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

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

SEP 3 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB John A. Hill (acting for)

SUBJECT: DECISION PAPER ON NUCLEAR POLICY

Although the Nuclear Policy Review Group has done an admirable job under extremely tight deadlines, I have serious reservations concerning its recommendations and general direction. In addition, I do not believe the initiatives presented in the review group's decision paper provide an adequate basis for a major Presidential statement announcing new unilateral United States policy in this area. This position is based on several key shortcomings in the recommendations:

-- The proposed policies are not sufficient to control proliferation.

-- There is inadequate consideration of the tremendous difficulty of implementing the proposed initiatives worldwide.

-- The paper gives inadequate attention to the effect of our international posture on domestic nuclear energy development.

-- The cooperation of other supplier nations is critical, but as yet unknown. There is no assurance that the past marginal support of IAEA programs by other nations can be improved significantly as a result of these policy recommendations.

It is true that nuclear power must expand dramatically both at home and abroad as an energy resource. However, the possible diversion to weapons use of nuclear fuel materials must be prevented, both for national security reasons and to ensure further development of our domestic nuclear program. A continuation of current approaches will not be acceptable either to the public or to decision-makers.

I support the view that the Administration should take some action on this matter at this time. Nuclear power and nonproliferation are of such great importance to this nation and the rest of the world that I feel it imperative for us to take a more deliberative approach that will stand public scrutiny not only as a viable policy, but also one that can contain the problems of proliferation effectively.

FEA's positions on the specific issues presented in the paper are as follows:

Application of restraints policy to existing agreements.

-- FEA prefers option 2 (strong initiative on retroactivity), but sees implementation problems with either option.

International position on reprocessing.

-- FEA supports option 1 (control spread), however, implementation of this option depends critically upon the U. S. obtaining full cooperation from all supplier nations. Analysis to date has not determined whether or how U. S. can obtain such cooperation.

Domestic reprocessing.

-- FEA strongly endorses option 1 (assist reprocessing), since this is a necessary step towards control of international reprocessing.

Waste management.

-- FEA concurs with expedited implementation of planned program.

Other initiatives.

-- FEA concurs with all recommendations, but urges that the proposed Nuclear Policy Council serve as a subgroup of the ERC.

Next steps.

-- Direct the Nuclear Policy Council to develop concurrent proposals for strengthening international controls and obtaining the necessary full cooperation from all supplier nations. Such proposals would be viewed as a major initiative justifying a Presidential statement on these issues.

file Not thru EC

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

SEP 13 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: DEREGULATION OF NAPHTHA-BASED JET FUEL

Ford, Gerald

BACKGROUND

Pursuant to your direction when you signed the Energy Policy and Conservation Act (EPCA) last December, the Federal Energy Administration (FEA) initiated the process of removing from price and allocation controls as many petroleum products as possible. Since then Congress has approved conversion of price and allocation controls to standby status for petroleum products accounting for 40 percent of the yield from a barrel of crude oil. These include residual fuel oils, middle distillates (heating oils and diesel fuels), lubricants, greases, and a number of intermediate products. The sequence of decontrol has been determined by the supply and demand conditions for products, the requirement to hold public hearings and the necessity to avoid having more than one decontrol proposal at a time before the Congress.

Based on these considerations the next product FEA proposes to submit for exemption is naphtha-based jet fuel. This is military grade jet fuel (JP-4), and accounts for approximately 2 percent of total U.S. refinery production. The Defense Department consumes 98 percent of such fuel and small refiners account for nearly 40 percent of its total production.

The Department of Defense has objected to submitting the naphtha jet fuel (JP-4) proposal for exemption at this time for reasons outlined in this paper.

FEA has completed its study, held public hearings with full knowledge of DOD's opposition, and made the findings required by the Act: adequate supply, exists and minimal price impacts will be experienced in the event of decontrol. FEA proposes to transmit this action to Congress for consideration on September 15, 1976. This is the last day that will allow the required time for congressional consideration prior to adjournment.

The remaining major fuels not yet decontrolled are kerosene-based jet fuel, used primarily by commercial airlines, and gasoline. Studies of these fuels are underway and they are scheduled to be proposed for exemption early in the next session of Congress, or later this year should Congress reconvene after the elections.

DOD POSITION

The proposed unilateral decontrol of military JP-4 jet fuel suffers from the following disadvantages:

- A price disparity will be created between decontrolled military jet fuel and commercial jet fuel which will remain under price control. When, following the Arab boycott a similar disparity occurred, there was a congressional investigation and both DOD and FEA were severely criticized and accused of wasting millions of dollars in excessive jet fuel costs.

- Small refiners, the intended principal beneficiaries of JP-4 decontrol, cannot in fact obtain price benefits until their current contracts expire. A few of those contracts will expire by March 31, 1977, but most (61 percent of the contracts, accounting for 60 percent of total supply) run through September 30, 1977.

- Of six refiners holding JP-4 contracts with clauses that permit termination of renegotiation upon decontrol, only one is small. The others that can gain immediate price relief from decontrol are all large firms (Union, Getty, Cities Service, Sun, and Continental). Another large firm (Exxon) stands to gain early benefit from decontrol to a lesser degree. At least part of the contracts held by most large refiners will expire by mid-FY 77.

- There will be unprogrammed DOD FY 77 expenditures of $20 million.

The foregoing considerations indicate that the proposed expedited unilateral decontrol of military JP-4 jet fuel will serve no useful purpose and is contrary to the best interests of the government. It will increase military fuel costs. It will provide only limited price relief for a few small refiners until FY 78. It will benefit large refiners, some immediately and most by mid-FY 77. It will expose DOD to higher jet fuel prices while continuing to protect commercial airlines. In summary it conveys an impression of government collaboration with big oil - an impression which is not in the interests of either government or industry.

DOD recommends that the action to decontrol JP-4 at this time be terminated. DOD's primary recommendation is that JP-4 should be decontrolled at the end of FY 77, when all current contracts will have expired. An alternative proposal by DOD is that the recommendation for the decontrol of JP-4 be forwarded to Congress in conjunction with either or both the proposals for the decontrol of kerosene jet fuel and motor gasoline.

FEA POSITION

- FEA's findings and views required by EPCA and supported unanimously in testimony at public hearings held on September 3, 1976, indicate adequate supplies and minimal price impacts resulting from decontrol. Specifically, FEA expects price increases of no more than 1 cent a gallon on the average, with a maximum upper limit of 2 cents per gallon. Since DOD buys 98 percent of all domestic JP-4 production, FEA believes that through its contractual commitments DOD can maintain an appropriate price relationship between JP-4 and commercial jet fuel, which will remain under price controls.

- The extent to which large refiners benefit and small refiners do not will be a function of existing contractual relationships between DOD and its suppliers. Thus, any budgetary impact will be minimized. In any event, refiners, both large and small, testified unanimously at the public hearings in favor of decontrol. Decontrol now will encourage investment in small and independent refineries, even though the benefits for some refiners may be postponed until their existing contracts expire.

- Failing to decontrol JP-4 despite the findings and public testimony conveys an impression that the government is willing to risk higher prices for other consumers but is not willing itself to face the implications of decontrol. This will weaken our argument for decontrolling kerosene jet fuel and gasoline.

- Deferring decontrol of JP-4 until the end of FY 77 would cause this to be the last of the products to be decontrolled. Thus, direct cost increases would be borne by the airlines and motorists from the decontrol of kerosene jet fuel and motor gasoline before the Federal government accepted the cost increase of decontrolling JP-4.

- Coupling the proposal for the decontrol of JP-4 with either or both motor gasoline or kerosene jet fuel would increase the complexity and uncertainty of obtaining congressional approval for the decontrol of any of these products. FEA's strategy of sequential decontrol has proven effective to date, at least in part, by minimizing the constituencies opposed to any one action.

- DOD's recommendation to terminate or delay the JP-4 decontrol action at this time would create uncertainty as to the Administration's commitment to decontrol and minimize governmental interference in private industry.

AGENCY COORDINATION

	Supports FEA	Supports DOD
National Security Council	X	
Department of the Treasury	X	
Council of Economic Advisors	X	
Assistant to President for Economic Affairs	X	
Department of Commerce		
Office of Management and Budget		
Domestic Council		

PRESIDENTIAL DECISION

_____ Send decontrol proposal as scheduled.

_____ Do not send decontrol proposal at this time.

called Sharon Gaskin
for pick up.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

SEP 21 1976

OFFICE OF THE ADMINISTRATOR

FORD, GERALD

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB Frank G. Zarb

SUBJECT: MONTHLY STATUS REPORT

July production of electricity by utilities was 185.7 billion kilowatt hours, 5.6 percent above the 1975 level. Production for the first 7 months of the year has been 6.7 percent above the same period last year.

Output of bituminous coal and lignite dropped 15.1 million tons to 43.3 million in July, from the June level of 58.4 million. This can be attributed to the wildcat strike during the last 2 weeks of the month and the annual miners vacation, which lasted from June 26 to July 17.

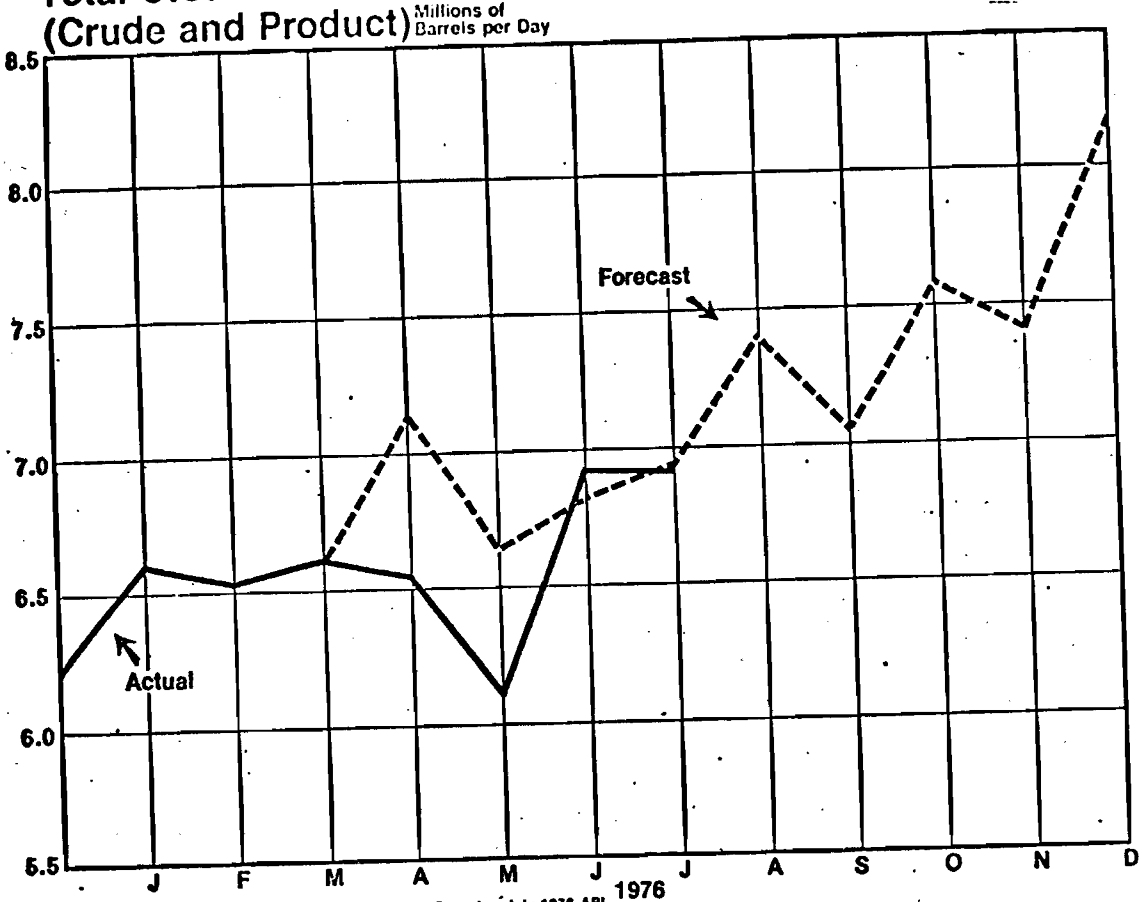
Total oil demand for the months was 15.91 million barrels per day, 2.2 percent below the forecast and 0.9 percent below last year's demand. Imports were almost the same as had been forecasted, 6.91 million barrels per day, 15.5 percent above last year's imports.

Demand for motor gasoline in July was 7.23 million barrels per day, slighty below the forecast and only 2.9 percent above the demand in 1973. Demand for residual fuel oil was 9.6 percent below the demand of last year, even though industrial production was up 10.1 percent.

The average retail price for regular gasoline was 59.6 cents per gallon. This amounted to a net increase of 3.0 cents per gallon since March, when prices were at their lowest for the year.

Crude oil production for July is estimated at 8.19 million barrels per day, 0.2 percent below the production for January and 1.6 percent below the level for July 1975. The number of rotary rigs in operation rose seasonally to an average of 1,597 in July, still slightly below the number operating last year.

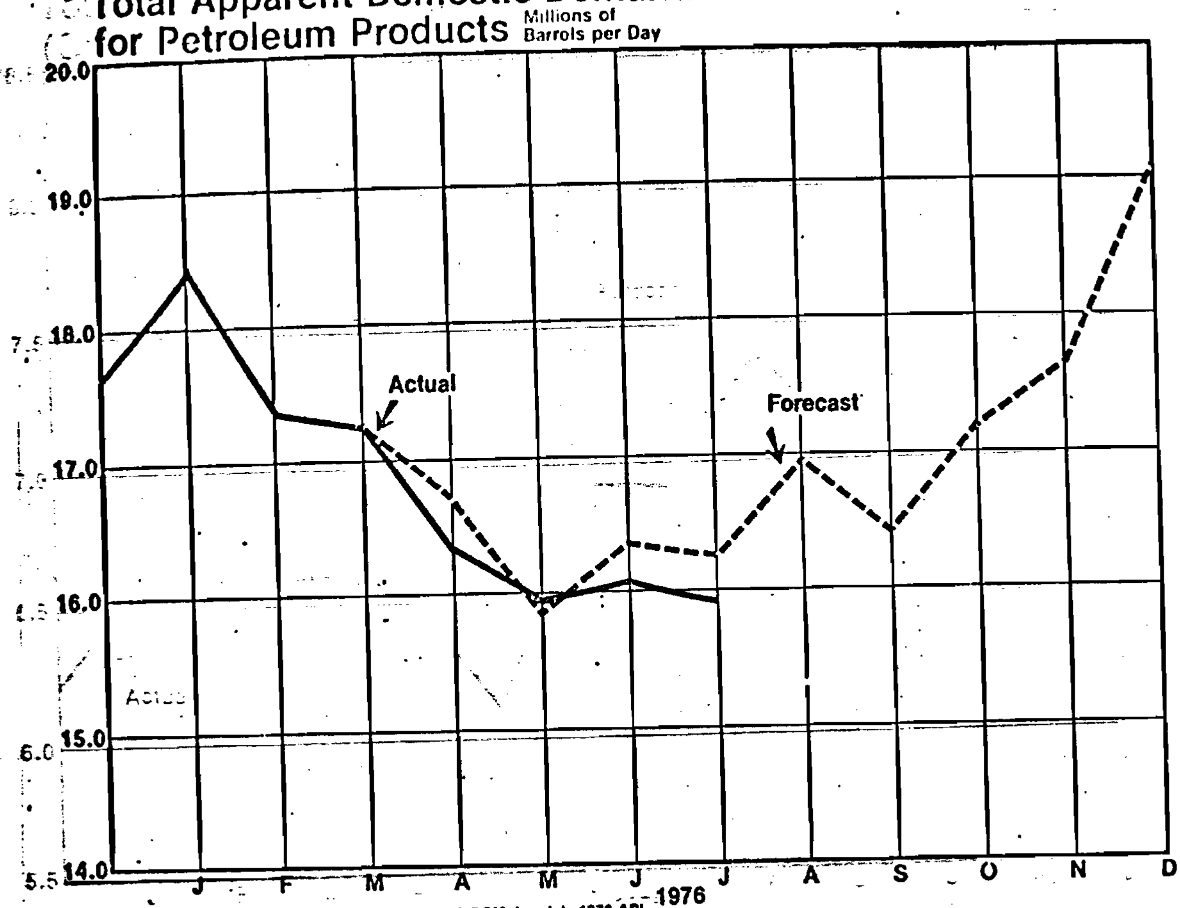
Figure 1
Total U.S. Petroleum Imports (Crude and Product)



Source: 1973-1974-1975-BOM Jan/Feb/Mar 1976-Bom Jun-July 1976-API

o Imports for July were 6.91 million barrels per day, nearly the same as forecasted but 15.5 percent above the level for July of 1975.

