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Federal Energy Administration

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

September 17, 1975

MEMORANDUM FOR MEMBERS OF THE CABINET

FROM: FRANK G. ZARB

Attached is a brief summary of the energy situation faced by the Nation, with specific reference to various fuels. Also attached is a review of the President's overall energy program as proposed to Congress, and a status report on various legislation pending in the House and Senate relating to the several titles of the Energy Independence Act of 1975.

I hope that this information will be of use to you and your Departments in preparing public presentations relating to the energy situation and Administration energy policy.

Attachment

BACKGROUND

Vulnerability

* In 1970, the average American householder spent approximately $45 for foreign oil; last year, the bill was about $360.

* In the first six months of 1975 direct Arab OPEC crude imports accounted for 30% of total crude imports (1,125 thousand barrels per day) compared with a 1974 average of 20% (or 743 thousand barrels per day). Our dependence on Arab crude oil has increased since the days of the oil embargo.

* Imported petroleum accounted for 17% of total energy use in 1974, compared to less than 11% in 1970.

Natural Gas

* Natural gas production in the U.S. peaked in 1973 at 22.5 Tcf and then declined by almost 6% in 1974 to 21.2 Tcf -- the equivalent of a decline of over 230 million barrels of oil.

* Last year 2.0 trillion cubic feet (Tcf) of natural gas, or about 10% of total demand, was curtailed; this year a 45% increase in curtailments is forecast, or about 2.9 Tcf of natural gas, equalling about 15 percent of demand.

* In North Carolina, for example, only 4 percent of industrial natural gas requirements will be met.

Oil

* Domestic oil production has been declining since 1970 (it is down 11 percent since early 1973) and has declined more than one-half million barrels per day since last year.

* Gasoline consumption has been about constant in the last two years and would have been at least 500,000 barrels per day higher if it hadn't been for higher prices.

* Billions of barrels of oil lie beneath the waters in the Atlantic, Pacific, and Gulf of Alaska, but are as yet untapped.

Coal

* Coal production is still at the levels of the 1920's.

* We have more coal reserves than the Middle East has oil.

* While coal is our most potentially abundant source of domestic energy, coal output for domestic consumption fell in 1974 by 16 million tons, or almost 3 percent, compared to 1973 production.

Electric Power

* Last year, about three-quarters of all planned nuclear plants and over one-fourth of all coal plants scheduled to be built were either postponed or cancelled.

* Costs for nuclear power plants continue to increase significantly; a 1000 Mwe plant ordered today for delivery in the early 1980's will cost close to one billion dollars, or $1000 per kilowatt. A few years ago, the cost was about half.

LEGISLATION

Comprehensive national energy policy

* The President's State of the Union message to Congress, January 15, 1975, was the basis for the Energy Independence Act of 1975 submitted to Congress. (See Tab B for outline of the Act's 13 titles)

* Status report on Administration proposals in Congress (Tab C)

Decontrol

* The House rejected the President's 39-month compromise plan to decontrol old oil prices in July, just before its August recess.

* Immediate decontrol of old oil prices took effect on September 1, 1975, upon the statutory expiration of the Emergency Petroleum Allocation Act.

* The President vetoed a six-month extension of the Emergency Petroleum Allocation Act on September 9, 1975.

* The Senate sustained the President's veto on September 10, 1975, effectively leaving oil prices uncontrolled.

* The President has indicated his willingness to accept a 45 to 60-day extension of price controls on oil, if there are reasonable assurances that such an extension would result in a compromise plan to decontrol oil prices which meets the objectives of the original 39-month proposal.

* The House passed a bill on September 11, 1975, extending oil price controls until October 31, 1975.

* Action is still pending in the Senate on extension of oil price controls.

Protection for gasoline dealers under immediate decontrol

* The "Gasoline Dealers' Protection Act of 1975" proposed to Congress by the President on September 10, 1975 would prevent oil refiners and distributors from terminating service station leases or franchises for other than good cause, and would provide station owners and dealers standing to seek treble damages and injunctive relief in Federal courts if violations occur. The Act is similar to the Automobile Dealers Day in Court Act of 1956.

Protection for small and independent refiners under immediate decontrol

* Secretary of the Treasury Simon has asked the Senate Finance Committee and the House Ways and Means Committeee to extend provisions of the Old Oil Entitlements Program under the Emergency Petroleum Allocation Act for one year, phasing them out over three years, to provide an effective subsidy to small refiners and to equalize access to domestic and imported crude oil for refining.

Protection for farmers under immediate decontrol

* Secretary Simon has asked for legislation to provide rebates to farmers to offset their higher energy cost. A direct tax rebate would be provided to farmers based on their purchases of gasoline and diesel fuel. A maximum rebate limitation or a gross income ceiling for eligibility could direct rebates to smaller farmers.

Windfall profits tax

* Rebates to farmers and refiners, as well as to low- and middle-income taxpayers, would be financed by a windfall profits tax on oil company earnings resulting from decontrol. The tax proposed would be similar to the one worked out by the Senate Finance Committee in July.

Natural gas legislation

* "The Natural Gas Emergency Standby Act of 1975" was proposed to Congress by the President on September 10, 1975, to deal with expected shortages of natural gas this winter. The act:

  -- authorizes the Federal Power Commission to approve purchases of natural gas by interstate pipelines at unregulated free-market prices when those pipelines have had to curtail their high-priority end-use customers. These sales excepted from regulation would be limited to 180-days duration.

-- allows high-priority end-users of natural gas to purchase natural gas in producing states at unregulated intrastate prices, then contract with interstate pipelines as common carriers to deliver the gas to the point-of-use. This provision would clarify and give legislative force to an existing FPC rulemaking.

-- extends FEA's authority to require electric utility and industrial boiler conversions from natural gas or oil to coal, and provides standby authority to require conversions from gas to oil where coal is not feasible.

-- provides authority to allocate and establish price controls for propane in order to assure equitable distribution and reasonable prices as demand for propane increases with growing unavailability of natural gas.

