

FOR IMMEDIATE RELEASE

OCTOBER 10, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE
PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
ERIC R. ZAUSNER
DEPUTY DIRECTOR OF THE
FEDERAL ENERGY ADMINISTRATION
ROBERT FRI
DEPUTY ADMINISTRATOR OF ERDA
AND
JIM MITCHELL
ASSOCIATE DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

1:30 P.M. EDT

MS. WHITE: Good afternoon. I am Margita White, Assistant Press Secretary to the President.

As you know, the President today is submitting to the Congress a proposal for the Energy Independence Authority, and the President's proposal was announced in the White House press briefing this morning.

This is our second briefing, and we thought it would be helpful for all interested to have an opportunity to question experts involved from the various offices involved.

We have with us here Frank Zarb of the Federal Energy Administration, Eric Zausner, Deputy Director, Bill Seidman was joining us.

MR. ZARB: Bill has gone to Detroit with the President.

MS. WHITE: Robert Fri, Deputy Administrator of ERDA and Jim Mitchell, Associate Director of OMB.

It's all yours.

MR. ZARB: Thanks, Margita.

Why don't we get right to your questions? There are enough experts here, I think, to answer most of the questions you might raise.

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Q Can Mr. Fri tell us a bit about how ERDA's money and this agency's money will be coordinated and how you will avoid overrunning what ERDA is trying to find out?

MR. FRI: I think there are two or three aspects of it. First of all, there is ERDA's research and development money, and ERDA's money for price subsidies and loan guarantees of which we already have some.

The idea is that once this agency is set up and prepared to take it on, we would move the authority to administer the financial guarantees out of ERDA into the EIA. That becomes a fairly clear break.

With respect to the research and development funds, the statute in the bill sent up today provides a couple of important things. One is even if a project otherwise qualifies for EIA funding, if it is, in fact, still in the research and development stage, EIA will stay away from it and, by the process of elimination, we would be getting into it if it was worth doing.

Secondly, there is a coordination provision with all Members of the Energy Resources Council, of which we are a member on all projects, so we have a crack at it that way. I don't think there will be a serious problem for ERDA in all of this.

What will be happening is that, as we develop research projects to the commercial stage, a commercial judgment will be applied, either by the private sector on its own, or with EIA as to whether financial assistance ought to be supplied to do the first commercialization of that project. So that is a fairly clean cut, I think.

Q You don't see a situation where you will be building, say, a breeder and EIA would come in with supplemental money?

MR. FRI: Not while it is in the research and development stage, no. We would try to get it to the stage it could be commercialized, and while we might involve some private sector funding in it on a cost-sharing basis, once we are ready to build the first commercial breeder plant, certainly EIA could conceivably get into it.

MR. ZARB: I would just add two things. First, it is envisioned that ERDA would take things up to the pilot stage and then commercialization would be EIA. The EIA legislation provides for an ERC process to be accomplished before each project is funded.

ERDA and its Administrator is a Member of the Executive Committee and a Member of ERC, so there is a linkage and it gets tied together. So I don't think we have an extraordinary risk of overlaps.

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Q Then doesn't that keep EIA out of exotics for a number of years?

MR. ZARB: It depends on the form of exotics and its dimension. If you consider solar energy an exotic, at this moment, we don't seem to have the technology to produce a major size utility using solar capacity, you are right, there could be delays. But once it's clear the **technology** is there and the megawatt unit is up and operating and ERDA and others agree it is ready for commercialization, the next step can be accomplished quite quickly.

If you consider coal gasification and liquidation exotic -- **which** I don't -- then you are wrong. It is clear we now have the technology to go ahead, commercialize in both endeavors and EIA could make meaningful inroads into those two areas almost immediately.

Yes, sir.

Q Frank, to the extent private companies would be investing their own money in these projects and that EIA would be helping them out one way or another, you sort of presume a reasonable profit for the company making the investment.

At **what point** would the Federal Government begin profit sharing if the profits were to start rising?

MR. ZARB: The best example I can think of at the moment, and there will probably be different arrangements made as EIA gets functioning, is in the event a gasification plant is proposed -- I am using this as an example -- and the problem with the construction of such a plant is the uncertainty with respect to the cost per MCF when the plant is completed in 1985, the EIA makes a determination -- I am giving a hypothetical case -- that if they guarantee a certain price, \$2.50 per MCF for the first three to five years of output, that the projects can get done.