Figure 2
Total Apparent Domestic Demand for Petroleum Products

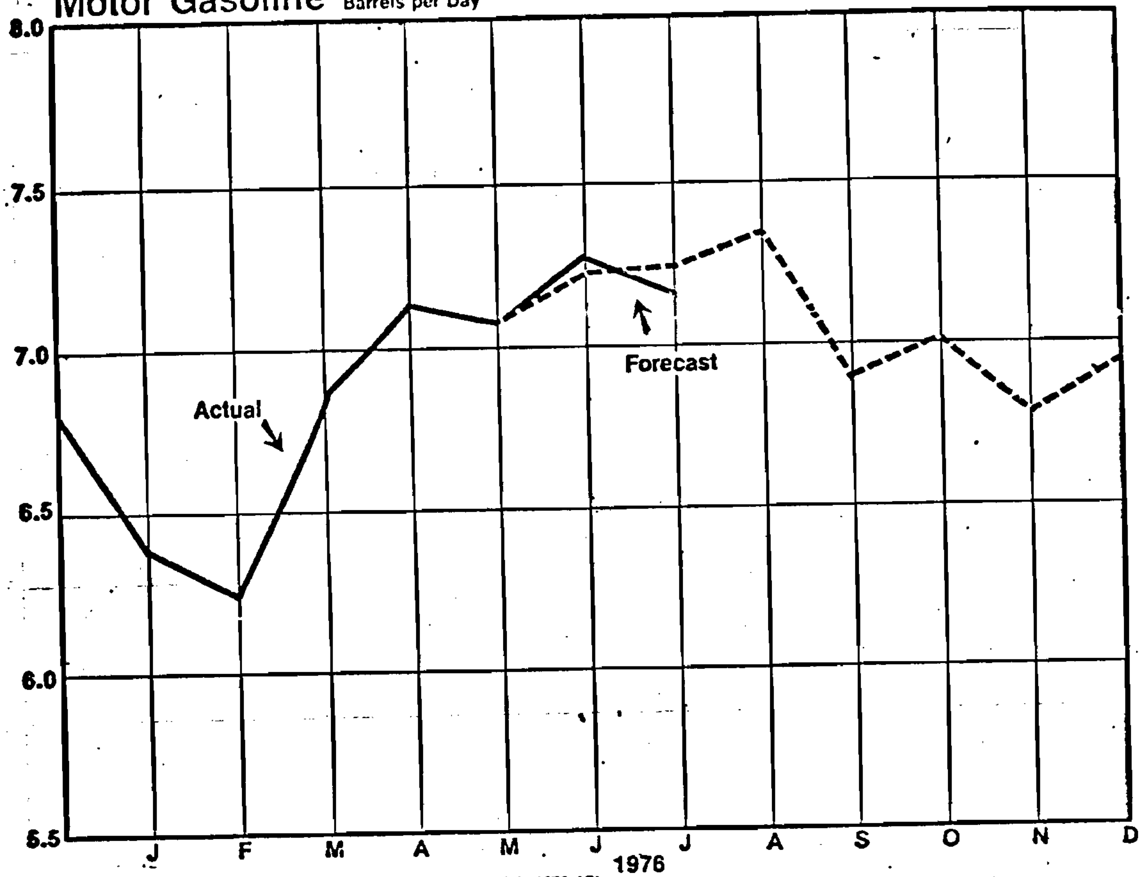


Source: 1973-1974-1975-BOM Jan/Feb/Mar 1976-BOM Jun-July 1976-API

o Total domestic demand for petroleum products for July was 15.91 million barrels per day, 2.2 percent below the forecast, 0.9 percent below 1975 demand and 2.7 and 2.8 percent below 1974 and 1973 levels of demand, respectively.

Figure 3

Apparent Domestic Demand for Motor Gasoline Millions of Barrels per Day



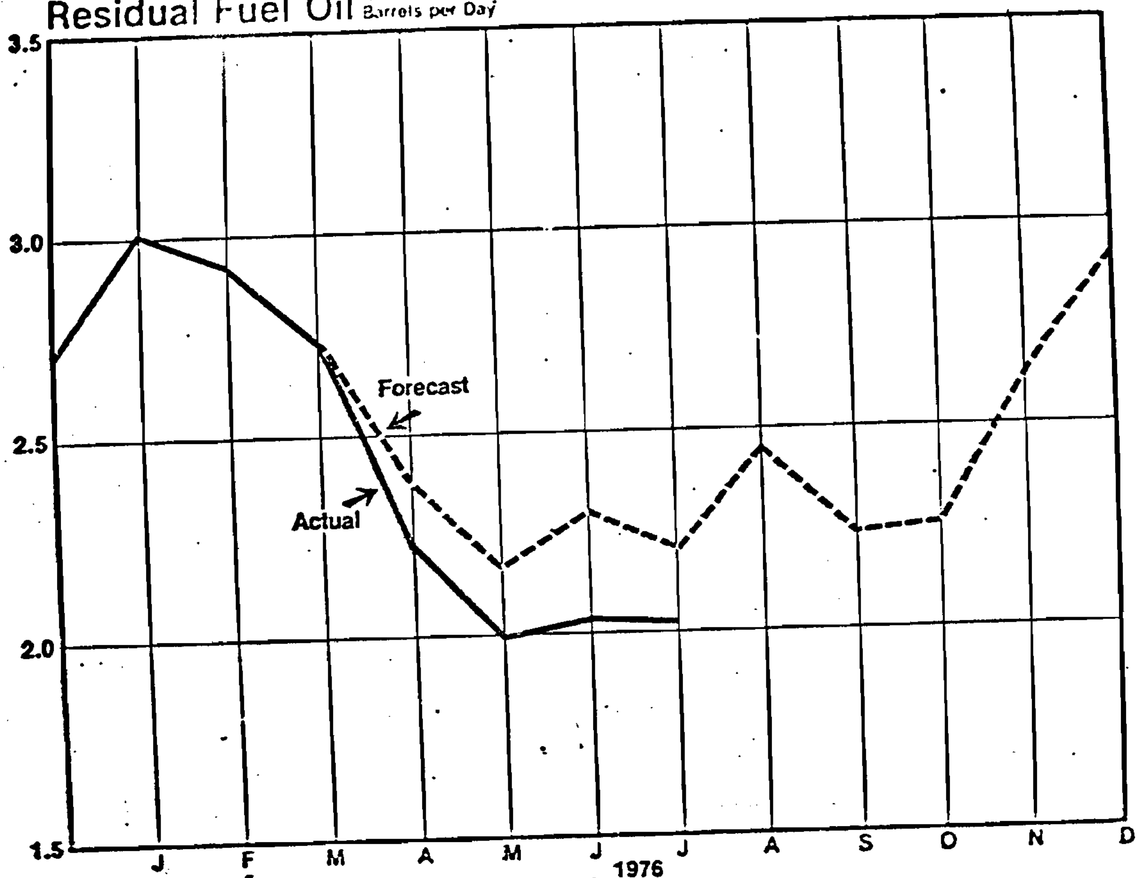
Source: 1973-1974-1975-BOM Jan/Feb/Mar 1976-Bom Jun-July 1976-API

o Demand for motor gasoline in July was 7.23 million barrels per day, very close to the forecast of 7.25 million and 2.6 percent above the 1975 demand. July demand was only 2.9 percent above the demand of 3 years ago.

Figure 4

Apparent Domestic Demand for Residual Fuel Oil

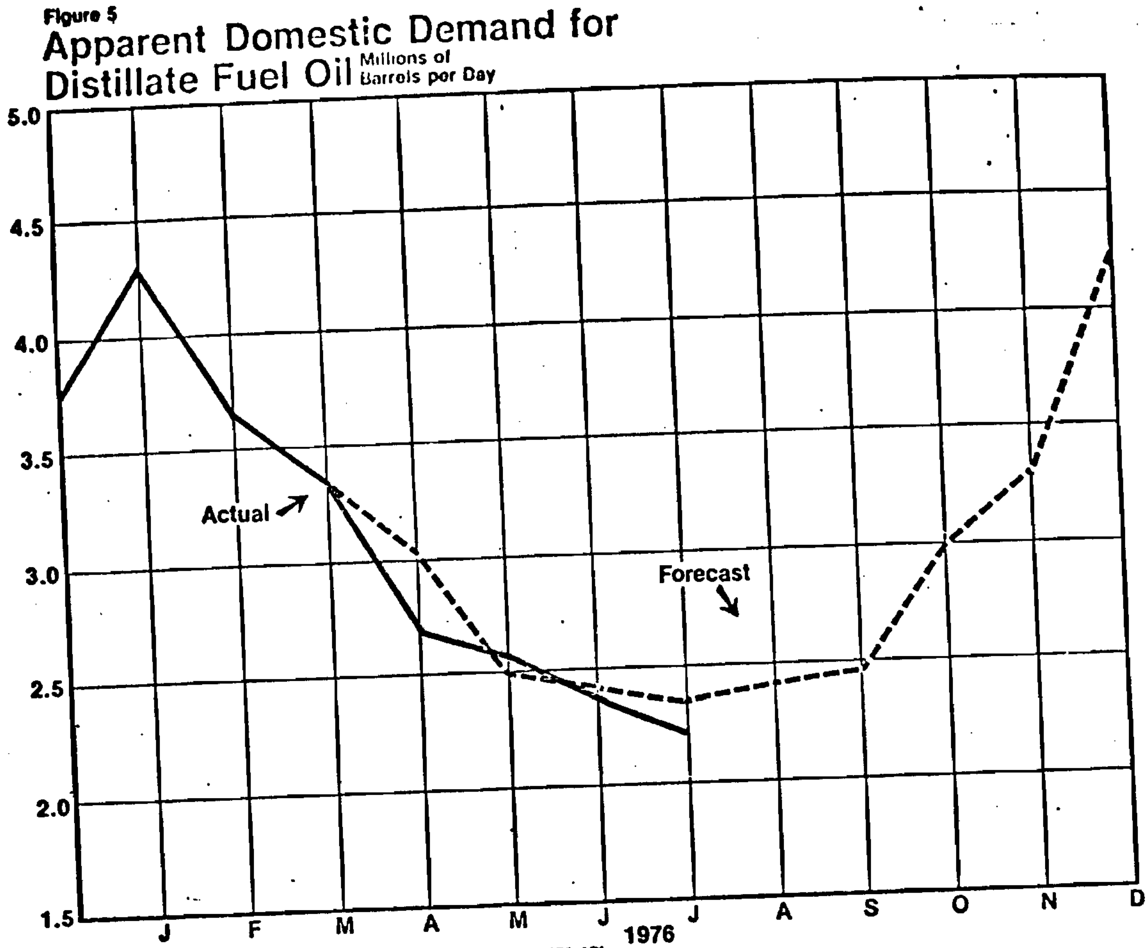
Millions of Barrels per Day



Source: 1973-1974-1975-BOM Jan/Feb/Mar 1976-BOM Jun-July 1976-API

- Although the Federal Reserve Board index of industrial production, for July was 10.1 percent above the July 1975 index, demand for residual fuel oil, used almost exclusively by industry and electric utilities, was 2.02 million barrels per day, 9.6 percent below last year's demand. This level of demand was 16.1 percent below that of 3 years ago.

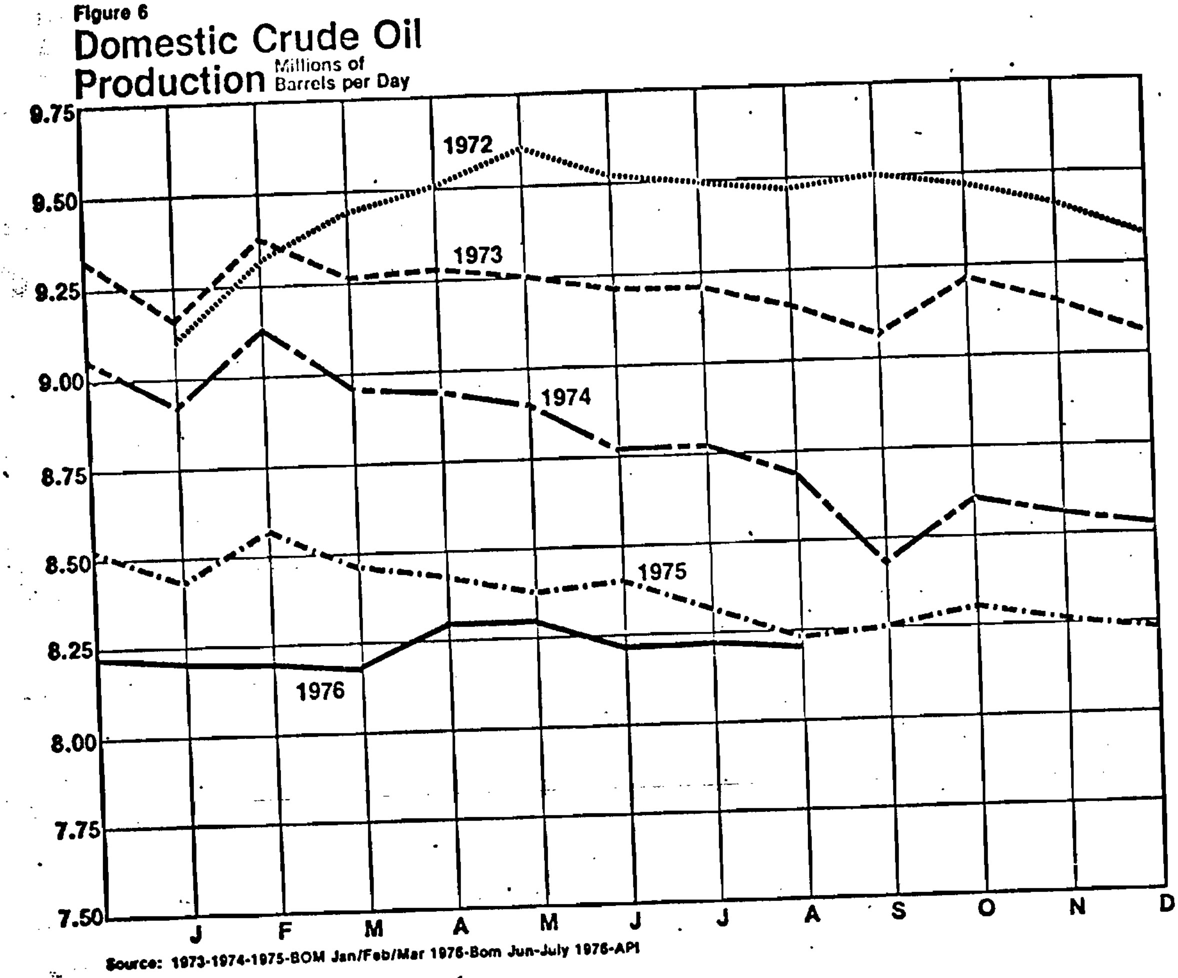
Figure 5



Source: 1973-1974-1975-BOM Jan/Feb/Mar 1976-Bom Jun-July 1976-API

o July demand for distillate fuel oil was 2.22 million barrels per day, 5.3 percent above the 1975 demand but 3.7 percent below the 1974 level and 4.5 percent below 1973 demand.

