

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

THE WHITE HOUSE  
WASHINGTON

July 20, 1976

MR. PRESIDENT:

Liquified Natural Gas Import Policy

Staff of the attached memorandum from Frank Zarb of July 14 resulted in the following:

The persons below agreed with FEA recommendations, i. e.,

Issue 1 - Option 2

Issue 2 - Option 2

Issue 3 - Option 1

Issue 4 - Option 1

Jim Cannon

Jack Marsh

Max Friedersdorf

Brent Scowcroft - see Tab A for additional comments

Bill Seidman - see Tab B for additional comments

Phil Buchen - no comment

Jim Connor



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

JUL 14 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *F*  
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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NOTED BY *See RAC NLF-PHF-4-8-14-1*  
BY *HR* NARA, DATE *9/11/12* *5/5/08*

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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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Integration  
BY 11/18/09 NARA, DATE 11/18/09

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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.

-- Risk of arbitrary price hikes

- ° 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.

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- ° 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;

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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 -

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*AK-7*

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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 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 -

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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 - MEJ

Option 2 - \_\_\_\_\_

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LNG IMPORT ISSUE PAPERBACKGROUND

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.

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State guidelines  
BY [signature] NARA, DATE 11/18/09

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Table 1

SUMMARY OF LNG VENTURES

<u>Country</u>	<u>Project</u>	<u>Volume per year/ Schedule date</u>	<u>Entry Points</u>
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	<u>912</u> 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.

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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 or 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:

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- 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.

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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

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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

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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

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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?

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## 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 judgments 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.

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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

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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.

#### 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 the provisions for pricing LNG imports in the U. S. market?

#### Background

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 Columbia LNG case (No. CP71-68) but this decision was reversed in the

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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 jurisdictions.

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).

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- Pros:
- 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.
- Cons:
- 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.

Option 2 - 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 extension 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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- Pros:
- 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.

- Cons:
- 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.

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

- Pros:
- 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.

- Cons:
- 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.

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- 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 be 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 ship-building 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.

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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 \_\_\_\_\_


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THE WHITE HOUSE  
WASHINGTON

~~CONFIDENTIAL~~

July 19, 1976

MEMORANDUM FOR: JIM CONNOR  
FROM: BRENT SCOWCROFT   
SUBJECT: LNG Issue Paper

This memo provides my recommendations on the issues posed in Frank Zarb's memo of July 14 on US LNG import policies.

Issue I -- How should LNG imports be limited? I recommend Option 2 -- a limit of .8 to 1.0 trillion cubic feet per year from any given country with a national dependency target level of 2 trillion cubic feet per year. While increasing the President's earlier announced target figure of 1 trillion cubic feet, this option would ensure increased diversification of supply by encouraging US imports from relatively secure sources such as, Iran, Indonesia, and Nigeria, and would help reduce dependence on oil from the Middle East.

Issue II -- Should the ERC take a position on the provisions for pricing LNG imports in the US market? I strongly favor an incremental pricing policy for all LNG imports in order to require users to pay the full marginal costs and thus to provide a greater incentive to domestic supply development. While Option 4 is preferable in this respect, it would be difficult to implement. I therefore recommend Option 2 -- a policy statement stressing the need for incremental pricing of LNG imports for new customers.

Issue III -- Should the ERC issue any criteria or rule to govern or influence governmental financial assistance to LNG imports? I recommend Option 1 -- no additional criteria for limiting either MARAD or ExIm Bank financial assistance. Neither agency will provide assistance to an LNG project until such project receives FPC approval, and we could exercise necessary influence in the EPC approval process.

~~CONFIDENTIAL~~ - GDS

KLC 5/16/88

*B*

THE WHITE HOUSE

WASHINGTON

July 19, 1976

MEMORANDUM FOR JAMES E. CONNOR

FROM: L. WILLIAM SEIDMAN



SUBJECT: Comments on Frank Zarb Memorandum  
Regarding LNG Import Policy

I am convinced that we should remain as flexible as possible regarding the level of LNG imports for a variety of reasons: LNG accounts for a much smaller percentage of our energy imports than does oil, is a relatively clean fuel, and we have not and do not intend to impose import restraints on oil. Restraints, if needed, on LNG imports should be imposed on the basis of certification of projects that meet criteria that would ensure diversification of supply sources and reasonable safeguards.

I have the following recommendations regarding the four issues outlined in the LNG import policy memorandum:

Issue 1 -- Option 2\*  
Issue 2 -- Option 2  
Issue 3 -- Option 1  
Issue 4 -- Option 1

\* I strongly feel that we should not specify an overall LNG import limitation but should examine certification of projects on a case-by-case basis.

Issue IV -- Should the ERC recommend that the FPC require contingency plans before approving LNG projects? I strongly recommend Option 1 -- that the FPC be asked to adopt contingency plan requirements. These would provide greater security of supply and require LNG users to pay the costs of storage in order to reduce vulnerability.