The EIA Board further concludes that that is a reasonable assumption, by 1985 that level per MCF, all things considered, will be at least at market level.

Now, they would write a contract that says, for the time we are in the thing with you, if it falls below, we will pick up the difference. But to the extent it goes above, we are going to share in the profits for that period of time. That is the clearest, cleanest example I can set out for you. There undoubtedly will be other arrangements.

Q What kinds of arrangements, 50-50?

MR. ZARB: We will leave that up to the Board, but 50-50 would be a likely kind of arrangement or maybe 70-30, depending upon the extent of the size and the extent to which the Government is involved.

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Q What is this going to do to ERDA's loan guarantees in the cynthetics field?

MR. ZARB: To the extent those guarantees are to be used for commercialized plants, that authority will be shifted to EIA.

Q Do you have any expectation the Congress is going to give this to you?

MR. ZARB: What kind of a question is that? (Laughter)

Look, I have been through a year of laying out eminently logical energy legislation that is absolutely essential for the future of the Nation.

The most recent exercise in that land occurs with respect to natural gas legislation, and the Congress has gone home on recess, and we have no natural gas legislation and there is a severe shortage facing us within the next four or five months.

If I use that as an indicator, I would have to answer your question with a very gloomy attitude. On the other hand, I do believe we can make a case that says, with the Nation having its production decline at an all-time low in the last nine years of oil, and peaked out in gas in the last two years, with imports increasing and consumption increasing, and OPEC raising its prices, that those who have been reluctant to approve our plans, it is getting near the point where they will have to produce their own answer or approve ours.

So it could be we will have a bill early in the year and that is what I am hoping for.

Q To follow up on that, other legislation has been proposed by people such as Senator Jackson, which, though certainly not identical to this, it does contain some of the same ideas.

Do you see a possible compromise emerging whereby features of each might be included in ultimate legislation?

MR. ZARB: There is always room for compromise in almost anything. And, of course, the Administration, being so eminently flexible, that is a clear possibility.

There are, however, so many principles that we have been unwilling to compromise in any other area, and there are a few here. This was never envisioned from our standpoint for the Government to buy and own and run energy facilities.

To the extent that becomes a trade off, our principle will hold rather fast.

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This programs envisions a little bit more with respect to advancement in advancing technologies, including, for example, advancing technologies in conservation areas, as well as advancing technologies in environmental areas where there is a linkage between our ability to install environmental equipment and thereby be able, for example, to burn more coal when we calculate that burning more coal is essential.

There are two tests here in our plan. It has to be essential to accomplish independence within that framework. Two, a case has to be made that it cannot be funded using private funds. Those are the two principal tests.

Beyond that, we are firm in that Government ownership is not a part of this program, and if where it occurs in a buy-lease-back arrangement, it is a transitory arrangement.

So in answer to your question, the likelihood of compromise is there, but compromising our principles, we will not.

Q Isn't it likely that where there is a certain risk, private funds will tend to dry up because of the availability of this public fund?

MR. ~~LAKE~~: Well, that is a risk, I suppose, any time the Government gets involved in anything and it really depends upon the quality of the board and the organization that we set forth.

The private sector makes decisions every day of the week with respect to what the private capital markets could do and what they will do. Every investment banking firm makes a judgment before it conducts an underwriting as to whether or not the private sector has the availability and capability and whether the terms are attractive enough to raise the money.

The same question will apply here. If the Board does its job right, we are not going to have that risk become a reality.

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Q Mr. Zarb, on August 29, Mr. Greenspan wrote a memorandum in which he said that the proposed corporation raises dangers of real or perceived political manipulation and creates a large potential for real or perceived corrupt practices.

I have the draft which he was talking about then, and I have the draft now. I don't see very many changes. Can you tell me how you met Mr. Greenspan's objections?

MR. ZARB: Well, let me first say there were a lot of memorandums written on this subject, as there always are, and both pro and con, with real and perceived notions of problems. Each of those were evaluated and in each case the problems or perspective problems were presented to the President and discussed thoroughly.

Now with respect to this particular kind of problem, it is clear when the Government is in the business of giving out money -- incidentally, grants are not permitted in this arrangement -- but in any other way facilitating the delivery of money, that the problems you just articulated are ones that need --

Q This was Greenspan.