TAB A

CHART I
DOMESTIC PRODUCTION OF CRUDE OIL

CHART II
IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS

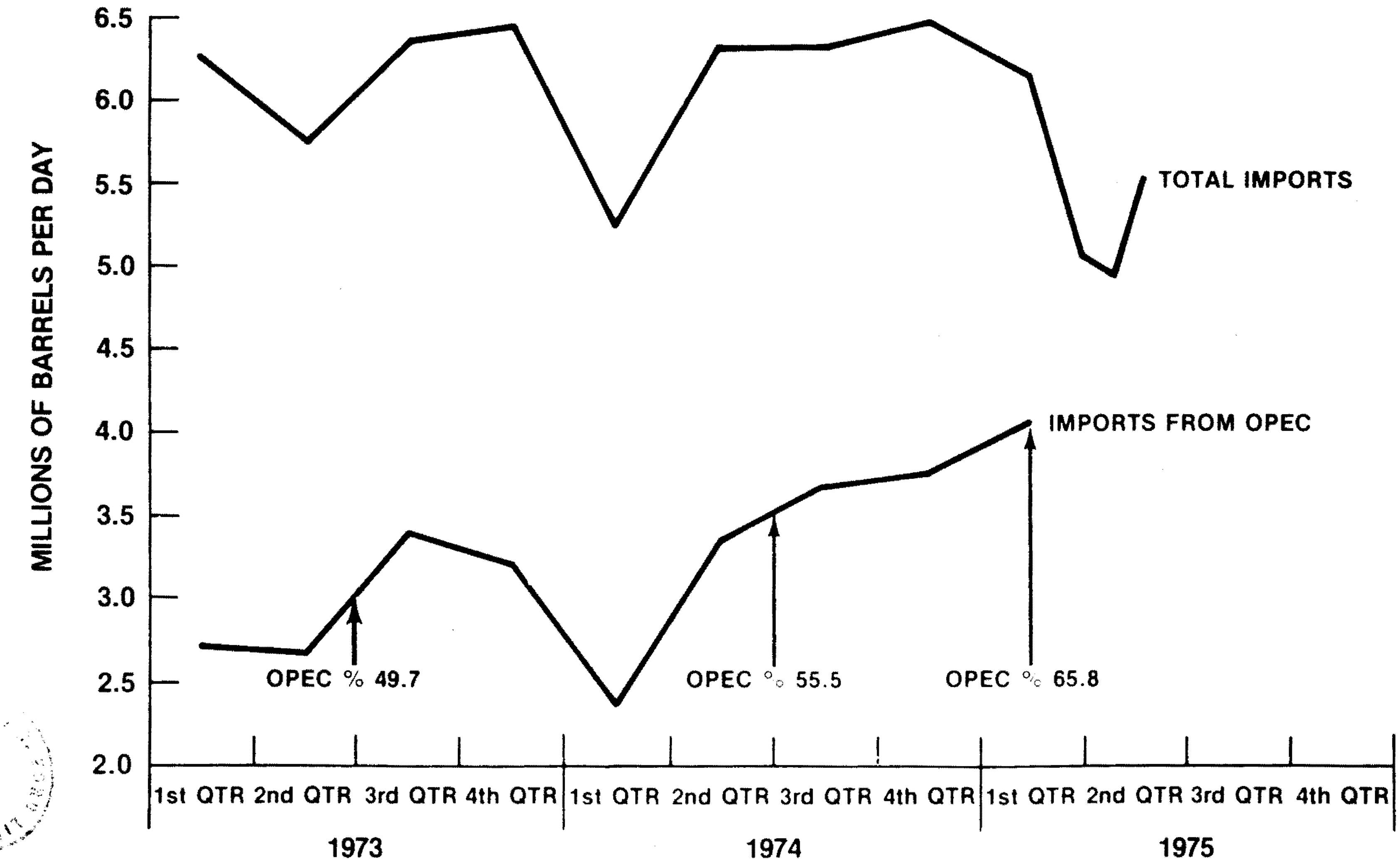


CHART III

IMPORTS BY SOURCE 1960 — 1985

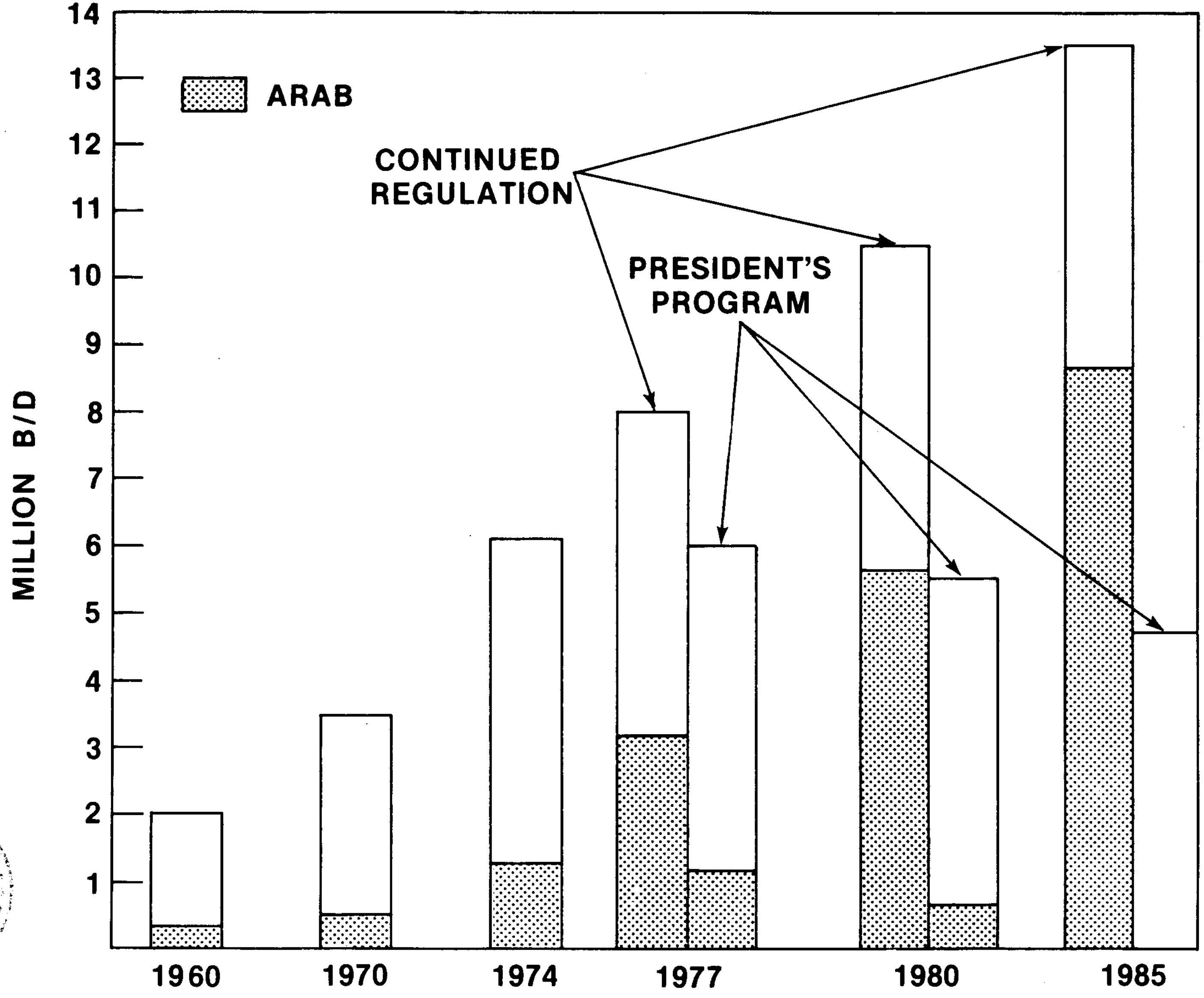


CHART IV PETROLEUM IMPORTS

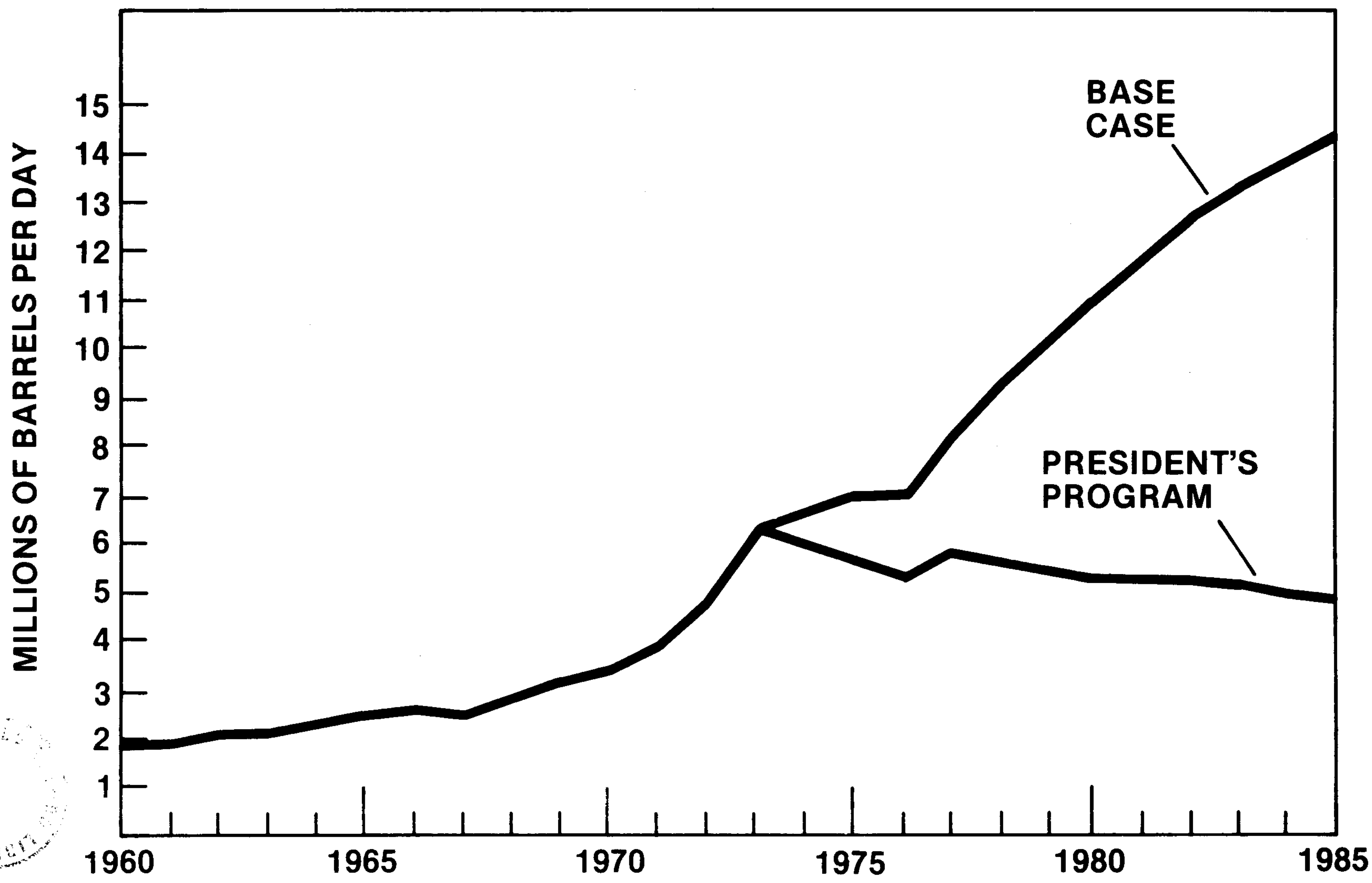


CHART V

COST OF FUTURE EMBARGOS

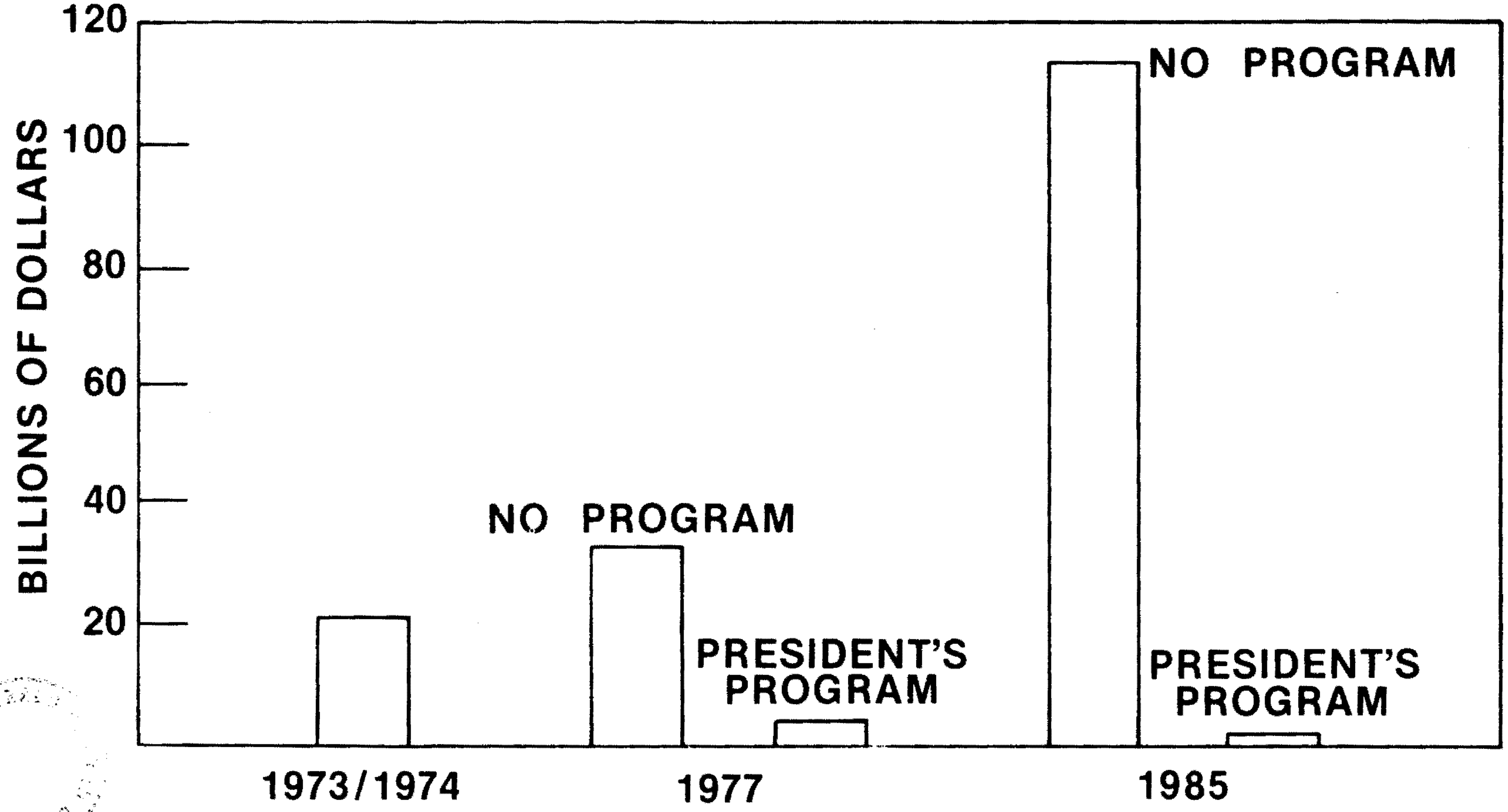


CHART VI

IMPACT OF AN EMBARGO ON GNP

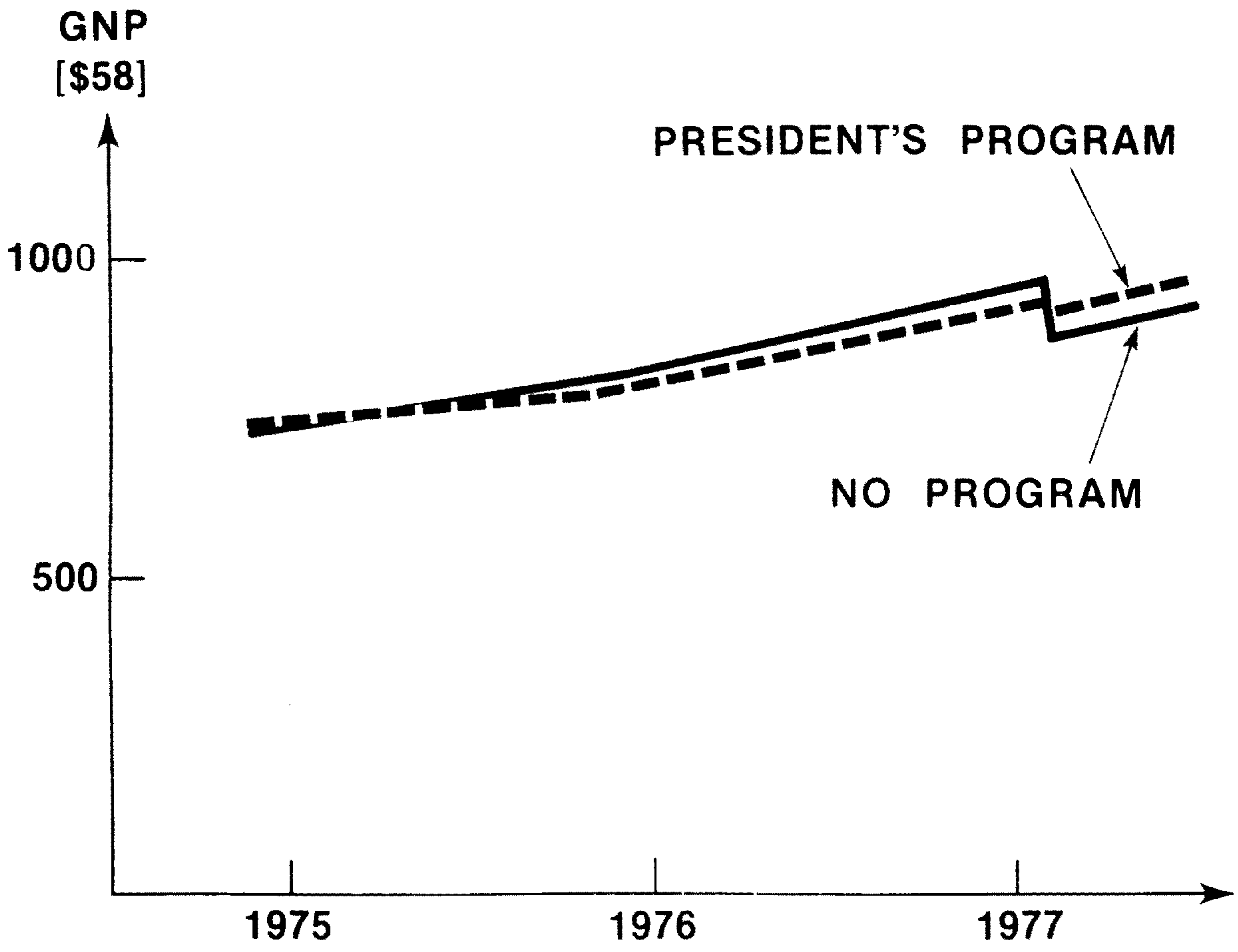


CHART VII

IMPACT OF AN EMBARGO ON UNEMPLOYMENT

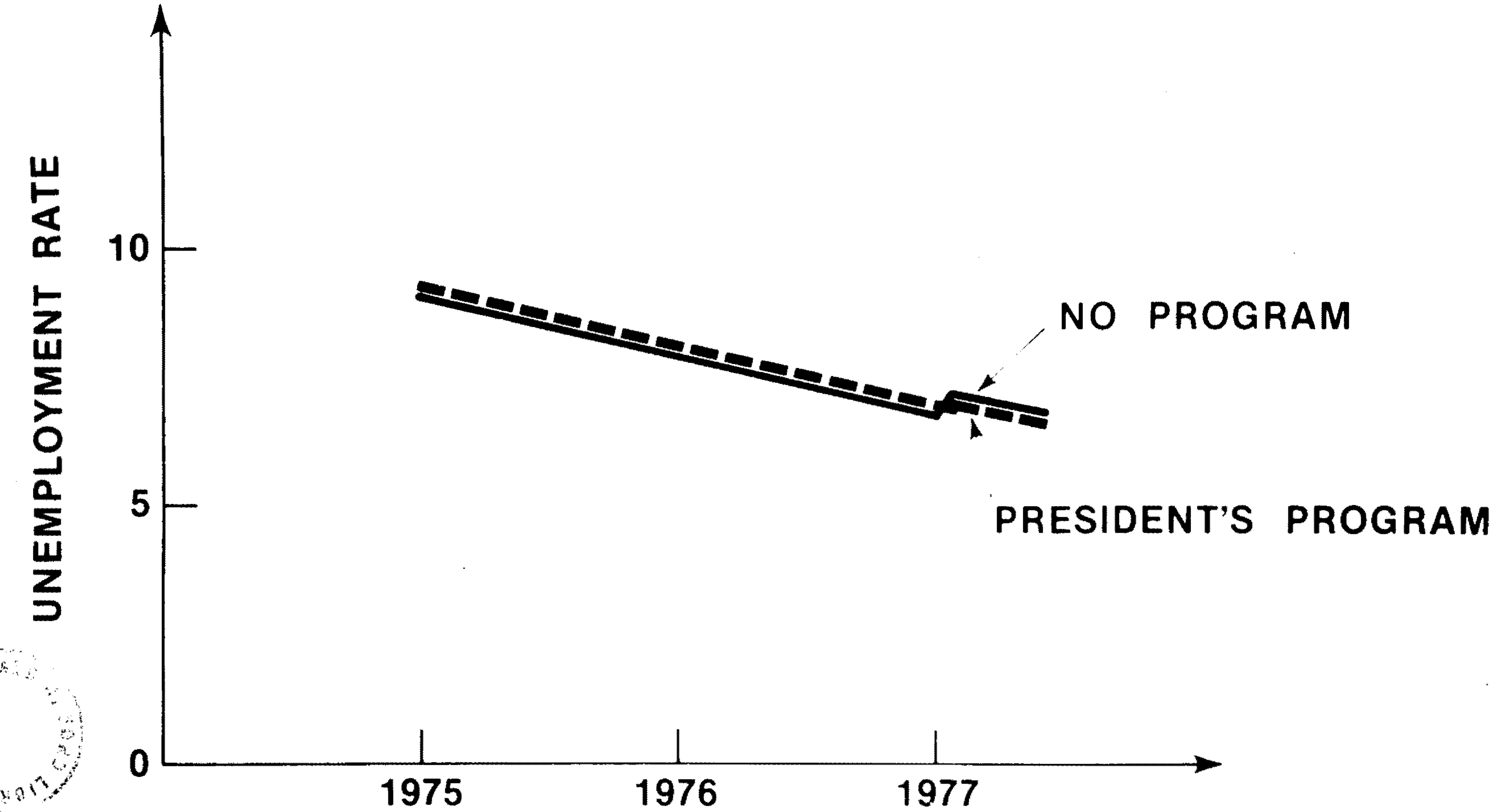
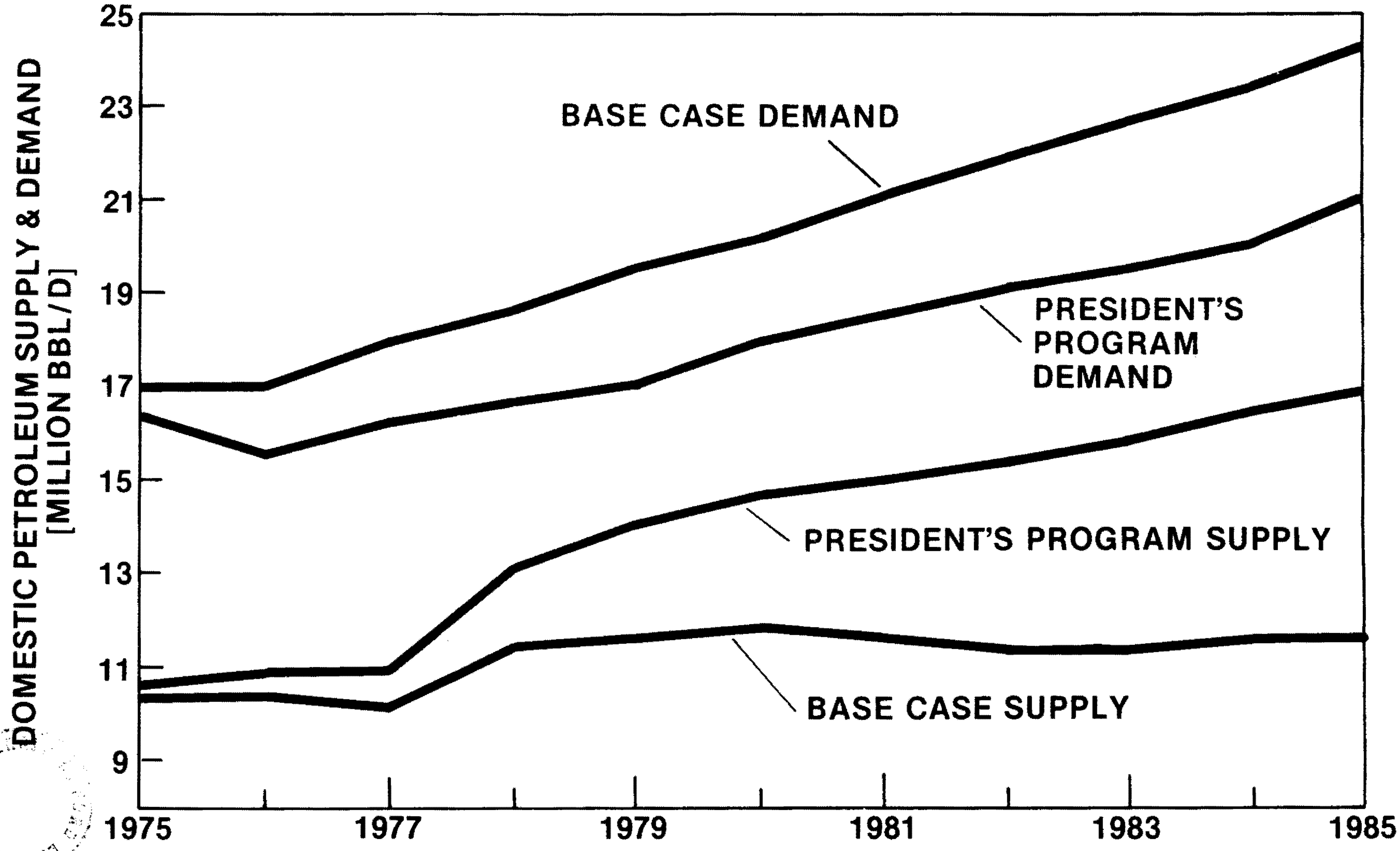


CHART VIII



BASE CASE DEMAND
PRESIDENT'S PROGRAM DEMAND
PRESIDENT'S PROGRAM SUPPLY
BASE CASE SUPPLY
DOMESTIC PETROLEUM SUPPLY & DEMAND [MILLION BBL/D]
25
23
21
19
17
15
13
11
9
1975
1977
1979
1981
1983
1985

TAB B

ENERGY INDEPENDENCE ACT OF 1975

TITLE I	- Naval Petroleum Reserves
TITLE II	- National Strategic Petroleum Reserve (Civilian) Act of 1975
TITLE III	- New Natural Gas Deregulation
TITLE IV	- 1975 Legislative Proposals to Amend the Energy Supply and Environmental Coordination Act of 1975
TITLE V and VI	- 1975 Legislative Proposals to Amend the Clean Air Act of 1970
TITLE VII	- Utilities Act of 1975
TITLE VIII	- Energy Facilities Planning and Development Act of 1975
TITLE IX	- Energy Development Security Act of 1975
TITLE X	- Building Energy Conservation Standards Act of 1975
TITLE XI	- Winterization Assistance Act of 1975
TITLE XII	- National Appliance and Motor Vehicle Energy Labeling Act of 1975
TITLE XIII	- Standby Energy Authorities Act of 1975

TITLE I of the Energy Independence Act of 1975 would authorize the production of petroleum from the Naval Petroleum Reserves to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the military or used to fill a National Strategic Petroleum Reserve. Revenues generated from the sale of oil produced from the Naval Petroleum Reserves would be used to finance the further exploration, development and production of the Reserves, including NPR #4 in Alaska, as well as to create the National Strategic Petroleum Reserve. At least 20%, or such other amount as determined by the President, of the oil eventually produced from NPR #4 would be earmarked for military needs and for the National Strategic Petroleum Reserve and the remainder made available to the domestic economy. Although the oil reserves contained in NPR #4 are largely unexplored and significant production is not expected before 1982, it is anticipated that NPR #4 will provide a minimum of 2 million barrels of oil per day by 1985. Title I would also grant the Department of the Navy authority to acquire, construct, fill and maintain a military strategic petroleum reserve of 300 million barrels as part of the National Strategic Petroleum Reserve.