The President should be aware that once these decisions are announced, the consortium negotiating with the Soviet Union on the North Star LNG project may ask again, as they have in the past, for an Administration signal of non-objection to signing a deal with the Soviets, recognizing that the FPC approval of the import price must be secured before the project can formally proceed. We have held off giving any such Administration signal because of the politically controversial nature of the subject. The members of the consortium (El Paso Natural Gas and Tenneco) have already worked out a tentative agreement with the Soviets which would be financed entirely from European sources. This would ultimately result in sales to the US of 547 billion cubic feet of LNG by 1985. A decision to set the country limit at .8 to 1 trillion cubic feet could be seen as opening the way to proceed with this project; the consortium would likely ask whether it could take this to mean that the USG would have no objections to the North Star project going ahead if it met the required FPC criteria, including those for contingency planning. The President might wish to discuss this issue in greater detail prior to announcement of his decision.

As to the paper itself, I do not believe it presents adequately to the President the implications of selecting the different options on the issues, especially issues I and II. I would recommend that the paper spell out more clearly the results which would flow from his selection of the different options.

STAFFING



ba-1 7/24/76

July 20, 1976

MR. PRESIDENT:

Liquified Natural Gas Import Policy

Staff of the attached memorandum from Frank Zarb of July 14  
resulted in the following:

The persons below agreed with FEA recommendations, i. e.,

Issue 1 - Option 2  
Issue 2 - Option 2  
Issue 3 - Option 1  
Issue 4 - Option 1

Jim Cannon

Jack Marsh

Max Friedersdorf

Brent Scowcroft - see Tab A for additional comments

Bill Seidman - see Tab B for additional comments

Phil Buchen - no comment

Jim Connor

## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: July 15, 1976

Time:

## FOR ACTION:

cc (for information):

☒ Phil Buchen      ☒ Jack Marsh  
☒ Jim Cannon      ☒ Brent Scowcroft  
☒ Max Friedersdorf      ☒ Bill Seidman

## FROM THE STAFF SECRETARY

DUE: Date: Saturday, July 17

Time: 2 P.M.

## SUBJECT:

Frank Zarb memorandum dated  
7/14/76 re: LNG Import Policy

## ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

## REMARKS:

Friedersdorf - Concur  
Buchen - no comments

Cannon - Issue 1 - option 2  
Issue 2 - option 2  
Issue 3 - option 1  
Issue 4 - option 1  
Concur

Seidman - Issue 1 - option 2  
Issue 2 - option 2  
Issue 3 - option 1  
Issue 4 - option 1  
Concur

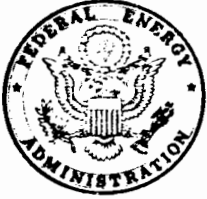
Scowcroft - see Comments  
Issue 1 - option 2  
" 2 - option 2  
" 3 - option 1  
" 4 - option 1

Marsh - 11

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President



FEDERAL ENERGY ADMINISTRATION  
WASHINGTON, D. C. 20461

JUL 14 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *FZ*  
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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NOTED BY DRAC NLF-PHF-4-8-14-1 5/5/08  
BY HZ NARA, DATE 9/11/12

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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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2. State Building  
BY HR DATE 9/11/12

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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.

-- Risk of arbitrary price hikes

- ° 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.

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- ° 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;

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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 - \_\_\_\_\_

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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 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 - \_\_\_\_\_

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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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LNG IMPORT ISSUE PAPERBACKGROUND

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.

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Table 1

SUMMARY OF LNG VENTURES

<u>Country</u>	<u>Project</u>	<u>Volume per year/ Schedule date</u>	<u>Entry Points</u>
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.

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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 or 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:

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- 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.

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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

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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

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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

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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?

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## 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 judgments 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.

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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

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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.

#### 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 the provisions for pricing LNG imports in the U. S. market?

#### Background

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 Columbia LNG case (No. CP71-68) but this decision was reversed in the

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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 jurisdictions.

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).

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- Pros:
- 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.

- Cons:
- 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.

- Option 2 - 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 extension 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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- Pros:
- 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.

- Cons:
- 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.

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

- Pros:
- 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.

- Cons:
- 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.

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- 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 Escogas projects.

Ship requirements for the pending projects involve a total of 24 ships of which 13 are expected to be 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 ship-building 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.

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

- Prosi:
- 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 \_\_\_\_\_

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THE WHITE HOUSE  
WASHINGTON

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July 19, 1976

MEMORANDUM FOR: JIM CONNOR  
FROM: BRENT SCOWCROFT   
SUBJECT: LNG Issue Paper

This memo provides my recommendations on the issues posed in Frank Zarb's memo of July 14 on US LNG import policies.

Issue I -- How should LNG imports be limited? I recommend Option 2 -- a limit of .8 to 1.0 trillion cubic feet per year from any given country with a national dependency target level of 2 trillion cubic feet per year. While increasing the President's earlier announced target figure of 1 trillion cubic feet, this option would ensure increased diversification of supply by encouraging US imports from relatively secure sources such as, Iran, Indonesia, and Nigeria, and would help reduce dependence on oil from the Middle East.