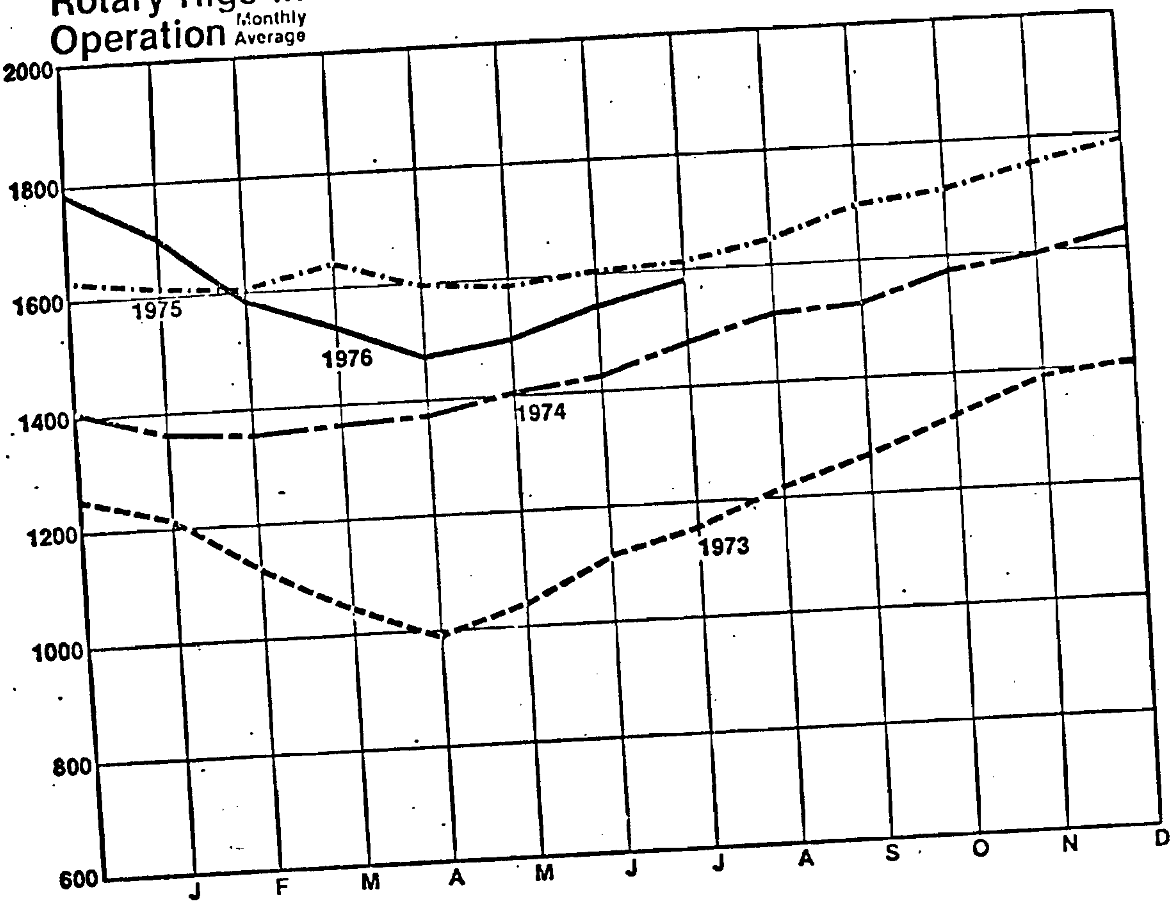
Figure 6



o As the figure indicates, domestic crude oil production has remained about level all year. The API's estimate of August production was 8.18 million barrels per day, 0.4 percent below January's level and just 0.7 percent below production for August 1975.

Figure 7

Rotary Rigs in Operation Monthly Average

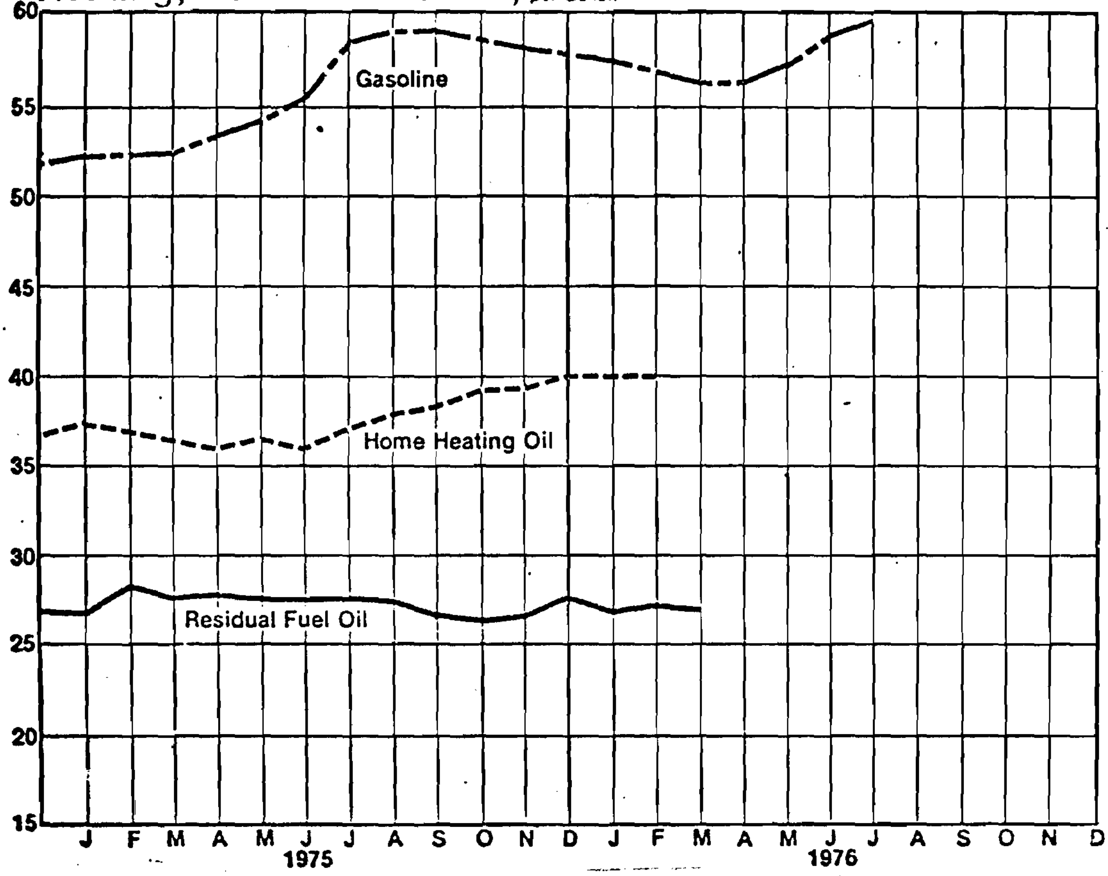


Source: Hughes Tool Company.

- The number of drilling rigs at work increased seasonally in July but was still slightly below the level for the same month a year ago. The average number in action during July was 1,597, 51 more than in June, but 19 fewer than in July 1975.

Figure 8

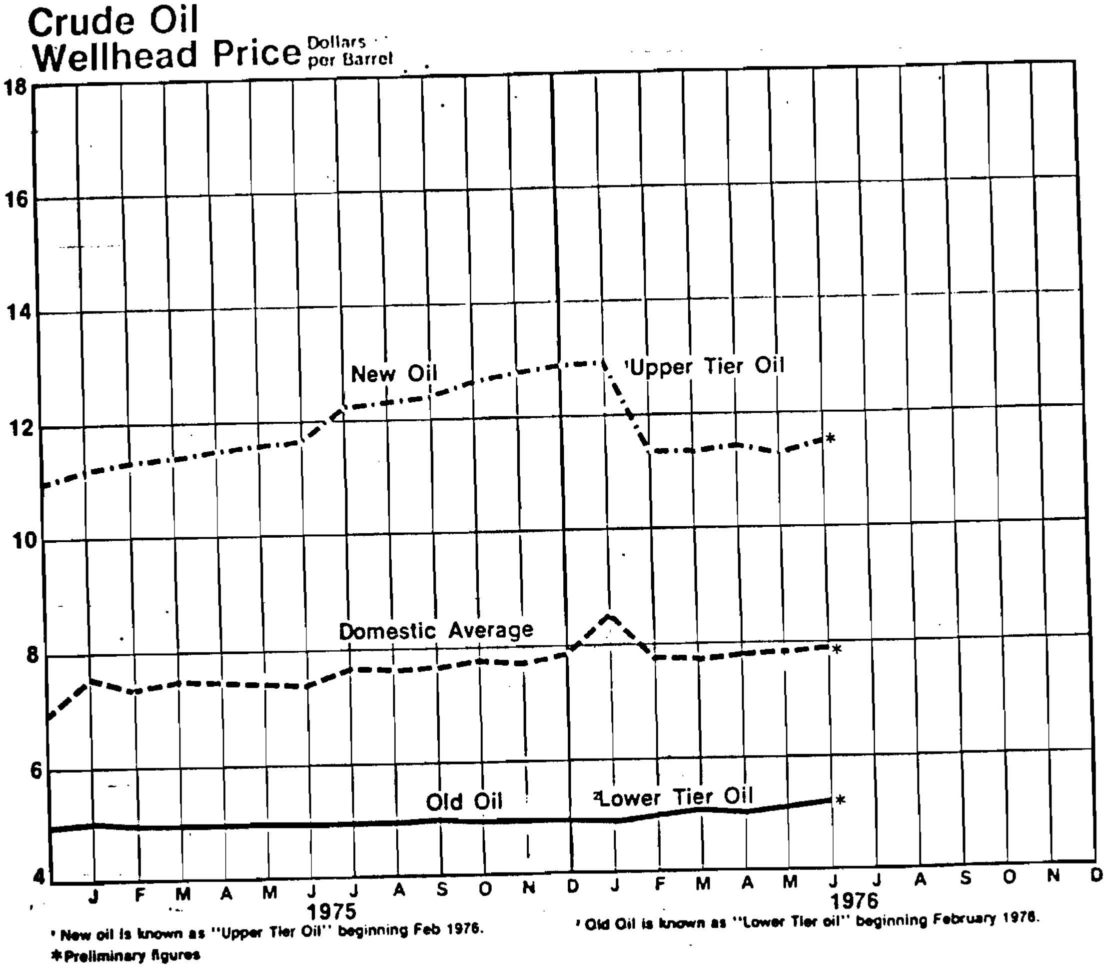
Retail Price (Gasoline, Home Heating, Residual Fuel Oil) Cents per Gallon



- The national average retail selling price for regular gasoline reached 59.6 cents per gallon in July. This amounts to a net increase of 3.0 cents per gallon since March 1976 when gasoline prices were at their lowest for this year.

- No new data are available for heating oil or residual fuel oil.

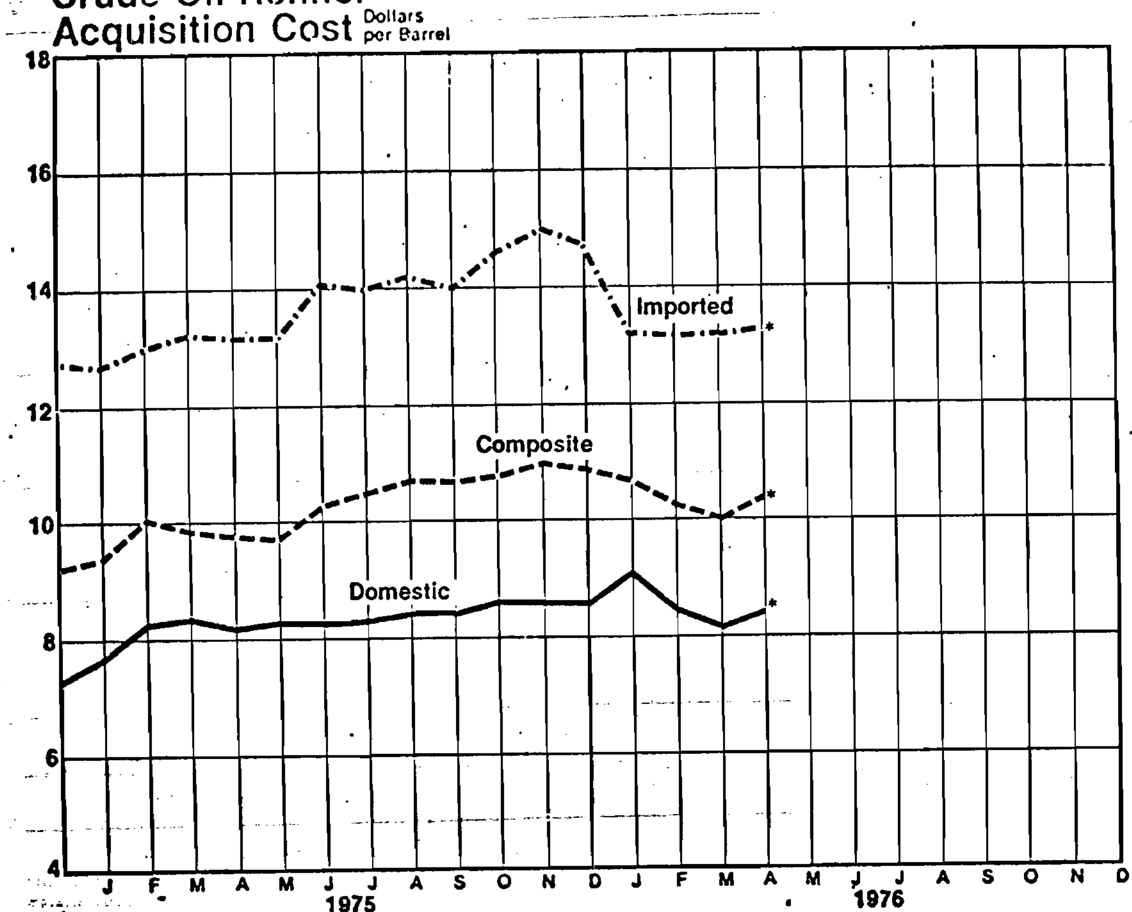
Figure 9



o During June the average "upper tier" crude oil price was $11.65 per barrel, 0.9 cent above the May figure. The average lower tier price was $5.15 and the domestic average price, $7.99 per barrel, increases of 0.2 cent and 11 cents per barrel, respectively.

