Apart from the effects of divestiture on the production of domestic oil, an equally important consideration is its impact on the relationship of the United States to OPEC. There is no evidence that nonintegrated U.S. oil companies could bargain with the cartel more effectively than larger, vertically integrated firms to assure more secure supplies at lower prices.

The assertion that the companies are the willing instrument of the cartel in setting and maintaining prices will not bear scrutiny. The price of oil is a function of supply and demand. If the cartel can control production so that available oil supplies will support the price they decree, they effectively control the market. And with the continuing nationalization of oil company assets overseas, it is the cartel and its member countries that are now in a position to decide the volume of oil that will be produced, not the companies.

It has also been said that when decreased cartel production is necessary to support increased prices, the companies act as a mechanism through which proportional shares of the reduced production are allocated to the member states of OPEC. But the fact remains that this pro-rationing of decreased production is simply not essential.

One member of the cartel, Saudi Arabia, has such a large production capacity and such a relatively small need for oil revenues that it can absorb the entire production decrease necessary to support any given price. As long as the Saudis are willing to support the stability of the cartel by shutting in their production—a decision over which the companies have no control—OPEC will continue to dominate the supply, and, therefore, the price of oil.

If we are to produce more energy at reasonable prices, we must complete the implementation of a five-point national energy program:

1. Decrease the growth rate of U.S. energy consumption from an historic 3.6 per cent to something less than 2.8 per cent;

2. Increase domestic oil production from the current 8 million barrels per day to 12 million barrels per day, and increase domestic natural gas production from 20 trillion cubic feet per year to 23 trillion cubic feet per year;

3. Increase domestic coal production from the present annual rate of 603 million tons to one billion tons;

4. Increase electricity generated by nuclear power from today's level of 9 per cent to 26 per cent; and

5. Complete a national oil stockpile program giving this nation sufficient protection against the threat of future embargoes.

The implementation of these five points, or equally effective substitutes, will require deliberate and painful policy-making on a number of complex issues. There is no easy way out, but one thing is clear: We have the natural, financial and technological resources to get the job done.

As popular as the notion may seem, the divestiture legislation presently being considered simply does not help to provide or conserve more energy. Indeed, the debate only diverts attention from the tough energy decisions that this nation must face. □

NEWSDAY July 18, 1976

By Philip A. Hart

It happened in mid-sentence during a Senate antitrust and monopoly subcommittee hearing a couple of years ago: I went blank and couldn't think of a single example of a competitive industry. Stumped, I turned to the staff. No suggestions. I tossed the question to the audience—about 150 persons who work in industry or follow antitrust matters closely, or both. Silence.

That memory comes back now because it seems to typify a problem of those who favor divestiture for the oil industry. We argue that this will bring consumers the benefits of competition. We get back blank looks.

People are hard put to imagine what a competitive oil industry would look or act like. They are especially hard put to imagine how competition would affect consumers.

Frankly, I should have realized long ago that murmuring "competition" doesn't automatically bring blissful visions to consumers' minds. They don't often get a chance to see it practiced—even in this land supposedly dedicated to the free enterprise system.

Every one of our basic industries—such as steel, autos, copper, computers, communications—are dominated by a handful of companies that are able to control their market instead of being controlled by it. In a country of more than 300,000 manufacturing concerns, 200 control more than two thirds of total manufacturing assets.

The oil industry also suffers from a lack of competition. It is not defined as easily as some other industries in terms of concentration of ownership figures. But the bottom line is that there is no free market in crude oil or refined products.

The top oil firms own more than 79 per cent of crude reserves directly. When indirect control is added —in the operation of joint producing leases and such—the figure hits 90 per cent. The industry spokesmen tell us there are 10,000 producers. So the other 9,980 must control 10 per cent of the reserves.

Consider these other barometers of concentration in the industry. In 1972, the top eight refiners had 56 per cent of production. The top 20 had 84 per cent. Crude oil is generally sold to the pipeline on which it travels, and in 1973, 92 per cent of crude oil shipments were carried in the majors' lines (the top 18 companies in volume of crude production, refining and marketing are included among the "majors"). The same year the majors' pipelines carried 76 per cent of the refined oil products in the country. And in 1974, the top refiners held 80 per cent of the domestic market. That type of control by a group of companies that meet each other daily as partners in production, transportation and/or marketing thoroughly dilutes free markets in this industry and makes nonintegrated companies less than free-wheeling competitors. The loser, ultimately, is the consumer.