MR. ZARB: -- need to be examined. That is true if we are working in the Department of Transportation with respect to transportation funds, or whether in the Department of HEW working with HEW funds.

Now, what do you do to protect against that? You have a couple of things in this process.

First, the projects before they are approved have an in-house consultative mechanism where the ERC, FEA, ERDA, the Secretary of the Treasury have an opportunity to comment before a commitment is made -- it is a 30-day comment period.

Secondly, you have your normal OMB oversight, your normal Congressional oversight, the GAO has its normal things. The bill provides for an annual audit by outside auditors presenting a public report both outlining the projects and the risks inherent in the projects.

I don't see the risk here being, relatively speaking, any more than they are in other areas, and we need to be sensitive to them and protect them.

I am not in a position to say that, because of this kind of risk, or this kind of problem, that we shouldn't find an answer to it at a time when the Nation is drying up in its production and increasing its imports, and the next step, besides doing something positive, is to surrender to OPEC and collect foreign aid.

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We have to find ways to ensure that these kinds of liabilities are protected against. We think the bill has those protections. If not, during the hearing process I am sure they will be added.

Q A question on environmental impact: First, was an environmental impact statement drafted to accompany this legislation? If not, why not?

Second, would decisions by the EIA to fund a particular project be subject to an environmental impact statement?

MR. ZARB: In answer to your second question, yes.

In answer to your first question -- did we determine one was not required?

MR. ZAUSNER: Yes.

MR. ZARB: It was determined under the circumstances that each of the projects would have their own NEPA requirements but the project as a whole did not require one.

Q Mr. Zarb, the powers of your organization to grant certificates of necessity, as I read it, it looks like the certificate of necessity would not require a NEPA statement; is that correct?

MR. ZAUSNER: Because it is a certificate of necessity, it implies there is another major Federal action. The legislation explicitly says the granting of the certificate doesn't, but still any other Federal agency that had to do one because it was a significant project would still have to do one, so it does not change the basic NEPA process for any major Federal action.

It merely tries to put it on a more rapid track but still leaves in tact the basic criteria that every agency must use on whether or not an environmental impact statement will be undertaken.

MR. ZARB: Let me spell out what that provision does in total. It says when a project is going to have to go through a regulatory application and there are multi agencies involved, particularly, where they will need approval from the Department of Transportation, the Nuclear Regulatory Commission, the Environmental Protection Agency, the CEQ, whatever, that we will provide a one-stop service for that application so that the data and the material will be provided in one place.

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Second, we will certify this is a needed project and as a result it would be the intent of Congress that the regulatory authorities finish their processing within an 18-month period. It is clear under certain circumstances that will not occur. A lot of things can happen to delay it. But the regulatory agency, under those circumstances, will then have to report to the Congress as to why it was not able to complete its processing within the 18-month period.

We have no overriding authority with respect to the process itself. EPA does its thing, NRC its thing. What we are trying to do is to provide a clearer circuitry for the delivery of the numbers, and of the paper, and at the same time ensure that projects with an urgent requirement for attention, get urgent attention at the regulatory level. If the rules now don't provide for that, that the rules be rewritten to provide for that.

Yes?

Q What would you expect to truncate in collapsing the regulatory action process down to 18 months? Just exactly what would be dropped out?

MR. ZARB: That would be left up to each individual agency to look at its current system and say, if we have a priority project, and assuming the Congress passed this and it was the intent of Congress for it to occur, what would we have to do to our processing to make it occur? Then they would go through their regulatory regulations and their other machinations and make a judgment. And they will have ample opportunity to testify before the Congress to tell Congress why 18 months is not acceptable if they, at this point, think 18 months is too short. It is probably time we had a good hearing on that subject.

Q Let me follow on that one. How was 18 months picked?

MR. ZARB: It was a judgment that we made, having looked at the average time in some cases. In our view, after looking at data within the regulatory process, one which we considered to be realistic, some people argued in favor of a 12-month period, some people argued in favor of a 24-month period. We thought this was realistic and it certainly is realistic enough to have a good hearing on the issue.

Stan?

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Q Frank, I can probably guess your answer, but I would like to hear it from you. What do you say to critics who say that the \$100 billion program doesn't make much sense when placed against the President's statements that spending has to be cut drastically in the Federal Government? How does this fit in with that kind of anti-inflation and cost-saving program?

