The original documents are located in Box 2, folder: "Memoranda to the President, February 1976" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

February 2, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Natural Gas Legislation

The House is scheduled to take up natural gas legislation tomorrow when the Dingell emergency bill comes to the House floor. As you know, we have a good chance of passing the Krueger amendment to the Dingell bill if opponents of deregulation fail in their attempts to block the Krueger amendment from being considered.

The situation in the House will be discussed at your meeting with the leadership tonight at your 6:00 p.m. meeting. I have attached talking points for you to use at the meeting and am prepared to discuss the natural gas situation with the leadership if you so desire. FEA is also preparing some material to give to the leadership that covers all elements of the gas situation -- current and projected production, costs and benefits of deregulation, comparison of Krueger with Pearson-Bentsen, and so forth.

Attachment

TALKING POINTS FOR CONGRESSIONAL
LEADERSHIP MEETING

NATURAL GAS DEREGULATION

- I understand that natural gas legislation may be brought up on the House floor tomorrow and that we have a good chance of passing the Krueger amendment to the Dingell emergency bill if the opponents of deregulation fail in their attempts to frustrate the legislative process.

- This House vote could well be one of the most important votes the Nation ever takes regarding its energy future -- its ability to become independent. Failure to deregulate new gas could result in an additional 2 million barrels per day of oil imports by 1985.

- There is absolutely no reason not to deregulate new gas. The issue has been studied to death; trends of current regulation and the reasons for those trends (declining domestic production) are perfectly clear; it is time to act.

- We have been fortunate this winter in that our earlier estimates of shortages have not come completely to pass. But we cannot let the lessening dangers of this winter lessen the need or motivation for action. We have been lucky -- mother nature did for us with its warmer temperatures what the Congress has been unable to do -- but our luck will not last forever. The situation is deteriorating so rapidly that even mother nature will not be able to help in the months ahead.

- There are, of course, costs to deregulating new gas -- gas will cost more in the future. But the benefits are greater: not only will we be able to use our remaining supplies of our cleanest fuel, but our vulnerability to embargoes will be reduced dramatically. Besides, the costs will be no different to the Nation from deregulation than from continued regulation. If regulation continues, the gas will not be produced, and consumers will have to switch to higher priced oil. The issue of protecting the consumer is thus a false issue -- it is simply a question of our gas versus someone elses oil.

- As you know, the Administration supports the basic thrusts of the Krueger amendment. Frank is here to discuss the Krueger bill and the advantages we see in it over and above the Pearson-Bentsen bill passed by the Senate.

- Frank, why don't you spend a few minutes going through the bill.

[ca. 2/5/76]

FEDERAL ENERGY ADMINISTRATION

See notes

FORD, Gerald R.

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB
ADMINISTRATOR

SUBJECT: FY 1976 ENERGY CONSERVATION GOAL FOR THE FEDERAL GOVERNMENT

The attached draft memo for your signature establishes a general goal under the Federal Energy Management Program of using no more energy in FY 1976 than was used in FY 1975. Last year's goal was 15 percent below FY 1973 levels of use; the actual achievement was 24 percent below the baseline.

All agencies participating were advised at the staff level that this was our tentative goal for FY 1976. Some, notably the Department of Defense, have issued internal guidelines based on this information. The goal was also discussed in the Multi-Year Action Plan, which was circulated to the agencies for preliminary comment. The first quarter's results (also attached) indicate this goal is realistic and achievable in consonance with your decision as conveyed to us by Ken Clozer of the Office of Management and Budget.

Your signature will be most effective in reemphasizing the importance of our in-house efforts to manage our energy resources wisely.

Attachments

bc: Official File
FEMP Reading
AE (2)
AO File
ECE Chron
E. Jackson

C:HLane/nlt:rm. 5311, NPOB, X7934:2/5/76

CONCURRENCES

SYMBOL								
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DRAFT

THE WHITE HOUSE

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

SUBJECT: ENERGY CONSERVATION GOAL FOR FY 1976

As you know, I asked the Federal Government in FY 1974 and FY 1975 to reduce its energy use by targets of 7 percent and 15 percent respectively. These goals were exceeded in both fiscal years and savings of about 24 percent were achieved in both years. The significance of these savings can be better understood in terms of the equivalent costs in barrels of oil and dollars. Energy use reduction in FY 1974 saved the equivalent of 247,900 barrels of oil per day; in FY 1975 this savings rate was 266,174 barrels per day. Costs totalling about $1.655 million were avoided.

You may be justifiably proud of the contribution your organization has made to this accomplishment. But the energy problem remains. Therefore, it is imperative that we continue our energy conservation effort in the Federal Government.

I ask each of you to review the patterns of energy use in your respective departments and agencies, and to make it an objective of your organization to maintain the energy use reductions achieved in FY 1974 and FY 1975. That is, our goal should be to use no more energy in FY 76 than was used in FY 1975.

Again, my thanks to you and your personnel for their efforts which have made the Federal Energy Management Program a success. Much has been accomplished, but much remains to be done. Your continued cooperation and assistance are an essential part of our national effort to achieve energy independence.

Gerald R. Ford
President

PRELIMINARY

First Quarter--Fiscal Year 1976, Energy Conservation Performance

(Btu x 10^9)

Department/Agency	Buildings and Facilities: Baseline	Used	Saved	Percent	Vehicles and Equipment: Baseline	Used	Saved	Percent	Totals: Baseline	Used	Saved	Percent
Agriculture	1,075.1	1,145.1	(70.0)	(6.5)	1,475.6	1,641.7	(166.1)	(11.3)	2,550.7	2,786.8	(236.1)	(9.3)
Civil Aeronautics Board	--	1/	--	--	0.3125	0.3625	(0.05)	(16.0)	0.3125	0.3625	(0.05)	(16.0)
Civil Service Commission	--	1/	--	--	23.125	22.75	0.375	1.6	23.125	22.75	0.375	1.6
Commerce	573.4	594.0	(20.6)	(3.6)	266.2	425.2	(159.0)	(59.7)	839.6	1,019.2	(179.6)	(21.4)
Defense	115,589.1	108,229.6	7,359.5	6.4	236,220.6	216,108.0	20,112.6	8.5	351,809.7	324,337.6	27,472.1	7.8
Energy Research & Development Administration	19,513.0	18,396.4	1,116.6	5.7	387.9	429.2	(41.3)	(10.7)	19,900.9	18,825.6	1,075.3	5.4
Environmental Protection Agency	66.8	69.4	(2.6)	(3.9)	23.5	30.9	(7.4)	(31.5)	90.3	100.3	(10.0)	(11.1)
Federal Communications Commission	--	*	*		Not Submitted				*		*	
Federal Energy Administration	--	1/	--	--	8.9250	8.9625	(0.0375)	(0.4)	8.9250	8.9625	(0.375)	(0.4)
Federal Power Commission	--	1/	--	--	0.225	0.325	(0.1)	(44.4)	0.225	0.325	(0.1)	(44.4)
General Services Administration	10,582.8	10,852.8	(270.0)	(2.6)	39.1	46.9	(7.8)	(20.0)	10,621.9	10,899.7	(277.8)	(2.6)
Health, Education & Welfare	1,651.7	1,673.3	(21.6)	(1.3)	198.3	183.5	14.8	7.5	1,850.0	1,856.8	(6.8)	(0.4)
Housing & Urban Development	--	1/	--	--	85.9	84.6	1.3	1.5	85.9	84.6	1.3	1.5
Interior	1,788.5	1,856.3	(67.8)	(3.8)	871.9	1,033.5	(161.6)	(18.6)	2,660.4	2,889.8	(229.4)	(8.6)
Interstate Commerce Commission	--	1/	--	--	5.5875	5.7625	(0.175)	(3.1)	5.5875	5.7625	(0.175)	(3.1)
Justice	862.5	981.5	(119.0)	(13.3)	518.5	486.6	31.9	6.2	1,381.0	1,468.1	(87.1)	(6.3)
Labor	223.0	221.3	1.7	0.8	62.7	67.0	(4.3)	(6.9)	285.7	288.3	(2.6)	(0.9)
National Aeronautics & Space Administration	6,091.6	5,764.2	327.4	5.4	443.3	491.7	(48.4)	(10.9)	6,534.9	6,255.9	279.0	4.3
Management & Budget	--	1/	--	--	0.2375	0.275	(0.0375)	(15.8)	0.2375	0.275	(0.0375)	(15.8)
Panama Canal Company	340.6	335.6	5.0	1.5	343.6	343.7	(0.1)	(0.03)	684.2	679.3	4.9	0.7
Postal Service		*		Not Yet Submitted -- Experiencing Data Problems *								
Small Business Administration	--	1/	--	--	16.375	17.963	(1.588)	(9.7)	16.375	17.963	(1.588)	(9.7)
State	--	1/	--	--	9.5	8.5	1.0	11.1	9.5	8.5	1.0	11.1
Tennessee Valley Authority	81.2	78.4	2.8	3.4	117.8	133.7	(15.9)	(15.5)	199.0	212.1	(13.1)	(6.6)
Transportation	3,514.7	3,545.5	(30.8)	(0.9)	2,810.2	2,848.9	(38.7)	(1.38)	6,324.9	6,394.4	(69.5)	(1.1)
[illegible]	[illegible]	[illegible]	[illegible]	(2.3)	[illegible]	[illegible]	(62.1)	(12.8)	[illegible]	[illegible]	[illegible]	(7.9)

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

February 11, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

We are going to hear a great deal about divestiture in the weeks ahead. I thought you would be interested in the summary of the issues and the positions taken by various witnesses.

This is simply for your information. We will keep you advised.

Attachment

DIVESTITURE

SENATE

Out of a number of divestiture bills pending before the Subcommittee on Antitrust and Monopoly, Senate Judiciary Committee, two Senate bills have emerged as primary legislation, i.e., S. 489 (horizontal divestiture - Abourezk) and S. 2387 (vertical divestiture - Bayh).

Hearings on S. 489 have been completed.

With respect to S. 2387, only one additional day of hearings by the Minority is outstanding, which is for February 18.

Upon completion, it is expected that the subcommittee will go into mark up immediately and report out S. 2387, or a combination of S. 2387 with S. 489.

A synopsis of the testimonies in favor of and in opposition to S. 489 is attached as Tab A.

A synopsis of the testimonies in favor of and in opposition to S. 2387 is attached as Tab B.

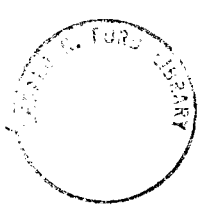
A listing of the remaining divestiture bills is attached as Tab C.

An analysis of three recent Senate votes on divestiture amendments to the Senate natural gas bill is attached as Tab D.

HOUSE

While a great number of House bills have been introduced on divestiture, there has been very little activity with respect to divestiture hearings in the past. However, the Subcommittee on Monopolies and Commercial Law, House Judiciary Committee, has scheduled hearings for February 10, 11 and 19th and 25th. The hearings will be held on joint ventures by majors with majors for crude exploration and production.

It is possible that a different type of divestiture bill may emerge from these hearings. The hearings are scheduled to be chaired by Congressman Rodino.



S. 489 -- To amend the Clayton Act to preserve and promote competition among corporations in the production of oil, natural gas, coal, oil shale, tar sands, uranium, goethermal steam and solar energy.

Introduced by Mr. Abourezk - referred to Committee on the Judiciary.

Title -- "Interfuel Competition Act of 1975".

(Horizontal divestiture - prohibiting any person engaged in production and refining of oil or gas or both to enter into or acquire interest in coal, oil shale, uranium, nuclear, geothermal steam, or solar energy businesses or to own or control any of them.)

S. 489

Proponents:

Dr. Paul Davidson, Economist, Rutgers University -- primary object of energy program should be to break monopoly powers; bill will create competitive environment; government leasing procedures be changed not requiring leasing holding bonus being paid at once; need a federal energy corporation as a financing agency.

Dr. John Wilson, Pres., J.W. Wilson & Asso.,Wash.,D.C. -- oil companies are not competitive but are integrated and fostering monopolies. Competitive situation will result if more alternate energy resources developed.

Aubrey J. Wagner, Chairman, TVA -- since acquisition of coal companies by the oil industry, coal prices have escalated tremendously; oil companies holding off development of coal for new technology to develop liquifaction and gasification of coal to make coal more valuable; resource utilization decisions being made from standpoint of company business interests rather than National interest.

Arnold Miller, Pres., United Mine Workers of America -- in strong favor of bill; oil companies are buying coal companies making mockery out of competition; if this continues there will be no such thing as competition; will block development of true national energy policy based on public needs.

T. J. Oden, Independent Gasoline Marketers Council -- pressing need to restructure industry and return to free market. If OPEC cartel eliminated, competition must be assured; major oil companies using dominance and monopoly power to drive independents out of business; majors using non-brand names as disguise to injure independent marketers.

Walter Adams, Michigan State University -- industry not competitive in structure; surrender of substitute fuel industry to oil giants will solidify cartels, retard competition; majors resort to joint ventures in bidding for federal off-shore leases, thus eliminating independents and restraining trade.

Hon. Joseph Alioto, Mayor of San Francisco -- greatly concerned with violation and abuse of anti-monopoly and antitrust laws by oil industry; other forms of energy, i.e., coal, uraniam, solar et al, should not be tied one to another; cannot trust oil companies to exploit new sources of energy; unfettered competition is needed.

F. M.Scherer, Federal Trade Commission -- hedges a bit, but studying ways to alleviate problem of anticompetition in federal land leases.

S. 489

Opponents:

Senator Dewey Bartlett (R-Okla.) -- bill would reduce competition and limit funds for energy development; oil companies best equipped to enter alternate energy fields.

Dr. Peter Max, National Economic Research Asso. -- do not let concern for potential competitive abuses drive us to other extreme; bill carried potential for economic harm; oil company ownership of coal brought up price of coal to oil levels.