Issue II -- Should the ERC take a position on the provisions for pricing LNG imports in the US market? I strongly favor an incremental pricing policy for all LNG imports in order to require users to pay the full marginal costs and thus to provide a greater incentive to domestic supply development. While Option 4 is preferable in this respect, it would be difficult to implement. I therefore recommend Option 2 -- a policy statement stressing the need for incremental pricing of LNG imports for new customers.

Issue III -- Should the ERC issue any criteria or rule to govern or influence governmental financial assistance to LNG imports? I recommend Option 1 -- no additional criteria for limiting either MARAD or ExIm Bank financial assistance. Neither agency will provide assistance to an LNG project until such project receives FPC approval, and we could exercise necessary influence in the EPC approval process.

KR 5/16/88

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Issue IV -- Should the ERC recommend that the FPC require contingency plans before approving LNG projects? I strongly recommend Option 1 -- that the FPC be asked to adopt contingency plan requirements. These would provide greater security of supply and require LNG users to pay the costs of storage in order to reduce vulnerability.

The President should be aware that once these decisions are announced, the consortium negotiating with the Soviet Union on the North Star LNG project may ask again, as they have in the past, for an Administration signal of non-objection to signing a deal with the Soviets, recognizing that the FPC approval of the import price must be secured before the project can formally proceed. We have held off giving any such Administration signal because of the politically controversial nature of the subject. The members of the consortium (El Paso Natural Gas and Tenneco) have already worked out a tentative agreement with the Soviets which would be financed entirely from European sources. This would ultimately result in sales to the US of 547 billion cubic feet of LNG by 1985. A decision to set the country limit at .8 to 1 trillion cubic feet could be seen as opening the way to proceed with this project; the consortium would likely ask whether it could take this to mean that the USG would have no objections to the North Star project going ahead if it met the required FPC criteria, including those for contingency planning. The President might wish to discuss this issue in greater detail prior to announcement of his decision.

As to the paper itself, I do not believe it presents adequately to the President the implications of selecting the different options on the issues, especially issues I and II. I would recommend that the paper spell out more clearly the results which would flow from his selection of the different options.

THE WHITE HOUSE

WASHINGTON

July 19, 1976

MEMORANDUM FOR JAMES E. CONNOR

FROM: L. WILLIAM SEIDMAN

*LWS*

SUBJECT: Comments on Frank Zarb Memorandum  
Regarding LNG Import Policy

I am convinced that we should remain as flexible as possible regarding the level of LNG imports for a variety of reasons: LNG accounts for a much smaller percentage of our energy imports than does oil, is a relatively clean fuel, and we have not and do not intend to impose import restraints on oil. Restraints, if needed, on LNG imports should be imposed on the basis of certification of projects that meet criteria that would ensure diversification of supply sources and reasonable safeguards.


I have the following recommendations regarding the four issues outlined in the LNG import policy memorandum:

Issue 1 -- Option 2\*  
Issue 2 -- Option 2  
Issue 3 -- Option 1  
Issue 4 -- Option 1

\* I strongly feel that we should not specify an overall LNG import limitation but should examine certification of projects on a case-by-case basis.

THE WHITE HOUSE  
WASHINGTON

July 16, 1976

MEMORANDUM FOR: JIM CONNOR  
FROM: JIM CANNON   
SUBJECT: LNG IMPORT POLICY  
ISSUE PAPER

With respect to Frank Zarb's issue paper,  
I recommend the following:

ISSUE #1: Option #2

ISSUE #2: Option #2

ISSUE #3: Option #1

ISSUE #4: Option #1

THE WHITE HOUSE  
WASHINGTON

July 16, 1976

MEMORANDUM FOR: JIM CONNOR  
FROM: MAX FRIEDERSDORF *MF*  
SUBJECT: Frank Zarb memorandum dated 7/14/76 re  
LNG Import Policy

The Office of Legislative Affairs concurs with FEA positions on all issues.

## ACTION MEMORANDUM

THE WHITE HOUSE

WASHINGTON

LOG NO.: *due*  
*Sat., 7/17*

Date: July 15, 1976

Time:

## FOR ACTION:

cc (for information):

Phil Buchen

Jack Marsh

Jim Cannon

Brent Scowcroft

Max Friedersdorf

Bill Seidman

FROM THE STAFF SECRETARY

DUE: Date: Saturday, July 17

Time: 2 P.M.

SUBJECT:

Frank Zarb memorandum dated  
7/14/76 re: LNG Import Policy

## ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

## REMARKS:

*Issue # I*  
*of 2*  
*Issue # II*  
*of 2*  
*Issue III*  
*of 1*  
*Issue IV*  
*of 1*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: July 15, 1976

Time:

FOR ACTION:

cc (for information):

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\_\_\_\_\_ For Necessary Action

X For Your Recommendations

\_\_\_\_\_ Prepare Agenda and Brief

\_\_\_\_\_ Draft Reply

X For Your Comments

\_\_\_\_\_ Draft Remarks

REMARKS:

No comments.

P.W.B.  
Philip W. Buchen

*Confidential*  
*attachment*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President