MR. ZARB: Did everybody hear the question?

Okay, I guess I have two answers to that.

First of all, without a viable energy program in this country, we don't have an economy. So if we continue down the road we have been traveling, you don't have to worry about an economy at all, which would indicate some sense of priority, at least in my view.

Second, when you look at budget outlay in this program, keep one thing in mind: While there will be a commitment for projects up to \$100 billion over a period of the corporation and lasting beyond the life of the corporation, some of these projects will be on 15 or 17 years; they may be cleaned up by the Secretary of Treasury after this institution goes out of business, but they are long time.

Second, if the institution provides a \$5 billion loan guarantee, that comes out of the \$100 billion, but that is not an outlay. If it provides another kind of financial assistance, the outlay which immediately occurs is the judgment with respect to reserve for losses. If it is a \$2 billion project in the judgment of the analysts involved and then certified by the public accountants at the end of the year, that it is reasonable to expect the Government could possibly lose 20 percent of that, then \$400 million would be reserved and written off over into the budget. So a common mistake that has been made in recent days is calculating we are talking about \$100 billion outlay of money actually written off in the budget is not correct.

Finally, keep in mind what I mentioned this morning -- the legislation reads the corporation will have a debt basis of \$75 billion and a \$25 billion equity. It is also said in the legislation that should the corporation, through one thing or another, lose its equity, or \$25 billion, it is precluded from any new ventures.

So there are a number of protections in it with respect to budget outlays. The most important answer to your question is the first -- we have to begin to understand we are jeopardizing a heck of a lot more in the very basis of our economy with the fact we have lost control of our whole energy equation and this is an attempt to bring some sanity back into that situation.

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Q Even so, Frank, if I could follow on that, even assuming things worked as planned, that the outlays are limited and flow over a long period of time and the money starts coming back after a period of time, do you have even a rough guess of what the actual Federal budget outlays might be from year to year, with a maximum, let's say, compared for budgetary purposes, how, with respect to the short term it would affect the budget?

MR. ZARB: Yes, we have some short-term estimates.

We have some short-estimates. Do you want to give those?

MR. MITCHELL: It would depend greatly on what proportion is in guarantees, what proportion is a price guarantee, what proportion is in direct loans, equity investments and so on.

Our thinking for the first year out, say, fiscal '77 would be that, where you could have commitments in the multi-billion dollar range -- and I think we would expect that -- that as far as the actual money being taken down, that in our view, any reasonable set of assumptions would have a less than a one billion dollar budget effect.

I think the best way to understand this thing, as far as the budget is concerned, is that it is a self-liquidating entity and what you are seeing is money going out and money coming back later. And to the extent that we don't get all the money back that goes out, that will be, under the proposed legislation, charged against the budget and displayed as an outlay. But we don't expect that to be particularly high especially in the first year.

Q That is your first year, do you have any similar estimate for what would be likely as a maximum outlay in any future year?

MR. MITCHELL: We have a whole series of plans that, depending on what the Board decides, what kind of an interest rate Treasury will want, and so on, it can vary very, very significantly.

I think the best way to look at it is to stick with the first year and then see what kind of policy the Board comes up with. The equity has to go through the appropriations process. It has to be requested by the Secretary of the Treasury, so the Secretary of the Treasury will come through the normal OMB budgetary process, and then the budget request will go to the Hill and go through the normal appropriations process.

At that time, you certainly would want input from the Directors and Officers of the corporation as to what their operating plan is. And I think it would be premature at this time to get beyond the first year.

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Q I have a question on ---

MR. ZARB: Let me add to that answer before taking the next question.

Now, we calculate \$25 billion over a ten-year period is probably the maximum outlays and perhaps not that.

MR. MITCHELL: No, it probably wouldn't be that high.

MR. ZARB: The judgment is probably not that high, and I agree with that.

So you can spread it out over a ten-year period. So for those who raise the budget question and other mystical philosophies with respect to the issue, I just point out we spend what I consider to be an appropriate number to preserve the safety of the Nation.

At the moment it is \$80 billion to \$100 billion a year. Maybe I am alone in this issue, but my perspective is that our energy independence is as much a security issue as almost anything else I can think of.