Dr. Thomas G. Moore, Hoover Institute, Stanford University -- bill reflects bias against oil and gas companies; oil entry into coal and uranium has not resulted in monopoly; divestiture not economically justified; major problem is government control.

Dr. Edward Erickson, N.C. State University -- private monopoly power not responsible for energy crisis. U.S. needs larger domestic energy sector in economy; bill would harm national interest

C. Howard Hardesty, Pres., Eastern Hemisphere Petroleum Division of Continental Oil (CONOCO) -- would reduce competition; retard development of domestic fuel supplies and strengthen OPEC cartel; prevent R&D; and increase costs.

Wallace Wilson, VP, Continental Ill. National Bank & Trust Co. -- would be economically counterproductive and potentially disastrous to national goal of energy self-sufficiency.

Richard B. Palmer, Worldwide Exploration, Texaco -- and Alexander H. Massad, Exploration and Production, Mobil -- restricting joint ventures in petroleum exploration and development not beneficial to national interest; would increase need to import oil; joint ventures increase competition.

William T. Slick, Sr. VP, Exxon -- statistics indicate oil business highly competitive; oil entry into coal business stimulates competition, creats safer, more productive and innovative industry.

Frank N. Ikard, Pres., American Petroleum Institute -- consumers best served by industry with diversity; scientific and technical superiority due to large R&D investments of large integrated oil companies.

DeWitt Buchanon, Pres., Old Ben Coal Co. -- potential decrease in competition resulting from individual company producing more than one form of energy is unwarranted; "imaginary" problems limiting competition between energy forms do not exist; coal production would not expand faster if oil companies divested their interests; preventing oil companies from developing coal and other sources would impair national goal of independence.

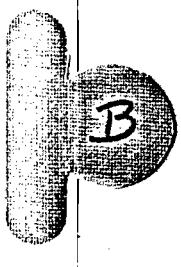
Opponents to S. 489 Cont'd

Claude S. Brinegar, Union Oil Co. of California -- a bad bill based on erroneous concept; oil industry is intensely competitive; building a fence around future energy activities will be sentencing us to slow but certain death.

John E. Kasch, VP, Standard Oil (Ind.) -- entry of oil companies in the new developing oil shale industry will not result in anti-competitive situation.

Thomas Gale Moore - Hoover Inst. on War, Revolution and Peace -- problems with energy industries come from government controls. Committee should recommend abolition of prorationing, price controls, market allocations, import tariffs and fees for oil and natural gas.

C. Howard Hardesty, Continental Oil Co. -- integration no threat to competition; stimulates competition within segments of energy industry; joint ventures spread risk in a high risk industry; energy industry is competitive within itself.


B

S. 2387 -- To restore and promote competition in the petroleum industry, and for other purposes.

Introduced by Mr. Bayh, Mr. Abourezk, Mr. Philip A. Hart, Mr. Packwood and Mr. Tunney. Referred to Committee on the Judidiary.

Title -- "Petroleum Industry Competition Act of 1975".

(Vertical divestiture - prohibiting major petroleum producer, refiner or marketer, or any transporter, to own, control any interest, direct, indirect, or through an affiliate, in any production, refinery, transportation, or marketing asset (as the case may be).

S. 2387

Proponents

Walter Adams, Prof. of Economics, Michigan State University -- vertical integration reinforces dominance by petroleum giants; is primary barrier to competition; same anticompetitive effects in control of pipelines; multinational majors act as marketing agents and tax collectors for OPEC cartel; should not delegate to the giants the right to plan our industrial future.

Sen. Bob Packwood (R-Oregon) -- must require the breaking up and divestiture of giant conglomerates so competitive system may again flourish and grow; power of major oil companies contrary to economic principles and counterproductive to buyer and small business; new supplies of oil and gas (offshore leases) are becoming prey to control of few oil companies.

Sen. Birch Bayh (D-Ind.) -- lack of competition in oil industry is result of intense concentration and vertical integration; absence of competition promotes artificially high prices and breeds recession.

Dr. Walter Measday, Chief Economist of Senate Antitrust and Monopoly Subcommittee -- removal of crude oil production on OCS leases from state prorationing and conservation controls to increase production never materialized; dominance (in majors) of crude oil supply on OCS is anticompetitive; ownership pattern of OCS show few companies have control and make decisions; leased lands not being developed expeditiously.

James M. Patterson, Prof. of Marketing, Indiana University -- intratype competition (between similar type markets) is the destruction of price competition and encourages wasteful marketing practices; intertype competition (between different type markets) in gasoline industry is threatened by vertically integrated major firms.

Edwin Jason Dryer, Independent Refiners Assn of America -- integrated majors use crude oil profits to subsidize own refining and marketing activities to detriment of independents; is not free, open, competitive crude oil market; no inherent anticompetitive factor in integration itself, divestiture should be limited to the major companies.

Lewis Kruger, member, Krause, Hirsch & Gross, Attorneys at Law, New York -- is feasible from legal view; divestment by means of "spin-off" frequently occurs; can be done without usurping rights of shareholders, debt holders or creditors.

S. 2387 - Proponents Cont'd

Hon. James Stanton (D-Ohio) -- Congress must act to end domination of the industry by handful of huge corporations; domination by few majors causes price fixing and monopolistic practices; must forbid producers from operating at retail level.

Jesse M. Calhoon, Pres., National Marine Engineers' Beneficial Assn -- essential that excessive concentration of power in oil industry be diffused; there is no freedom of competition in oil industry and that's the way oil barons want it; majors hold back on production of crude to raise prices and force decontrol; integrated nature enables majors to hide massive profits in transfer prices; need this legislation to establish meaningful energy policy.

S. 2387

Opponents

Charles Spahr, Standard Oil (Ohio), and Charles Waidelich, Cities Service Co., Tulsa -- joint ventures require large capital outlay, hence need of involvement of majors; technology and expertise already exists in industry reducing risks; joint ventures produce consumer benefits.

Sen. Dewey Bartlett (R-Okla.) -- figures indicate petroleum industry is less concentrated than other industries, is competitive; divestiture of majors is threat to effort in developing new energy supplies.

Thomas W. diZerega, Pres., APCO Oil Corp. -- divestiture will not solve problem; vertical integration not an evil; poses no monopolistic threat; answer is to require either the major or independent vertically integrated oil company to divest some or all of their business components.

A.M. Card, SVP, Texaco -- divestiture would seriously affect life-style of all Americans; would disrupt flow of petroleum product into market; have adverse impact on small businessman; deprive consumer of product quality and research benefits; lessen strong competition; is not in the public interest.

L.C. Soileau, Pres., Cal. Div., Chevron Oil Co., Standard Oil of Calif. -- divestiture will lead to higher prices, slowdown exploration, jeopardize jobs; make America more dependent on foreign oil; charge of monopoly is unproven; financial stake of stockholders would be jeopardized.

W. T. Slick, SVP, Exxon -- concentration in petroleum industry not high; vertical integration does not lock crude to limited closed systems; dismemberment will not weaken OPEC control on crude; divestiture would cause serious consequences of investments; would increase unemployment; would be adverse to economic growth; could cause lost jobs, high energy costs, lower supplies.

Walter R. Peirson, Pres., Amoco Oil Co. -- vertical integration not a conspiratorial scheme by majors to maximize control; dismemberment disastrous to stockholders; could result in lost jobs.

Don C. O'Hara, Pres., Natl Petroleum Refiners -- independent refiners do not support theory they would benefit from break up of large companies.

David Bacigalupo, VP, Beacon Oil -- divestiture will destroy efficient organization and coordination of oil industry.

S. 2387 - Opponents Cont'd

Charles Waidelich, Pres., Citis Service Co. -- joint ownership of pipelines dictated by economic and financial realities; enable oil companies to meet transportation needs at low cost; fragmentation would be counterproductive.

E. P. Hardin, Assn of Oil Pipelines -- divestiture will not benefit consumer; would disrupt nation's energy transportation system; increase prices; stifle incentive to expand.

William Tavoulareas, Pres., Mobil Oil Corp. -- large companies do not prohibit small ones in the industry; monopoly and high profits are myths; relative to other industries, oil industry not concentrated; independents have not built new pipelines--too costly; American consumer would be loser; divestiture would become back door to nationalization of industry.

Max D. Eliason, Pres., Rocky Mountain Oil & Gas Assn. -- forced breakup of oil majors would be grave mistake; no evidence of collusion or anticompetitive practices; financial and technological strength of majors needed to develop domestic resources; major oil companies are carriers and battleships of industry and should be left intact.

Edward J. Mitchell, University of Michigan -- vertical integration not anti-competitive; no evidence of monopoly profits; small firms not squeezed out; is common among small and large, government-owned and private companies all over world.

Richard B. Mancke, Tufts University -- oil companies do not possess monopoly power in any important energy market; politically profitable to attack so-called "monopolistic" oil companies; would result in higher prices; will not contribute to solving energy problems.

Peter Bator, Davis Polk & Wardwell (Attorneys at Law), New York -- would take years of legal battles and turn industry into state of chaos; result in massive, forced breaches of financing agreements; would disrupt or discontinue needed use of pipelines; cause serious problems in areas of pension plans, taxes, investment; repercussions in doing business with foreign companies.

Raymond B. Gary, Morgan Stanley & Co, Inc. -- would impair financial strength of industry; lead to greater dependence on foreign energy; be end of new pipeline construction; glut market with divested interest to be purchased by foreign entities against national interest; damage credit of oil companies overseas, billions of dollars of security assets would be wiped out.

S. 2387 - Opponents Cont'd

Richard J. Boushka, Pres., Vickers Energy Corp. -- independents would not prosper by divestiture but suffer worse fate; would cause increased prices; would encourage smaller, less efficient refineries; would be counter-productive and detrimental to best interest on American consumer.

Bill Brier, National Council of Farmer Cooperatives -- have a devastating effect on Coop source of supply; would hamper supply lines; prevent pricing flexibility; does not prevent growth of smaller companies; would increase prices.

Otis H. Ellis (average consumer speaking for himself) -- findings of proposed bill not correct; would curtail competition; too much red tape and record keeping; would dismember assets of pensioners and small investors; poses beginning of end of American dream.

Robert P. McGinley, Sico Company, William Wrench, Potomac Oil Co., and Richard Singletary, Sing Oil Co., all members of Independent Oil Marketers Conference -- smaller marketers would be out of business; result in higher prices and inconvenience for consumers; big threat to economic survival; there is no lack of competition within industry; divorcement would bring shock to marketing sector.

William Adams, John Johnson, Charles Johnson and Pat Green, Southern Caucus (a marketing association) -- along with massive problems created by FEA, divestment would cause more problems; restrict freedom of choosing supplier; should not tamper with system that serves well; would lower standard of living; may gravely jeopardize economic viability of small companies; retail dealer customers will lose; majors not too large - they have to be; economy needs less, not more federal involvement; divestiture would create new marketing giants, injure competition, increase prices, create chaos in economy, disastrous for small businessmen.

William A. Johnson and Richard E. Messick, George Washington University's Energy Policy Research Project -- alleged anticompetitive practices of oil industry traced to unwise government policies; industry not abnormally profitable; one of least concentrated industries in U.S.; divesiture would increase dependence on foreign oil and make vulnerable to another embargo; should amend antitrust laws, not seek divestiture.

Edward W. Erickson, N.C. State University -- would not create economic miracles; bigness confused with monopoly--oil industry not monopolistic; oil industry is competitive; would raise cost of capital and consequent required earnings; would be unfortunate step toward anglicanization of economy; no benefits in terms of increased competition.

Other bills introduced on which there has been little or no action.

S. 730 -- to promote competition in the marketing of petroleum products by providing for a moratorium on further control or acquisition of marketing outlets by petroleum producers and refiners, and for other purposes, entitled: "Petroleum Marketing Moratorium Act of 1975".

S. 745 -- to amend the Interstate Commerce Act and to provide for regulation of certain anticompetitive developments in the petroleum industry, entitled "Free Enterprise in Petroleum Act of 1975".

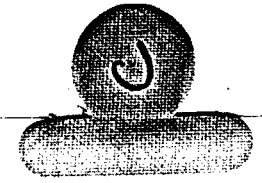
S. 1137 -- to prohibit certain anticompetitive practices in connection with the distributing and marketing of refined petroleum products, entitled "Refined Petroleum Products Anticompetitive Practices Act of 1975".

S. 1138 -- to amend the Clayton Act to preserve competition in the oil and gas pipeline industries in the United States, entitled "Petroleum and Gas Pipeline Industries Anticompetitive Practices Act of 1975".

S. 1959 -- to supplement the antitrust laws, and to protect trade and commerce against oligopoly power or monopoly power, and for other purposes; entitled "Industrial Reorganization Act".

S. 2761 -- "Competition in Energy Act".

H.R. 4910 -- to amend the Clayton Act to provide for additional regulation of certain anticompetitive developments in the petroleum industry, entitled "Petroleum Industry Antitrust Act of 1975".



H.R. 8117 -- to make loans available for small businesses in the petroleum and petrochemical industries and to preserve and protect such small businesses.

Introduced by Mr. Smith (Iowa), Mr. Conte, Mr. Bergland, and Mr. Hungate. Referred to Committee on Small Business and Interstate and Foreign Commerce.

Title -- "Small Business Petroleum and Petrochemical Marketers Protection Act of 1975". (to require 36 largest integrated oil companies to divest wholesale and retail market operations)

Proponent

T. J. Oden, Independent Gasoline Marketers Council -- majors use of "secondary branding" false and deceptive and used to injure the independent marketer and deceive consumer; crude divestitute at wellhead provide competitive stimulus.

Opponent

D. L. Mulit, Sr. VP for Marketing, Standard Oil of Calif. -- divesting oil companies out of wholesale and retail market would hurt small businessman; increase consumer cost for gasoline; oil companies would lose millions resulting in job losses. Problem could be solved by other legislation guaranteeing duration of leases.