Title II would authorize the establishment of a civilian national strategic petroleum reserve of up to 1 billion barrels of petroleum. Once created, this strategic reserve, together with the exercise of certain standby authorities provided for in Title XIII, will minimize disruption from future embargoes or other energy emergencies. This Title would authorize the Federal government to acquire, construct and maintain petroleum storage facilities, to purchase petroleum or require industrial set-asides for a strategic reserve, and to utilize petroleum from the reserve to offset disruptions in foreign imports. Most of the funds required to finance this program, as well as a large amount of the oil to be stored would come from the production of NPR #1 in Elk Hills, California. Within one year of enactment, a report would be prepared and submitted to the Congress detailing actions taken and proposed plans for developing a strategic petroleum reserve system.

Title III is designed to reverse the declining natural gas supply trend as quickly as possible and to insure increased supplies of natural gas at reasonable prices to the consumer. Under the proposal, wellhead price controls over new natural gas sold in interstate commerce would be removed. This action will enable interstate pipelines to compete for new onshore gas and encourage drilling for gas onshore and in offshore areas. In order to discourage further conversions to natural gas and to encourage greater natural gas conservation, the President is also proposing an excise tax of 37 cents per thousand cubic feet on natural gas which is equivalent to the proposed $2 tax on oil.

Titles IV and V contain amendments to the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 (ESECA). The amendments are needed to pursue a vigorous program, consistent with appropriate environmental safeguards, to make greater use of domestic coal, and thus to reduce the need for natural gas and imported oil. The proposed amendments would serve to reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels by 1977.

