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MEETING WITH HENRY CASHEN AND
BILL SEIDMAN

Thursday, October 9, 1975

4:00 p.m.

Mr. Cannon's Office

101 Steadman
Oct 9 4 p.m.

DICKSTEIN, SHAPIRO & MORIN

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ARTHUR D. MASON
FREDERICK M. LOWTHER
ROBERT J. HIGGINS
SEYMOUR GLANZER
M. J. MINTZ
IRA H. POLON
KENNETH L. ADAMS
ALAN B. PICK
IRA R. MITZNER
WILLIAM SILVERMAN
RICHARD P. PERRIN
GEORGE T. BOGGS
JOEL B. KLEINMAN
*(NOT ADM. IN D. C.)

September 17, 1975

Hon. James Cannon
Director
Domestic Council
The White House
Washington, D.C. 20500

Dear Jim:

Two of our clients, Tennessee Gas Transmission (Tenneco) and Texas Eastern Transmission, are deeply involved in a number of projects to supplement declining U.S. natural gas reserves. One focus of their attention is LNG imports, as to which they are pursuing projects in the Soviet Union, Nigeria, Trinidad and Iran.

As are all members of the U.S. LNG industry, Tenneco and Texas Eastern are greatly concerned over the complete absence of a U.S. policy with regard to LNG imports. At various points over the past nine months, there have been informal proposals from FEA and other agencies recommending policies pro and con on LNG imports and particularly on Ex-Im Bank and Marad participation in LNG projects. It is now our understanding that, within three to four weeks, these proposals will culminate in a formal presentation of options to the Energy Resources Council, on which you sit.

Messrs. Jack Ray and Nevil Proes, the respective Presidents of Tennessee Gas and Texas Eastern LNG, would very much appreciate the opportunity to discuss briefly with you their views of the LNG industry and an appropriate LNG import policy. 15-30 minutes would be adequate for their purposes. Their schedules would best accommodate a meeting any time on October 9, or October 10, 1975.

Hon. James Cannon
Director
Domestic Council
The White House
September 17, 1975
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Our clients view the LNG issue as one of major significance for them and for the country. They would be most grateful for the opportunity to discuss it with you.

Best personal regards,

A handwritten signature in black ink, appearing to be 'H.C. Cashen II', written in a cursive style.

Henry C. Cashen II

Tennessee Gas Transmission

A Tenneco Company



Jack H. Ray
President

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NEVIL M. E. PROES

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LNG POLICY PAPER

1.00 GENERAL COMMENTS

1.01 The continuing apparent inability of the United States to develop and implement a cohesive and realistic overall energy policy increasingly plays into the hands of the owners of exportable non-U.S. energy resources making for their attaching no credibility to "Project Independence."

1.02 The down-turn in the level of U.S. industrial activity, and recent winters which have been warmer than the norm have resulted in the U.S. energy consumer being lulled into a false sense of energy security unaware of the serious problems we face due to:

- Diminishing domestic oil and gas production;
- Failure to price such diminishing domestic production at competitive market price levels; and
- The absence of adequate economic incentives for exploration and development of additional energy resources which increasingly have to be sought for in the more expensive and difficult frontier areas of the United States.

2.00 THE NEED FOR IMPORTS

2.01 The United States has the potential to meet its energy needs from domestic resources. However, many of the resources have yet to reach the economic feasibility stage. U.S. oil and gas are likely to continue to be large contributors to domestic supply for many years, but rapid escalation of finding costs and the recent reduction in the U.S. resource base, point to an inability to depend on domestic oil and gas to sustain their percentage of the market. Taken together, these factors mean that supplemental imported energy will be needed for at least the remainder of this century to satisfy demand.

2.02 The need for supplemental imports has been clearly recognized in the case of oil. Indeed, it is probable that by 1980, we will be importing more than 9 million barrels/day.

2.03 Other than for imports of gas from Canada, the need for supplemental natural gas imports has not been clearly recognized. The U.S. will have a shortfall of domestic gas supplies for at least the remainder of

this century, and this will be aggravated due to Canada's own supply problems which have resulted in the Canadian Government indicating to the U.S. that such exports will be phased out.