S. 2028 -- to amend Clayton Act by strengthening and facilitating the carrying out of antitrust and precompetitive policies by agencies of the Federal Government, and for other purposes.

Introduced by Sen. Edward Kennedy and Sen. Philip A. Hart. Referred to Committee on the Judiciary

Title -- "Competition Improvements Act of 1975"

The initial hearing (and the only one to date) on this bill was held on December 11, 1975. All of the witnesses at the hearing supported the bill.

Dr. James C. Miller, Council on Wage & Price Stability, Anthony Oettinger, Community Antenna TV Commission; Miles Rubin, Optical Systems Corp., and Dr. William Melody, Annenberg School of Communications -- cable TV being undercut by commercial TV; bill would ease abuse of antitrust laws; relieve monopolistic tendencies; cut out regulations that are anti-competitive.

Warren Hinchee, Public Service Dept., Burbank, Cal. -- need such a bill to enhance competition and correct problems in leasing format of Federal lands.

William Lamont, Lobel, Novins & Lamont (attorneys) --need this legislation to get regulatory agencies to heed consequences of their actions.

Ken Catmull, Autotronic Systems,Inc. -- berated FEA for its anti-competitive actions; many gasoline marketing problems would be solved by divestiture; would permit American free enterprise to work without government regulations.

The Senate held three votes on divestiture amendments to the natural gas bill during 1975. The House held none.

The three Senate votes are recorded on the attached tally sheets.

On the basis of these votes, it is likely that there will be sufficient support for a favorable vote in the subcommittee. Prospects for favorable action in the full Judiciary Committee are less certain.

The members of the Committee and their positions on divestiture are listed below. Subcommittee membership is indicated by an asterisk.

James Eastland (Miss.)	+	*Roman Hruska (Neb.)	+
*John McClellan (Ark.)	+	*Hiram Fong (Hawaii)	+
*Philip Hart (Mich.)	-	Hugh Scott (Pa.)	+
*Edward Kennedy (Mass.)	-	*Strom Thurmond (S.C.)	+
*Birch Bayh (Ind.)	-	*Charles Mathias (Md.)	?
Quentin Burdick (N.D.)	?	William Scott (Va.)	+
Robert Byrd (W.Va.)	+		
*John Tunney (Cal.)	-		
*James Aborezk (S.D.)	-		

...ezk, James - D (SD)	–	–	–
...n, James B. - D (AL)	+	+	+
...r, Howard H., Jr. - R (TN)	+	O	O
...tlett, Dewey F. - R (OK)	+	+	+
...h, Birch - D (IN)	–	O	O
...ll, J. Glenn, Jr. - R (MD)	+	+	+
...mon, Henry - R (OK)	+	+	+
...tsen, Lloyd - D (TX)	+	+	+
...en, Joseph R., Jr. - D (DE)	–	–	–
...ck, Bill - R (TN)	+	+	+
...oke, Edward W. - R (MA)	–	–	–
...ckley, James L. - CR (NY)	+	+	+
...mpers, Dale - D (AR)	–	–	+
...rdick, Quentin N. - D (ND)	+	Pr. +	–
Byrd, Harry F., Jr. - I (VA)	+	+	+
Byrd, Robert C. - D (WV)	+	+	+
Cannon, Howard W. - D (NV)	–	–	+
Case, Clifford P. - R (NJ)	–	–	–
Chiles, Lawton - D (FL)	–	–	+
Church, Frank - D (ID)	–	–	–
Clark, Dick - D (IA)	–	–	–
Cranston, Alan - D (CA)	–	–	–
Culver, John C. - D (IA)	–	–	–
Curtis, Carl T. - R (NB)	+	+	+
Dole, Robert - R (KS)	+	+	+
Domenici, Pete V. - R (NM)	+	+	+
Eagleton, Thomas F. - D (MO)	+	+	+
Eastland, James O. - D (MS)	+	+	+
Fannin, Paul J. - R (AZ)	+	+	+
Fong, Hiram L. - R (HI)	+	+	+

Ford, Wendell H. - D (KY)	–	Pr. +	+
Garn, Jake - R (UT)	+	+	+
Glenn, John - D (OH)	+	+	+
Goldwater, Barry - R (AZ)	+	+	+
Gravel, Mike - D (AK)	+	+	+
Griffin, Robert P. - R (MI)	+	+	+
Hansen, Clifford P. - R (WY)	+	+	+
Hart, Gary - D (CO)	–	–	–
Hart, Philip A. - D (MI)	–	O	O
Hartke, Vance - D (IN)	–	–	–
Haskell, Floyd K. - D (CO)	–	–	–
Hatfield, Mark O. - R (OR)	–	–	+
Hathaway, William D. - D (ME)	–	–	–
Helms, Jesse A. - R (NC)	+	+	+
Hollings, Ernest F. - D (SC)	–	–	–
Hruska, Roman L. - R (NB)	+	+	+
Huddleston, Walter - D (KY)	+	+	–
Humphrey, Hubert H. - D (MN)	–	–	–
Inouye, Daniel K. - D (HI)	–	+	–
Jackson, Henry M. - D (WA)	–	–	–
Javits, Jacob K. - R (NY)	+	+	+
Johnston, J. Bennett, Jr. - D (LA)	+	+	+
Kennedy, Edward M. - D (MA)	–	–	–
Laxalt, Paul - R (NV)	+	+	+
Leahy, Patrick J. - D (VT)	–	–	–
Long, Russell B. - D (LA)	+	+	+
McClellan, John L. - D (AR)	+	+	+
McClure, James A. - R (ID)	+	+	+
McGee, Gale W. - D (WY)	+	O	O
McGovern, George - D (SD)	–	–	–

McIntyre, Thomas J. - D (NH)	—	—	—
Fannin, Paul J. - R (AZ)	—	—	+
Mansfield, Mike - D (MT)	—	—	—
Mathias, Charles McC., Jr. - R (MD)	?	?, 0	?, +
McGee, Lee - D (WY)	—	—	—
McGovern, George S. - D (SD)	—	—	—
McIntyre, Thomas J. - D (NH)	+	+	+
Metcalf, Lee - D (MT)	+	?, +	?, —
Metzenbaum, Howard M. - D (OH)	—	—	—
Mondale, Walter F. - D (MN)	—	—	—
Montoya, Joseph M. - D (NM)	+	+	+
Morgan, Robert - D (NC)	+	?, +	?, —
Moss, Frank E. - D (UT)	—	—	—
Muskie, Edmund S. - D (ME)	—	—	—
Nelson, Gaylord - D (WI)	—	—	—
Nunn, Sam - D (GA)	+	+	+
Packwood, Bob - R (OR)	—	—	—
Pastore, John O. - D (RI)	—	—	—
Pearson, James B. - R (KS)	+	+	+
Pell, Claiborne - D (RI)	—	—	—
Percy, Charles H. - R (IL)	+	+	+
Proxmire, William - D (WI)	—	—	—
Randolph, Jennings - D (WV)	+	+	+
Ribicoff, Abraham - D (CT)	—	—	—
Roth, William V., Jr. - R (DE)	+	+	+
Schweiker, Richard S. - R (PA)	—	—	—
Scott, Hugh - R (PA)	+	+	+
Scott, William Lloyd - R (VA)	+	+	+
Spong, John - D (VA)	+.	0	0
Stafford, Robert T. - R (VT)	—	—	—
Stennis, John C. - D (MS)	+	0	0
Stevens, Ted - R (AK)	+	+	+
Stevenson, Adlai E., III - D (IL)	—	—	—
Stone, Richard (Dick) - D (FL)	+	+	+
Symington, Stuart - D (MO)	+	+	+
Taft, Robert, Jr. - R (OH)	+	+	+
Talmadge, Herman E. - D (GA)	+	+	+
Thurmond, Strom - R (SC)	+	+	+
Tower, John - R (TX)	+	+	+
Tunney, John V. - D (CA)	—	—	—
Weicker, Lowell P., Jr. - R (CT)	+	+	+
Williams, Harrison A., Jr. - D (NJ)	—	—	—
Young, Milton R. - R (ND)	+	+	+
Durkin	—	—	—

1 = Oct. 8 - Abourezk #954 rejected - 45-54 days (+)

2 = Oct. 22 - Mansfield-Hart #993 rejected - 40-49 days (+)

3 = Oct. 22 - Kennedy #963 rejected - 39-53 days (+)

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

February 12, 1976

MEMORANDUM FOR JIM CONNOR

FROM: FRANK G. ZARB

The President should decide on this matter for possible inclusion in the energy message over the weekend.

Attachment

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461
FEB 13 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: LIQUEFIED NATURAL GAS (LNG) ISSUE PAPER

Enclosed is an issue paper on Liquefied Natural Gas (LNG) for your review and possible inclusion in the Energy Message; agency positions are recorded.

Enclosure

ISSUE: LNG IMPORTS

What should be the U. S. Government policy with respect to the importing of liquefied natural gas (LNG)?

BACKGROUND

LNG is natural gas of pipeline quality (1000 Btu/cubic foot), liquefied by lowering gas temperature to -260°F. Liquefaction reduces volume by factor of 600, enabling transportation by cryogenic tanker from foreign sources.

The absence of a comprehensive U. S. Government policy towards LNG imports has had several important effects, most significantly:

- It has compounded the uncertainty which faces the private sector, suppliers and consumers, and State regulatory groups as they attempt to cope with pervasive and growing natural gas shortages.

- It has enabled an OAPEC member country, Algeria, to emerge as the major prospective foreign supplier of LNG to the U. S., and as the potentially-dominant world supplier of LNG, because:

  - Algeria can capitalize on favorable geography: proximity to Western Europe; relative closeness to U. S. (4,000 miles from U. S. East Coast, v. Indonesia which is 8,000 miles from U. S. West Coast).

  - Algeria has a strong incentive to develop LNG exports because of large gas reserves (229 trillion cubic feet), and major economic development needs (annual population growth of 3.5%, one of the world's highest rates).

It is appropriate now to review our policies towards LNG imports because of several recent developments.

- Deregulation is the major natural gas supply issue. Legislation to deregulate new gas prices now seems more remote, but even with positive action, there may be a need for some level of LNG imports because of technical, geological and institutional supply uncertainties.

- Furthermore, if deregulation is not enacted, the prospects of high demand for gas at regulated prices, and low supply, remain very real, with the consequences of rising curtailments.

- The Interagency Natural Gas Task Force concentrated its efforts on this winter season, and the Synthetic Fuels Task Force directed its attention to the long-term outlook; they have submitted their policy recommendations; LNG imports, which can help during the mid-term, should also be addressed.

- Algerian posture in OPEC, OAPEC, and in world organizations such as the U.N., continues to be confrontational towards the U. S. The development of a major commercial exchange with that country, and the subsequent U. S. vulnerability to price and supply disruptions, should be assessed carefully.

- Two projects involving LNG imports from the U.S.S.R. have been proposed, but not submitted to the Federal Power Commission:

  - East Yakutsk, with the U. S. and Japan each receiving one billion cubic feet per day (bcf/d) by the early 1980's;

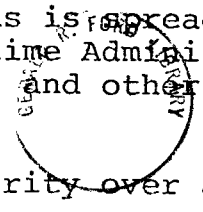
  - Northwest Siberia ("North Star"), with 2 bcf/d to the U. S. East Coast by the mid-1980's.

  These projects may require Export-Import Bank financing and therefore Congressional approval, although there are indications that the "North Star" project is proceeding without direct U. S. government financing. More importantly, the decision to proceed with these ventures would have to be taken in the broadest context of U.S.-U.S.S.R. relations. Because of timing and political uncertainties, potential LNG imports from the U.S.S.R. are not considered in the technical analysis in this paper, which discusses 1985 import availability.

SUMMARY OF FINDINGS

Government Role

- Current U. S. Government role in LNG imports is spread among Federal Power Commission (FPC), Maritime Administration (MarAd), Export-Import Bank (Exim), and other agencies.



- Under Natural Gas Act, FPC has direct authority over all natural gas imports and the price of sale.

- President has authority under Section 232 of Trade Expansion Act of 1962 to adjust imports of natural gas if such imports threaten to impair the national security.

- Through construction subsidies and ship mortgages, MarAd equalizes LNG tanker construction costs in the U. S. with world cost levels; total MarAd exposure to date is $900 million for ten tankers dedicated to LNG imports to the U. S.

- Exim provides loans and guarantees for export of U. S. goods to overseas LNG facilities; total exposure to date is $205 million for the El Paso #1 project in Algeria.

Summary of Analysis

- Since maritime costs of LNG are considerable, the shorter the transportation link to the consuming country the higher the "take" of the exporting country.

  - Algeria, at an East Coast landed price of $2.30/Mcf, priced its gas feedstock at .78/Mcf (4,000 mile route);

  - Indonesia, at a West Coast landed price of $2.80/Mcf, priced its gas feedstock at .62/Mcf (8,000 mile route).

- Algeria is emerging as the major world exporter of LNG, with an estimated 60 percent of world LNG trade, which by 1980 may total 4.6 trillion cubic feet per year (tcf/yr).

- U. S. imports from Algeria present unique problems because:

  - Algeria's potential U. S. market could easily be larger than that of suppliers such as Nigeria and Indonesia, and concentrated in areas of high vulnerability such as large Eastern urban areas;

  - Algeria's production comes from gas-only fields; since it is independent of oil production activity, it is relatively easier to curtail or embargo;

  - Algeria has better access than other producers to alternative markets in Western Europe.

- LNG imports after regasification and delivery to the city gate, range in cost from $2.65 to $3.10/Mcf; these costs are likely to escalate.

- With prompt deregulation of new gas prices, natural gas shortages could essentially be eliminated by 1985, if development of other fuels proceeds on course.