During the debate on the wisdom of divestiture for this industry, we are often asked: How much money will the consumer save? Frankly, I haven't the faintest idea. Nor, I am sure, does anyone short of God. We do know that if you take an industry that is not competitive and make it competitive, there is a downward pressure on prices.

At the moment this industry is dominated by an international cartel that may or may not hold together after divestiture. If it holds, the OPEC countries have announced they intend to continue to raise crude prices. But that will not be as easy after divestiture.

Then the companies buying the oil will not have an incentive to just pay the asking price. They will be the largest refiners in the world, the ones buying 95 per cent of the OPEC crude, and they will be getting their profits solely from refining and marketing. In other words, they will be tough negotiators and price-shoppers.

Today the major integrated oil companies have no incentive to bargain for lower prices. They have a stake in price increases. That's because their own reserves increase in value each time the world price is hiked. The magnitude of that incentive is impressive. For example, a $1 increase for a barrel of crude means the value of the reserves that Exxon, Atlantic-Richfield and Sohio/BP hold just in Prudhoe Bay, Alaska, increases by $10 billion.

That's the kind of condition in which sweetheart contracts flourish. OPEC scratches the oil companies' back, and vice versa. On the other hand, we do know that with the 5 per cent of the OPEC production now being purchased by nonintegrated refiners there has been some eroding of the cartel price.

So there is every reason to believe that competition over the years would keep prices from rising as fast and as high as they would without competition. For consumers, the stake is considerable. Every time gasoline goes up one cent a

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Sen. Philip A. Hart (D-Mich.) is retiring at the end of this year after three terms in the U.S. Senate. He is chairman of the Senate subcommittee on antitrust and monopoly.

gallon, consumers spend $1 billion more each year to buy it.

But saving money is not the only benefit competition promises consumers. The almost universal trait of monopolists is their comfort. They don't have to hustle—and they usually don't. Therefore inefficiencies creep in; technological advances are slow to be made or implemented. In general, there are signs of stagnation in the industry. As Business Week magazine reported last month."Compared with their sales volume, big oil companies have never spent heavily on research and development—at least the engineering kind. Ford Motor Company's budget alone exceeds the $715 million that oil companies, with combined sales of $175 billion, reported."

On the average, the oil industry last year spent less than one half of one per cent of sales dollars on research and development.

One company, Phillips Petroleum Company, broke down its research and development expenditures like this: More than 50 per cent went to research on chemicals, including fibers and plastic. Fifteen to 25 per cent went to finding improved techniques to discover and evaluate oil and mineral deposits.

Evidence of the inefficiency of the majors shows up at the service station: The nonintegrated independents traditionally undersell the majors by three to five cents a gallon. Robert Yancey, president of Ashland Oil, a large independent refiner, told the subcommittee he could "spot the majors a dollar a barrel and still beat them at the pump."

Clearly, the only noticeable competition in the industry comes from the independents. The independents, not the majors, came up with new marketing techniques, such as unmanned "gas-and-go" stations. Innovations like this and lower prices helped them capture about 25 per cent of the market. That took a bit of hustling.

Incidentally, after the subcommittee members thought about the competition question a bit, we did come up with a very good example of a competitive industry—the hand-held calculator industry. As you may recall, about five years ago when they first began appearing, you had to pay $300 to $500 for a model that today sells for less than $100. And you can now buy simple models for less than $10. What made the difference? Competition. That's what brought improvements in technology, lower prices and a good deal of other benefits for consumers.

Wouldn't it be nice to see a little of that in the oil industry? □

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

July 26, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB FZ

SUBJECT: OIL COMPANY PROFITS

First quarter 1976 earnings reports for 37 oil companies show that profits increased 30 percent over the first quarter of 1975, rising from $2.2 billion to $2.9 billion. While the general economic recovery is the primary reason for this increase, the oil companies appear to be doing about as well as industry in general. Some key points are:

- Profits for all industries rose 41 percent over first quarter 1975, according to The Wall Street Journal and 37 percent according to Business Week. These increases reflect the recovery from the trough of the worldwide recession.

- Business Week also reports that the rate of return on invested capital was 11.0 percent for oil companies compared to 10.3 percent for all companies it surveys.

- Eight large companies (Exxon, Texaco, Mobil, Gulf, Socal, Amoco, Conoco, and Shell Oil) account for 73 percent of the total profit reported. These companies report a 26 percent profit increase over last year and provide some detail on the geographic sources of their profits.