Q A question on availability of money. You have said this assistance would only be given to projects that could not be financed by private industry. Now, theoretically, anything could be financed, money could be gotten if somebody is willing to pay 100 percent interest rate. So where is the cut off point as to what availability means?

MR. ZARB: Fifteen years of my life was back in the investment banking business, so I know a little bit about it, or the way it was when I left it.

You make a judgment of viability determining what price you need to pay for money and, of course, there are some projects where there is no money at any price because of a different set of circumstances. But at some point, the money cost of the project is no longer viable. You just price yourself out of anything that could resemble competitiveness or economic justification.

And you have to consider the various kinds of programs that this institution could become involved in. Coal gasification and liquidation are probably the easiest to see. The fact we are going to need another pipeline or two, the size and scope of the current Canadian pipeline, or the current Alaskan pipeline, excuse me, is fairly clear to some of us.

The fact we are going to have to help some areas of nuclear development in plutonium recycle, in nuclear enrichments, where financing is the critical path, all other things can be equal, the environmental questions can be solved, all other things can be solved, but financing is the critical path.

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If we did nothing and had all the fossil fuel we wanted over a period of years and there was no cartel to put us in jeopardy, this would all unfold as when whale oil became extinct and we didn't need a Federal whale oil administration, things just happened.

We have a different set of circumstances. We sold out to cheap oil for ten years, and blinded ourselves to everything happening around us. Our gas was drying up, our oil was drying up, our nuclear capacity is still only 5 percent of total because we neglected that.

You know what we did to coal and the railroads that drag coal around the country. So now we are faced with a whole new set of circumstances. We have an international cartel that has demonstrated its vigor. We know we will be out of oil in 20 to 30 years, so will a good part of the rest of the world.

So we have to make some judgments as a Nation as to how we are going to go forward.

I think that justifies a meaningful plan for the Nation, and this is part of that meaningful plan.

Q In terms of the question I asked, if I could try to follow that, Mr. Zarb, if a shale oil developer wants to build a plant but he can only get money at 15 percent, could that be judged that the money isn't there? Is that what EIA in effect will decide, and are we going to make it possible to get money at Triple A rates?

MR. ZARB: No, the legislation provides for no interest subsidy. If you read that portion, you will see that the Board can only guarantee loans at rates which are otherwise available to that character of industry, and there are a number of tests you can go through to make that judgment. There is no subsidy with respect to industry.

Your hypothetical example of 15 to 20 percent interest, first of all, would make the project probably not viable because the balance sheet would just tipple over. You just can't finance a project that way and ever have it function as a viable economic entity. We are talking about long-term projects. So it has to make a judgment. If it is willing to go out and pay user's rates and on the judgment of the investors, those rates could be paid off and they can get in enough equity simultaneously so the debt equity ratio makes some sense, then they possibly will go into that kind of endeavor.

I consider that extremely hypothetical, given the situation I just described.

Q If I may ask a hypothetical question, I think it would be possible for this authority to have loaned out, after four years of operation, the whole \$100 billion, would it not, just possible?

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MR. ZARB: It is possible.

Q I was wondering at what point would that show up as part of the national debt? This kind of vicarious borrowing, it has the full faith and credit of the Government behind it.

MR. ZARB: Jim, why don't you handle that?

MR. MITCHELL: The treatment of this entity's debt structure is the same as any other. There is no special treatment. You have to separate out. The \$100 billion, you see, can go for guarantees of private debt, in which case there is no effect on the debt ceiling. That is deemed a contingent liability and not taken into the debt ceiling.

If, on the other hand, the entity borrows money from the Treasury and reloans it in the form of a direct loan, Treasury has to borrow that money to get the proceeds to lend to EIA. Those issues of debt by Treasury are counted against the debt ceiling so, as the money is passed through, it is treated like any other treasury borrowing.

But you have to keep in mind of the \$100 billion, half of it, say, could be in the form of guarantee, which in no way would count against the debt ceiling. It doesn't for any of our other entities that do that kind of financial transaction.

Q Isn't that somewhat true in part what got New York State in trouble? Some of these debts that New York State ultimately was responsible for didn't show up in any of the safeguards that are provided, such as a debt ceiling or National debt?