Figure 10

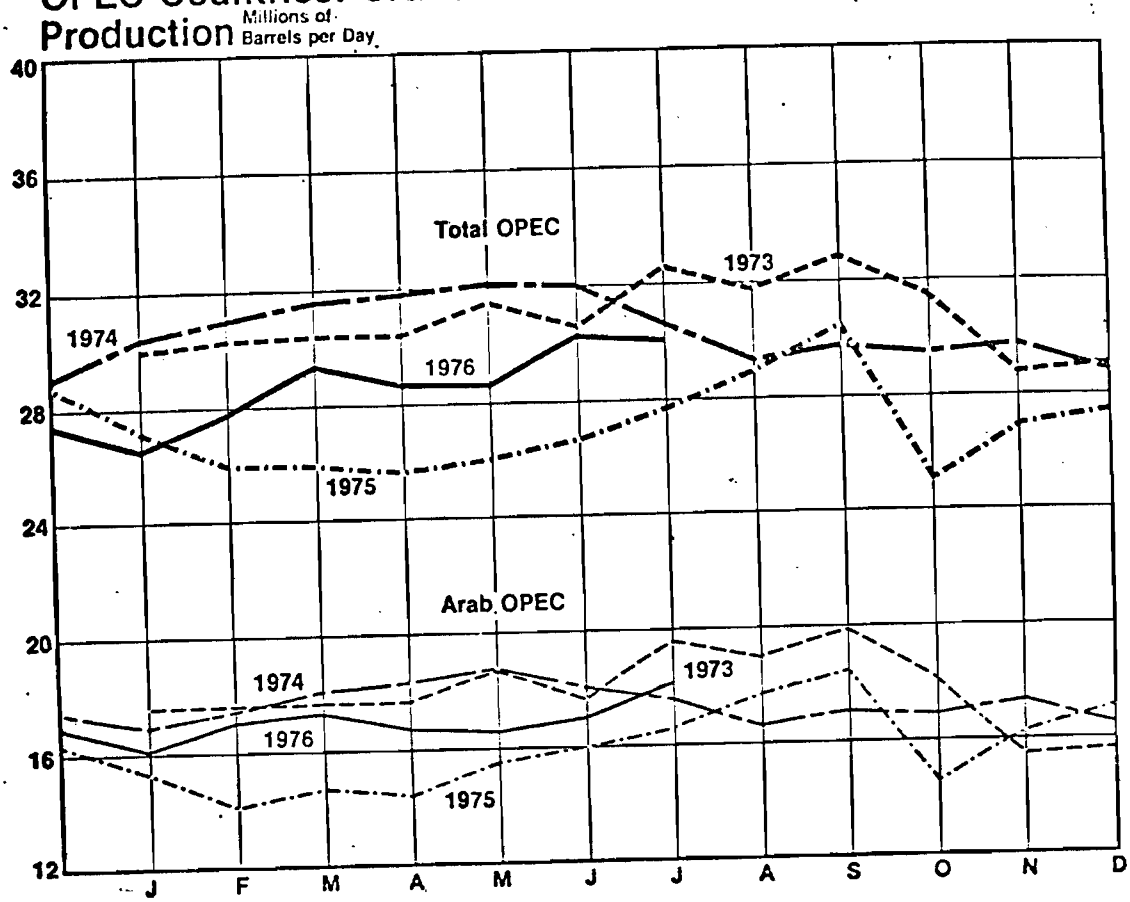
Crude Oil Refiner Acquisition Cost



* Preliminary figures.

(no new data since last report.)

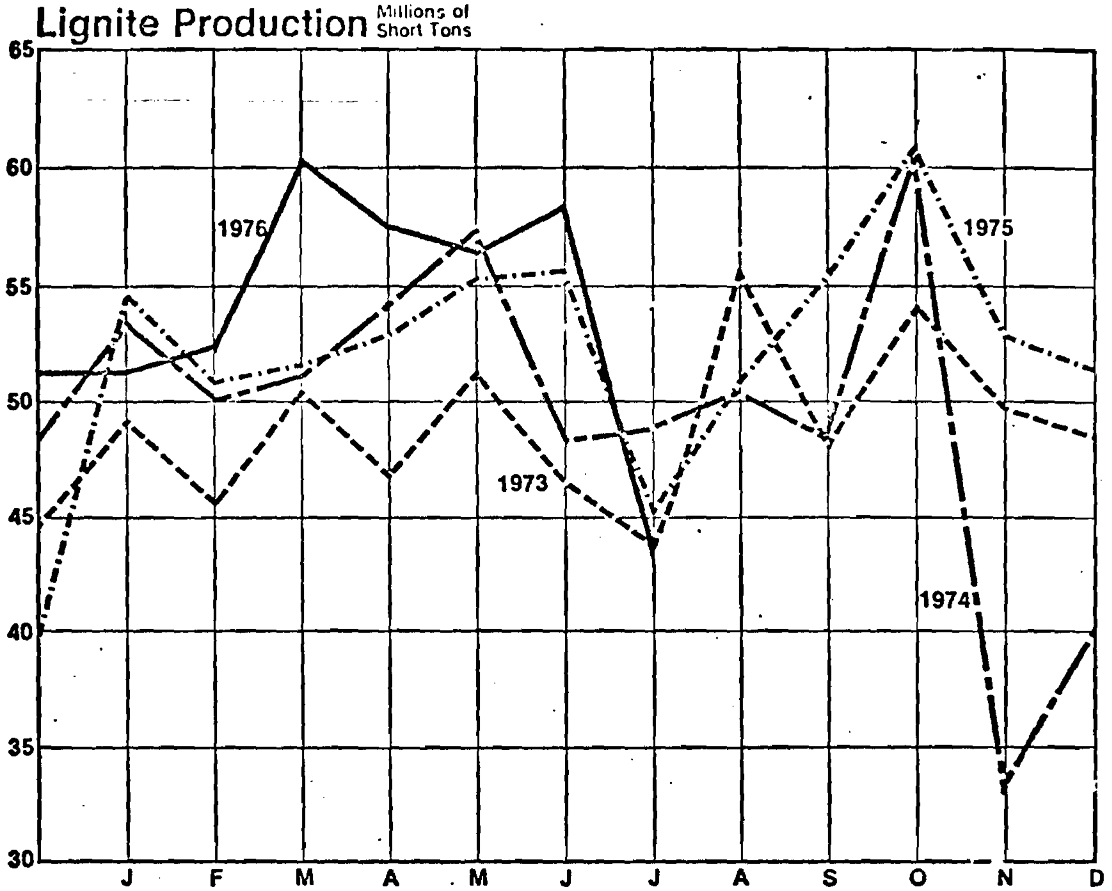
Figure 11
OPEC Countries: Crude Oil Production



Note: July 1976 Data Are Partially Estimated.

o OPEC production in July was down slightly from the June level to 30.0 million barrels per day. Saudi Arabia's production, at 8.9 million barrels per day, was at its highest level since mid-1974. Concomitantly, Iran's production declined after several months of increase. Arab members of OPEC, with 18.2 million barrels per day, accounted for 61 percent of OPEC production during July, up from 59 percent during the previous 6-month period.

Figure 12
Domestic Bituminous and Lignite Production

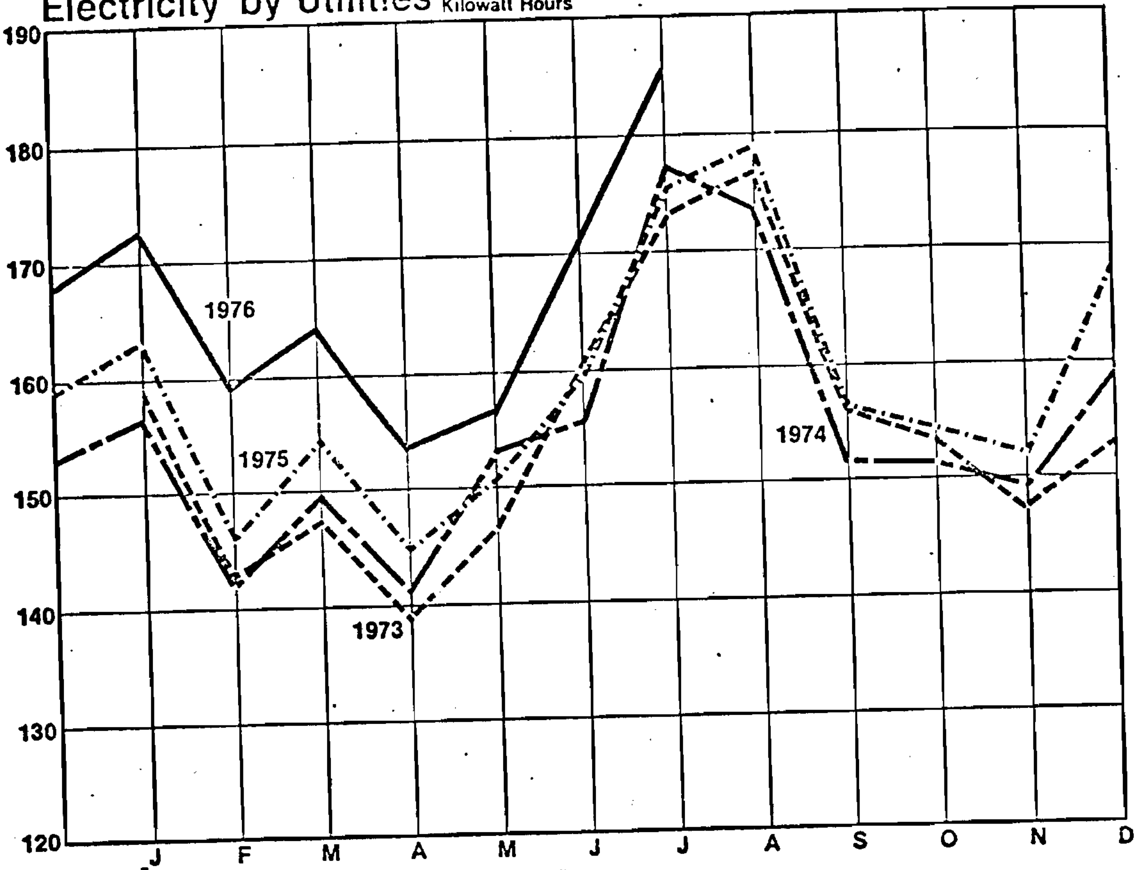


Source: BOM

- o Production of bituminous coal and lignite for the first half of 1976 was 337.1 million tons, reflecting an increase of 4.6 percent from the 1975 total. Production in June was 58.4 million tons, up from 56.6 million tons in May.

- o Production in July, however, decreased to 43.3 million tons. The decline reflected the impact of a wildcat strike occurring during the last 2 weeks of July, as well as the miners' annual vacation, which began June 26 and continued through July 17.

Figure 13
Net Domestic Production of Electricity by Utilities Billions of Kilowatt Hours



Source: 1974, 1975, Jan-Jun 1976 FPC: July 1976-Edison Electric Institute

o Preliminary data indicate that July 1976 production of electricity by utilities was 185.7 billion kilowatt hours, 5.6 percent above the level for July 1975. Production during the first 7 months of the year totaled 1,171.0 billion kilowatt hours, 6.7 percent above the level for same period in 1975.

DEFINITIONS

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

Actual Demand: Monthly import data through March 1976 for Figure 1 are obtained from the Bureau of Mines. Import data for April through July are caculated from API's Weekly Statistical Bulletin. Actual demand data in Figures 2, 3, 4, and 5 are calculated from API's Bulletin. Data in Figure 6 are obtained from BOM through March 1976, and from API from April 1976. Figure 7 data are from Hughes Tool Company. Figures 8, 9, 10, and 11 are based on FEA data. Data for Figure 12 are obtained from BOM. Figure 13 data through June 1976 are obtained from FPC, while data for July 1976 are obtained from the Edison Electric Institute.

Forecast: The forecasts for petroleum products/demand, which take into account passage of the Environmental Policy and Conservation Act (EPCA) of 1975, are based on a projection of economic conditions, assuming normal weather. Forecasts reported in this issue were revised on July 7, 1976.

Geographical Coverage: The importing area covered in this report is the 50 States and the District of Columbia. The data also include, as imports, receipts from Puerto Rico and the Virgin Islands. In this, FEA follows BOM practice, as does API. Imports as reported by the Census Bureau of the Department of Commerce include imports into the U.S. "customs area," which includes the 50 States and the District of Columbia plus Puerto Rico. Receipts by the 50 States and the District of Columbia from Puerto Rico and the Virgin Islands are excluded. Census reports separately, imports into the Virgin Islands (not in the U.S. customs area). The Bureau of Economic Analysis (BEA) of the Department of Commerce totals imports into the customs area and the Virgin Islands for balance of payments purposes. In June 1976, BEA started to follow FEA, BOM and Census practice of including butane and propane in its definition of "petroleum."

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

October 6, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB
ELLIOT RICHARDSON

SUBJECT: ENERGY SPEECH

It has been some months since you have addressed the energy question in a substantive way. It is our view that you have the basis to claim considerable success in moving a reluctant Congress to pass a meaningful portion of the energy package you submitted in January, 1975. Further, it is our view that to remain silent on this important domestic issue gives others an opportunity to fill the vacuum with demagogic nonsense such as "the President has no energy policy."

It is our view that a substantive speech describing what has been accomplished and firmly stating what you intend to accomplish in the next four years to complete the program for energy self-sufficiency would have only benefits and no liabilities.

Some will argue that to get into this area at this moment invites attention to the part of our program which will require higher prices. It is our view that this need not be so and that continued silence in this area only invites the charge that we are not prepared to speak up because our program is based on higher prices or because our policies are consistent with the objectives of the major oil companies.