- Under assumptions of continued price regulation, a natural gas supply gap (unmet demand) emerges and could range from 4.3-6.8 tcf in 1985 depending upon success of other supply and conservation actions.

- Estimates of LNG import supply potential in 1985 range between 0.4 tcf and 2.1 tcf; as the level of LNG imports increases within this range, foreign supply dependency shifts from 100% Algerian (at .4 tcf) to slightly over 60% Algerian (at 2.1 tcf) with the addition of Indonesia, Iran and Nigeria as import sources.

Thus, LNG imports will not be a major energy supply source in the mid-term; the most reasonable high case estimate for 1985 is 2.1 tcf, or roughly 1.1 million barrels per day oil equivalent. Nevertheless, the regional impact of LNG imports is potentially significant. If all projects pending before FPC are approved, 1985 imports would total 1.5 tcf, of which 1.06 tcf would be delivered to U. S. East Coast.

While there is some uncertainty in these LNG projections, there is considerably more uncertainty in the projections of other supplemental gas supply options:

- Canadian gas imports are subject to further price increases and volume reductions, paralleling Canadian action on oil prices and exports.

- The timing, costs and volume of Alaskan gas delivered to the lower-48 are presently highly uncertain.

- The magnitude of high-Btu synthetic gas supply will depend upon the level of Federal Government support. Non-subsidized prices are likely to be above $3/Mcf, or $19/barrel equivalent (1975 dollars; FOB plant); the Synthetic Fuels Commercialization Task Force estimates that by 1985 high Btu synthetic gas supply would total approximately .6 tcf ($13 world oil price), and could remain at about that level through 1990.

- Synthetic gas from petroleum (SNG) has apparent attractiveness due to its proven technology and relatively low capital costs ($115 million for 250 MMcf/d facility); however, price and availability of petroleum feedstocks are problematical. Prices for this source are likely to be about $3.10/Mcf (1975 dollars; FOB plant).

- Production from tight gas formations is technically unproven, and may face environmental challenge.

POLICY OPTIONS

There is now uncertainty over the outcome of various legislative proposals, and their impact upon domestic supply. It is therefore prudent to consider the possibility of unmet demand within the mid-1980's, and the possible role of LNG imports as a supplemental source of supply. Moreover, the large number of pending LNG import applications at the FPC, and the potential dominant role of Algeria in supplying foreign LNG to the U. S. require a national policy on LNG imports. The balance among national goals of energy independence and national security, and domestic economic, environmental and regional concerns must be carefully struck.

In broad terms, from the national security standpoint, a project ought to be demonstrably essential for specific energy needs, and capable of meeting specific national security and economic criteria still to be established.

In establishing these national security and economic criteria, the following considerations apply:

- LNG as an import source suffers from vulnerability similar to the oil imports, since it comes from sources which are insecure and have participated in price actions and supply interruptions in the past.

- LNG imports are probably less secure, inherently, than oil imports because the logistical technology is much more complex; moreover, there is no spot market to provide relief from supply disruptions.

- The LNG logistical infrastructure requires large investments in specialized facilities, equipment and ships, and special economic incentives to finance these investments; to date, the burden of these investments, and the financial risk, have been mostly upon the consuming countries.

- LNG imports are not one-for-one substitutes with oil imports; in most uses, the gas can be substituted by electricity, fueled by coal or nuclear power. Thus, a restriction on LNG imports would not necessarily result in parallel increase in oil imports.

- The economic review to qualify LNG import projects may have to find that these projects represent the best supply alternative, when incrementally-priced and without additional U. S. government subsidy.

In defining a policy towards LNG imports, two issues have been considered by the ERC:

- Goals of an LNG import policy, expressed as acceptable levels of import dependency during the 1980's;
- Mechanisms to achieve the import levels defined as goals.

ISSUE: IMPORT GOALS

Option 1

Restrict LNG import goal to projects unconditionally-approved by the FPC as of this date; approval of pending projects or new ventures would be conditioned by stringent national security and economic criteria.

PROS:

- Most direct way of limiting Algerian market share, since four of five pending projects are Algerian based.
- Limits total vulnerability (0.4 tcf/yr. unconditionally-approved).

CONS:

- Several other pending projects are in advanced planning; appearance of rollback would be created.
- Possibly foregoes additional supply of .6 - 1.6 tcf/yr. in 1985, which is likely to be needed.

Option 2

Limit LNG imports to about 1 tcf by 1985 (to be reassessed if deregulation is not attained); subject all pending plus any new projects to a careful case-by-case national security and economic review.

The 1 tcf limit by 1985 will not be an absolute ceiling, but rather a signal to the public and industry of a reasonable level of import dependency. Conceivably the actual level approved could exceed or fall short of 1 tcf by 1985. If the national security review warrants limitation of Algerian imports, quick indications to that effect would be given.

In any event a case-by-case review will be conducted of all projects not yet unconditionally approved. The review will consider regional dependency within the United States and an assessment of the security of the source of imports, as well as other factors.

PROS:

- o Signals industry that the government believes import levels of about 1 tcf are realistic, subject to stated conditions, without, at this time, placing an absolute limit on LNG imports.
- o Firm upper limit could be established on Algerian market share.
- o Will not discourage industry from developing foreign sources of LNG supply other then Algeria.

CONS:

- o Unless new prospective supply countries initiate U.S. import ventures, Algerian LNG import market shares could be very high.
- o Industry is probably expecting a more favorable goal from the Administration.

Option 3

Recognize a role for LNG imports as a valuable alternative source of natural gas supply; place no upper limit on import levels, but review projects on case-by-case basis to meet national security and economic concerns.

PROS:

- ° Permits market forces to determine the need for LNG without active encouragement or discouragement by the Federal Government.
- ° May provide stimulus to domestic shipbuilding and to U.S. exports of venture-related material and equipment.

CONS:

- Algerian market share, and concomitant U. S. vulnerability, would probably be highest under this option, since Algeria is most advanced LNG supplier;
- LNG projects are financed on long-term (20 year) pay-out assumptions; new projects put in place during the mid-1980's would commit the U. S. to LNG through the end of the century;
- Leaves considerable uncertainty within industry on acceptable level of LNG imports.
- At the time when this country has set an explicit import goal for oil, this option leaves acceptable natural gas import levels undefined.

Option 4

Take no action with respect to LNG import policy at this time.

PROS:

- Enables deregulation issue to be settled without being affected by an announcement on LNG policy.
- Allows further time for definition of national security impacts.

CONS:

- Prolongs uncertainty facing industry and government regulatory agencies and executive departments.
- Regardless of the outcome of deregulation issue, there is a need within government and industry for a clear statement of U. S. policy towards LNG imports.

Regardless of which option is chosen and to expedite the implementation of the import goal, we must move quickly to approve the projects that qualify under national security and economic criteria. Thus, the issue has been narrowed to options for import goals. Most agencies agreed, and the ERC recommends, that a Task Force be established under its direction to implement the import policy goals. The Task Force will consider in detail questions relating to Federal financial assistance, pricing policies, and criteria to deal with national security issues such as security of individual supply sources, and acceptable levels of regional vulnerability.

The ERC considered the use of Section 232 authority under the Trade Expansion Act to seek national security findings, as an implementing mechanism. It was generally agreed, however, that a case-by-case approach, with Administration comments to the FPC, would be adequate.

AGENCY RECOMMENDATIONS

- Option 1 - CEA, OMB
- Option 2 - FEA, State, ERDA
- Option 3 - Commerce, Interior
- Option 4 - Treasury, Seidman

PRESIDENTIAL DECISION

Option 1 ___

Option 2 ___

Option 3 ___

Option 4 ___

2/11 - Gail
2/6 - EC retyped
2/6 - Gail

FEB 12 1976

Called Ofc of Supply & Demand Analysis for pickup of orig.

FORD, Gerald R.

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: BIWEEKLY STATUS REPORT

The weather in the Nation as a whole for the 4 weeks ending January 23 was much colder than last year (26.5 percent more degree days) and colder than normal (9.6 percent more degree days). December was also colder than last year and the index of industrial production continued to rise in that month, exceeding the corresponding month in 1974 (by 0.9 percent) for the only time in 1975.

The combination of these factors has raised total petroleum demand for the period to the level of 18.28 million barrels per day, an increase of 2.40 million barrels a day (15.1 percent) since November.

With crude oil production 220,000 barrels per day below last year, imports rose to a record high of 7.22 million barrels per day and met 39.5 percent of total petroleum demand.

Total demand, however, is only slightly higher (less than 0.4 percent) than in 1975 and actually 280,000 barrels per day (1.5 percent) below the corresponding period in 1973 before the oil price increases.

While much of the reduction in demand since 1973 can be credited to higher prices, most of the balance must be attributed to the lower level of economic activity. The index of industrial production in December 1975 was 118.5, 6.3 percent lower than the December 1973 figure of 126.5.

This page retyped in EC:2/6/76:x8241:rm 3309:per SMinihan: Ec:x7913:rm 3311 to make correction-deleted "Through Rogers C.B. Morton"

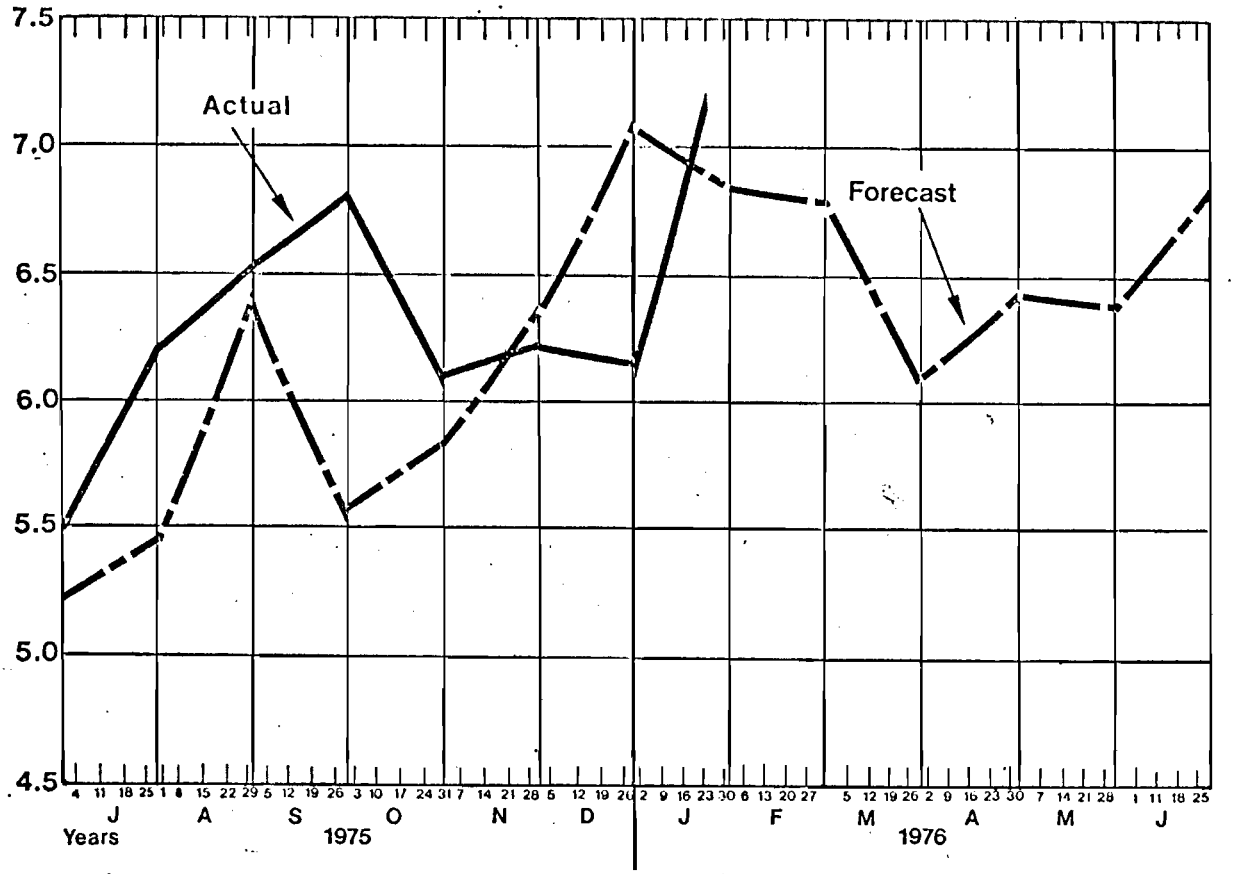
Motor gasoline demand declined seasonally to 6.48 million barrels per day, 3.5 percent above last year and 7.6 percent above 1973.

Despite the recent rise in industrial production to a level above last year, residual fuel oil demand was 15.7 percent lower during the 4 weeks ending January 23 than in the corresponding period of last year while distillate demand was 11.8 percent higher.

Figure 1

Total U.S. Petroleum Imports (Crude and Product)

Millions of Barrels per Day



o The Nation as a whole had 26.5 percent more degree days (colder weather) than last year during the 4 weeks ending January 23. As a result, fuel oil demand was up and so were imports, which reached the record high of 7.22 million barrels per day, 290,000 barrels per day above the forecast. This was 570,000 barrels per day above 1975, nearly two million barrels above 1974 during the oil embargo, and 1,580,000 above 1973 before the embargo.