MR. MITCHELL: What you do is you charge a guarantee for that and what is contemplated by the corporation, just as we do for FHA and GNMAE and those other financing entities, we charge a guarantee fee, which, under actuarial principles of anticipated default rates, will more than cover the anticipated defaults so that, if we were to charge, say, half a percent annually for the guarantee fee, just to pick a number, that would presumably go into an account reserved against anticipated losses.

Now, this has, at least in the case of FHA, been the case since 1934 and at least in the mutual mortgage fund, it has reserves of, the last time I looked, well over a billion dollars. So if it is managed well and a guarantee is set on good actuarial principles, you won't have that kind of experience.

It gets back, as Frank said, basically to management. If it is managed well, you will have an actuarially sound guarantee fee and funds.

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MR. ZAUSNER: Let me say one other thing to that. That is the thing that is not set up in a way so if it starts encouraging losses, it rapidly triggers a situation where it cannot meet any of its other obligations. By that I mean in addition to the limitation on the corporation. It cannot exceed financial commitments of \$100 billion.

By the same token, even its best estimate of losses cannot exceed its equity portion of funding. So, in fact, the Federal Government at the front end of the thing has the Treasury subscribing to equity which is, in fact, its cushion against losses.

So if, in fact, many of the losses that it establishes its reserve against do come about, it doesn't necessarily trigger a financial situation where it can't meet any of its obligations. What it means is it starts cutting into its equity which has been put up on the assumption there is a substantial or a significant chance there will be some losses. It doesn't mean that the minute it starts seeing losses, it triggers a situation where it can't meet any of its debt obligations, for example.

MS. WHITE: We have time for two more questions.

Q How would EIA funding figure into the coordination of ultimate energy projects apparently being discussed in the IEA, among the IEA members?

MR. ZARB: It is not envisioned the funds of IEA would be used for international programs at this point.

MR. ZAUSNER: Not for foreign investment, it requires domestic energy sources.

MR. ZARB: It has been precluded.

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Q Could it come from EIA for a project primarily funded by foreign sources or by foreign money?

MR. ZARB: You mean, where foreign money comes here to produce American energy? I suppose that is a possibility.

Q For export?

MR. ZARB: For export, no. We say domestic energy and that would tend to preclude for export.

I will take one more question and then leave, but Jim, Bob and Eric will stay if you want to have some informal discussion.

Q There has been some discussion that one of the priorities of EIA will be construction probably through lease-purchase of nuclear plants, since they are in such capitalistic trouble. Is that true, number one --

MR. ZARB: I am not so sure I like the capitalistic trouble description. (Laughter)

Q They are in trouble because they can't raise the capital. After that point is considered, then how do you make your end run under your covenants with the State regulatory commissions, which would be a prerequisite in the way of nuclear plants?

MR. ZARB: You have a way of asking questions.

It is not an end run. It is a rate covenant that says, when the Federal Government calculates that in a State -- and we have one or two situations where the governors have said that they are ready, the people are ready, the environmental questions are set but they are in capital trouble and they need partners and over a period of time they will pay it back.

The rate covenant simply says the regulatory agency has to set the appropriate rate structure so there is a payback for this new construction over a period of time. Unless that rate structure is rearranged, it can't occur.

You know what we have presently. We have some States that provide construction work in progress to occur in the rate base. That provides a cash flow and a balance sheet for a utility to develop coal or whatever else it is developing.

In other States they have not provided for the recovery of construction work in progress. We are not going to be in the position of helping the States that don't face up to their regulatory responsibilities when a number of their sister States have already done it. That is the need for a rate covenant in any program of this kind.

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When you consider the nuclear equation, consider the parts that go along with it, some of the advancing technologies, including the issues to make waste disposal a safer issue is included in this. A number of other conservation devices that could be used at the utility level, such as peak load pricing and the hardware that goes along with that could be included in that, and some of the environmental protections required for some of these facilities can also be included.

I am going to run. Some of you may want to stay around.

Q May I follow up? I don't think Frank answered the first part of my question.

MR. ZAUSNER: Your question was a lease back thing could be used to get around the rate covenant?

Q No, not that, but is, in fact, the nuclear plant aspect with all these fringes Frank described from the securities of waste and so forth, is it in fact considered to be a priority within the span of things that EIA would do?

MR. ZAUSNER: It is in the sense EIA was precluded to a limited number of things it could do in any event and one of those was the whole question of support of the nuclear cycle.

Q Is it a priority within the framework?