If you agree, the Energy Resources Council staff is prepared to immediately submit draft material to the speech writers.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

October 7, 1976

MEMORANDUM FOR BILL NICHOLSON

FROM: DAVID HANES

Elliot Richardson and Frank Zarb both feel very strongly about this.

P.S. I spoke to Mary Widner about this.

Attachment

SCHEDULE PROPOSAL
DATE: October 7, 1976
FROM: Elliot Richardson
VIA: Bill Nicholson

MEETING: With selected members of the ERC Executive Committee

DATE: ASAP -- before the next debate

PURPOSE: Brief review of energy achievements, pending initiatives, and overall energy policy.

FORMAT:
- Location: Oval Office
- Participants: Elliot Richardson, Frank Zarb, Alan Greenspan, Brent Scowcroft
- Length of Participation: 30 minutes

SPEECH MATERIAL: None

PRESS COVERAGE: None

STAFF: Frank Zarb

RECOMMEND: Elliot Richardson & Frank Zarb

OPPOSED: Unknown

PREVIOUS PARTICIPATION: During our last meeting, the President indicated an interest in reviewing in some depth his achievements in the energy area during the last two years and their impact on our ability to achieve energy self-sufficiency.

BACKGROUND: We think it is particularly important that the President be prepared to counter strongly the irresponsible charges by Carter that the President has no comprehensive energy policy.

APPROVE ______________ DISAPPROVE ______________

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OCT 12 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: OIL AND GAS DRILLING ACTIVITY IN 1976

For the first 9 months of 1976 there was an average of 1,600 active rotary rigs, 27 less than in the comparable 1975 period. Preliminary data on the numbers of wells and footages drilled through August indicate the following:

- o The total of 5,915 exploratory wells drilled in 1976 is 1.7 percent higher than the 1975 comparable number.

- o The 19,900 developmental wells drilled in 1976 is 21.3 percent higher than the 1975 comparable number.

- o Footage drilled in 1976 totaled 118.7 million feet, 11.3 percent higher than the 1975 total.

The present appraisal of oil and gas drilling activity for 1976 is:

- o The average number of active rotary rigs is expected to be 1,650, less than 1 percent below the 1975 average.

- o About 40,800 total wells are expected to be drilled as compared with 37,235 wells drilled in 1975, an increase of 9.6 percent.

- o About 9,400 exploratory wells are expected to be drilled, approximately 200 more than were drilled in 1975.

- o Total footage drilled in 1976 is forecast to be 184 million feet, about 5.5 percent higher than the 1975 total.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

October 19, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

At our meeting on Monday you asked me to put in brief form an answer to the question which describes your energy program. I have done so in the attached.

Attachment

Q. Mr. President, what specifically are the objectives of your energy program?

A. The program I proposed is designed to insure that this Nation is importing no more than 4 to 6 million barrels a day from foreign nations by 1985. All of the legislation I have submitted is designed to achieve the following:

1) Reduce energy consumption rate of growth from 3-1/2 to 2-1/2 percent per year -- that means conservation.

2) Double American coal production.

3) Increase American oil and natural gas production to higher levels we think are achieveable.

4) Increase nuclear power from 9 percent of electric generation to 26 percent of electric generation.

If we do all of these things and complete the stockpile program which I proposed and the Congress has passed, we will be in an embargo-proof economy by 1985. The effect will be sufficient supplies of energy at lower prices for the American people. The Congress has so far passed one half of the legislation which I sent them to achieve these results, and if they finish the job when they come back next January, we will reach our energy objectives.

Make no mistake about this -- the United States has the technical capabilities, natural resources and financial capabilities, to reduce our imports to provide lower energy prices to the American people.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

NOV 12 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: MONTHLY STATUS REPORT

Electric power production by utilities, at 184.7 billion kilowatt hours, was 2.9 percent above the level for August 1975. Cumulative production during the first 8 months of the year was 5.3 percent above the level for the same period of last year.

Despite a wildcat strike which continued through the first 2 weeks of August, production of bituminous coal and lignite was 53.4 million tons, 4.5 percent above the August 1975 level.

Demand for motor gasoline during August was 7.07 million barrels per day, only 0.9 percent above the level for August 1975. This was one-tenth of one percent above the August 1974 level and actually 2.6 percent below the level for August 1973.

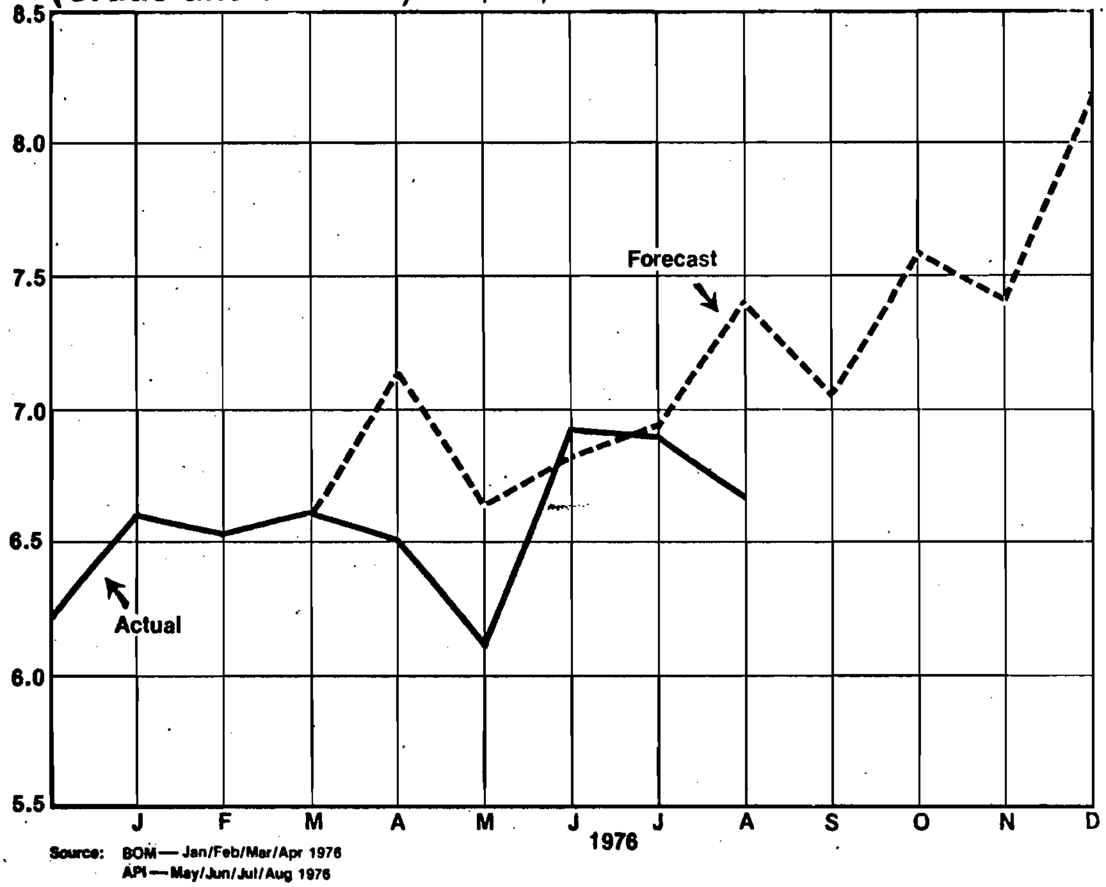
August imports of crude oil and petroleum products, as reported by API, were 6.69 million barrels per day, 6.8 percent below the level for the same month of 1975. API's estimate is believed, however, to be between 400,000 and 450,000 b/d too low, because of under-reporting of residual fuel oil imports (this under-reporting has only been a problem since early 1976). FEA, of course, uses API data only as "an early warning indicator" and relies upon Bureau of Mines and FEA import data for its basic statistical information.

Demand for all petroleum products in August is estimated at 16.03 million barrels per day, 1.7 percent above the level for August 1975. (Again, the estimate is about 400-450,000 low.)

Rotary drilling rigs in operation during the month averaged 1,691, 2.8 percent higher than the August 1975 level. This is the first time since January 1976 that the monthly level of operation has exceeded the 1975 level.

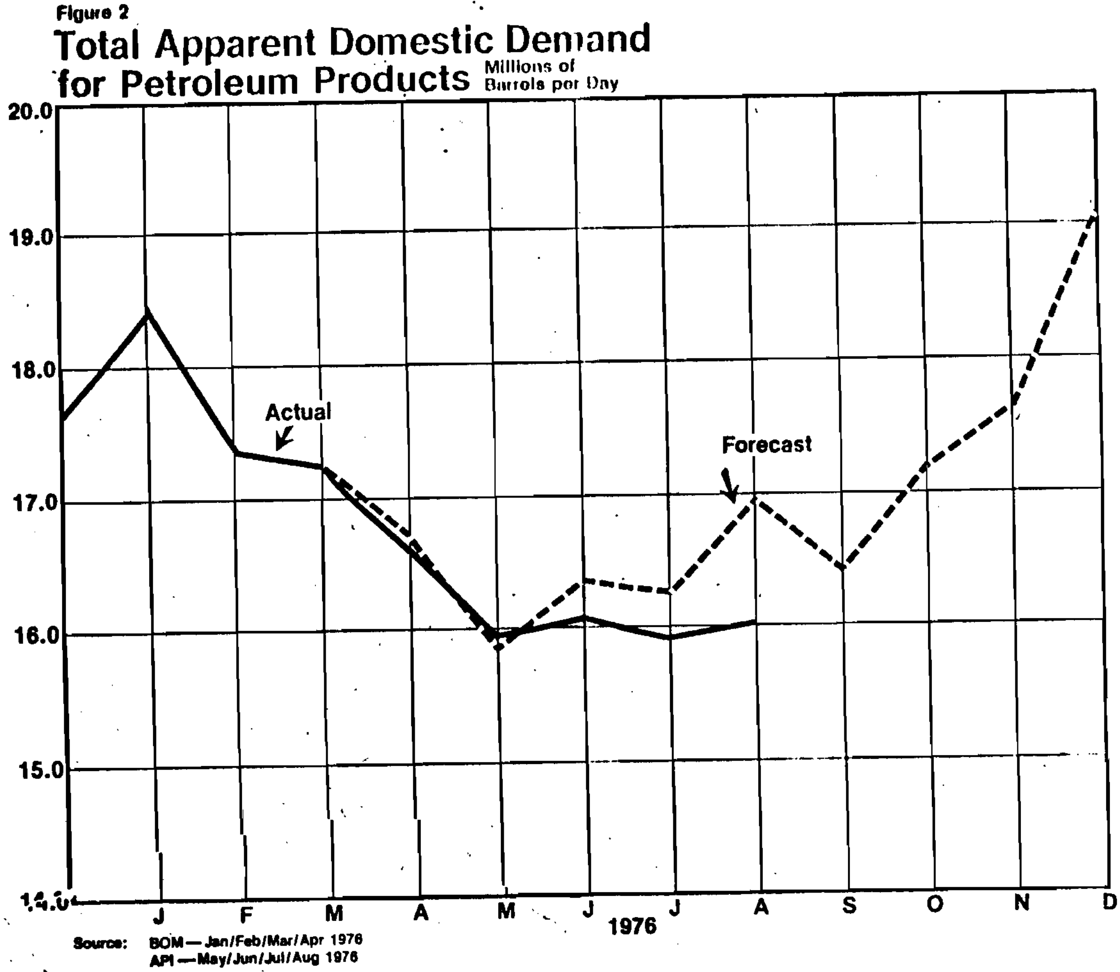
Figure 1

Total U.S. Petroleum Imports (Crude and Product) Millions of Barrels per Day



- August imports of crude oil and petroleum products, as reported by API, were 6.69 million barrels per day, 6.8 percent below the level for the same month of 1975. (This figure is believed to be about 400-450,000 barrels per day low, due to under-reporting of residual fuel oil imports.

Figure 2

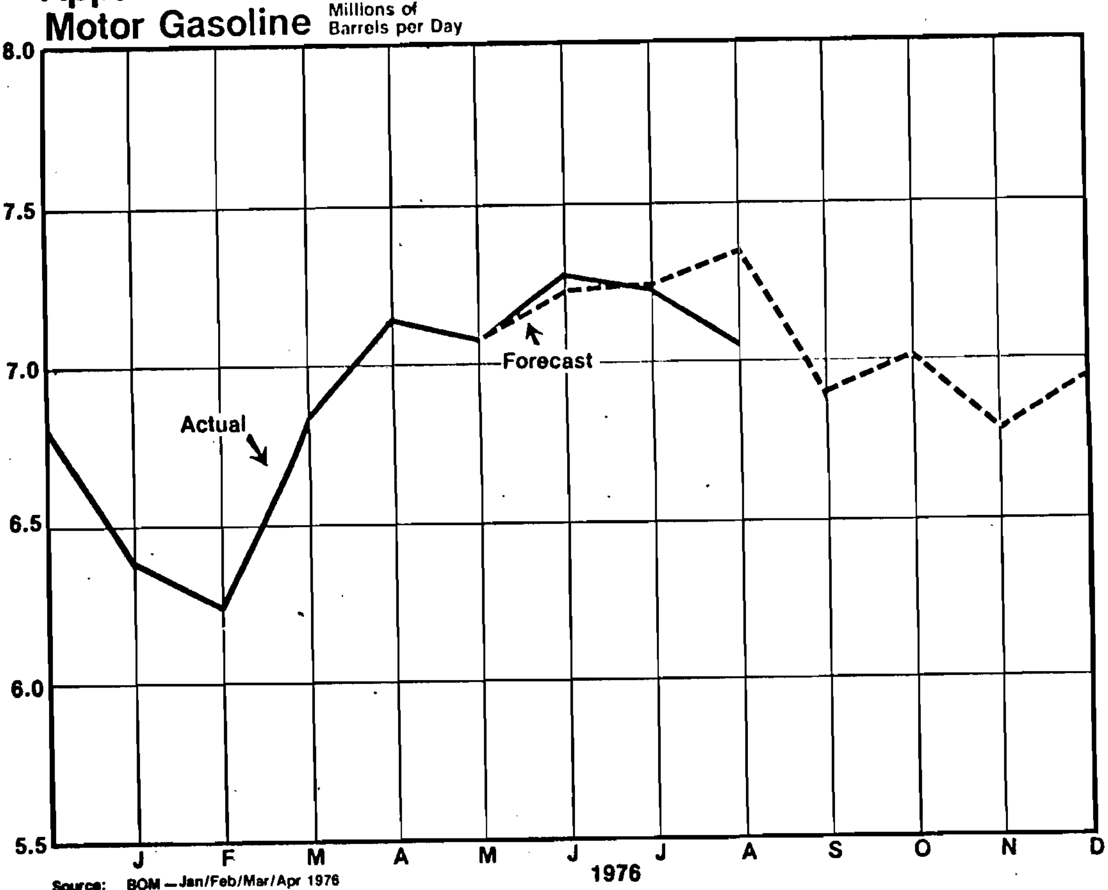


- Domestic demand for petroleum products in August is estimated at 16.03 million barrels per day, 1.7 percent above the level for August 1975, but 3.1 percent below the August 1974 level and 8.4 percent below the August 1973 level. (The estimate is believed to be about 400-450,000 barrels per day low because of under-reporting of residual fuel oil imports.)