The amendments to ESECA would expand and extend the Federal Energy Administration's authority to issue and enforce orders prohibiting power plants and other major installations from burning petroleum products and natural gas. One of the amendments to the Clean Air Act would eliminate the regional requirement which prohibits major fuel burning sources from burning coal where the violation of health-related standards is caused by other sources. Another amendment would permit certain isolated plants to use intermittent control systems on an interim basis where they do not pose a threat to public health. In addition, the amendments seek a better balance between automobile fuel economy and air quality by stabilizing auto emission requirements for five years at the level of California's 1975 standards for hydrocarbons and carbon monoxide emissions, and holding at national 1975 standards for oxides of nitrogen.

Title VI would delete the "significant deterioration" requirement from the Clean Air Act. There may be more appropriate ways to deal with the issues associated with significant deterioration than through the Clean Air Act, and Congress should undertake a prompt and comprehensive review of this issue.

Title VII is designed to restore the financial health of public utilities. It would eliminate undue regulatory lags involved in approving proposed rate changes, assure that rates adequately reflect the full cost of generating and transmitting electricity, and remove prohibitions that now prevent lower prices from being charged to consumers during off peak hours. Though many states have already adopted similar programs, enactment of Title VII will establish certain standard regulatory procedures across the Nation, resulting in more equitable treatment of utilities.

Treasury Secretary Simon has presented to the House Ways and Means Committee proposals for tax changes including increased investment tax credits for public utilities. Presently only a 4% tax credit is available to utilities while a 7% tax credit is available to other industries. The proposed legislation would raise the tax credit to a level of 12% for one year with the 12% rate being retained for two additional years for all electric generating facilities not fired by oil or gas. Utilities would also be allowed to increase from 50% to 75% the portion of their 1975 tax liabilities that can be offset by the investment tax credit. The percentage would phase back down to 50% by 1980. Corporate tax deductions would also be allowed for preferred stock dividends issued by utilities and other industries. These legislative proposals would reduce the cost of capital for needed utility expansions and stimulate equity rather than debt financing.

Title VIII is designed to expedite the development of energy facilities. The Federal Energy Administration would be required to develop a National Energy Site and Facility Report with appropriate Federal, State, industry and public input. Information in this report would be utilized by the Federal government, the States and industry in developing and implementing plans to insure that needed energy facilities are sited, approved and constructed on a timely basis. At the Federal level, FEA would be responsible for coordinating and expediting the processing of applications to construct energy facilities.

States would be required to develop management programs to expedite the process by which energy facility applications are reviewed and approved at the State level, to insure that adequate consideration is given to national and regional energy requirements in the State's siting and approval processes, and to provide that decisions of State regulatory authorities on energy facility applications are not overruled by actions of local governments. FEA would provide grants and technical assistance to the States in developing their programs. If a State does not develop an acceptable management program, FEA would promulgate an appropriate management program for it. The Federal Government would not be authorized to override any State decision on a particular site of facility application.

Title IX would provide needed authority to prevent foreign oil producing countries from undercutting U.S. efforts to develop domestic petroleum energy resources or achieve energy independence. The Federal Energy Administration would monitor the effect of oil price fluctuations on the economic viability of conventional petroleum development and production projects. Upon the finding that this viability is being threatened, tariffs, quotas, or variable import fees would be imposed.

Two other measures are being developed that will affect domestic energy supplies. One proposal would assure more rapid siting and licensing of nuclear facilities while retaining sufficient safeguards to protect the environment and public health and safety. The other proposal, to regulate surface mining, would provide the appropriate balance between the urgent need to increase coal production and the need to protect the environment.

DEMAND RESTRAINT MEASURES

Each of the demand restraint measures contained in Titles X-XII is an essential element in achieving our overall goal of reducing oil imports and lowering the demand for coal, natural gas and electricity. These proposals will serve to reduce wasteful energy use, create jobs, and lessen economic hardships, while not impeding economic output.

Title X would establish mandatory thermal (heating and cooling) efficiency standards for all new homes and commercial buildings. It is anticipated that this program will save the equivalent of 500,000 barrels of oil per day in 1985. The Secretary of Housing and Urban Development in consultation with engineering, architectural, consumer, labor and industry representatives would be responsible for developing thermal efficiency standards. Standards for residential dwellings would be promulgated and implemented within one year, and performance standards for commercial and other residential buildings developed and implemented as soon thereafter as practicable. State and local governments would assume primary responsibility for enforcing standards through local building codes.

Title XI would establish, within the Federal Energy Administration a grant program for States to assist low income persons, particularly the elderly, in winterizing their homes. Title XI is modeled after a successful pilot project that was conducted in the State of Maine during 1974. Annual appropriations of $55 million would be authorized to fund the three year grant program, and enable States to purchase winterization materials for dwellings of low-income persons.

Title XII would authorize the President to require energy efficiency labels on all new major appliances and motor vehicles. This title would insure that consumers are fully apprised of the efficiency of various appliances and motor vehicles and would encourage the manufacture and greater utilization of more efficient products.

EMERGENCY PREPAREDNESS PROGRAMS

In addition to taking measures to increase domestic supplies, reduce demand and create a strategic reserve system, we must be in a position to take immediate and decisive actions to counteract any future energy emergency.

Title XIII would provide the President with certain standby authorities to deal with future embargoes or other energy emergencies and to carry out the International Energy Program agreement, including provisions for international oil sharing, mutual energy conservation programs, and international cooperation on various energy initiatives. This title would include authority to allocate and control the price of petroleum and petroleum products, promulgate and enforce mandatory energy conservation programs, ration petroleum products, order increases in domestic oil production, and allocate critical materials needed for the maintenance, construction and operation of critical energy facilities. All or a portion of these authorities would be invoked upon a determination that emergency conditions exist.

TAB C

STATUS OF ONGOING ENERGY LEGISLATION PERTINENT TO PRESIDENT'S PROGRAM

Title I — Naval Petroleum Reserves

S. 2173 (Cannon) authorizes production from Naval Petroleum Reserves 1, 2, 3. Passed the Senate, July 29, with Jackson amendment establishing national strategic petroleum reserve as in S. 677.

H.R. 49 (Melcher) Authorizes transfer of control of military petroleum reserves to the Department of Interior and production of Naval Petroleum Reserves 1-3. Passed the House, July 8, by a vote of 391-20. Conference on S. 2173 and H.R. 49 expected among Senate and House Interior and Armed Services Committees, and House Commerce Committee.

Title II — National Strategic Petroleum Reserve Act of 1975

S. 677 (Jackson) Establishes a civilian strategic petroleum reserve. Passed the Senate on July 8 by a unanimous vote of 91-0.

H.R. 7014 (Dingell) As part of Omnibus Bill, authorizes study of establishment of national strategic petroleum reserve.

Title III — New Natural Gas Deregulation

S. 692 (Hollings, Stevenson) Now pending on the Senate Calendar. It is unlikely that the bill will survive as reported without extensive modification in the direction of higher prices. Substitute offered by Senator Pearson represents acceptable Administration fall-back from Title III.

The House Commerce Committee will act on natural gas after the Senate completes action on S. 692, but probably not before November.

The Administration has submitted emergency legislation (S. 2330) to deal with expected natural gas shortage for the next two winters. A "one winter" emergency gas bill has been introduced in the Senate (S. 2310) by Senators Hollings, Glenn and Talmadge, and in the House by Congressman Dingell (H.R. 9464). Senate floor action is expected this week, and House hearings will be held the 3rd week in September.

Title IV — 1975 Legislative Proposals to Amend the Clean Air Act of 1970

S. 1996 — (Randolph) Energy Supply and Environmental Coordination Act Extension, which would extend ESECA until December 31, 1975 is pending in Senate Interior Committee.

S. 1777 — (Randolph, Jackson) Coal Conversion. The Senate Public Works and Senate Interior Committees held hearings. Public Works has prepared a committee print for markup purposes in September. Senator Randolph is pushing for final committee action by October 1.

Titles V & VI — 1975 Legislative Proposals to Amend the Clean Air Act of 1970

Hearings on the Clean Air Act Amendments have been held by Senate Public Works, which began a series of markups on June 18. The subcommittee should complete markup early in September, with a bill reaching the Senate floor by November. House Commerce Subcommittee on Health and Environment has scheduled further markups of its draft bill for the entire month of September.

Title VIII — Energy Facilities Planning and Development Act of 1975

S. 984 — (Jackson) Land use. Hearings were held before the Environment and Land Resources subcommittee of the Senate Interior Committee (April 23, 24, 29, and May 2.) Full Committee markup of the bill is anticipated to occur in late September or early October.

Title IX — Energy Development Security Act of 1975

No action since introduction.

Title X — Building Energy Conservation Standards Act of 1975

Energy Efficiency Standards for Buildings. On September 8, House passed H.R. 8650 which would facilitate but does not require, adoption by State and local governments of energy conservation standards for new buildings.

Title X cont'd.

Senate Commerce Committee has held hearings on Senator Tunney's bills S. 1392 and S. 1908, and Title X of the President's energy package. An August 4 committee print of S. 1908 will see markup sometime in September.

Senate Public Works has also scheduled hearings on Title X.

Title XI — Winterization Assistance Act of 1975

H.R. 8650 would provide assistance to low income persons to insulate their homes.

Title XII — National Appliance and Motor Vehicle Energy Labeling Act of 1975

S. 1883 — Mandatory Fuel Economy Standards for Motor Vehicles. Passed the Senate on July 15. Similar provisions are included in H.R. 7014 (Dingell) and H. R. 6860 (Ullman) which passed and is now being marked up by Senate Finance.

S. 349 — (Tunney) Motor Vehicle and Appliance Labeling. Passed the Senate July 11.

H.R. 7014 — Includes appliance labeling program administered by the Department of Commerce. Floor action pending.

Title XIII — Standby Energy Authorities Act of 1975

S. 622 — (Jackson) Standby Energy Authorities. Passed the Senate April 10. Contains mandatory conservation authorities which the Administration opposes.

H.R. 7014 — Contains a standby authorities title, under which the President may order cutbacks in energy use, direct production of oil fields at MER, and institute gasoline rationing. Requires multiple congressional approvals of emergency actions.

OTHER PERTINENT LEGISLATION

Energy Conservation and Oil Policy Act.

H.R. 7014 (Dingell). The Dingell energy bill has seen several days of debate on the House floor but agreement has not yet been reached. An amendment provides for ceilings of $5.25 a barrel for old oil; $7.50 for new oil; and $10 a barrel for high cost oil. Further action has been slowed by the recent recess and the decontrol fight.

Energy Conservation and Conversion Act

H.R. 6860 (Ullman). This bill passed the House on June 19 without a windfall profits tax provision. The Senate Finance Committee has held hearings and markups, but has not yet reported out the bill. Before the recess it reported out a windfall profits tax amendment which was filibustered on the floor on August 1.

OCS Leasing

S. 521 (Jackson) Passed the Senate on July 30 by a vote of 67-19.

H.R. 6218 (Murphy, N. Y.) Ad Hoc Committee on OCS will hold final hearings in September and proceed to markup in October. Chairman Murphy requested that Speaker Albert have S. 521 referred to the Ad Hoc Committee instead of using H.R. 6218 as a vehicle. There appears to be general opposition on the committee to the Bumpers Amendment on proprietary data, and to earmarking federal OCS revenues for the coastal states.

Nuclear Facility Licensing

S. 1717 and H.R. 7002. The Joint Committee on Atomic Energy has begun hearings on this legislation, which is intended to improve the licensing process for nuclear facilities. The Administration supports such legislation strongly.

Date: 10/9/75

Office of the Administrator

OCT 10 1975

To: Jack Marsh

For your information.

Frank

Federal Energy Administration

Room 3400 Ext. 6081

Highlight Report
Volume XV

Prepared for
THE FEA OFFICE OF
ENERGY CONSERVATION
AND ENVIRONMENT

Energy/Conservation *October, 1975*

How The Public Views...

• The Nation's Dependence On Oil Imports

• A Possible Natural Gas Shortage This Winter

• The Overall Need To Save Energy

The attitudes expressed in this study are especially significant in view of the recent meeting in Vienna of the Organization of Petroleum Exporting Countries (OPEC), as well as efforts in Washington to reach a compromise on the decontrol of the price of oil and natural gas.

Public opposition to increased dependence on foreign oil is growing. So is the fear of a natural gas shortage this winter. People at all levels of society display a high degree of concern over the need to save energy.

The general implication is that the public seems not only ready, whether it likes it or not, to accept the fact that the era of cheap energy is over, but also recognizes the proposition that consumption of foreign oil needs to be reduced and domestic resources developed.