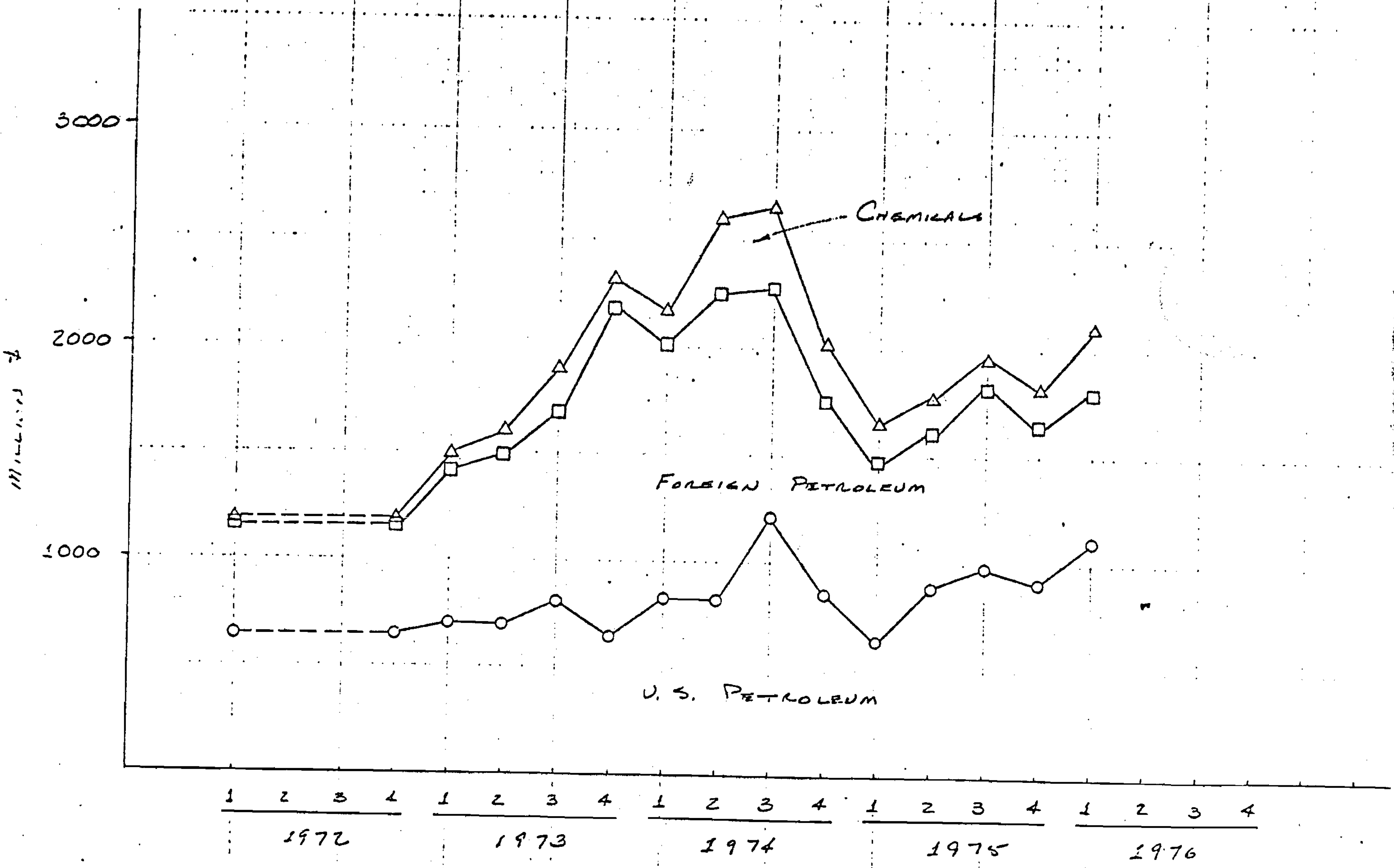
- For these eight companies, U.S. petroleum profits rose $450 million or 70 percent, and accounted for all of the gain. Increases and decreases in foreign petroleum operations, chemicals, and other activities offset each other. The attached graph displays a four-year history of the sources of earnings for these eight companies.

- o The general economic recovery is the primary factor in the earnings gains as both volumes and prices increased. Domestically, higher natural gas prices, faster recovery of costs under FEA price regulations, and elimination of the $2 supplemental import fee were added factors leading to the strong increase in profits.

- o Foreign profits declined in spite of economic recovery due to the loss of production during the Angolan civil war, a retroactive tax increase in Indonesia, and reduced profits on Venezuelan oil since the January 1, 1976, nationalization.

Attachment

Net Income
By Segments
8 Companies



FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

July 26, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

In reply to your July 12 memorandum concerning participation in the Interagency Economic Adjustment Committee please be advised that we are happy to cooperate in the fullest with their initiatives.