- The high point reached by the forecast in August reflects a "normal" seasonal increase in motor gasoline demand not experienced this year and a seasonal build-up of stocks of residual fuel oil by consumers in recent years.

Figure 3

Apparent Domestic Demand for Motor Gasoline

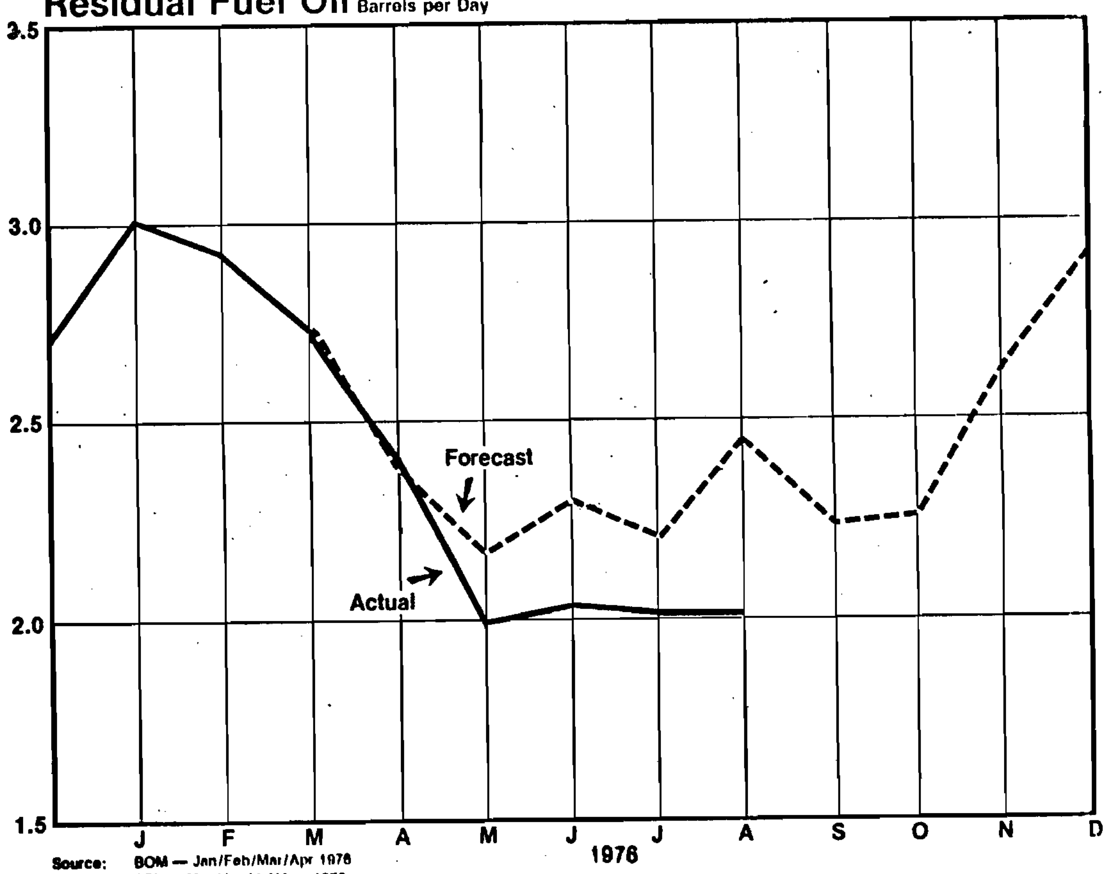


Source: BOM — Jan/Feb/Mar/Apr 1976
API — May/Jun/Jul/Aug 1976

o Apparent demand for motor gasoline in August, ordinarily the peak month, was 7.07 million barrels per day, only 0.9 percent above the level for August 1975. This was 0.1 percent above the August 1974 level and 2.6 percent below the level for the corresponding period in 1973. This estimate is unaffected by any deficiencies in API reporting on imports.

Figure 4

Apparent Domestic Demand for Residual Fuel Oil

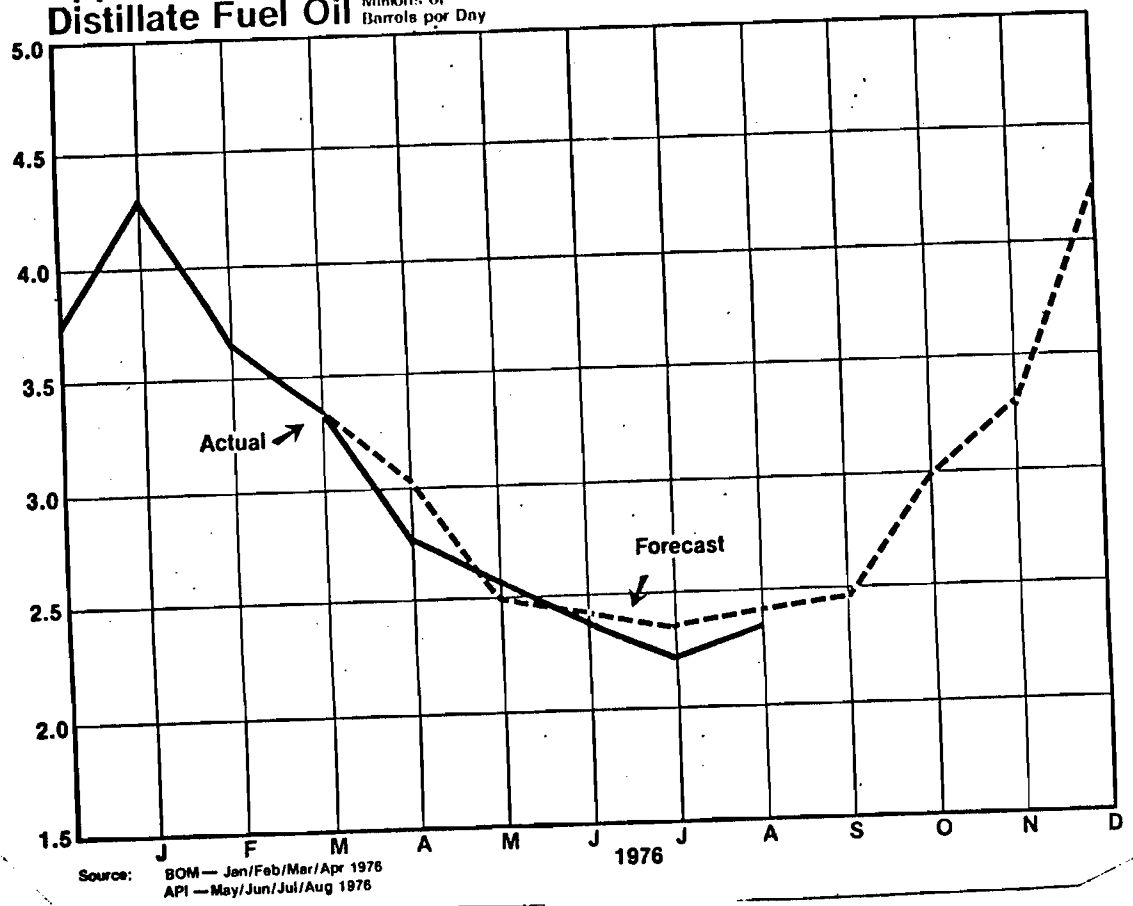


Source: BOM — Jan/Feb/Mar/Apr 1976
API — May/Jun/Jul/Aug 1976

- Residual fuel oil demand is estimated at 2.02 million barrels per day, 4.5 percent below 1975. This estimate, however, is believed to be about 400-450,000 barrels per day low as a result of under-reporting of residual imports in the API monthly surveys. The under-reporting was the result of the entrance of a number of new importers into the business during 1976. Actual demand will be much closer to the forecast when this under-reporting has been corrected.

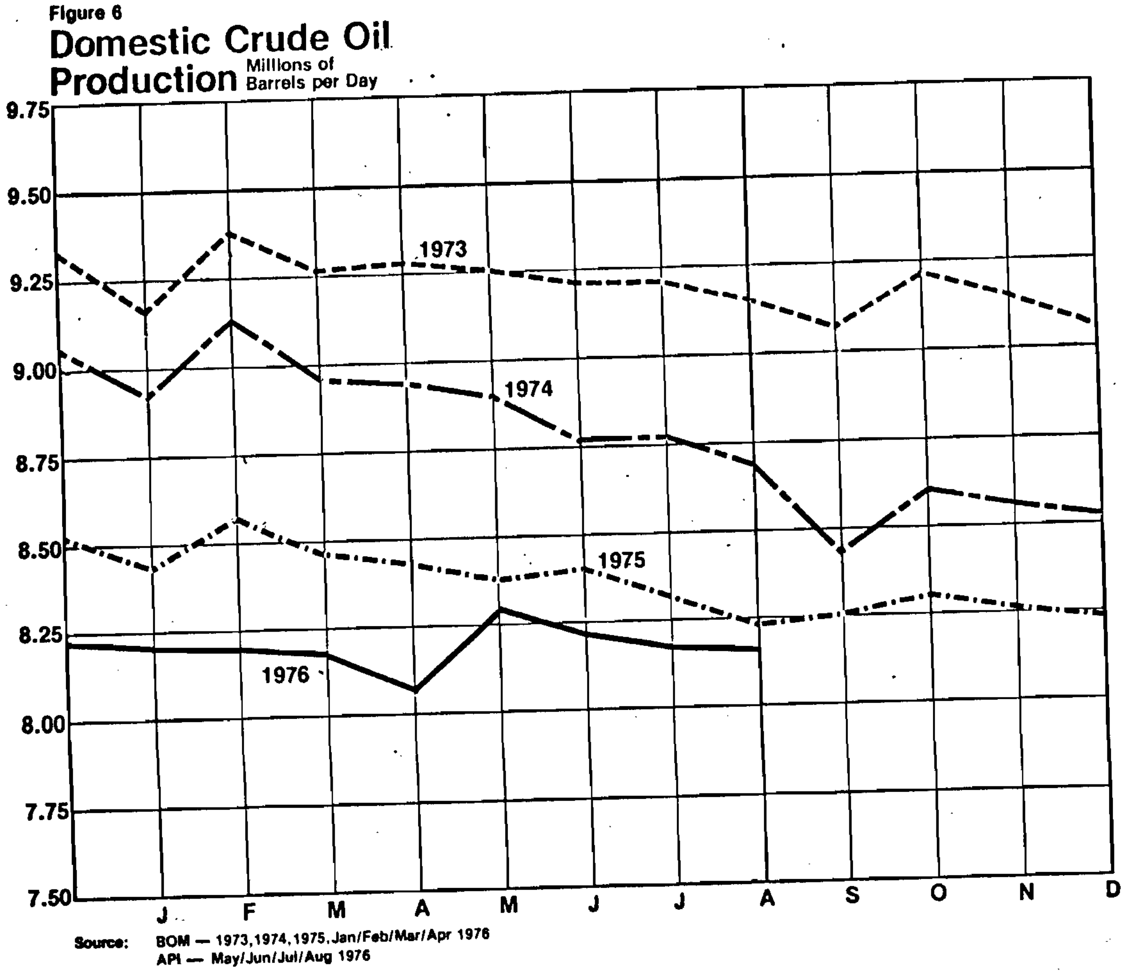
Figure 5

Apparent Domestic Demand for Distillate Fuel Oil Millions of Barrels per Day



- o Distillate fuel oil demand for August is estimated at 2.35 million barrels per day, 8.3 percent higher than the August 1975 level. Since requirements for heating were minimal during the month, the revival of the economy, shown in the increase of 8.6 percent in the index of industrial production over August 1975, is probably responsible for most of the increase. Demand, however, was only 1.9 percent below the August 1974 level and actually 7.9 percent below the level for August 1973.

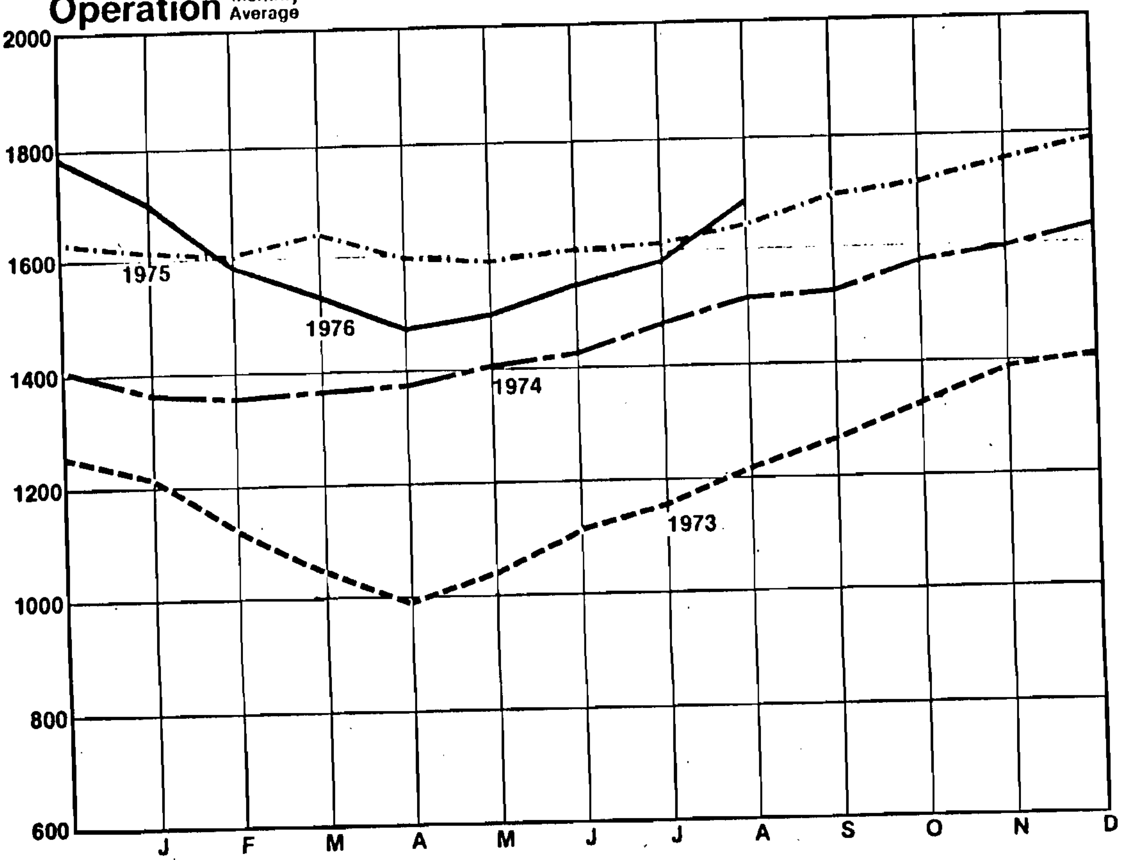
Figure 6



- Domestic crude oil production is estimated at 8.16 million barrels per day in August; 0.9 percent below the August 1975 level and only 0.6 percent below the level for January 1976.

