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THE WHITE HOUSE

WASHINGTON

April 26, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CANNON/JIM CAVANUAGH
FROM: - JIM CONNOR *JEC*
SUBJECT: Nuclear Fuel Plan

The attached newspaper clipping was returned in the President's outbox with the following notation:

"Where did AP get this?"

Please follow-up with appropriate action.

cc: Dick Cheney

Attachment:

Article from THE GRAND RAPIDS PRESS
4/22/76 entitled "Ford's Controversial Plan
for N-Fuel Fav ors 2 Firms"

THE WHITE HOUSE
WASHINGTON

Jim Cannon Jim Cannon

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Ford's Controversial Plan For N-Fuel Favors 2 Firms

WASHINGTON (AP). — After 30 years of nonprofit uranium enrichment by a government monopoly, the Ford administration is promoting a private enrichment venture requiring so much federal support that nuclear fuel costs would rise some \$700 million a year, or 34 per cent.

Electricity consumers would pay the bill.

Administration officials say a private plant, planned for Dothan, Ala., would avoid some \$2.8 billion of taxpayer investment for the alternative, a new government plant at Portsmouth, Ohio, and would "pave the way" for private

enterprise and competition.

But, in an Associated Press investigation, a key government official conceded that the taxpayers would have to invest up to \$1 billion to launch the private project; that electric utilities would pay 34 per cent more for atomic fuel to support the private operation; and that the project alone would bring neither private enterprise nor competition into uranium enrichment.

The investigation also shows that a new government plant could bring the U.S. Treasury more money than the taxes and royalties from a private plant, and yet

charge consumers less.

The U.S. Energy Research and Development Administration — ERDA — is expanding the three existing government plants at Oak Ridge, Tenn., Paducah, Ky., and Portsmouth.

There is general agreement that a fourth plant is needed, but disagreement whether it should be a Portsmouth "add-on," or the private plant proposed by the Uranium Enrichment Associates — UEA — a partnership of Bechtel Corp., Goodyear Tire and Rubber Co. and The Williams Companies, an oil-fertilizers-

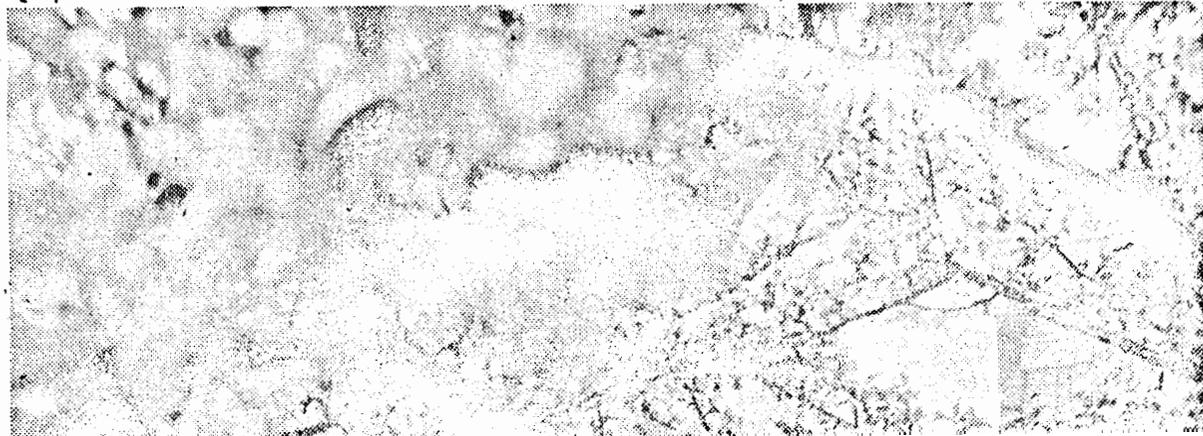
See Uranium, page 2A



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ERDA, which concluded a year ago that the UEA proposal "does not achieve most goals of private enrichment" now is pushing it.

The UEA plant would use time-tested government technology and produce the same amount of uranium enrichment as a government "add-on," at roughly the same production cost, says ERDA.

But there the resemblance stops.