2.04 Some consider that the gas shortfall can and should be made up by switching the market to electricity and/or oil. A switch to electricity would at least double the cost of energy to the consumer and increase for the nation both the energy input demand and its investment needs to provide the necessary generating facilities. Switching to oil is clearly inadvisable since it would increase our already large vulnerability to oil exporting nations whilst imposing enormous conversion costs (including the idling of an existing large, efficient gas distribution network) on the U.S. energy consumer. Accordingly imports of LNG are essential to minimize the adverse impact on the nation that will result from a gas shortage.

3.00 ADVANTAGES OF LNG IMPORTS

3.01 The advantages of LNG imports can be summarized as follows:

- LNG provides access to proven world gas reserves and so provides insurance against disappointments encountered by U.S. efforts to find and develop in a timely manner new domestic gas reserves;
- LNG represents an alternative to additional oil imports and thus permits increased diversification of foreign energy supply sources;
- LNG permits continued use of the major, efficient U.S. gas distribution network which, in the absence of gas supply, would fall increasingly into disuse at great cost to gas consumers;
- LNG avoids imposition of extraordinary fuel conversion costs on residential and commercial gas consumers;
- LNG can be priced competitively with oil and other supplemental energy resources;
- LNG involves significantly less balance-of-payments drain than oil imports;

--- LNG has enhanced security of supply because LNG projects involve significant investment and credit exposure by the source country in capital facilities which have no short-term alternative use.

4.00 MAJOR PROBLEMS HINDERING LNG IMPORTS INTO THE UNITED STATES

4.01 LNG import projects have been hindered by the lack of an integrated U.S. LNG policy governing both the extent of permissible imports and the availability of financing supports (viz., Ex-Im, Marad). The energy exporting countries are aware that a U.S. LNG import policy paper is under consideration. Leaks as to its contents are contradictory with a result that the exporting countries consider no useful purpose is served by pursuing serious discussions with interested U.S. gas importers while the present uncertainty exists.

4.02 LNG import projects are further hindered by the inordinate time required to obtain FPC approval for an import license. The process of review and final decision seems to take a minimum of 3 years. The U.S. is not the only market for LNG in the world

and it is unreasonable to expect any energy exporting country to take its gas off the world market for the long period of time required to get a non-challengeable decision from the FPC, and with no assurance that at the end a favorable import decision will be forthcoming.

4.03 LNG import projects are also hindered by the inordinate time required to obtain a final decision from the FPC on the matter of LNG terminal siting. The gas exporting countries accordingly prefer to limit their business with U.S. companies that already have approved LNG terminal sites (now limited to Distrigas (Boston), Columbia/Consolidated (Cove Point) and Southern Natural (Savannah)).

4.04 A large part of the FPC obstacle is attributable to the absence of guidelines from Congress and the Administration as to acceptable price and volume for LNG imports. Because of this vacuum, the FPC tends to focus on the examination of environmental matters related to terminal siting so imparting

some semblance of motion to an LNG import application. The absence of Congressional and Administration guidelines in the pricing and volume areas are part of the larger problem of realistic pricing of energy in the market place.

CONSUMPTION OF PRIMARY ENERGY IN
THE UNITED STATES

(trillions of Btu's)

	<u>1974</u>	<u>1980(est.)</u>	<u>1985(est.)</u>
OIL	34,511	42,200	46,900
GAS*	22,533	18,400	19,000
COAL	12,866	18,000	21,000
HYDROELECTRIC	3,285	3,400	3,700
NUCLEAR	1,015	4,600	10,600
TOTAL	<u>74,210</u>	<u>86,600</u>	<u>101,200</u>

A selection of recent forecasts of estimated U.S. energy consumption is given for comparative purposes:

<u>Source and Date</u>	<u>1980</u>	<u>1985</u>
	(in trillions of BTUS)	
S. Clark (1975)	86,400	97,700
First National City Bank (1974)	91,200	-
Shell (1974)	88,900	104,200
O E C D (1974) (\$9 oil)	85,800	100,100
Exxon (1975)	87,400	102,300
FEA (1974) (\$11 oil)		
w.o. conservation	86,200	103,000
with conservation	82,100	94,000

* The markets gas served in 1974 were as follows:

<u>Market</u>	<u>Trillions of BTU's</u>	<u>Percent</u>
Residential	5,016.5	22.3
Commercial	2,639.6	11.7
Industrial	8,165.9	36.2
Power Plants	3,356.0	14.9
Transportation	945.0	4.2
Raw Materials	710.0	3.2
Miscellaneous	<u>1,700.0</u>	<u>7.5</u>
<u>TOTAL</u>	<u>22,533.0</u>	<u>100.0</u>

ESTIMATED U.S. ENERGY SUPPLY

(trillions of Btu's)

	<u>1980</u>		<u>1985</u>	
<u>OIL</u>				
Production - Lower 48	18,900		19,100	
- Arctic	<u>4,000</u>		<u>6,000</u>	
Sub Total	22,900		25,100	
(million barrels/day)	(11.4)		(12.5)	
Imports	19,300		21,800	
(million barrels/day)	<u>(9.6)</u>		<u>(10.8)</u>	
Total Supply	42,200		46,900	
(million barrels/day)	(21.0)		(23.3)	
<u>GAS</u>		Possible		Possible
		<u>Range</u>		<u>Range</u>
Production - Lower 48	17,100	(16,500-18,500)	15,500	(15,000-18,000)
- Arctic	<u>-</u>		<u>1,500</u>	(1,000- 1,500)
Sub Total	17,100	(16,500-18,500)	17,000	(16,000-19,500)
Imports - Canada	600	(500- 750)	500	(350- 500)
- LNG	400	(400- 450)	1,000	(950- 1,450)
SNG	<u>300</u>	(300- 400)	<u>500</u>	(400- 850)
Total Supply	18,400	(17,700-20,100)	19,000	(17,700-22,300)
<u>COAL</u>	18,000		21,000	
(million tons)	(780)		(950)	
<u>NUCLEAR</u>	4,600		10,600	
<u>HYDROELECTRIC</u>	<u>3,400</u>		<u>3,700</u>	
<u>TOTAL ENERGY SUPPLY</u>	<u>86,600</u>		<u>101,200</u>	

POTENTIAL LNG IMPORT PROJECTS

	<u>Project</u>	<u>Gas Source</u>	<u>Volume</u> (trillions of Btu's)	<u>Est.Start</u>
<u>APPROVED</u>	Distrigas	Algeria	60	operating
	El Paso I	Algeria	<u>360</u>	1977
	<u>Sub Total</u>		420	
<u>PENDING</u>	Eascogas	Algeria	240	1980
	Trunkline	Algeria	180	1980
	El Paso II	Algeria	360	early 1980's
	Pacific Lighting	Indonesia	<u>200</u>	1980
	<u>Sub Total</u>		980	
<u>POSSIBLE</u>	Unnamed	Nigeria	360	early 1980's
	North Star	USSR	720	early 1980's
	Yakutsk	USSR	360	early 1980's
	Various Unnamed	Persian Gulf	<u>950</u>	mid 1980's
	<u>Sub Total</u>		2,390	
	<u>TOTAL ALL CATEGORIES</u>		<u>3,790</u>	

Not all of the pending and possible projects listed will materialize. However, now that imported crude and fuel oil prices landed on the U.S. East Coast are in the range of \$12.50 to \$13.50 per barrel, LNG imports from any of the above sources can be expected to be priced competitively at U.S. port with low sulphur fuel oils (about \$13.10 per barrel or \$2.10 per million BTU's). The question of price is therefore no longer the prime consideration. The opportunity to get a reliable supply source of imported energy, be it fuel oil or LNG is now the major factor. Given a reasonable U.S. policy on LNG imports, LNG projects competitively priced and sufficient to provide gas imports indicated in Attachment II will materialize.