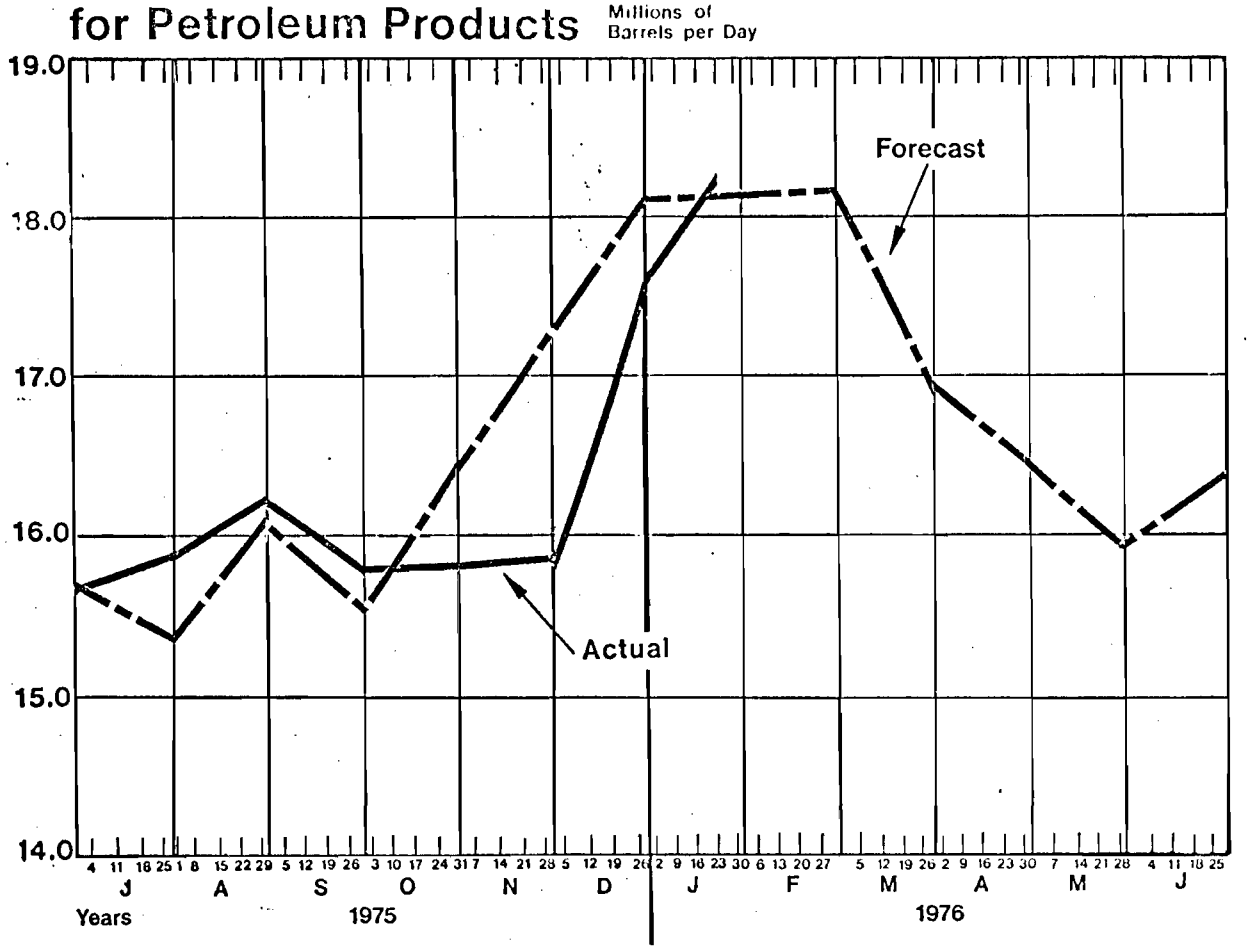
Imports now provide 39.5 percent of total petroleum demand, as compared with 30.4 percent in 1973.

Crude oil imports, at 4.93 million barrels per day were 1,160,000 barrels per day (30.7 percent) above 1975, 2,450,000 (98.2 percent) above 1974, and 2,320,000 (88.5 percent) above 1973.

Product imports, on the other hand, at 2.30 million barrels per day were 580,000 barrels per day (20.1 percent) below 1975, 500,000 (17.8 percent) below 1974, and 720,000 (24.0 percent) below 1973.

Figure 2

Total Apparent Demand for Petroleum Products



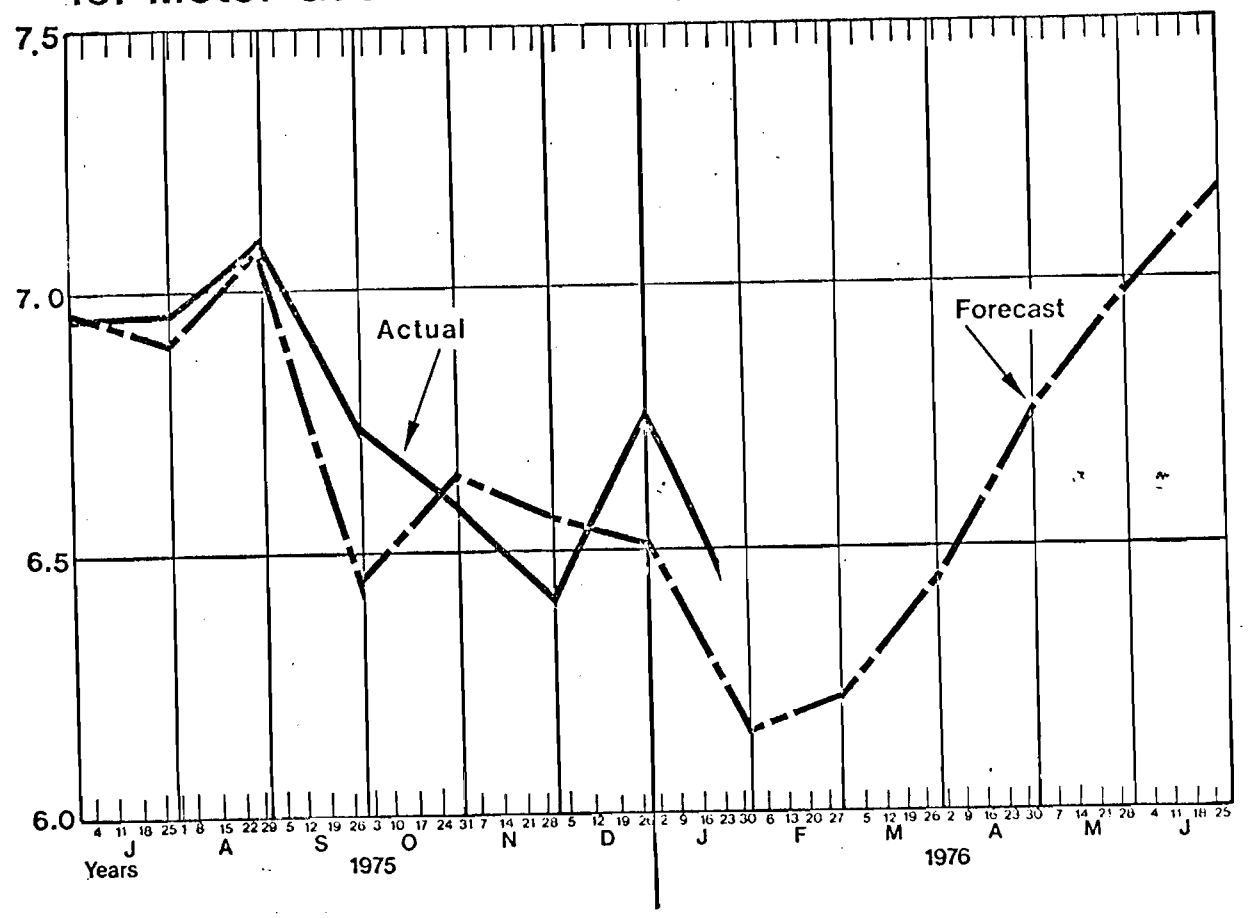
- Total demand for petroleum products for the 4 weeks ending January 23 was 18.28 million barrels per day, 150,000 barrels per day above the forecast. This level of demand was 80,000 barrels (0.4 percent) above last year and 460,000 above 1974 when the oil embargo was in effect. However, it was 280,000 barrels per day (1.5 percent) below the level for the corresponding 4 week period in 1973 prior to the embargo and the oil price increases.

- While much of the reduction in demand since 1973 can be credited to higher prices, most of the balance must be attributed to the lower level of economic activity. The index of industrial production in December 1975 was 118.5, 6.3 percent lower than the December 1973 figure of 126.5.

Figure 3

Apparent Demand for Motor Gasoline

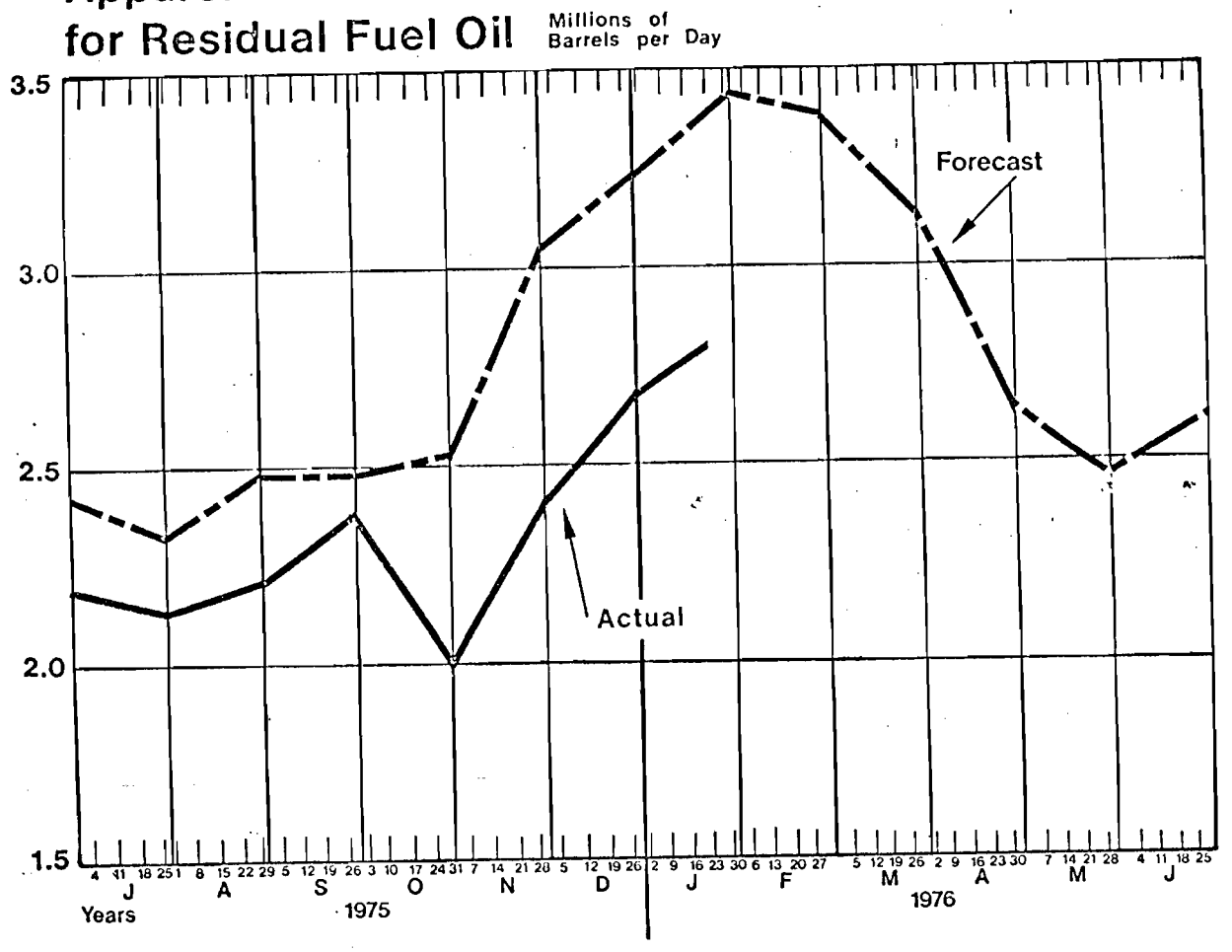
Millions of Barrels per Day



- During the 4 week period ending January 23 demand for motor gasoline declined seasonally to 6,48 million barrels per day, 230,000 barrels per day (3.5 percent) above the forecast. This was 260,000 above the corresponding 4 week period in 1975, 630,000 above 1974 during the embargo, and 490,000 (7,6 percent) above 1973 before the price increases.