In this regard, I have asked Gorman C. Smith to act as the Federal Energy Administration's representative on this committee.

Should you or Gorman do this?

Frank - F.Y.I.
- J. Hill will have to be on this committee (see p. 2)

THE WHITE HOUSE

WASHINGTON

Jerry P/s W/G

July 12, 1976

MEMORANDUM FOR

cc: J. Hill

THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY OF TRANSPORTATION
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS
EXECUTIVE DIRECTOR, DOMESTIC COUNCIL
ADMINISTRATOR OF GENERAL SERVICES
ADMINISTRATOR, ENVIRONMENTAL PROTECTION AGENCY
ADMINISTRATOR, ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
✓ ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION
CHAIRMAN, CIVIL SERVICE COMMISSION
ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION
DIRECTOR, U.S. ARMS CONTROL AND DISARMAMENT AGENCY
DIRECTOR, COMMUNITY SERVICES ADMINISTRATION

Reisner - I will do him JH

DAVE - John
This should go to Butler or Smith. John or I should get involved only at Principals meetings
g

The Secretary of Defense has recently reported to me on the activities of the Interagency Economic Adjustment Committee which was established in 1970 to assist Defense impacted communities. I was especially pleased to learn of the Committee's assistance to communities in providing new employment opportunities and in overcoming other economic difficulties associated with Defense realignment actions.

I am advised that the Department of Defense has recently announced additional actions designed to better utilize available resources through reductions in overhead and base support costs. I want to ensure that the Committee continues to act effectively in assisting communities that may be affected. Accordingly, I am expanding the Committee's membership to include the addressees listed above and affirm this Administration's commitment to utilize the resources of the Federal Government to alleviate economic difficulties caused by necessary Defense realignment actions.

In furtherance of this commitment, each member is directed to:

1. Maintain agency representation on the Committee at the Under Secretary or Deputy level.

2. Give priority attention to the critical adjustment needs and applications submitted by impacted communities.

3. Review agency programs and statutory authorities to ensure sufficient flexibility for quick response to critical community adjustment requirements.

4. Streamline property disposal procedures.

5. Emphasize identification of early interim civilian use of facilities.

I appreciate the cooperation and assistance which you and your associates have given to Committee projects in the past. I have asked the Secretary of Defense to continue as Chairman and I would like you to continue your support for the activities of this Committee.

Gerald R. Ford

INFORMATION

OFFICE
FEDERAL ENERGY ~~ADMINISTRATION~~
WASHINGTON, D.C. 20461
August 2, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

THRU: ELLIOT RICHARDSON

FROM: FRANK G. ZARB

SUBJECT: Status of Legislation Extending the FEA

The Conference Committee established to resolve House and Senate differences regarding legislation extending the FEA completed its work Friday evening, July 30. Final drafting of the legislation and conference report will not be completed until August 4 or 5, however, and I do not expect to see the bill on your desk prior to the week of August 9.

A number of the highly undesirable aspects of the bills originally passed by the House and Senate were either eliminated in conference or substantially improved; many of the sections sought by the Administration were retained; and several questionable programs or policies still remain. In brief, the bill includes:

- the Bartlett amendment exempting stripper wells from price controls (ca. 70% of domestic wells and 13% of production);

- an additional 1.5% plus (depending upon inflation) increase in the crude price escalator to give greater flexibility in maximizing crude production and phasing out oil price controls;

- two programs requested in the thirteen titles of your original energy program in 1975;

  -- weatherization assistance for low income persons at a slightly higher authorization level than included in your proposal ($200 million vs. $165 million); and

-- thermal efficiency standards for new houses and commercial buildings with less strict sanctions to leverage implementation of such standards by State and local governments than included in your original bill;

- additional items to be included in the State grant program provided in the December energy bill;

- a demonstration program authorized at $200 million to evaluate different methods of creating incentives for homeowners to improve the thermal efficiency of existing housing that will likely not have to be funded if your tax credit is approved;

- a $2.0 billion loan guarantee program for energy conservation investments by industry, business and non-profit institutions that is substantially scaled down from the earlier Senate passed version (e.g. credit elsewhere tests, default limitations, a 50% reduction in authorized guarantee levels, no interest subsidies); and

- other less significant provisions, including some procedural changes to FEA's regulatory program sponsored by Senator Dole.

A full evaluation of the bill's provisions will be prepared and circulated to your advisors for their comments prior to your consideration of the bill. This effort should be completed by August 11.