Figure 7

Rotary Rigs in Operation Monthly Average

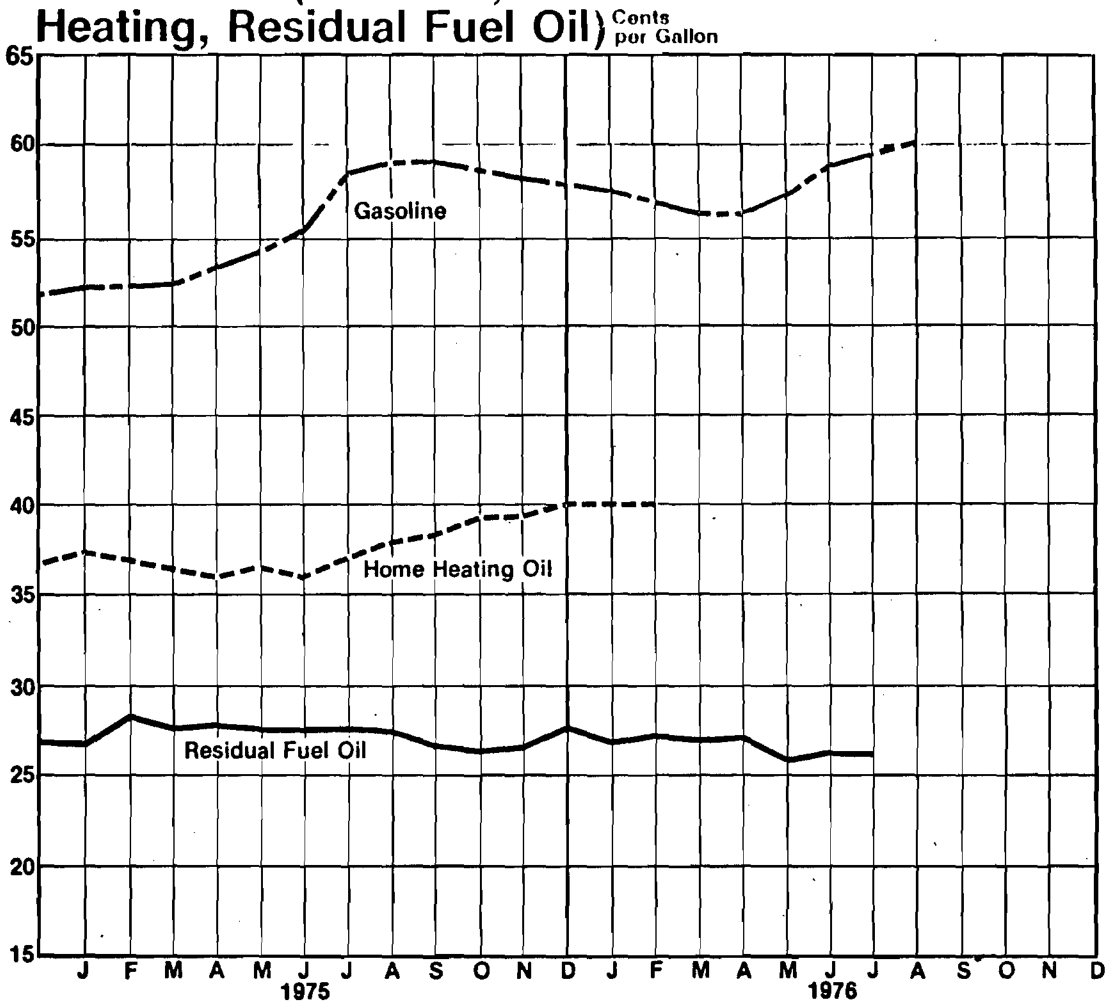


Source: Hughes Tool Company.

- The average number of rotary drilling rigs in operation during August jumped to 1,691 from 1,597 during July. The August rig count surpassed the number of rotary rigs in operation during August 1975 by 2.8 percent. This is the first time since January 1976 that the monthly level of operations has exceeded the 1975 level.

Figure 8

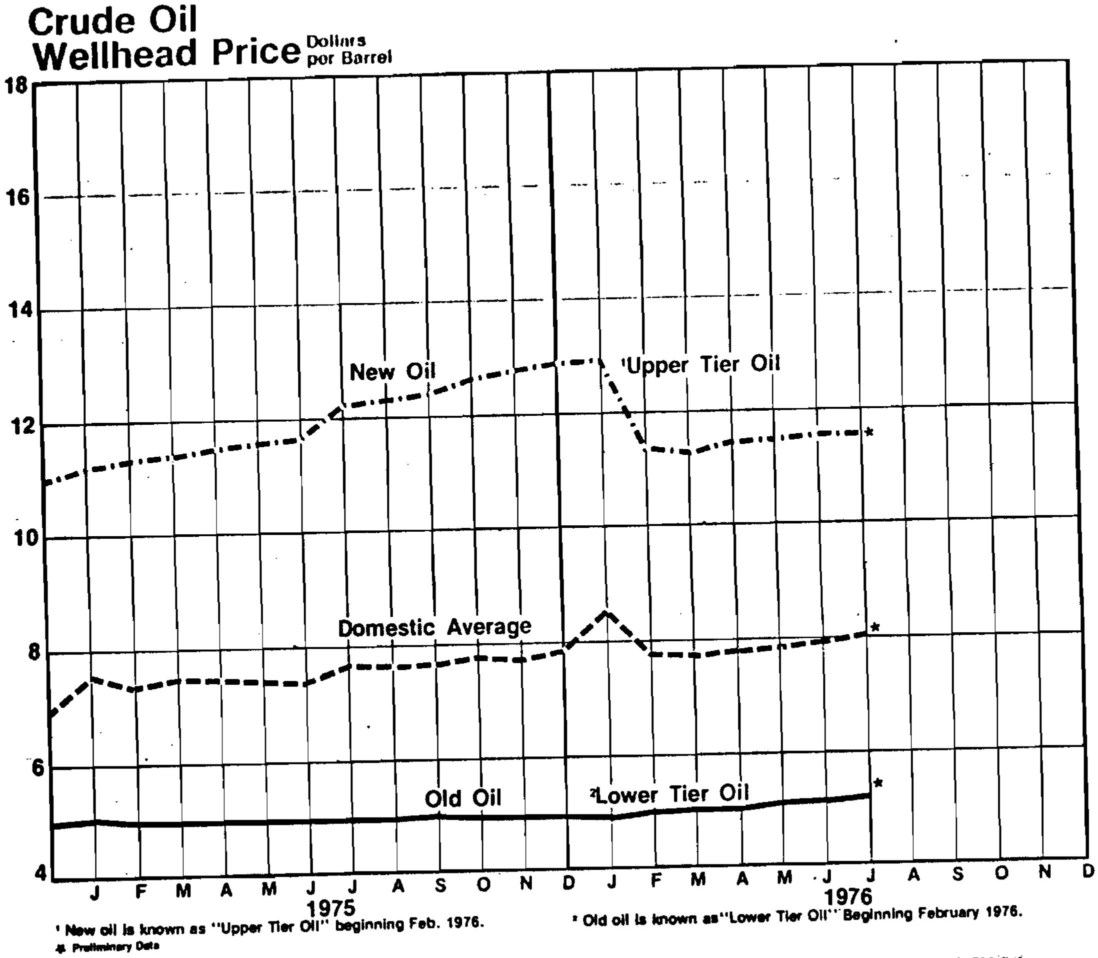
Retail Price (Gasoline, Home Heating, Residual Fuel Oil)



- The national average retail selling price for regular gasoline at full service outlets reached 60.1 cents per gallon in August, an increase of 0.5 cent over the average price in July.

- Price controls were removed from residual fuel on June 1, 1976. Since then, residual fuel prices have remained relatively stable, decreasing in July by only 0.1 cent to 26.3 cents per gallon.

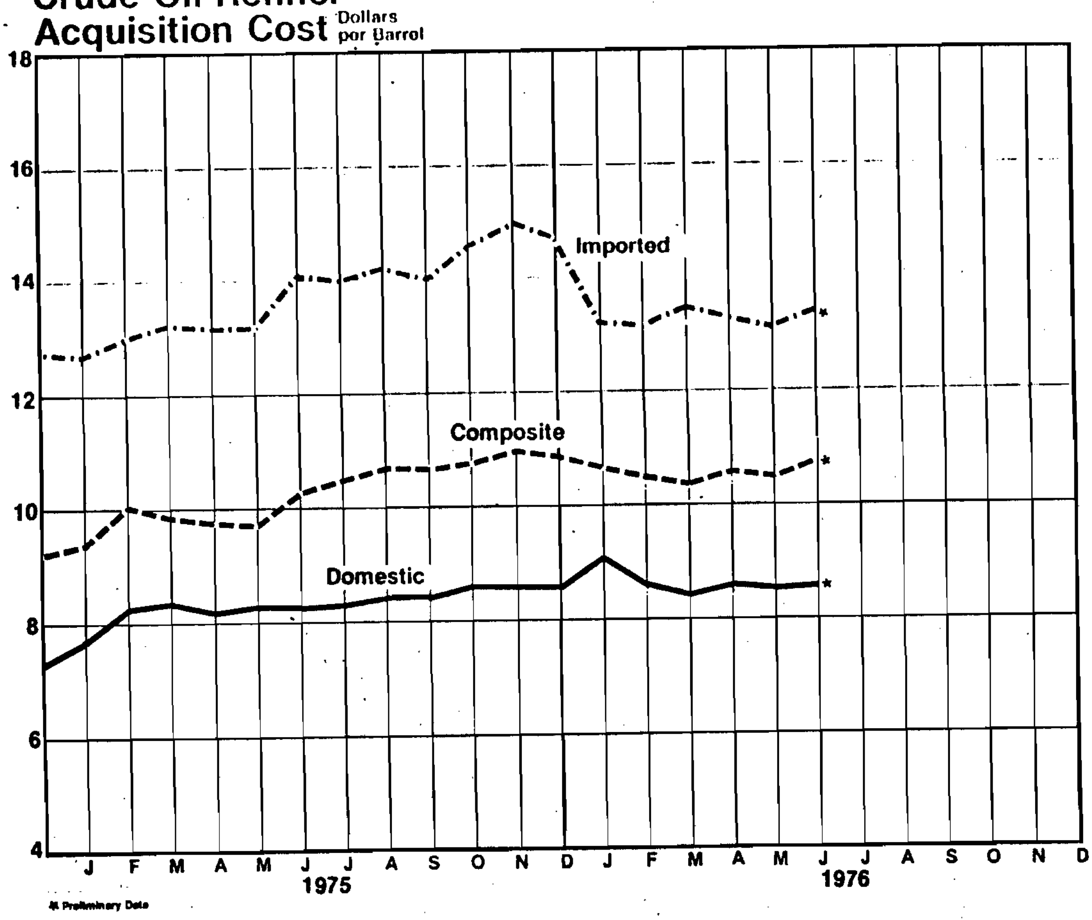
Figure 9



o The average "upper tier" crude oil price during July was $11.60 per barrel, unchanged from its level in June. Domestic crude oil prices were frozen at June's level for the period July 1 through November 30, 1976. The increase in the lower tier price was due to a slight increase in the quality of crude purchased. The domestic average price advanced by more than the amount attributed to the lower tier price increase, as a result of a higher percentage of upper tier crude oil purchases.

Figure 10

Crude Oil Refiner Acquisition Cost



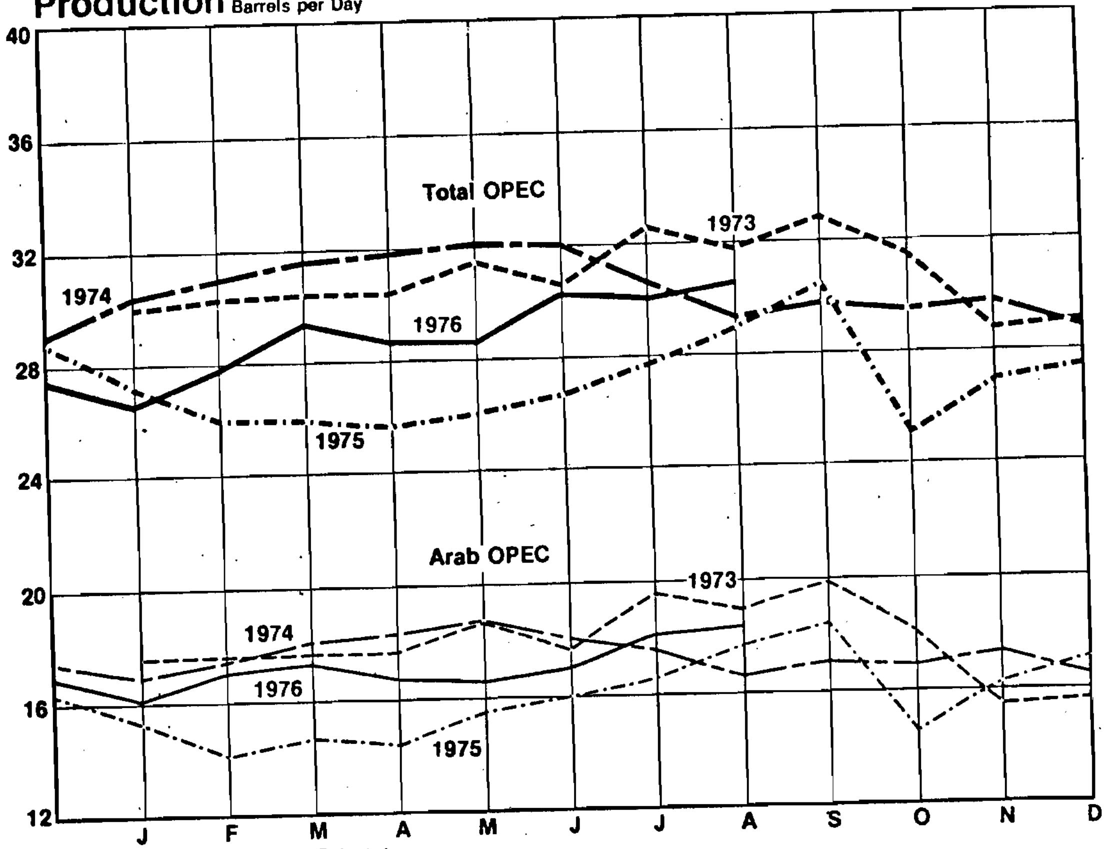
- The refiner acquisition cost of imported crude during June was \$13.47 per barrel, an increase of 27 cents above the previous month's cost.

- The average cost of domestic crude purchased by refiners during June was \$8.59 per barrel, 3 cents above its level in May.

- The composite cost of crude petroleum purchased by refiners during June was \$10.88 per barrel, an increase of 35 cents over the cost in May. A large part of this rise was due to an increase in purchases of foreign crude.