Figure 4

Apparent Demand for Residual Fuel Oil

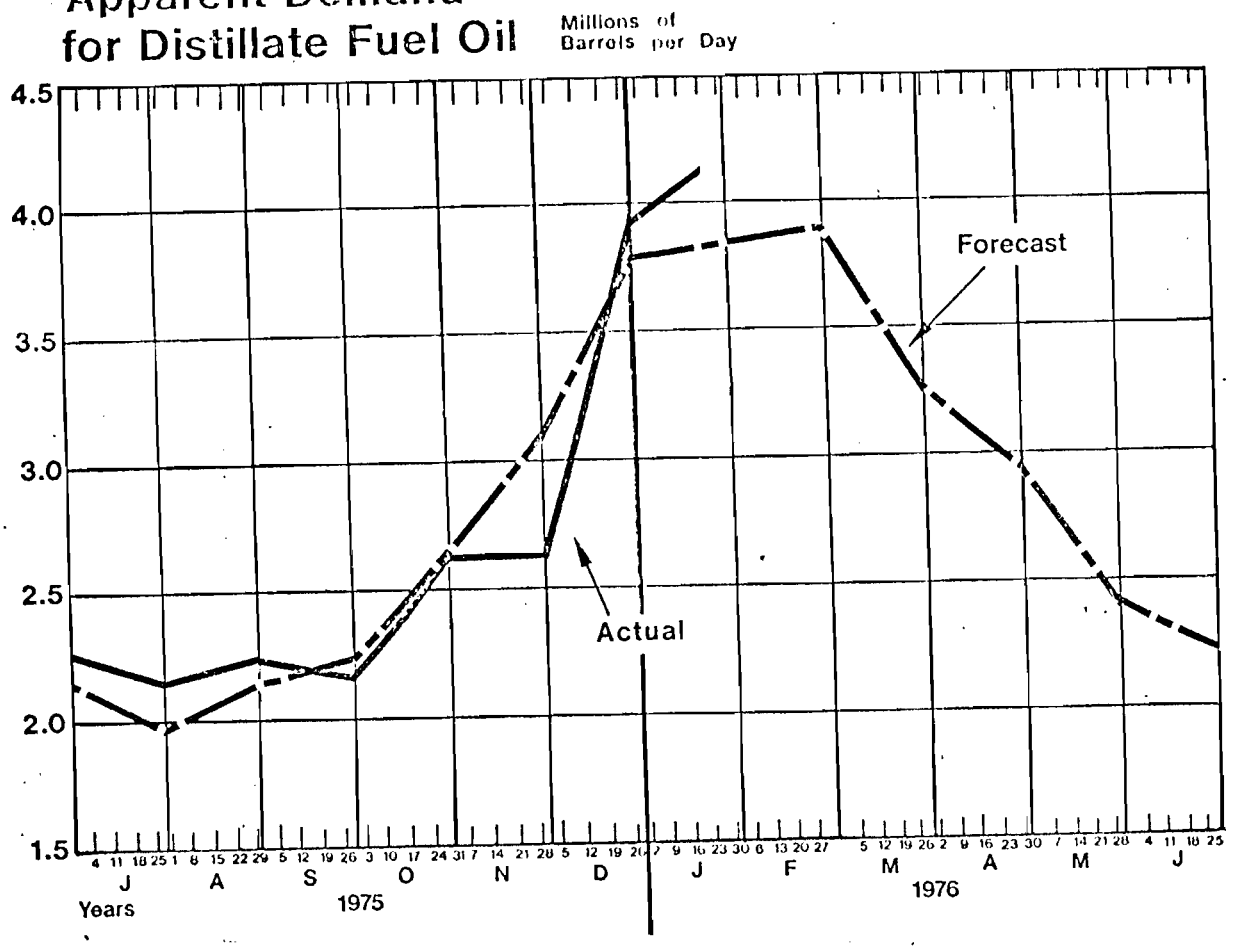


- Apparent demand for residual fuel oil for the 4 weeks ending January 23 rose seasonally to 2.81 million barrels per day. This was 520,000 barrels per day (15.7 percent) below the 1975 level, 190,000 below the 1974 level during the oil embargo, and 550,000 (16.6 percent) below 1973. It was 590,000 barrels per day below the forecast.

  No data are yet available that completely explain why residual demand is so much lower than the forecast while distillate demand is so much higher. Either reporting errors are overstating the demand for distillate or some real substitution of distillate for residual is taking place. In any event, adding the two fuel oils together produces results much closer to expectations. The total of 6.96 million barrels per day is only 3.9 percent below the forecast of 7.24 million barrels per day and 1.2 percent below last year's figure of 7.04 million.

Figure 5

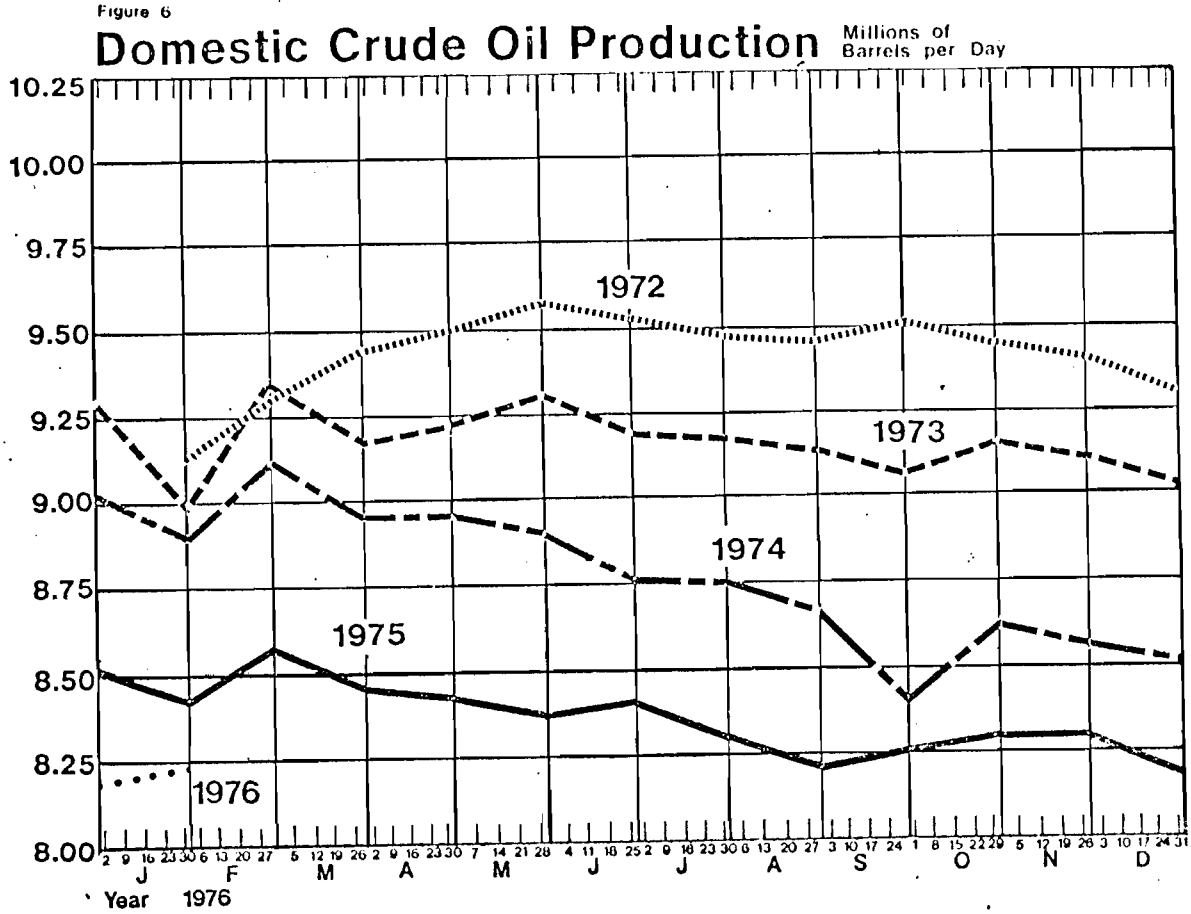
Apparent Demand for Distillate Fuel Oil



- The Nation as a whole had 26.5 percent more degree days (colder weather) during the 4 weeks ending January 23 than for the same period during 1975 and 9.6 percent more than normal. As a result, demand for distillate fuel oil was 4.15 million barrels per day, 440,000 barrels per day (11.8 percent) above 1975, 120,000 above 1974 and 160,000 above 1973. Demand was 310,000 barrels per day above the forecast.

  As noted in the comments on residual fuel oil, if demand for residual and demand for distillate are added, the total is much closer to forecast levels.

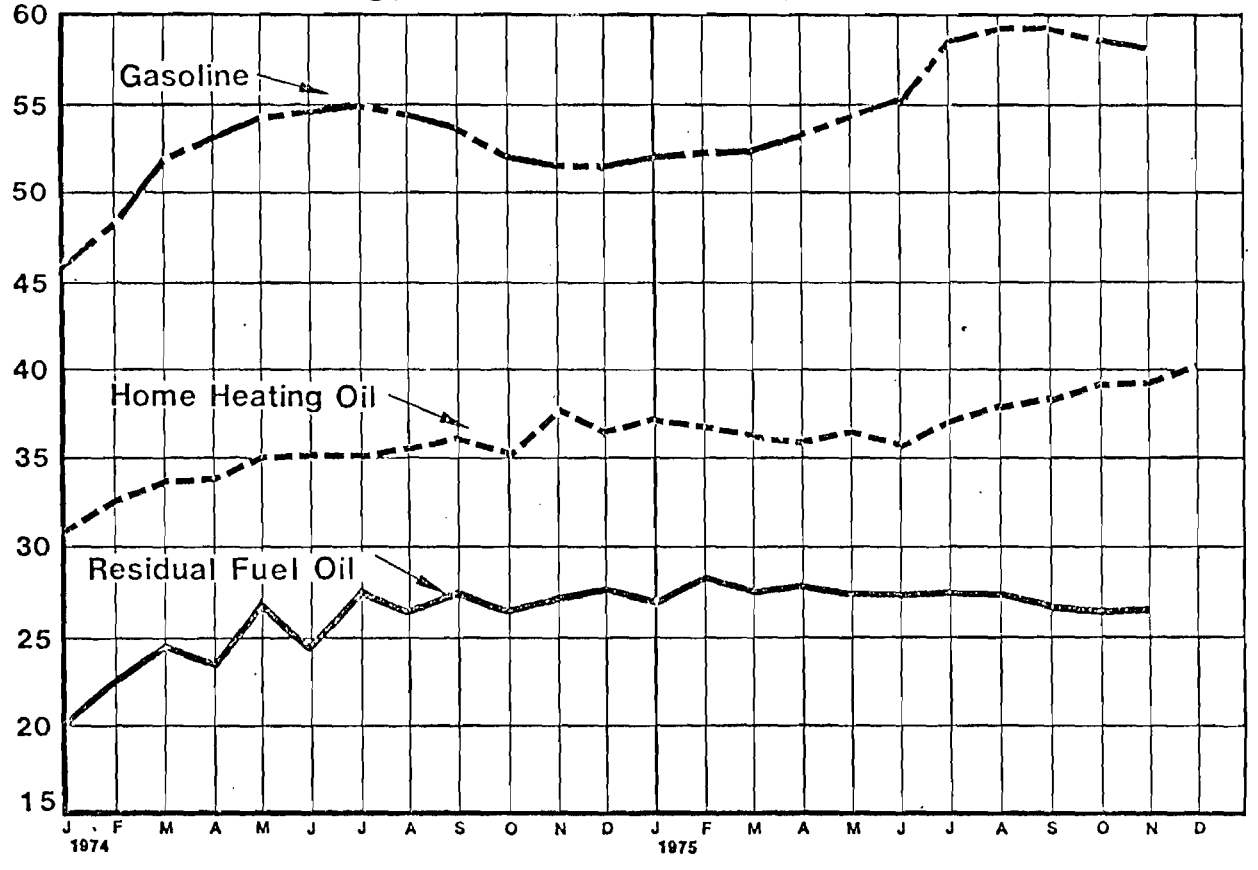
Figure 6



- Production of crude oil for the 4 weeks ending January 23 was 8.24 million barrels per day, according to API estimates, 2.6 percent and 7.9 percent below the corresponding 1975 and 1974 BOM figures.

Figure 7

Retail Prices (Gasoline, Home Heating, Residual Fuel Oil) Cents per Gallon

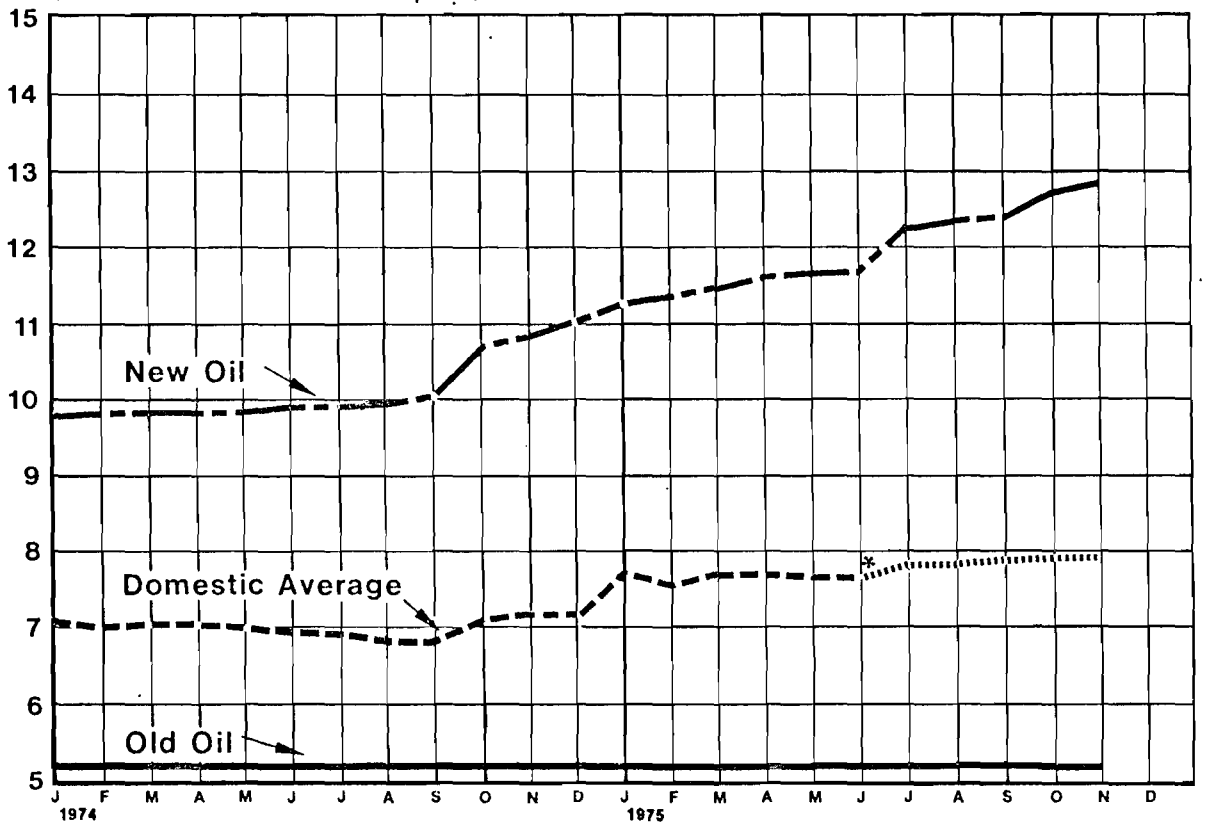


- During September, October, and November, the average residual fuel price showed a gradual decline from its level the previous three months.

