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May 25, 1976

Messrs. Marsh
Friedersdorf

The original of the attached was
returned in the President 's outbox.
This copy is for your information.

Jim Connor

(Copy also given to
Glenn Schleede)



THE PRESIDENT HAS SEEN...

FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

May 19, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Natural Gas Legislation

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

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

- Establishes an initial rate of \$1.60/MCF for all new onshore gas (compared to the current FPC rate of 52¢/MCF), escalates the initial rate quarterly according to inflation, and ends all regulation on onshore gas after 7 years;
- Establishes an initial rate for offshore gas of \$1.35/MCF, escalates this initial rate quarterly according to inflation, and provides for a review - but not termination - of offshore regulation every 5 years.

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

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

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

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

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

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

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

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