ERDA officials admit the UEA project would:

—Require government guarantees that the plant would work.

—Require the government to buy and stockpile a large chunk of UEA's early production to keep the plant operating at full capacity.

—Charge higher prices and require the government to raise its own prices to persuade customers to deal with UEA.

—Collect production costs plus after-tax profits of 15 per cent on equity investment, providing little incentive to restrain costs in a project whose chief contractors would be UEA partners Bechtel and Goodyear.

—Require close government supervision of UEA cost control to protect both the taxpayer and the consumer.

—Drain 60 per cent of UEA's profits and interest payments out of the U.S. economy to anticipated foreign investors and lenders.

—And expose the government to the risk of having to take over a floundering, half-finished project if UEA can't complete it.

ERDA strongly supported an administration bill, the proposed "Nuclear Fuel Assurance Act," to make all this possible.

The congressional Joint Committee on Atomic Energy recently completed hearings on it and received a report by the General Accounting Office urging government construction of the next uranium enrichment plant.

"The proposal of Uranium Enrichment Associates," said the GAO, "is not acceptable."

ERDA Administrator Robert C. Seamans Jr., expressed the same view to President Ford and Budget Director James T. Lynn a year ago. After ERDA officials met with the Office of Management and Budget, the Federal Energy Administration, UEA and the White House, however, Seamans changed his mind.

Two of former President Richard M. Nixon's budget directors, George P. Shultz and Caspar W. Weinberger, are now directors of Bechtel Corp., a large construction firm whose stock is owned only by the Bechtel family and the corporate officers.

These Bechtel stockholders stand to reap some \$26 million a year in profits from the UEA project if no additional



U.S. ENERGY researcher Jarvis Schwennesen concedes shortcomings in Ford's plan.

making their uranium suitable for atomic fuel by "enriching" it: concentrating one kind of uranium, U-235, and separating out its near-twin, U-238.

UEA's proposal requests "a commitment that USG (the U.S. government) will purchase from UEA enriching service up to six million SWUs (enrichment units)," to help the private plant get started.

Schwennesen said the U.S. Treasury would have to lay out up to \$1 billion for these support purchases and stockpile this enriched uranium up to 10 years.

Interest lost by the Treasury on that outlay could total \$358 million or more, which ERDA would have to charge its own customers, he said.

Meanwhile, uranium enrichment could not remain nonprofit as it is now.

Administration documents estimate

that UEA would pay some \$70 million a year in taxes and royalties and collect another \$79 million as its 15 per cent profit, thus charging customers some \$149 million more than an alternative nonprofit government plant.

To do this, UEA estimates, it would charge \$85 per enrichment unit, compared with the government's average price of \$54 at its three existing, lower-cost plants.

Because the government plants now are fully committed and could not take on potential UEA customers, there would be no competition between them, said Schwennesen. As UEA chairman Jerome W. Komes testified, "You are sold out, and we are the only store open in town."

But continuation of the government's low, nonprofit prices, Schwennesen said, would make atomic utilities balk at paying UEA's higher price. So ERDA has asked Congress to abandon nonprofit operation and to authorize "commercial" pricing which, the bill specifies, "will not discourage" private enrichment plants.

ERDA proposed a \$76 support price which would cost the government's enrichment customers and, eventually, their electricity consumers an additional \$510 million a year.

If necessary, ERDA would raise its support prices still higher to drive new customers to UEA, the GAO reported. And UEA may raise its own profit margin, dragging government support prices to still higher plateaus.

Komes testified, "we are going to have difficulty with... our investors... in keeping as low as that 15 per cent" rate of return.

Adding up UEA's taxes and profits, government support prices, and the cost of investing \$1 billion to buy and stockpile UEA's early production, electric utilities and their consumers would pay some \$700 million a year more under the UEA proposal than under continued all-government, nonprofit uranium enrichment.

Scientists Find Dangerous Fork to California Fault

SACRAMENTO, Calif. (AP) — Scientists have discovered a west fork of the San Andreas fault off the central California coast they say could trigger much stronger earthquakes than previously thought possible.

The discovery six weeks ago that linked a number of smaller faults into a 400-mile-long fault zone was announced Wednesday in connection with a hearing on a bill to implement the California Coastal Plan.