MR. ZAUSNER: The legislation isn't drafted to set any priorities among the four or five but will qualify only areas which are by definition high priority for EIA to do. It does not attempt to distinguish between synthetic fuels and nuclear power.

Q If a utility comes in and has just cancelled a nuclear plant because they couldn't get the capital and they couldn't get the capital because their demand curve projections are so uncertain, do you see EIA making their own judgment about what their future demand is going to be?

MR. ZAUSNER: We have to see whether the power is needed. In other words, to make a direct and significant contribution to energy independence implies you need the energy. Okay, it is not the purpose of EIA to build surplus capacity which you are not going to use. I don't think that would fit the test.

Q I am trying to get to the definition. One could say we need all the energy we can get to become independent.

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MR. ZAUSNER: It is a question of what you mean by energy independent. I will give you a classic example.

It could be a utility in New England, for example, might cancel a nuclear power plant. I would argue even if we didn't expect any growth in energy in that area over the next 10 years, it makes a lot of sense for EIA to finance a nuclear power plant there to replace a base load plant that is oil fired earlier than it might be replaced anyway.

So I think, you know, it will be individual cases. It is clearly not the idea to finance things that are not needed and certainly our policy generally to suggest that we ought to have the electric industry have more capacity than they need to meet a reasonable estimate of the growth rate. That obviously isn't necessarily what it has been in the past.

I think it is also quite clear to us that roughly three-quarters of the nuclear power plants that have been cancelled and deferred and a third or fourth of all the coal and other power plants deferred, one can't by any stretch of the imagination say all of those are due to the fact people's expectations about demand growth are down. Some of it certainly is, but not nearly all.

Q I have a two-part question: Is foreign participation limited by existing safeguards to foreign direct investment in the U.S.?

MR. ZAUSNER: There is no attempt in this legislation to try and change the participation or the constraints on the export of energy in any way from this, although it is very clear the legislation says investments which will result in an increase in domestic energy independence. So a project, for example, which was funded here and all the energy was dedicated to go to some foreign country just would not fit within the definition of eligible projects.

Q What about the technologies that are perfected with the EIA's support? Would they be shared with foreign exports?

MR. ZAUSNER: We looked at that quite carefully and the key to the EIA is not to perfect technologies. If you remember, it is to commercialize technologies that have been worked on, so our basic concern with respect to patents, and copyrights, all that sort of thing, we expect will be taken care of in the energy R&D area and the work done by EIA wouldn't generally lead to development of new technologies where the Government would want to maintain some big right in some process that it developed. That isn't what EIA would be doing.

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Q I have noticed, as I suppose you have, that the editorial writers have been less than enthusiastic about this whole concept. There are two things they seem to be coming down on -- one is the petroleum industry, which presumably will be getting into coal gasification, and shale and so forth, doesn't need this kind of help and that the present and prospective state of the technology in some of these other energy forms is not advanced to the point that you can throw that many dollars at it.

MR. ZAUSNER: In some ways, those things are trying to second-guess the thing.

Let me answer the second one first. If the technology is not ready, it is not our intent to spend money on it. The thing is precluded from doing R&D.

On the other hand, we just finished a very comprehensive study of the whole synthetic fuels area, and while there is some question about how quickly you can go to a million barrels a day, and how much you can do, there was a conclusion of that task force and I think it is a conclusion of ERDA and even some in the Congress that in fact we are ready over the next couple of years now to begin making commitments for the first generation of synthetic fuel plants.

Even that first generation is tremendously expensive. So in terms of whether we can spend all the money, no, I don't think we can spend all the money right away, but it is very clear, at least in our mind, that we have found a set of areas, including emerging technologies, but certainly not limited to them, which could use up to this \$100 billion total.

Secondly, with respect to what about the profits in the oil industry and can't they do it anyway, one, it is not our intent to finance things like gasoline stations or, you know, production of oil, which is economic at \$11 a barrel and, in fact, the definitions with respect to those areas would clearly preclude that kind of investment.

The question about an emerging technology, I think you have to look at that a little more objectively and, frankly, not emotionally. If there is a synthetic fuels plant which in and of itself is a project or technology, is plain and simply not economic, then it doesn't matter much whether IBM makes \$2 billion a year in profits, or GM does or Exxon does.