The big question is whether or not leaders in both the public and private sectors will make the hard choices necessary for the nation as a whole to deal with the reality of the current energy situation, both at home and abroad.

The need to conserve energy is recognized by an overwhelming majority of the American public.

In fact, on balance, most segments of the population consider the need to save energy very serious.

ATTITUDES TOWARD THE NEED TO SAVE ENERGY[1]

Latest Survey	Not Serious At All	Somewhat Serious	Very Serious	
Total Public	10%	39%	49%	88%
By Sex				
Men	13%	38%	46%	84%
Women	7%	40%	52%	92%
By Age				
18-29	8%	45%	46%	91%
30-49	12%	40%	47%	87%
50 and over	11%	34%	51%	85%
By Education				
Less than high school complete	11%	35%	49%	84%
High school complete	11%	43%	45%	88%
Some college	6%	39%	54%	93%
By Family Income				
Under $10,000	11%	34%	51%	85%
$10,000-$15,000	11%	48%	40%	88%
Over $15,000	7%	42%	50%	92%
By Race				
White	10%	41%	47%	88%
Nonwhite	11%	29%	58%	87%
By Party Preference				
Democrat/Lean Democrat	9%	41%	50%	91%
Republican/Lean Republican	10%	40%	46%	86%
Independent	10%	39%	47%	86%
By Occupation				
White collar	9%	43%	46%	89%
Blue collar	14%	40%	43%	83%
Not employed	9%	34%	54%	88%
By Region				
East	8%	37%	50%	87%
Midwest	13%	46%	41%	87%
South	9%	38%	50%	88%
West	9%	34%	56%	90%
Environmental Activists	12%	31%	56%	87%

"No opinion" omitted

[1]"From what have you heard or read, how serious would you say the need is to save energy—would you say it is very serious, somewhat serious, or not serious at all?"

What is more, almost half of the public believe that it is just as important now to save energy as it was a year ago. In fact, a substantial number think that the need to save energy is even greater today.

Without pinpointing any single factor, those who believe that the need to save energy has increased (38%) give many reasons for their opinion, ranging from inflation, to increased consumption, to wasteful usage, to international politics, to lack of overall action.

THE NEED TO SAVE ENERGY TODAY VS. A YEAR AGO[1]

Latest Survey	Decreased	Remained The Same	Increased	
Total Public	8%	49%	38%	87%
By Sex				
Men	8%	51%	35%	86%
Women	7%	48%	40%	88%
By Age				
18-29	10%	42%	47%	89%
30-49	6%	56%	33%	89%
50 and over	8%	49%	34%	83%
By Education				
Less than high school complete	7%	50%	32%	82%
High school complete	9%	47%	42%	89%
Some college	7%	51%	39%	90%
By Family Income				
Under $10,000	6%	45%	41%	86%
$10,000-$15,000	11%	55%	32%	87%
Over $15,000	8%	55%	35%	90%
By Race				
White	7%	51%	36%	87%
Nonwhite	9%	35%	54%	89%
By Party Preference				
Democrat/Lean Democrat	10%	49%	36%	85%
Republican/Lean Republican	6%	53%	34%	87%
Independent	5%	48%	44%	92%
By Occupation				
White collar	10%	48%	40%	88%
Blue collar	8%	51%	35%	86%
Not employed	6%	50%	37%	87%
By Region				
East	6%	47%	40%	87%
Midwest	9%	52%	35%	87%
South	7%	48%	39%	87%
West	9%	50%	38%	88%
Environmental Activists	11%	49%	38%	87%

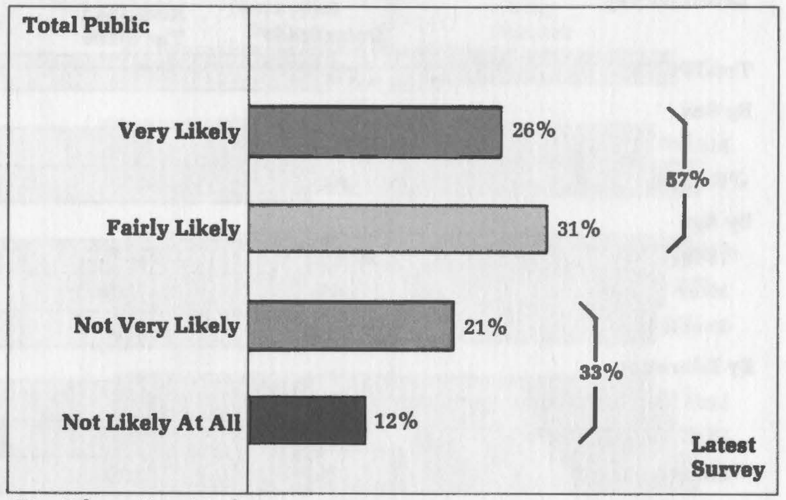
"Don't know" omitted

[1]"Compared to what it was a year ago, would you say the need to save energy has increased, decreased, or remained about the same?"

The likelihood of another oil embargo is considered a distinct possibility by a majority of the public. All segments of the population share this attitude, with very few (12%) discounting the possibility of another cutoff of oil imports.

LIKELIHOOD OF AN OIL EMBARGO

"In 1973 the oil-exporting countries cut off oil to the U.S. How likely would you say it is that the oil-exporting countries will again cut off oil to the U.S. sometime within the next 12 months—would you say very likely, fairly likely, not very likely, or not likely at all?"

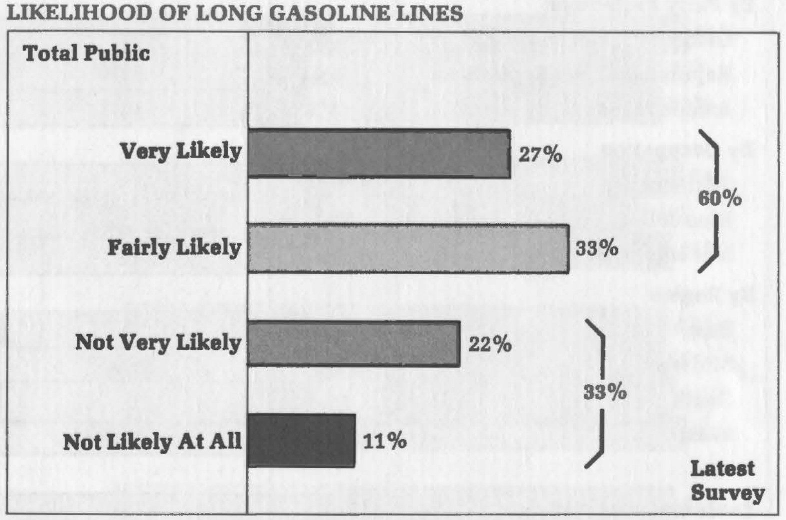


"Don't know" omitted

A similar proportion also believe that another oil embargo would lead to long gasoline lines—a view shared almost equally by people in all parts of the country.

LIKELIHOOD OF LONG GASOLINE LINES

"At the time that the oil-exporting countries cut off oil to the U.S. there were long gasoline lines. How likely would you say it is that this could happen again within the next 12 months—would you say very likely, fairly likely, not very likely, or not likely at all?"



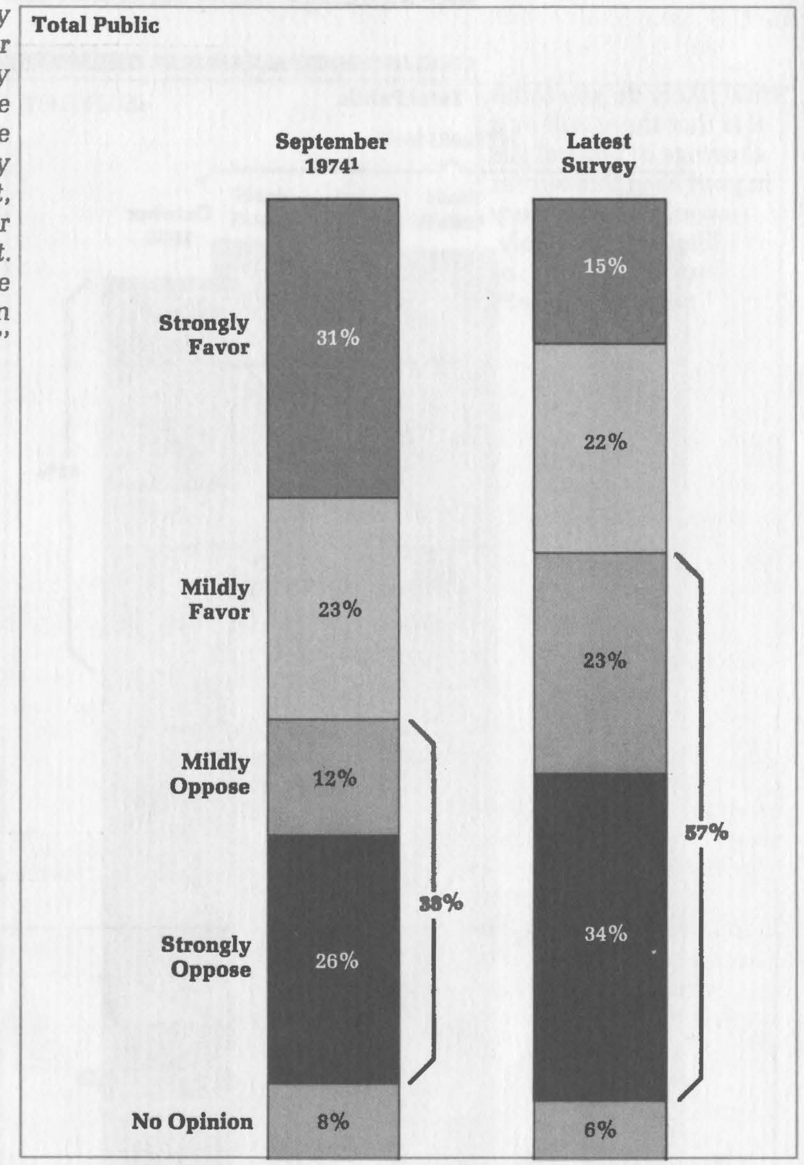
"Don't know" omitted

Overall, a majority of people now oppose increased dependence on foreign oil—a dramatic change in attitudes from a year ago.

This view is shared almost equally by those of all political persuasions, whether Democrats, Republicans, or Independents, and by people in all parts of the country.

OPPOSITION TO INCREASING OIL IMPORTS FROM FOREIGN COUNTRIES

"There have been many suggestions made for improving the energy situation. As I read these suggestions, please tell me if you strongly favor it, mildly favor it, mildly oppose it, or strongly oppose it. . . . More oil should be imported from foreign countries."



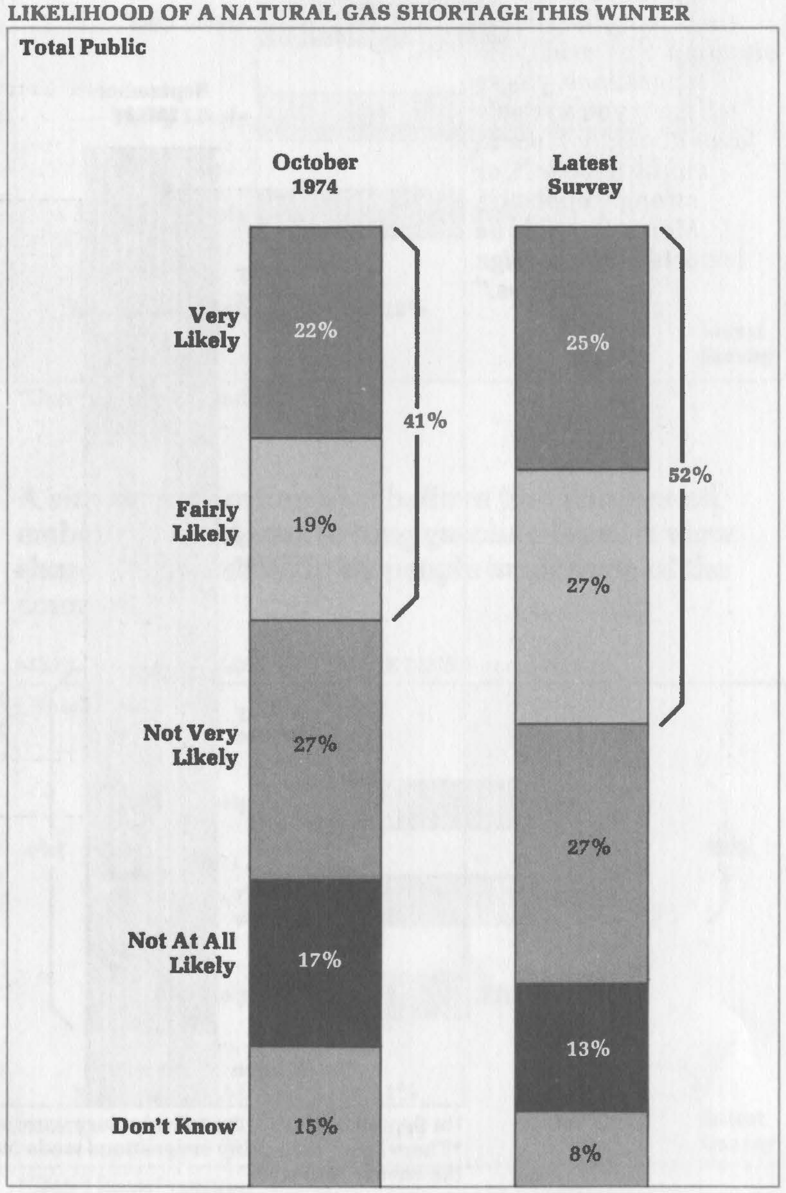
[1]In September, 1974, the introductory wording to the question was, "There have been many suggestions made for solving or at least lessening the energy shortage."