Figure 8

Crude Oil Wellhead Price

Dollars per Barrel



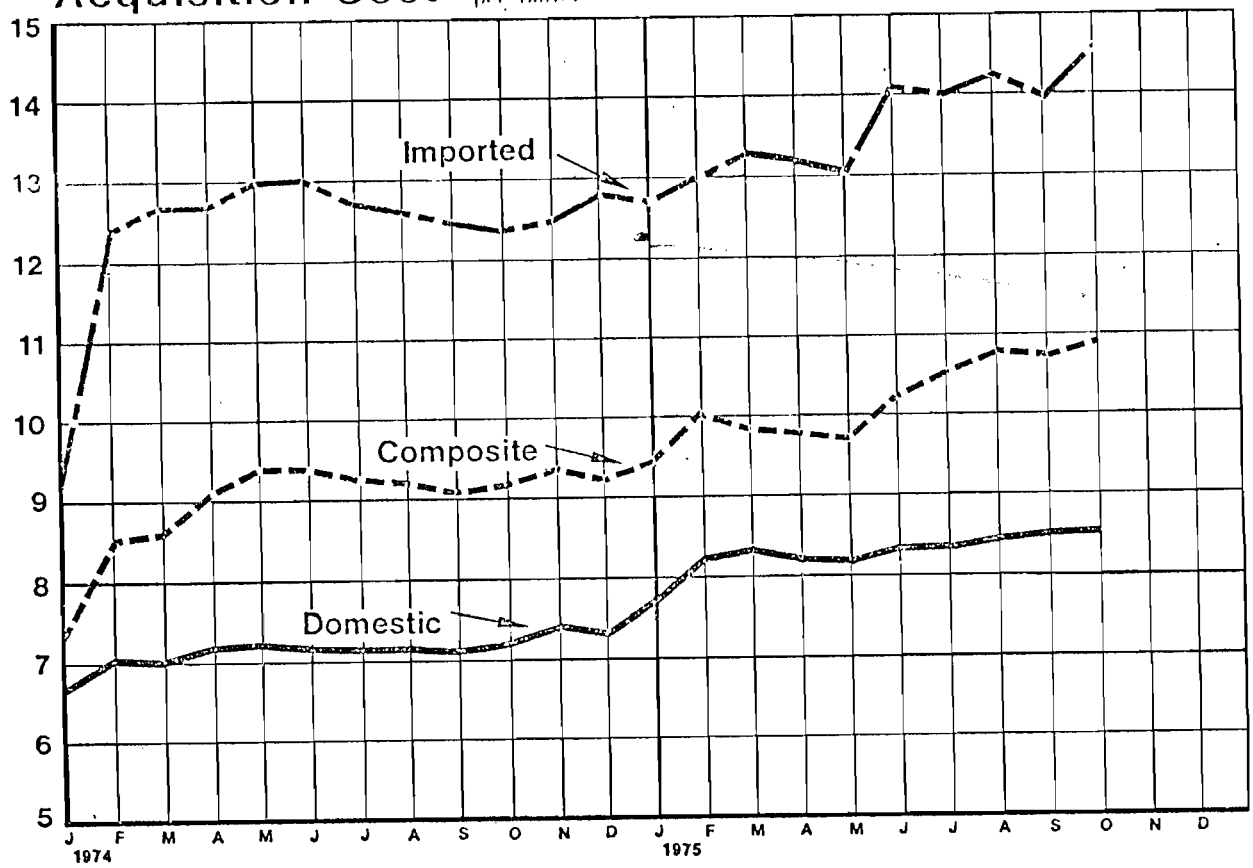
*Estimated from June through November, 1975

- During November, the average domestic "new" oil price was $12,89 per barrel, 16 cents above the October price.

Figure 9

Crude Oil Refiner Acquisition Cost

Dollars per Barrel

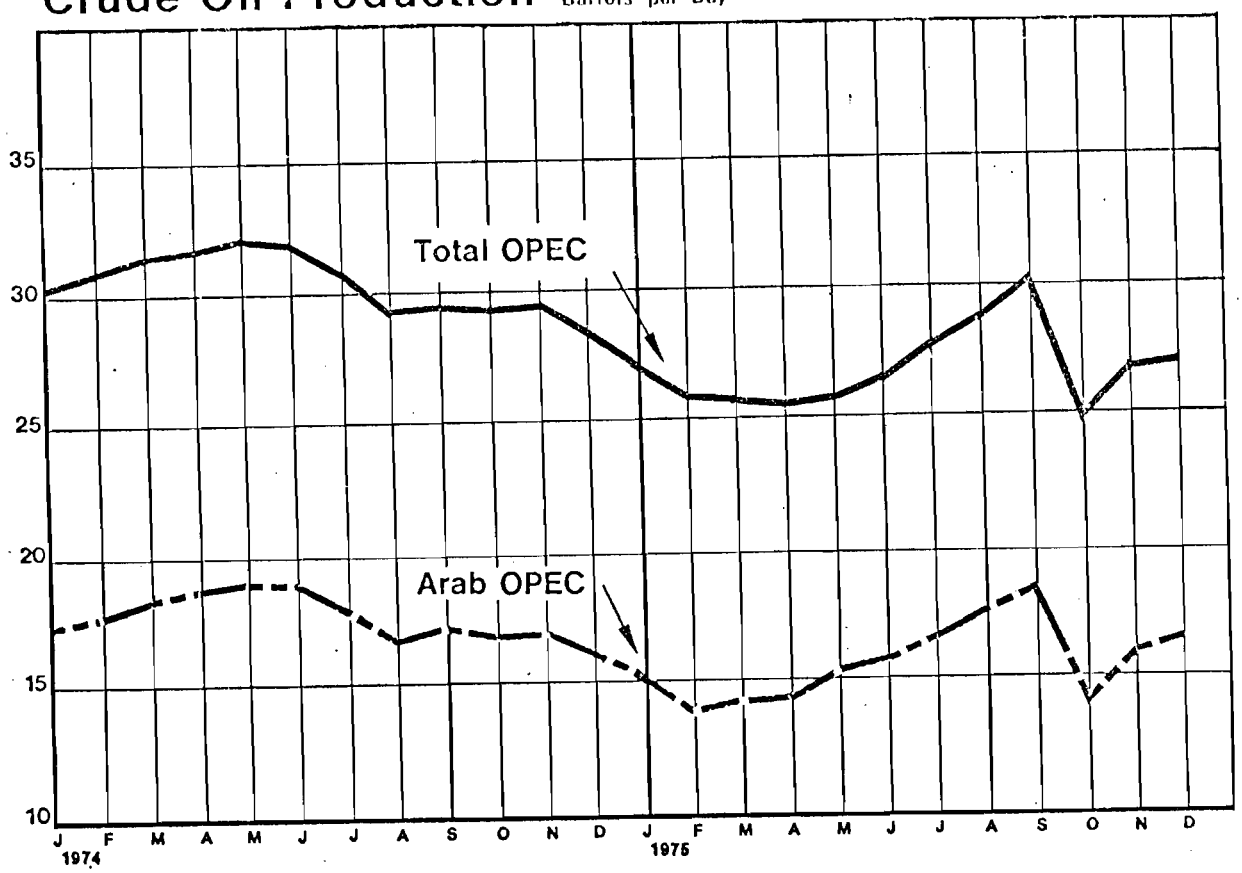


(no new data since last report)

Figure 10

OPEC Countries Crude Oil Production

Millions of Barrels per Day



- OPEC crude oil production rose slightly in December to 27.2 million barrels per day. A significant gain by Saudi Arabia was offset primarily by declines in Venezuela and United Arab Emirates. In 1975, OPEC production was down 11.6 percent from 1974.

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries plus estimated refinery gains plus net imports of products plus or minus net changes in primary stocks of products are used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly data through December from FEA's Monthly Petroleum Reporting System, and 4-week moving average from the API Weekly Statistical Bulletin for 4 weeks ending January 23 (figure 1). Demand after December estimated for figures 2, 3, 4, and 5 by FEA primarily from the API Bulletin. Figure 6, BOM through September 1975; API monthly for October, November and December, API projection for January. Figures 7, 8, 9, and 10 from FEA.

Geographical coverage -- The area covered by these data is the 50 States + D.C. "United States". "Imports" include receipts from Puerto Rico and the Virgin Islands. In this, FEA follows BOM practice, as does API. Imports as reported by Census cover the "Customs area" which includes Puerto Rico. Imports, mostly of crude oil, into Puerto Rico are included while receipts, mostly of products, by the "United States" from both Puerto Rico and the Virgin Islands are excluded. Census reports imports into the Virgin Islands separately. For balance of payments purposes, Commerce totals imports into the United States and all of its territories and associated areas (but excludes butane, propane and some minor products from the total).

Forecast -- This is actually a composite "backcast"/forecast. The petroleum product demand forecast is based on a projection of the state of the economy, without implementation of the President's conservation program, and on the expectation of normal weather. In this case, the forecast is simulated from June 1975 to June 1976.

The backcast simulates petroleum demand from January 1975 to May 1975. Modifications are made to take into account actual weather and macroeconomic changes. However, with the forecast, it was assumed that the President's conservation proposals including the crude product fees were not implemented.

FEDERAL ENERGY ADMINISTRATION

FEB 13 1976

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: LIQUEFIED NATURAL GAS (LNG) ISSUE PAPER

Enclosed is an issue paper on Liquefied Natural Gas (LNG) for your review and possible inclusion in the Energy Message; agency positions are recorded.

Enclosure

Prepared by: HSantiago/ljb/Ofc of Policy/rm 4113/x6293/2-5-76
cc: Chron/ExecSec(4)/Reading/Signature/Zausner/Pasternack/Borre'

CONCURRENCES								
SYMBOL	FEA							
SURNAME	Pasternack							
DATE	2/13/76							

FEA-F-47 GPO 882-088 OFFICIAL FILE COPY

ISSUE: LNG IMPORTS

What should be the U. S. Government policy with respect to the importing of liquefied natural gas (LNG)?

BACKGROUND

LNG is natural gas of pipeline quality (1000 Btu/cubic foot), liquefied by lowering gas temperature to -260°F. Liquefaction reduces volume by factor of 600, enabling transportation by cryogenic tanker from foreign sources.

The absence of a comprehensive U. S. Government policy towards LNG imports has had several important effects, most significantly:

- It has compounded the uncertainty which faces the private sector, suppliers and consumers, and State regulatory groups as they attempt to cope with pervasive and growing natural gas shortages.

- It has enabled an OAPEC member country, Algeria, to emerge as the major prospective foreign supplier of LNG to the U. S., and as the potentially-dominant world supplier of LNG, because:

  - Algeria can capitalize on favorable geography: proximity to Western Europe; relative closeness to U. S. (4,000 miles from U. S. East Coast, v. Indonesia which is 8,000 miles from U. S. West Coast).

  - Algeria has a strong incentive to develop LNG exports because of large gas reserves (229 trillion cubic feet), and major economic development needs (annual population growth of 3.5%, one of the world's highest rates).

It is appropriate now to review our policies towards LNG imports because of several recent developments.

- Deregulation is the major natural gas supply issue. Legislation to deregulate new gas prices now seems more remote, but even with positive action, there may be a need for some level of LNG imports because of technical, geological and institutional supply uncertainties.

- Furthermore, if deregulation is not enacted, the prospects of high demand for gas at regulated prices, and low supply, remain very real, with the consequences of rising curtailments.

- The Interagency Natural Gas Task Force concentrated its efforts on this winter season, and the Synthetic Fuels Task Force directed its attention to the long-term outlook; they have submitted their policy recommendations; LNG imports, which can help during the mid-term, should also be addressed.

- Algerian posture in OPEC, OAPEC, and in world organizations such as the U.N., continues to be confrontational towards the U. S. The development of a major commercial exchange with that country, and the subsequent U. S. vulnerability to price and supply disruptions, should be assessed carefully.

- Two projects involving LNG imports from the U.S.S.R. have been proposed, but not submitted to the Federal Power Commission:

  - East Yakutsk, with the U. S. and Japan each receiving one billion cubic feet per day (bcf/d) by the early 1980's;

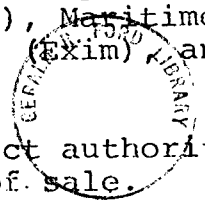
  - Northwest Siberia ("North Star"), with 2 bcf/d to the U. S. East Coast by the mid-1980's.

  These projects may require Export-Import Bank financing and therefore Congressional approval, although there are indications that the "North Star" project is proceeding without direct U. S. government financing. More importantly, the decision to proceed with these ventures would have to be taken in the broadest context of U.S.-U.S.S.R. relations. Because of timing and political uncertainties, potential LNG imports from the U.S.S.R. are not considered in the technical analysis in this paper, which discusses 1985 import availability.

SUMMARY OF FINDINGS

Government Role

- Current U. S. Government role in LNG imports is spread among Federal Power Commission (FPC), Maritime Administration (MarAd), Export-Import Bank (Exim) and other agencies.



- Under Natural Gas Act, FPC has direct authority over all natural gas imports and the price of sale.

- President has authority under Section 232 of Trade Expansion Act of 1962 to adjust imports of natural gas if such imports threaten to impair the national security.

- Through construction subsidies and ship mortgages, MarAd equalizes LNG tanker construction costs in the U. S. with world cost levels; total MarAd exposure to date is $900 million for ten tankers dedicated to LNG imports to the U. S.