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The reality is that no industry is going to invest in a technology or new area of energy which is uneconomic regardless of the fact they are profitable or unprofitable as an industry.

So we have a set of technologies and processes which is in the national interest to develop yet by definition it is so risky that the private sector isn't going to do it -- I don't blame them for that, that is just good business sense. So they are better going on the offshore or doing something else rather than taking their chances on those.

So the Federal Government is going to have to find a way to take up some of that risk. By the same token, as Frank mentioned earlier, I think it also behooves the Federal Government that if a thing turns out a lot better than people expected, we ought to share in the benefits and all of that shouldn't go to the private sector, and the legislation has a provision drafted to do that.

Q To follow that up, some concerns have been expressed to me by people in the petroleum industry that the reason the industry isn't making some of these things happen that you are talking about is because, for one reason, with petroleum and natural gas at the equivalent of \$1.08, and if you were successful in getting controls removed, those things would happen, a lot of things would happen.

The end of the question is, there is some concern if you put this kind of a program in place, that it would become an excuse not to deregulate oil and gas. What is your reaction to that?

MR. ZAUSNER: First of all, clearly oil and gas deregulation is the key, but everything we have seen suggests -- I will give you a classic example -- synthetic oil plant, even under today's regulations oil produced from a synthetic plant sells at the market price, doesn't it? It is new oil production. So deregulating old oil prices doesn't have anything to do with respect to the price that somebody can get for a new synthetic fuels plant.

So right away that isn't even a relative argument in terms of the particular problem a synthetic fuel plant has, which is that it may well not cost \$11 a barrel but it means \$13 a barrel starting 9 years from now and there will have to be some form of guarantee or other mechanism to make sure that happens. So I don't think that is an appropriate argument.

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It is not to take away from oil and gas deregulation, but oil and gas deregulation is not going to help the electric utilities' financial problem, nor is it going to have a lot to do with the synthetic fuel thing, some of them, in any event.

Second, with respect to taking away from doing other things, without question those other things are politically difficult to do and they are still needed. That is a concern I think we all have.

The proposal was not meant to do that but in all honesty we think we do need this proposal as well as those other things. While there may be some risk to that, there is also some risk if we don't have this as well as the other things we won't achieve our objectives.

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Q Has there been any general consideration as to how much would go into which types of energy?

MR. ZAUSNER: We have done so many very rough estimates in terms of what might be possible. But in all honesty, it is a little early to try and second guess the Board. We expect them to try and develop those priorities as they go, somewhat.

We know the general areas, and if you read through the things in the list of eligible projects, it is pretty clear they could spend several billion dollars in synthetic fuels, nuclear power and the like, whether it is going to be 10 percent, or 31 percent, or whatever, the numbers work out, we frankly have not tried to develop a very detailed estimate of that.

Q Or anyone that is outstanding that would seem to be getting all the money?

MR. ZAUSNER: I don't think that is possible at all.

Q Has there been any calculation by yourself or anyone else up here on the platform as to the amount of dollars that are available from other programs now in existence that would do the same thing the EIA would do and in transferring those funds, whatever their total might be, would that add to the EIA total or be subtracted from the EIA total?

MR. ZAUSNER: With the exception, I think Bob Fry mentioned in terms of authorities, we now have in the synthetic or emerging technology areas, we basically did not find any major program which could provide the kinds of financial assistance that EIA does. That is not to say that somebody in the small business category can't go to SBA. I mean there is a lot of programs where there are other types of assistance, which if it happened to be an energy project, it might fit in.

But in the sense of the hundred billion dollar thing, it is not like there are several other programs around which could do \$60 billion or \$70 billion of it anyway.

Q Would the transfer of those ERDA loan guarantee funds, would that, in effect, come out of the \$100 billion or would it add to it by whatever amount?

MR. ZAUSNER: When we calculated the \$100 billion total, we expected that that was large enough to cover everything we needed to do in emerging technologies, including synthetic fuels. So my estimate would be the \$6 billion we are looking at now, if that were to be transferred in, there would be no need to make the 100 a 106, but hold right within the total of \$100 billion.

MS. WHITE: Are there any more questions?

Thank you. Some of you asked about copies of the bill. They are on their way over here. We thought they would be here beforehand. If any of you do want copies, they should be here within five minutes.

THE PRESS: Thank you.

END

(AT 2:25 P.M. EDT)