Attitudes toward the possibility of a natural gas shortage have changed so that now a majority of the public believe there is a likelihood of such a shortage this winter.

Majorities of people in all parts of the country, except the West, anticipate a shortage in their area. About half the residents in all types of localities—rural, small towns, suburbs, and cities alike—also foresee the possibility of such a shortage.

LIKELIHOOD OF A NATURAL GAS SHORTAGE THIS WINTER

"How likely do you think it is that there will be a shortage of natural gas in your area this winter—would you say very likely, fairly likely, not very likely, or not at all likely?"

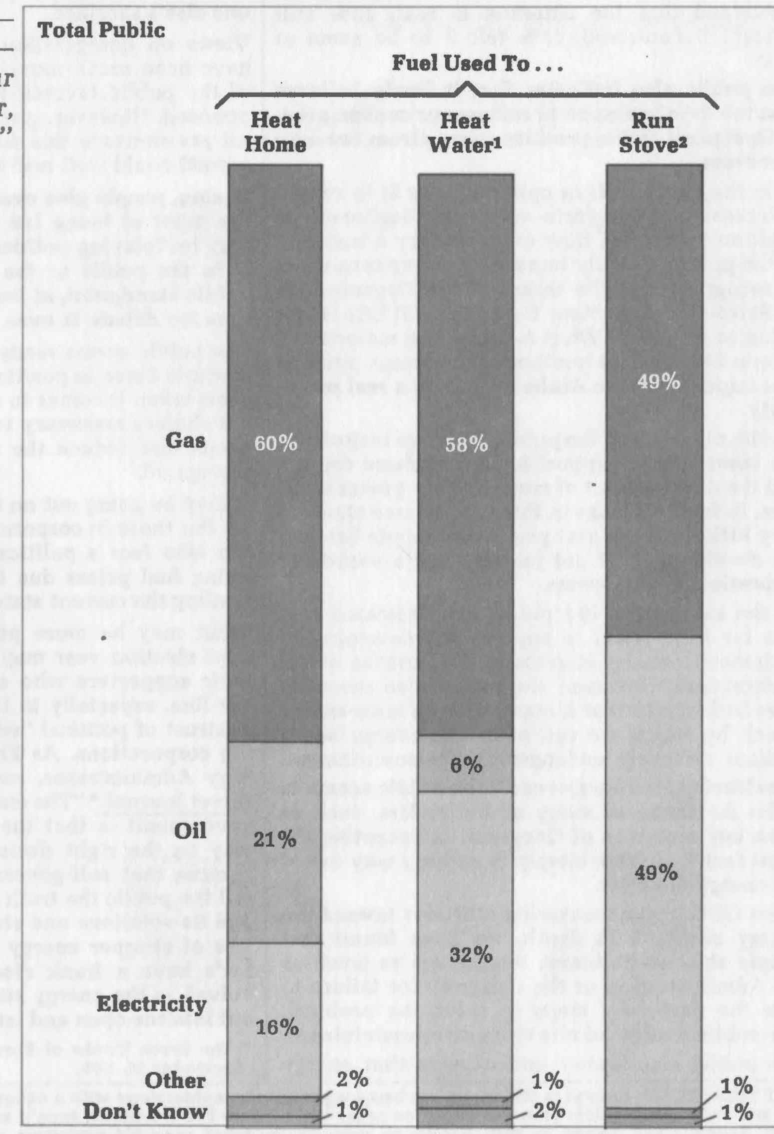


The fear of such a shortage is significant since natural gas is the fuel most widely used in the home, according to the testimony of the public itself.

What is more, homes in all parts of the country are highly dependent on gas for one use or another. For example, 46% of those in the East say they use gas for home heating, with even more people reporting such use in other parts of the country: 74% in the Midwest; 52% in the South; and 70% in the West.

FUELS USED IN HOUSEHOLDS

"Which of these—gas, oil, or electricity—is used to . . . heat your home, heat your water, run your stove?"



[1]Percentages do not total 100 because of computer rounding.
[2]Less than one-half percent use oil to run the stove.

Implications For Management

Attitudes revealed in this study and other ORC energy research indicate that the public seems ready to recognize and accept the fact that the energy shortage is real and that the era of cheap energy is over.

As data on pages two and three indicate, the overwhelming majority of people not only acknowledge the need to save energy but also say that doing so is even more important than it was a year ago. Moreover, almost half (49%) of the public also think that this need will extend far into the future.

What is more, attitudes have changed significantly in regard to whether the energy situation is real or contrived. A year ago the public was divided over the issue: 32% believed the energy shortage to be real; 37% believed it to be contrived; 25% felt it to be some of both. By the middle of 1975, the bulk of Americans (45%) had concluded that the situation is real; 32% still thought it contrived; 17% felt it to be some of both.

The public also indicates that it firmly believes that the time has come to reduce our consumption of foreign oil and to produce energy from our own resources.

Note the sharp shift in opinion (page 5) in regard to increasing oil imports–with some degree of opposition to imports now expressed by a majority of the public. Equally important, Americans seem to recognize that the threat of the Organization of Petroleum Exporting Countries (OPEC) is not going to go away. What is more, the majority of people believe that another oil embargo, such as that imposed by the Arabs in 1973, is a real possibility.

On the other hand, the public, by large majorities, has continued to support further offshore drilling and the development of more nuclear power facilities. In fact, attitudes in this regard have changed very little over the past year, with people backing the development of not just one but a variety of domestic energy sources.

At the same time, the public has indicated that it is far from ready to support the development of domestic energy sources at the expense of the environment. However, the public also seems to have little doubt that a reasonable balance can be struck by which we can meet our energy needs without seriously endangering the environment.

Considering its views overall, the public seems to to be far ahead of many of its leaders, such as some key members of Congress, in accepting the blunt fact that there simply is no easy way out of the energy dilemma.

Since ORC began measuring attitudes toward the energy situation in depth, we have found that people as a whole blame themselves as much as the Administration or the Congress for failure to take the necessary steps to solve the problem. The public readily admits to its own wastefulness. The public also knows and expects that energy will cost more, whether it is gasoline or electricity. People don't like the idea of higher prices for energy. But they expect the costs to go up. And the majority expect the price of oil and gas to have either a fair amount or great deal of impact on inflation.

Also, the public appears more in a mood than many of its leaders may suspect to accept the deregulation of oil prices if it will encourage U.S. production. For example, 55% of the public have said in the past six months that they favored such a proposition.

The public, however, has indicated that it wants the Administration and Congress to put a lid on any "windfall profits" or special advantages for energy companies that might come about because of deregulation of prices. As we have said before, people also might more readily accept more stringent controls over their own use of energy if they are assured that no one will profit from someone else's sacrifice.

Views on deregulation of prices of natural gas have been much more mixed. In June, only 35% of the public favored the idea, while 46% were opposed. However, growing concern over a natural gas shortage this winter (see page six of this report) could well lead to changes in this attitude.

In sum, people give every indication of coming to the point of being fed up with those they think may be "playing politics" with energy, whether it is in the public or the private sector. From the public standpoint, at least, it would seem that the time for debate is over. The time is for action.

The public seems ready "to bite the bullet." Now it wants those in positions of leadership to do the same when it comes to making the hard, unpleasant choices necessary to meet the nation's energy needs and reduce the country's dependence on foreign oil.

It may be going out on the proverbial limb to say so. But those in corporate circles and in Washington who fear a political backlash as a result of rising fuel prices due to decontrol may be misreading the current state of the public mind.

What may be more politically palatable in the next election year may be those candidates and their supporters who candidly lay the issue on the line, especially in this post-Watergate era of mistrust of political "wheeler dealers" as well as big corporations. As Frank G. Zarb, Federal Energy Administrator, recently wrote in the Wall Street Journal:* "The entire premise of democratic government is that the people can reason their way to the right decisions and make the hard choices that self-government requires. We must tell the public the truth about the energy problem and its solutions and stop making political promises of cheaper energy that cannot be delivered. Let's have a frank discussion of the issues involved in the energy situation, bring all the facts out into the open and let the people decide."

*"The Seven Truths of Energy," The Wall Street Journal, September 10, 1975.

ABOUT THIS STUDY: Results in this report are based upon telephone interviews with a national probability sample of persons age 18 and over. Latest public attitudes shown on pages two through five are drawn from a sample of 1,020 adults interviewed between August 4 and August 29, 1975. Results on page six are based upon 516 interviews conducted between August 4 and August 16, 1975. Data on page seven are drawn from a sample of 1,222 adults interviewed between May 31 and June 22, 1975. Index *Attitude Trend Data* draw on previous samples of the adult general public.

Opinion Research Corporation an Arthur D. Little company
North Harrison Street, Princeton, New Jersey 08540, Telephone: 609/924-5900 **80131**

see Robinson

February 2, 1976

MEMORANDUM TO: FRANK ZARB

FROM: JACK MARSH

Congressman Kenneth Robinson has sent me the resume of a constituent who has a background in the energy field. This individual, Mr. C. Preston Locher is interested in a consultant post at FEA, should you have need of his expertise. If such is the case, I suggest you communicate directly with Congressman Robinson or C. Preston Locher.

Many thanks.

JOM:cb

May 15, 1976

MEMORANDUM FOR: FRANK ZARB

FROM: JACK MARSH

I think this deserves special attention because of the California trip.

I would appreciate FEA's comments and Q&As for the President.

Many thanks.

JOM/dl

May 13, 1976

Dear Bill:

Thank you for your May 11 letter to the President concerning Federal Energy Administration regulations and their effect on the production of petroleum in California.

Be assured that I will bring your letter and the material you enclosed to the attention of the President without delay. Copies will also be shared with the appropirate advisers.

With kindest regards,

Sincerely,

Charles Leppert, Jr.
Deputy Assistant
to the President

The Honorable William M. Ketchum
House of Representatives
Washington, D.C. 20515

bcc: w/inc to James Cannon - for further action
bcc: w/inc to Bill Nicholson - FYI (The letter to the President from C. C. Albright, President of the California Independent Producers Association, regarding a possible visit to Wilmington Oil Field had not been received as of 5/13, per White House Mail Room.)
bcc: w/inc to ~~[illegible]~~ Jim Cavanaugh - FYI
bcc: w/inc to Jim Shuman - FYI

CL:JEB:VO:kir

WILLIAM M. KETCHUM
18TH DISTRICT, CALIFORNIA

413 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2915

ADMINISTRATIVE ASSISTANT
CHRISTOPHER C. SEEGER

DISTRICT REPRESENTATIVE
MEL BAUGHMAN

JM

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEE ON WAYS AND MEANS

KERN, INYO, TULARE AND
LOS ANGELES COUNTIES

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800 TRUXTUN AVENUE, # 302
BAKERSFIELD, CALIFORNIA 93301
(805) 323-8322

567 W. LANCASTER BOULEVARD
LANCASTER, CALIFORNIA 93534
(805) 948-8116

192 B E. LINE STREET
BISHOP, CALIFORNIA 93514
(714) 873-7171

May 11, 1976

MF
encl

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing to you in an effort to correct a most serious inequity in FEA regulations which will have serious consequences for the production of petroleum in California. This letter is necessitated by the stubborn refusal of Mr. Zarb to recognize a gross mistake on the part of his Department and to take the steps required to correct it.