Figure 11

OPEC Countries: Crude Oil Production

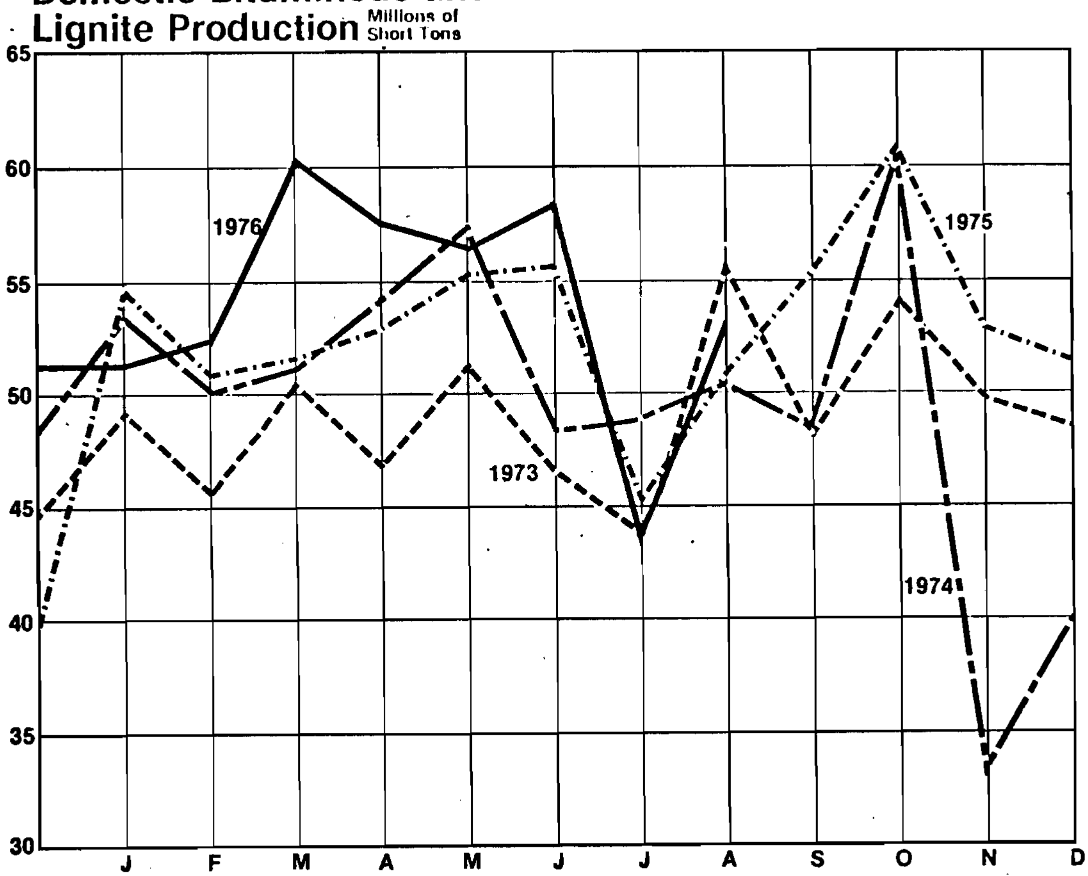


Note: August 1976 Data are Partially Estimated.

o OPEC production in August was up to 30.6 million barrels per day, a gain of 5.5 million barrels per day since the last OPEC price increase in October 1975. Since that time OPEC countries have accounted for 98 percent of free-world increase in production, while Arab members have accounted for 71 percent.

Figure 12

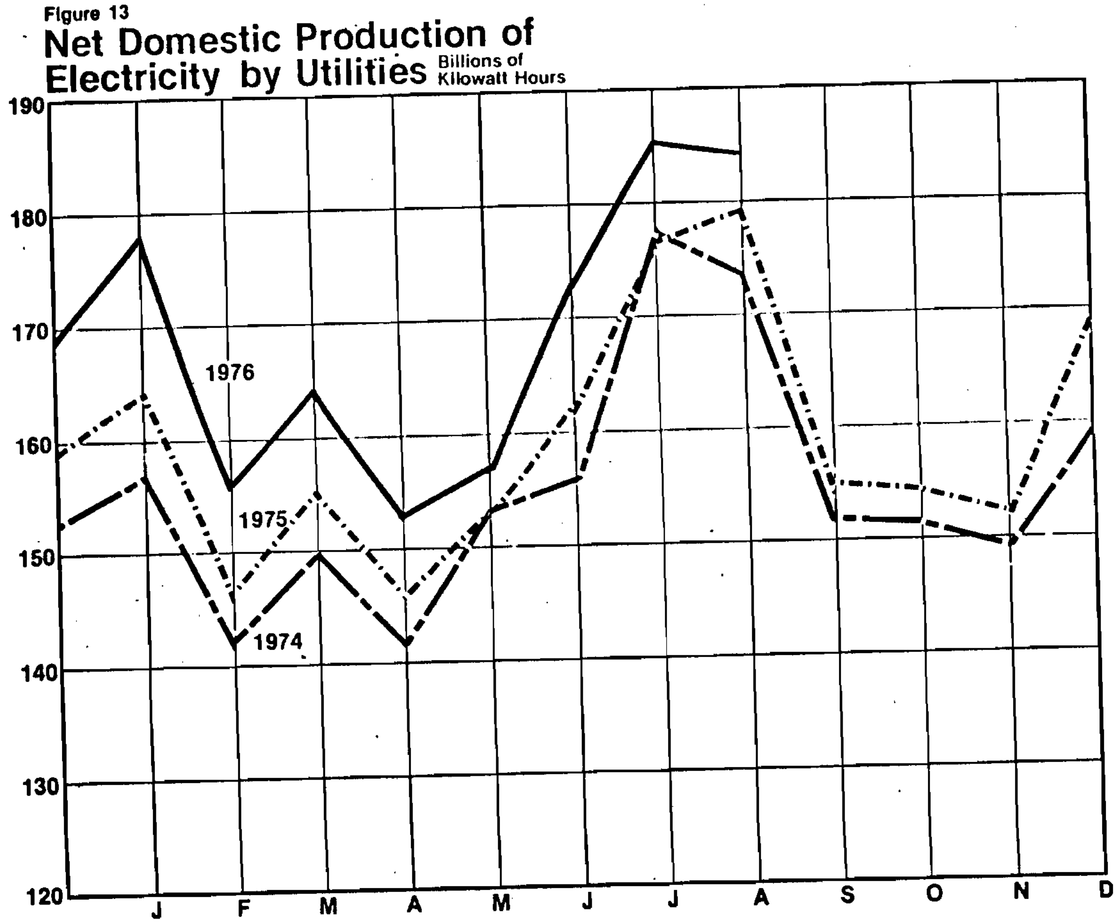
Domestic Bituminous and Lignite Production



Source: BOM

- Production of bituminous coal and lignite in August 1976 was 53.4 million tons. This was 4.5 percent higher than the August 1975 level, despite the fact that a wildcat strike was still going on in the first two weeks of the month.

Figure 13



Source: FPC—1974,1975,Jan-Jun 1976
Edison Electric Institute—July-Aug 1976

o August production of electricity by utilities was 184.7 billion kilowatt hours, 2.9 percent above the level for August 1975. Production during the first 8 months of 1976 totaled 1,352.9 billion kilowatt hours, 5.3 percent above the level for the same period in 1975.

DEFINITIONS

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

Actual Demand: Monthly import data through April 1976 for Figure 1 are obtained from the Bureau of Mines. Import data for May through August are caculated from API's Weekly Statistical Bulletin. Actual demand data in Figures 2, 3, 4, and 5 are calculated from API's Bulletin. Data in Figure 6 are obtained from BOM through April 1976, and from API from May 1976. Figure 7 data are from Hughes Tool Company. Figures 8, 9, 10, and 11 are based on FEA data. Data for Figure 12 are obtained from BOM. Figure 13 data through June 1976 are obtained from FPC, while data for July and August 1976 are obtained from the Edison w Electric Institute.

Forecast: The forecasts for petroleum products/demand, which take into account passage of the Environmental Policy and Conservation Act (EPCA) of 1975, are based on a projection of economic conditions, assuming normal weather. Forecasts reported in this issue were revised on July 7, 1976.

Geographical Coverage: The importing area covered in this report is the 50 States and the District of Columbia. The data also include, as imports, receipts from Puerto Rico and the Virgin Islands. In this, FEA follows BOM practice, as does API. Imports as reported by the Census Bureau of the Department of Commerce include imports into the U.S. "customs area," which includes the 50 States and the District of Columbia plus Puerto Rico. Receipts by the 50 States and the District of Columbia from Puerto Rico and the Virgin Islands are excluded. Census reports separately, imports into the Virgin Islands (not in the U.S. customs area). The Bureau of Economic Analysis (BEA) of the Department of Commerce totals imports into the customs area and the Virgin Islands for balance of payments purposes. In June 1976, BEA started to follow FEA, BOM and Census practice of including butane and propane in its definition of "petroleum."

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE DEPUTY ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

SUBJECT: Status of Natural Gas Legislation

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

- adopts a short-term emergency provision similar to that passed in the Senate; but
- rejects any long-term solution such as deregulation.

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

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

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

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

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

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

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

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

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

December 30, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB
ADMINISTRATOR

SUBJECT: GASOLINE DECONTROL

Background

In accordance with the provisions of the Energy Policy and Conservation Act (EPCA), the Federal Energy Administration has proposed and the Congress has allowed price and allocation controls to be removed from residual fuel oil, middle distillates, military jet fuel, and naphtha, gas oils, and other products. Thus, about half of refiners' output in the United States has been decontrolled, with gasoline, natural gas liquids, commercial jet fuel, and aviation gasoline being the most important products still controlled. Each of these remaining products under control is being considered and analyzed separately with respect to economic and market structure impact.

FEA has now completed the required findings on the effects of decontrolling motor gasoline from both price and allocation controls. These findings have already been the subject of public comment and public hearings throughout the country. The results indicate that motor gasoline can be decontrolled without any price increases in addition to those that would normally occur under controls. In addition, with decontrol of motor gasoline, about 95 percent of U.S. refiners' output would be decontrolled. Therefore, it is FEA's finding that there exists sufficient justification on economic grounds for your submitting a formal gasoline decontrol proposal to the Congress immediately upon its return, should you choose to do so. Because Congress has only fifteen days to disapprove such a proposal, it must be submitted by January 4, 1977, to become effective during your Administration.

While the decontrol of motor gasoline can be justified on economic grounds, the political implications should be considered. Five Senators-elect wrote to you on December 9, 1976, recommending that you do not submit such a proposal. In addition, Representatives Dingell, Moss and Staggers have communicated their desire to me that no such proposal be submitted during early January as such an important decision should be reviewed first by the new Administration. Furthermore, Representative Dingell, in his capacity as Chairman of the House Interstate and Foreign Commerce Subcommittee on Energy and Power, made it clear during testimony this past year that he would oppose any gasoline decontrol proposal until some form of dealer protection legislation is enacted.

The latest Congressional proposal on this subject was H. R. 13000, the "Petroleum Marketing Practices Act," which was introduced by Representative Dingell and considered by his Subcommittee, but mark-up did not occur before adjournment.

Representative Dingell will probably re-introduce dealer protection legislation early in the next Congress, but it will not be enacted by the time the 15-day review period is up should you submit a gasoline decontrol proposal on January 4. This will be used as an argument against approval of decontrol.

Finally, in any testimony regarding gasoline decontrol during the 15-day review period, we will be questioned as to FEA's ability to assure that dislocation in the marketplace will not occur as a result of decontrol. We intend to propose such protective measures as the operation of a price monitoring trigger and administrative mechanisms for protecting independent marketers during the transition to a decontrolled market for up to one year. In addition, we intend to support quick enactment of appropriate dealer protection legislation to meet Congressional concerns.

We propose to make decontrol effective March 1, which would allow the incoming Administration adequate time to evaluate and perhaps retain controls in effect if they so choose.

<u>Options</u>

Four options are open to you with regard to the submission of any gasoline decontrol proposal.

Option 1

Transmit the gasoline decontrol proposal to the Congress on January 4, 1977, without prior consultation with members of the new Administration.

Pros:

- Fulfills your commitment to phase out government controls whenever they are found to have become unnecessary.
- Clearly illustrates the sincerity and commitment of your Administration in decontrolling gasoline, while specifically addressing Congressional concerns regarding unwarranted price increases and dealer protection.
- Avoids the delays which would ensue while the incoming Administration restudies the issue.

Cons:

- May be disapproved by Congress as a first reaction, since they will be in the formative stages of getting organized and may not be able to give the proposal the attention it requires.
- Congress may reject the proposal on the basis that it was not made in consultation with the incoming Administration, rather than on the merits of the issue.
- Our perceived inability to deliver on the proposed protective measures will be used as another argument that the proposal should be left for consideration by the new Administration.

Option 2

Transmit gasoline decontrol proposal January 17, which would extend Congressional consideration into the new Administration.

Pros:

- Fulfills your commitment to phase out unnecessary gasoline decontrols.

- Forces immediate attention by the new Administration on this important issue.
- Counters arguments that the new Administration is not involved in this important proposal.

Cons:

- Any credit for obtaining gasoline decontrol would be shared with the incoming Administration.
- As incoming Administration would have only ten days to act, it may decide not to meet the issue on its merits and simply withdraw the proposal or recommend disapproval.

Option 3

Transmit the gasoline decontrol proposal to the Congress on January 4, 1977, after consultation with the new Administration and obtaining their concurrence.

Pros:

- If joint sponsorship can be obtained and this fact communicated to the Congress, the likelihood of passage of the proposal is greatly increased.
- Such a move would help to de-politicize the issue, allowing for more consideration on the merits of the proposal.

Cons:

- Any credit for attaining gasoline decontrol would be shared with the incoming Administration.
- Even with joint sponsorship, Congressional review would have to occur while the new Congress is getting organized.
- It may not be possible to obtain the concurrence of the new Administration.

Option 4

Do not submit the proposal in January, but provide all findings to the new Administration for appropriate action.

Pros:

- Avoids forcing the new Congress to consider the proposal during its own organization period, and during the Executive transition period.
- May minimize potential adverse reaction by the Democratic Congress if and when the proposal is ultimately submitted by a Democratic Administration.

Cons:

- Does not fulfill your commitment to phase out product controls on a timely basis.
- Allows an important ingredient of your energy program to be handled by the new Administration.
- May delay potential submission of a gasoline decontrol initiative, even though the facts support its submission now.

Agency Coordination

	Option #1	Option #2	Option #3	Option #4
Assistant to the President for Legislative Affairs	x			
Domestic Council	x			
Office of Management and Budget	x			
Council of Economic Advisors	x			
Department of Commerce			x	
Department of State	x			
* Environmental Protection Agency		x		
Federal Energy Administration				

* Midlevel staff decision

PRESIDENTIAL DECISION

Option 1 ____________
Option 2 ____________
Option 3 ____________
Option 4 ____________