Dr. Kenneth Lajoie of the U.S. Geological Survey at Menlo Park said in a telephone interview that 10 geologists mapping offshore faults met in early March at Stanford University, compared notes and agreed that the faults were connected.

the best data today, to expect a possible eight" from the 400-mile fault zone on the open-ended Richter magnitude scale.

The 1906 San Francisco earthquake registered 8.3. It occurred on the 650-mile-long San Andreas fault.

Lajoie said the "west branch" is "not the same caliber as the San Andreas."

But he said coastal Californians — 85 per cent of California's 21 million persons — are in an area "more potentially seismically active" than scientists realized.

He said geologists also have traced the Rose Canyon fault in San Diego offshore to a point where it links up with the Newport Inglewood fault that cuts across the Los Angeles basin.

Nixon's budget directors, George P. Shultz and Caspar W. Weinberger, are now directors of Bechtel Corp., a large construction firm whose stock is owned only by the Bechtel family and the corporate officers.

These Bechtel stockholders stand to reap some \$26 million a year in profits from the UEA project if no additional U.S. partners are brought into the deal, and perhaps even more since UEA plans to award Bechtel the contract, worth an estimated \$250 million, to build the plant.

Another UEA partner, Goodyear, which operates the government's Portsmouth plant under contract, also is slated to operate the proposed UEA plant.

Thus, Bechtel and Goodyear would assure themselves of lucrative construction and operating contracts for the plant, without the competitive bidding that would select contractors for a government plant.

Sen. John O. Pastore, D-R.I., chairman of the joint committee, said during its hearings that the proposal seemed to guarantee UEA a profit and might amount to "another big giveaway program."

Ford administration witnesses — Seamans, Lynn, FEA Administrator Frank G. Zarb, Economic Adviser Paul W. MacAvoy, and Asst. Atty. Gen. Thomas S. Kauper — argued in favor of the UEA project and said it would save taxpayers some \$2.8 billion, the cost of a new government plant.

But Jarvis L. Schwennesen, ERDA's assistant director for uranium enrichment and head of a government task force on the UEA proposal, admitted in a recent interview that the "saving" may be a billion dollars less than advertised.

In the enrichment program, the government does not sell uranium to atomic power utilities; they have to bring their own. The government charges them for

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legislation had not been completed the President was not in a position to say if he would veto it.

In Thursday's motions, the plaintiffs asked that the Supreme Court modify its previous decision in the FEC case to allow the commission to certify matching funds and allow

California Coastal Plan.

Dr. Kenneth Lajoie of the U.S. Geological Survey at Menlo Park said in a telephone interview that 10 geologists mapping offshore faults met in early March at Stanford University, compared notes and agreed that the faults were connected.

The discovery doubles the 200-mile length of the offshore fault from Pt. Arena to Monterey Bay, extending down to Pt. Conception and including the Hosgri fault near the San Luis Obispo County coast. It goes ashore at San Simeon and then back out to sea.

"Very definitely," Lajoie said, "the longer a fault becomes, the larger the earthquake you can expect from it.

"It would not be unreasonable, from

But he said coastal California — 10 per cent of California's 21 million persons — are in an area "more potentially seismically active" than scientists realized.

He said geologists also have traced the Rose Canyon fault in San Diego offshore to a point where it links up with the Newport Inglewood fault that cuts across the Los Angeles basin.

East-west faults off Santa Barbara prevent the two north-south faults from running all the way down the coast, he said.

"It doesn't appear to be as long, and doesn't tie directly to the San Andreas," Lajoie said of the Southern California offshore fault zone, "but I'm presently conducting a study of the marine terraces off San Diego."

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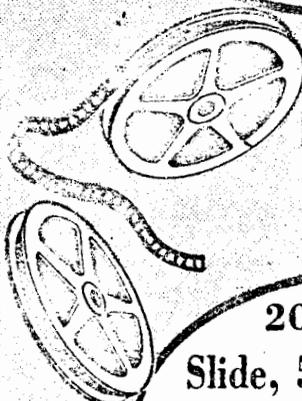


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