For well over a year, those of us concerned with the decline of domestic production have pointed to the gravity price differential in California as a prime culprit. This sets a controlled price for California lower tier crude oil at $4.21 per barrel, as against a national average of $5.25 per barrel. I honestly do not know how FEA can expect a producer to drill when this is the price he is going to get- $1.04 below what producers in other states receive!

As you know, Mr. President, I happen to be opposed to all price controls on oil and gas. But support of an end to the current discrimination against California crude is not confined to advocates of decontrol. As a matter of fact, the <u>entire</u> California congressional delegation, the two houses of the California Legislature, both California United States Senators, the Governor, Lieutenant Governor and Controller of California have <u>all</u> endorsed this position. One can hardly get more non-partisan than that!

Mr. President, this is a most important issue to California. All we ask is to be treated equally, The only real argument against us seems to be FEA's reluctance to admit it made a mistake.

I respectfully ask you to look over the enclosed letter from the California Independent Producers Association, and to take personal action to grant us equity.

Thank you for your consideration.

Sincerely yours,

William M. Ketchum
Member of Congress

WMK:kobd

CIPRO

CALIFORNIA INDEPENDENT PRODUCERS ASSOCIATION

P. O. Box 7516, Long Beach, Calif. 90807 Phone (213) 427-7141

C. C. Albright
President

Jerome J. O'Brien
Vice President

Lysle Snow
Secretary-Treasurer

James H. Woods
Executive Vice President

MAY 07 REC'D

April 30, 1976

Honorable William M. Ketchum
House of Representatives
Cannon Office Building
Washington, D. C.
20515

Dear Congressman Ketchum:

At the request of Ray Bradley, Berry Holding Company, enclosed is a draft of the letter that will appear in the Oil Daily on May 10, 1976. The letter will also be hand delivered to the President the same day, or the preceeding Friday.

I have highlighted the statistical information regarding lost barrels of oil production. The information from our survey is approximate. I'll send you a copy of the final report when it is completed.

Sincerely,

James H. Woods

James H. Woods
Executive Vice President

enc.

jhw/ks

cc: Ray Bradley

The White House
Washington, D. C.

Dear Mr. President:

You are hereby cordially invited to be our guest for a tour of the giant Wilmington Oil Field during one of your visits to California in the near future.

In the best interest of the energy supply of the United States, I believe that you should be personally aware of the impending disaster facin California lower tier oil production and future oil reserves from enhanced recovery.

Lower tier crude oil producers in California are discriminated against because the gravity price differential is "locked in" by the FEA at 6.2 cen per gravity degree instead of 2 cents per gravity degree differential existing in all other oil producing states except Alaska. Thus, California lower tier crude oil prices average $4.21 per barrel instead of the $5.25 per barrel average of the Nation. This has caused many thousands of barrel per day, and hundreds of millions of barrels of oil reserves to be facing premature abandonment.

A classic example is the Wilmington oil field which produces 177,000 barrels per day and is the Nations second largest producing oil field under expensive enhanced recovery by water flood. Facts obtained during a recent tour of the field are as follows:

1. Throughout the field, 428 wells capable of producing 7,[illegible] barrels per day are currently shut-in because they are uneconomic to produce or not profitable to return to production after minor damage because the costs of producing exceeds the $4.21 average price of the oil. In addition, 24[illegible] wel producing 6,794 barrels per day are currently at the economic limit and subject to being shut-in in the near future.

2. In the old Wilmington part of the field which is currently produci 77,000 barrels a day, 36,000 barrels per day are marginal because of greatl

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Washington, D. C.

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A classic example is the Wilmington oil field which produces 177,000 barrels per day and is the Nations second largest producing oil field under expensive enhanced recovery by water flood. Facts obtained during a recent tour of the field are as follows:

1. Throughout the field, 428 wells capable of producing 7,303 barrels per day are currently shut-in because they are uneconomic to produce or not profitable to return to production after minor damage because the costs of producing exceeds the $4.21 average price of the oil. In addition, 243 wel producing 6,794 barrels per day are currently at the economic limit and subject to being shut-in in the near future.

2. In the old Wilmington part of the field which is currently produci 77,000 barrels a day, 36,000 barrels per day are marginal because of greatl

for enhanced recovery, the secondary recovery oil reserves are estimated be 250 million barrels, and the tertiary recovery oil reserves are estima to be 600 million barrels. This means that the price of oil must stay ah of the costs of producing it. Production costs have doubled since the pr freeze in 1973 and are currently increasing at a rate of 15% a year under curtailed operations. In this part of the field it is estimated that the will be a loss of $32 million in 40 months under FEA price controls if pr duction continues.

As neither the largest interest holders, the State of California, an the City of Long Beach, nor the forty other participants, including thirt five small Independent Oil Companies, can long continue to operate under expensive enhanced recovery at an escalating loss, 36,000 barrels per day oil production faces premature abandonment in the near future.

Therefore, with abandonment pending, approximately 1,000 employees would lose their jobs, and the local economy would lose $65 million annua Further redevelopment of this part of the field would be unrealistic beca of the high value of the surface area. If this part of the field is abandoned, it is estimated that the cost of redevelopment would be $400 million. Also, if this part of the field is abandoned, 850 million barre of oil reserves are lost to the Nation. This includes an estimated 250 million barrels of secondary recovery oil and an estimated 600 million ba of tertiary recovery oil in the future under higher prices.

3. As to the Long Beach Unit part of the field which is currently p ducing 100,000 barrels per day also under expensive enhanced recovery by water flooding, the lower tier price is $4.20 per barrel. Because of the fact that in November 1975, the Federal Energy Administration denied the petition of the State of California, the City of Long Beach and the Cali Independent Producers Association for adjustment of the gravity different which would have given California producers price parity with other parts the country, operations have been sharply curtailed during the past sever

months. Production stimulation, dri'ling, redrilling and injection well to maintain production rates has practically ceased. Only one work over is active in this great oil reserve. If this curtailment of operations continues, an additional 33,000 barrels per day loss in production from resulting rapid decline rate will be the inevitable result in 40 months. 22 million barrels of oil production will be lost.

Thus, by the end of the 40 months price control period under the FE regulations, the total Wilmington field loss of production may be 36,00(barrels per day from the old part of the field, and 33,000 barrels per (from the Long Beach Unit part of the field, for a total loss of 69,000 barrels per day.

The Governor of California, the Lieutenant Governor, the State Con the California Independent Producers, all California Congressmen, the t Senators, and all the California State Legislators have appealed to the to correct this inequity. They have stated that, in the best interests increased production and reserves, California crude oil prices should b allowed to reach parity with those prices existing in other oil produci states. The FEA has stated that they will consider our Appeal during t Third Stage Hearings later this month. A potential loss of $200 millio annually to California's taxpayers is in the balance.

Oil production now being lost in California is being replaced by $ per barrel imported O.P.E.C. oil. Hundreds of millions of barrels of t Nations valuable oil reserves will be lost forever, if wells uneconomic duce because of FEA regulations are abandoned in the near future in the Wilmington Field, as well as in other oil areas of the State. This is good for the California consumer, the economy, the job situation, or th energy security of the Nation.

In addition, a recent poll taken of a cross-section of eighteen In pendent Oil Producers of lower tier oil throughout other parts of Calif showed that if the gravity differential was adjusted to 2 cents by the and California lower gravity oil was raised to parity prices, an additio 15,000 barrels per day, and 55 million barrels of oil reserves would be result of additional development, reworking and enhanced recovery by wat flooding or steaming.

Therefore, as the Commander in Chief, you are invited to see the Wilmington Oil Field, the principal battlefield in the conflict between the FEA and the Independent Oil Producers, the City of Long Beach, and t State of California.. A trip to one of the offshore drilling islands by boat or helicopter would be a highlight of the tour.

Very truly yours,

C. C. Albright
President, California Independent
Producers Association

CCA:jp

MAY 21 1976

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

May 21, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR JACK MARSH

FROM: FRANK G. ZARB Z

SUBJECT: GRAVITY PRICE DIFFERENTIAL FOR CALIFORNIA CRUDE OIL

Pursuant to your request, attached is the following information:

(1) An historical summary of the actions taken by the Federal Energy Administration with respect to crude oil gravity pricing differentials;

(2) Questions and Answers for the President.

Attachments

SUMMARY OF ACTIONS TAKEN BY
THE FEDERAL ENERGY ADMINISTRATION
CONCERNING
CRUDE OIL GRAVITY PRICE DIFFERENTIALS

BACKGROUND

Crude oil normally is and has been sold at prices that reflect, among other factors affecting quality, differences in "gravity", which is a measure of density or weight per unit volume. The American Petroleum Institute (API) system for measuring the density of crude oil is in degrees, with oil at a gravity of ten degrees (10 API) equivalent to the density of water, and with higher degree measurements indicating lesser densities. Water at 10 API, for example, weighs 351 pounds per barrel, while gasoline at 60 API weighs 259 pounds per barrel. While the gravity of most domestically produced crude oil falls within the 26 to 36 API range, crude oil produced in California is generally heavier, most falling below 20 API.

Historically, since the lighter density crude oil (with a higher API degree measurement) could more easily be separated into products such as gasoline, diesel fuel, and jet fuel, for which demand (and prices) was higher, and since the heavier crude oils, on the other hand, generally produced products such as residual fuel oil, for which demand was considerably less, refiners generally have paid a premium for higher degree (or lighter density) crude oils.

On May 15, 1973, gravity price differentials for crude oil averaged between 2 and 2.5 cents per degree per barrel nationally, while gravity price differentials in California, however, averaged 6.2 cents per degree per barrel. Pursuant to 10 CFR 212.73 which establishes for each grade of crude oil in each field a ceiling price equal to the highest posted price on May 15, 1973 plus $1.35 per barrel, "old" crude oil prices continue to reflect the gravity price differentials existing on May 15, 1973.

Thus, since most crude oil produced in California is heavy, and reflects a 6.2 cents per degree gravity price differential, the current average price for old crude oil in California is $4.21 per barrel compared with the FEA-computed national average price of $5.25 per barrel.

On July 1, 1975, the Federal Energy Administration (FEA) gave notice (40 FR 28637, July 8, 1975) of a proposed rule-making and public hearing to consider whether to amend 10 CFR 212.73 (ceiling price rule) to permit an adjustment to the May 15, 1973 gravity price differential for heavy California crude oil.

Comments were received from more than thirty-five interested parties, predominantly California producers and royalty owners, and State and local governments. A public hearing was held on August 5, 1975, at which oral presentations were received from thirteen interested parties.

The rulemaking proceeding was initiated in response to suggestions that the historical, economic and technical factors which had resulted in the gravity price differential that existed for California crude oil on May 15, 1973 might no longer be relevant. These were: first, since most California crude oil is heavy and difficult to refine into lighter products, it was used primarily to produce residual fuel oil. Since residual fuel oil competed with natural gas, available in abundant quantities at low prices as a fuel for electric utilities, the price of residual oil was relatively low. Second, although technology in the refinery industry made possible the conversion of heavy crude oil into lighter products, the higher costs of equipment necessary for this process tended further to restrain prices of heavy crude oil since recovery of these additional cost was possible only in sales of lighter products refined from light crude oil.

The rulemaking sought to determine (1) whether an amendment to the regulations would be in keeping with FEA's commitment to stimulate domestic crude oil production by increasing the incentives for and economic feasibility of recovering a greater percentage of the proven reserves that exist in the California heavy crude oil areas; (2) whether the benefits consumers would realize from any resultant increased production would more than offset the adverse impact of the price increase that would result from a permitted adjustment in the gravity price differential; and (3) whether any increased production resulting from such an adjustment would help to reduce U.S. dependence on higher priced foreign imports.

Based on the comments received, FEA decided that the proposed regulatory amendment was not justified.

While the gravity price differential for heavy crude was found in November 1975 to be less for "new" and "released" crude oil produced in California than it was for crude oil produced in May 1973, FEA concluded that narrowing of the differential for upper tier controlled crude oil did not necessariy reflect long term market changes. Instead, FEA concluded the differential reflected the fact that FEA's price regulation allowed a disproportionate amount of increased crude costs to be reflected in residual fuel oil prices and that refiners had tended prior to controls to price domestic residual fuel oil at imported price levels. Thus, domestic reiners of residual fuel oil were able to charge higher prices for residual oil than for other domestic products such as middle distillates relative to May 1973. This may have been a significant reason for the relatively greater demand for uncontrolled upper tier heavier crude oils and thus their relatively higher prices in 1975 vis-a-vis the historical level existing on May 1973. FEA has not yet been able to determine whether such values would continue to be reflected in California crude oil prices absent the current regulatory scheme.

FEA also was not convinced that the upward price adjustment sought by California producers would be likely to result in the recovery of significantly greater volumes of the proven reserves that exist in the California heavy crude oil areas than would be expected to be recovered from other old oil fields outside California if similar price incentives were applied. Although FEA fully recognized the necessity for new price incentives to maintain old oil production at or above current levels, it found no reason to believe that greater incentives were needed in California than in the rest of the nation, or that a particular inequity existed with respect to the pricing of California crude oil because production costs increased there more rapidly than elsewhere in the United States. It should be also noted that the $1.35 increment above May 15, 1973 prices which FEA allowed in computing old oil prices had already had the effect of raising the price of heavy California crude oil by a greater percentage than that obtained by more expensive lighter density crude oils. The $1.35 adjustment therefore had reduced the relative differential between light and dense old oil.

CURRENT ACTION

The FEA has undertaken to implement the crude oil pricing policy of the Energy Policy and Conservation Act ("EPCA", P.L. 94-163) in three stages. On February 1, 1976, new domestic crude oil price regulations were adopted to implement the first stage (41 FR 4931, February 3, 1976). The regulations established a two tier domestic crude oil pricing system, with lower tier prices estimated to average approximately $5.25 per barrel nationally and upper tier prices estimated to average approximately $11.28 per barrel nationally.

It should be pointed out that, in the first stage rule-making proceeding, FEA solicited comments on the extent, if any, to which information not previously made available (Subsequent to November 21, 1975) might tend to offset the conclusions stated in FEA's prior decision not to permit adjustments to May 15, 1973 price differentials. Inasmuch as comments received in the prior proceeding indicated that the considerations that obtained in California also obtained in Alaska and perhaps elsewhere with respect to this issue, FEA also considered whether to amend the regulations with respect to crude oil produced in Alaska or elsewhere in the same manner as was proposed initially with respect to crude oil produced in California. In this regard, FEA solicited data in support of the extent to which any adjustments were permitted (and prices for old crude oil were permitted to increase) FEA would be required to make the statutory findings of Section 8(b)(2) of the EPCA, i.e. that an increase in old oil price meets the following criteria necessary for more expensive production or is necessary to maintain or increase production. Accordingly, FEA indicated that comments should address the extent, if any, to which an adjustment to May 15, 1973 differentials for heavy crude oil produced in California, Alaska or elsewhere, (A) would give positive incentives for (i) enhanced recovery techniques, or (ii) deep horizon development for such properties; or (B) is necessary to take into account declining production from such properties; and (C) is likely to result in a level of production from such properties beyond that which would otherwise occur if no such amendment were made.

Only a small proportion of the total number of comments received in the first stage rulemaking proceeding addressed this issue. However, those in support of an adjustment to gravity price differentials for California crude oil, while submitting a large quantity of data, did not address (1) the extent to which the regulations proposed in the January 6 notice would affect any of the economic forecasts developed by California producers and royalty owners, which were based upon the prior regulations, or (2) the extent, if any, to which the statutory findings referred to above could be made.

Accordingly, the resolution of this issue was deferred for further consideration in connection with the resolution of this third rulemaking stage.

On April 8, 1976, FEA adopted amendments to implement the Second Stage of the EPCA (41 FR 15566, April 13, 1976). The amendments provide for monthly upward adjustments in the composite price, beginning in March 1976 to take into account the effects of inflation and to provide additional production incentives. In effect, these amendments provide for upward monthly adjustments both to the lower and to the upper tier domestic crude oil prices and for semi-annual reductions in the base production control levels for certain properties to reflect the natural rate of production decline on those properties.

Comments were solicited in this second stage to afford as much of an opportunity as possible to develop the required data to amend the existing gravity price differentials.

On May 7, 1976, FEA published a notice of proposed rulemaking (41 FR 18873, May 7, 1976) to implement the third stage of the crude oil pricing policy of the EPCA, in which the FEA will consider whether additional incentives are needed to maintain or increase production of crude oil and whether an amendment to provide such additional incentives should be adopted.

FEA has requested comments on adjustments to the May 15, 1973, gravity price differentials for heavy crude oil. These comments are scheduled in response to numerous California producers and royalty owners as well as Federal, State, and local government officials requests for reconsiderations of FEA's earlier conclusion. (40 FR 54263, November 21, 1975). More specifically, FEA has solicited additional comments that will address those issues that were not directly addressed during the first rulemaking stage:

(1) The effect of the old crude oil price increase contemplated, and

(2) The extent to which the statutory requirements (EPCA, 8(b)(2)) can be met.

In addition, FEA also is seeking specific data which will demonstrate any expected loss of production that will occur under the February regulations and under the stage two adjustments.

Since the first and second stage regulations are designed to provide incentives for increased production from all properties producing old crude oil, comments have also been requested as to whether these incentives are adequate for California production.

The notice of proposed rulemaking also seeks data which will identify any fields from which production is expected to be lost.

Regional hearings on the third stage rulemaking will be held in, inter alia, in Los Angeles on June 8, 1976 at 9:30 a.m.

COMMENT

The oil gravity differentials which were "locked in" effective May 15, 1973, for what is now termed lower tier crude oil were set by free market forces on that date. The FEA regulations have to date preserved these gravity differentials; it did not create them.

The direct comparison of average California crude oil prices to the national crude oil price for lower tier crude oil implies that the oils are of like quality and like value. This is not correct. California crude oil averages approximately 15 degrees lower API gravity and is higher in average sulphur content than the average crude oil produced in the rest of the country. A price differential would therefore be expected between average California grade crude oil and that produced elsewhere in the United States.

The Wilmington oil field has been cited repeatedly by California operators as an example of a high-cost field, producing largely under secondary (water flooding) operations which will either lose production or fail to gain attainable oil production because of low crude oil prices. Excellent data have been supplied on this field to the FEA and the following conclusions have been tentatively reached:

1. The claims for the field have been exaggerated

   o A major portion of "shut-in" production would stay "shut-in" if requested crude oil lower tier California price changes were made.

   o A major portion of claimed production increases that could be obtained given increased lower tier oil prices can be justified economically at present prices.

2. Administrative remedies are available to maintain production. As each unit or property approaches non-economic operating status the FEA can, upon appeal, grant the operator the right to sell part of the production at upper tier crude oil prices.

3. Production will not be "lost" from the Wilmington field, and other like fields, as a result of deferred production expenditures. It will largely be deferred until crude oil prices increase with time. Crude oil production "lost" in 1976-1979 will, presumably, be "gained in 1980-1983.

4. The claims for increased oil recovery via tertiary recovery operations in the Wilmington oil field may be immaterial to lower tier oil pricing. If satisfactory <u>national</u> oil pricing regulations can be developed,

those parts of the field subjected to new oil recovery methods would qualify, largely for increased oil prices.

CONCLUSION

1. FEA, as evidenced by the number of hearings held on the subject, has provided ample opportunity for the proponents to supply supporting evidence.

2. Claims that production will be significantly curtailed have not been to date supported by specific data to warrant a regulatory change.

3. FEA has provided additional incentives to crude producers within the perameters of the EPCA to increase production and is seeking through the third stage evidence as to what additional incentives are necessary.

4. If such incentives are in fact inadequate, producers may request special consideration which will be granted upon a showing of economic hardship or gross inequity. To date, a general request by California producers has been denied.

5. Any rule change must be supported by facts and be warranted in light of other considerations such as national production and the costs of new production. The desire for individual economic largesse cannot be a primary consideration.

QUESTION

Why is the Federal Energy Administration refusing to grant price increases for crude oil owned by the State of California? These increases are necessary to treat this oil equitably with other parts of the Nation and to increase oil production. [Answer - see below]

BACKGROUND

California crude oil is primarily low gravity (low quality) crude that has historically sold for less than higher gravity (higher quality) crudes. The State of Alaska, some Texas fields and Iran have a similar crude and hence, lower average prices.

The current spread of $1.04 between the California crude and the national average ($4.21 for California versus $5.25 for old oil nationally) reflects the spread that existed prior to controls - when the free market determined the prices of various quality crudes.

The State of California has been trying to get FEA to raise the price on this crude for over a year without success. The State claims that fields are being shut in, production lost, and the state denied revenues as a result of the FEA price rules and FEA's refusal to grant relief.

FEA argues that the state has not presented sufficient evidence to justify its claims according to the stringent requirements laid down in the Energy Policy and Conservation Act (and its predecessor, the Emergency Petroleum Allocation Act), and that it cannot act until this evidence is provided. FEA cites other cases where such relief has been granted on the basis of evidence provided by the field operator. It also argues that some old oil is selling for less today than the California crude, and similar claims are not being made for those fields.

State officials recently agreed that adequate data had not been presented and have asked for additional time to prepare the data. FEA has granted this request. If FEA eventually grants relief, other oil prices will have to be reduced elsewhere in the Nation to maintain the composite average of $7.66 (now $7.67) required by the EPCA.

Frank Zarb has indicated that the California crude may be one of those situations justifying an increase in the domestic average price greater than the 10% allowed administratively by the EPCA. A public hearing is being held on this now, and a proposal may be sent to Congress this summer asking for a higher escalator that includes California crude along with other opportunities.

ANSWER

I am sympathetic with Californians and all other producers in the country who have to sell their oil at controlled prices - particularly those who have old oil. I was the one urging decontrol all of last year, but the Congress was heavily opposed. This opposition was expressed in the energy act that I reluctantly signed last December, primarily because it was the best bill we were going to get out of the Democratically controlled Congress.

Many Congressmen thought the prices in that bill were too high. 216 members of the House - including many of those in the California delegation voted for a bill last summer (H.R. 7014) that would have rolled back the California prices everyone is now complaining about by $1.00 - from $4.21 to $3.21! Fortunately, we did better than that.

Given my strong belief that higher prices are needed to encourage greater domestic production, I have asked Frank Zarb to do everything he can to raise prices as much as possible under the energy act to increase domestic production, including California production.

The criteria in the energy bill to do this are stringent, and FEA must strictly adhere to the law. It should also be noted that any increases given to California crude oil will have to be offset by reductions in crude oil prices elsewhere unless Congress agrees to raise prices.

FEA is currently gathering evidence regarding the need to raise prices to increase domestic production. This project includes a specific evaluation of the California crude situation. If the data supports the need for higher prices, FEA will propose an increase which will go into effect unless the Congress vetoes it.

Called
12/30
8:30
dl

Date: 12/29
[1976]

From: The Assistant Administrator
For Operations, Regulations and Compliance

DONNA [redacted] LARSON -

ATTACHED IS THE PROPOSED FEA MEMO ON GASOLINE DECONTROL. UNLESS WE HEAR DIFFERENTLY PRIOR TO 1:00 PM, THE FINAL VERSION WILL REFLECT MR. FRIEDERSDORF'S PREVIOUS VOTE (I.E. FOR OPTION 1). IF ANY QUESTIONS, PLEASE CALL RANDY HARDY, 254-8505,

Option #1

V/R,

[illegible]

FEDERAL ENERGY ADMINISTRATION

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB
ADMINISTRATOR

SUBJECT: GASOLINE DECONTROL

Background

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

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

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

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

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

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

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

Options

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

Option 1

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

Pros:

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

Cons:

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

Option 2

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

Pros:

- Fulfills your commitment to phase out unnecessary gasoline decontrols.

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

Cons:

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

Option 3

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

Pros:

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

Cons:

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

Option 4

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

Pros:

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

Cons:

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

Agency Coordination

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

PRESIDENTIAL DECISION

Option 1 __________
Option 2 __________
Option 3 __________
Option 4 __________