- Exim provides loans and guarantees for export of U. S. goods to overseas LNG facilities; total exposure to date is $205 million for the El Paso #1 project in Algeria.

Summary of Analysis

- Since maritime costs of LNG are considerable, the shorter the transportation link to the consuming country the higher the "take" of the exporting country.

  - Algeria, at an East Coast landed price of $2.30/Mcf, priced its gas feedstock at .78/Mcf (4,000 mile route);

  - Indonesia, at a West Coast landed price of $2.80/Mcf, priced its gas feedstock at .62/Mcf (8,000 mile route).

- Algeria is emerging as the major world exporter of LNG, with an estimated 60 percent of world LNG trade, which by 1980 may total 4.6 trillion cubic feet per year (tcf/yr).

- U. S. imports from Algeria present unique problems because:

  - Algeria's potential U. S. market could easily be larger than that of suppliers such as Nigeria and Indonesia, and concentrated in areas of high vulnerability such as large Eastern urban areas;

  - Algeria's production comes from gas-only fields; since it is independent of oil production activity, it is relatively easier to curtail or embargo;

  - Algeria has better access than other producers to alternative markets in Western Europe.

- LNG imports after regasification and delivery to the city gate, range in cost from $2.65 to $3.10/Mcf; these costs are likely to escalate.

- With prompt deregulation of new gas prices, natural gas shortages could essentially be eliminated by 1985, if development of other fuels proceeds on course.

- Under assumptions of continued price regulation, a natural gas supply gap (unmet demand) emerges and could range from 4.3-6.8 tcf in 1985 depending upon success of other supply and conservation actions.

- Estimates of LNG import supply potential in 1985 range between 0.4 tcf and 2.1 tcf; as the level of LNG imports increases within this range, foreign supply dependency shifts from 100% Algerian (at .4 tcf) to slightly over 60% Algerian (at 2.1 tcf) with the addition of Indonesia, Iran and Nigeria as import sources.

Thus, LNG imports will not be a major energy supply source in the mid-term; the most reasonable high case estimate for 1985 is 2.1 tcf, or roughly 1.1 million barrels per day oil equivalent. Nevertheless, the regional impact of LNG imports is potentially significant. If all projects pending before FPC are approved, 1985 imports would total 1.5 tcf, of which 1.06 tcf would be delivered to U. S. East Coast.

While there is some uncertainty in these LNG projections, there is considerably more uncertainty in the projections of other supplemental gas supply options:

- Canadian gas imports are subject to further price increases and volume reductions, paralleling Canadian action on oil prices and exports.

- The timing, costs and volume of Alaskan gas delivered to the lower-48 are presently highly uncertain.

- The magnitude of high-Btu synthetic gas supply will depend upon the level of Federal Government support. Non-subsidized prices are likely to be above $3/Mcf, or $19/barrel equivalent (1975 dollars; FOB plant); the Synthetic Fuels Commercialization Task Force estimates that by 1985 high Btu synthetic gas supply would total approximately .6 tcf ($13 world oil price), and could remain at about that level through 1990.

- Synthetic gas from petroleum (SNG) has apparent attractiveness due to its proven technology and relatively low capital costs ($115 million for 250 MMcf/d facility); however, price and availability of petroleum feedstocks are problematical. Prices for this source are likely to be about $3.10/Mcf (1975 dollars; FOB plant).

- Production from tight gas formations is technically unproven, and may face environmental challenge.

POLICY OPTIONS

There is now uncertainty over the outcome of various legislative proposals, and their impact upon domestic supply. It is therefore prudent to consider the possibility of unmet demand within the mid-1980's, and the possible role of LNG imports as a supplemental source of supply. Moreover, the large number of pending LNG import applications at the FPC, and the potential dominant role of Algeria in supplying foreign LNG to the U. S. require a national policy on LNG imports. The balance among national goals of energy independence and national security, and domestic economic, environmental and regional concerns must be carefully struck.

In broad terms, from the national security standpoint, a project ought to be demonstrably essential for specific energy needs, and capable of meeting specific national security and economic criteria still to be established.

In establishing these national security and economic criteria, the following considerations apply:

- LNG as an import source suffers from vulnerability similar to the oil imports, since it comes from sources which are insecure and have participated in price actions and supply interruptions in the past.

- LNG imports are probably less secure, inherently, than oil imports because the logistical technology is much more complex; moreover, there is no spot market to provide relief from supply disruptions.

- The LNG logistical infrastructure requires large investments in specialized facilities, equipment and ships, and special economic incentives to finance these investments; to date, the burden of these investments, and the financial risk, have been mostly upon the consuming countries.

- LNG imports are not one-for-one substitutes with oil imports; in most uses, the gas can be substituted by electricity, fueled by coal or nuclear power. Thus, a restriction on LNG imports would not necessarily result in parallel increase in oil imports.

- The economic review to qualify LNG import projects may have to find that these projects represent the best supply alternative, when incrementally-priced and without additional U. S. government subsidy.

In defining a policy towards LNG imports, two issues have been considered by the ERC:

- Goals of an LNG import policy, expressed as acceptable levels of import dependency during the 1980's;
- Mechanisms to achieve the import levels defined as goals.

ISSUE: IMPORT GOALS

Option 1

Restrict LNG import goal to projects unconditionally-approved by the FPC as of this date; approval of pending projects or new ventures would be conditioned by stringent national security and economic criteria.

PROS:

- Most direct way of limiting Algerian market share, since four of five pending projects are Algerian based.
- Limits total vulnerability (0.4 tcf/yr. unconditionally-approved).

CONS:

- Several other pending projects are in advanced planning; appearance of rollback would be created.
- Possibly foregoes additional supply of .6 - 1.6 tcf/yr. in 1985, which is likely to be needed.

Option 2

Limit LNG imports to about 1 tcf by 1985 (to be reassessed if deregulation is not attained); subject all pending plus any new projects to a careful case-by-case national security and economic review.

The 1 tcf limit by 1985 will not be an absolute ceiling, but rather a signal to the public and industry of a reasonable level of import dependency. Conceivably the actual level approved could exceed or fall short of 1 tcf by 1985. If the national security review warrants limitation of Algerian imports, quick indications to that effect would be given.

In any event a case-by-case review will be conducted of all projects not yet unconditionally approved. The review will consider regional dependency within the United States and an assessment of the security of the source of imports, as well as other factors.

PROS:

- o Signals industry that the government believes import levels of about 1 tcf are realistic, subject to stated conditions, without, at this time, placing an absolute limit on LNG imports.
- o Firm upper limit could be established on Algerian market share.
- o Will not discourage industry from developing foreign sources of LNG supply other then Algeria.

CONS:

- o Unless new prospective supply countries initiate U.S. import ventures, Algerian LNG import market shares could be very high.
- o Industry is probably expecting a more favorable goal from the Administration.

Option 3

Recognize a role for LNG imports as a valuable alternative source of natural gas supply; place no upper limit on import levels, but review projects on case-by-case basis to meet national security and economic concerns.

PROS:

- ° Permits market forces to determine the need for LNG without active encouragement or discouragement by the Federal Government.
- ° May provide stimulus to domestic shipbuilding and to U.S. exports of venture-related material and equipment.

CONS:

- Algerian market share, and concomitant U. S. vulnerability, would probably be highest under this option, since Algeria is most advanced LNG supplier;
- LNG projects are financed on long-term (20 year) pay-out assumptions; new projects put in place during the mid-1980's would commit the U. S. to LNG through the end of the century;
- Leaves considerable uncertainty within industry on acceptable level of LNG imports.
- At the time when this country has set an explicit import goal for oil, this option leaves acceptable natural gas import levels undefined.

Option 4

Take no action with respect to LNG import policy at this time.

PROS:

- Enables deregulation issue to be settled without being affected by an announcement on LNG policy.
- Allows further time for definition of national security impacts.

CONS:

- Prolongs uncertainty facing industry and government regulatory agencies and executive departments.
- Regardless of the outcome of deregulation issue, there is a need within government and industry for a clear statement of U. S. policy towards LNG imports.

Regardless of which option is chosen and to expedite the implementation of the import goal, we must move quickly to approve the projects that qualify under national security and economic criteria. Thus, the issue has been narrowed to options for import goals. Most agencies agreed, and the ERC recommends, that a Task Force be established under its direction to implement the import policy goals. The Task Force will consider in detail questions relating to Federal financial assistance, pricing policies, and criteria to deal with national security issues such as security of individual supply sources, and acceptable levels of regional vulnerability.

The ERC considered the use of Section 232 authority under the Trade Expansion Act to seek national security findings, as an implementing mechanism. It was generally agreed, however, that a case-by-case approach, with Administration comments to the FPC, would be adequate.

AGENCY RECOMMENDATIONS

- Option 1 - CEA, OMB
- Option 2 - FEA, State, ERDA
- Option 3 - Commerce, Interior
- Option 4 - Treasury, Seidman

PRESIDENTIAL DECISION

Option 1 ___

Option 2 ___

Option 3 ___

Option 4 ___

2/27 OHANES [ca 2/27/76]

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Retyped:S&DA:jmm:rm4446: 2/27/76

NOT SENT

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: BIWEEKLY STATUS REPORT

Imports dropped 60,000 barrels per day from the 4 weeks ending January 23 to 7.16 million barrels per day.

Total domestic demand reached 13.97 million barrels per day, 350,000 above the corresponding period in 1975, but virtually the same as in 1973 before the embargo.

Motor gasoline demand was 6.56 million barrels per day, 460,000 barrels per day above 1975 and 510,000 barrels per day (8.5 percent) above 1973.

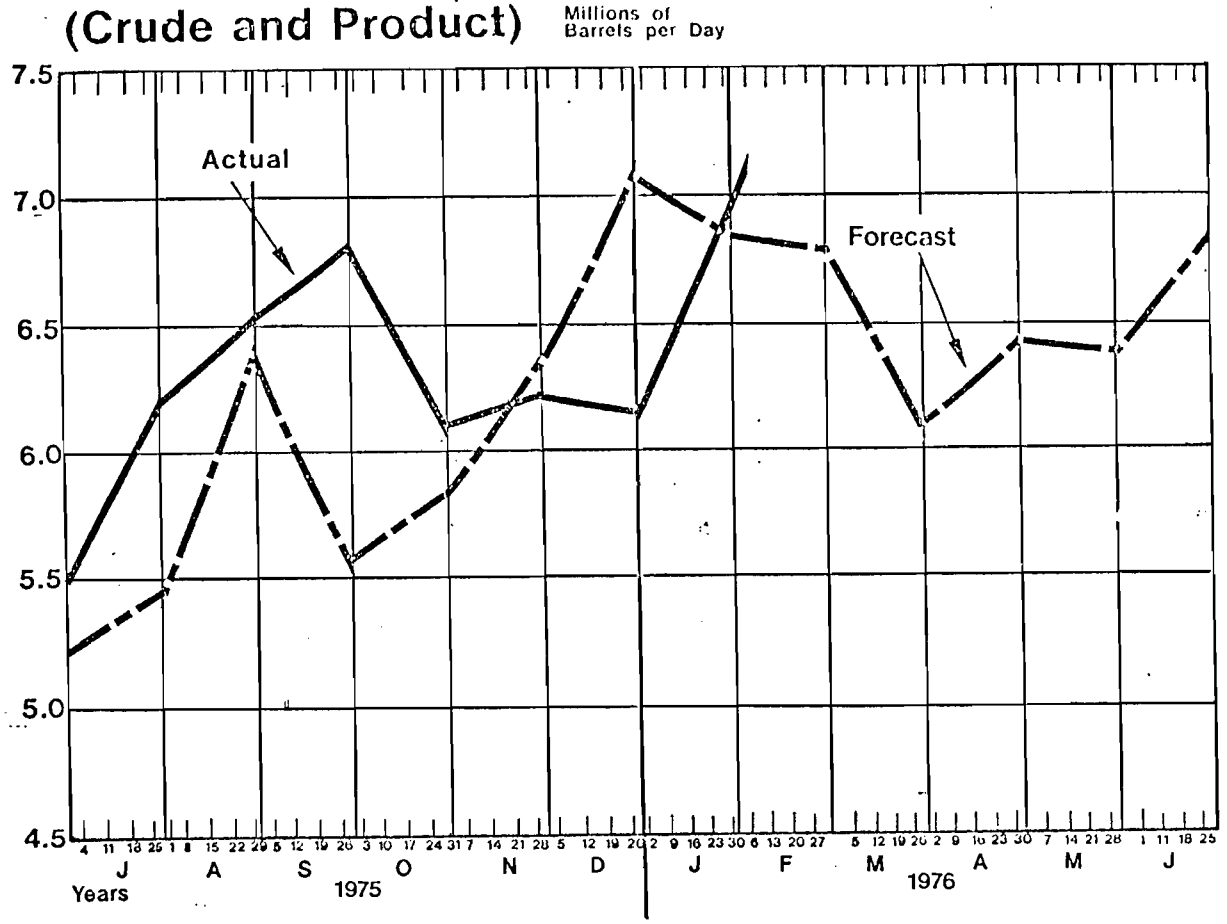
This upsurge in demand is due to colder weather and the economic upturn. Demand will continue to grow through the year as the economy recovers, but implementation of your energy program can still keep our embargo vulnerability roughly stable.

Drilling rig activity was at a normal seasonal low, with the average of rotary rigs in operation for the 4 weeks ending February 6, at 1,653. This compares with figures of 1,793 in December 1975 and 1,710 in January.

The cost of imports of crude oil and petroleum products into the United States, including Puerto Rico and the Virgin Islands, for 1975 was $27.047 billion, compared to $26.471 billion in 1974, according to Census data. However, imports averaged 6.49 million barrels per day in 1975 compared to 6.61 million barrels per day in 1974. (These data differ slightly from those shown on Figure 1 due to differing geographical coverage, as delineated in the definitions section of this report).

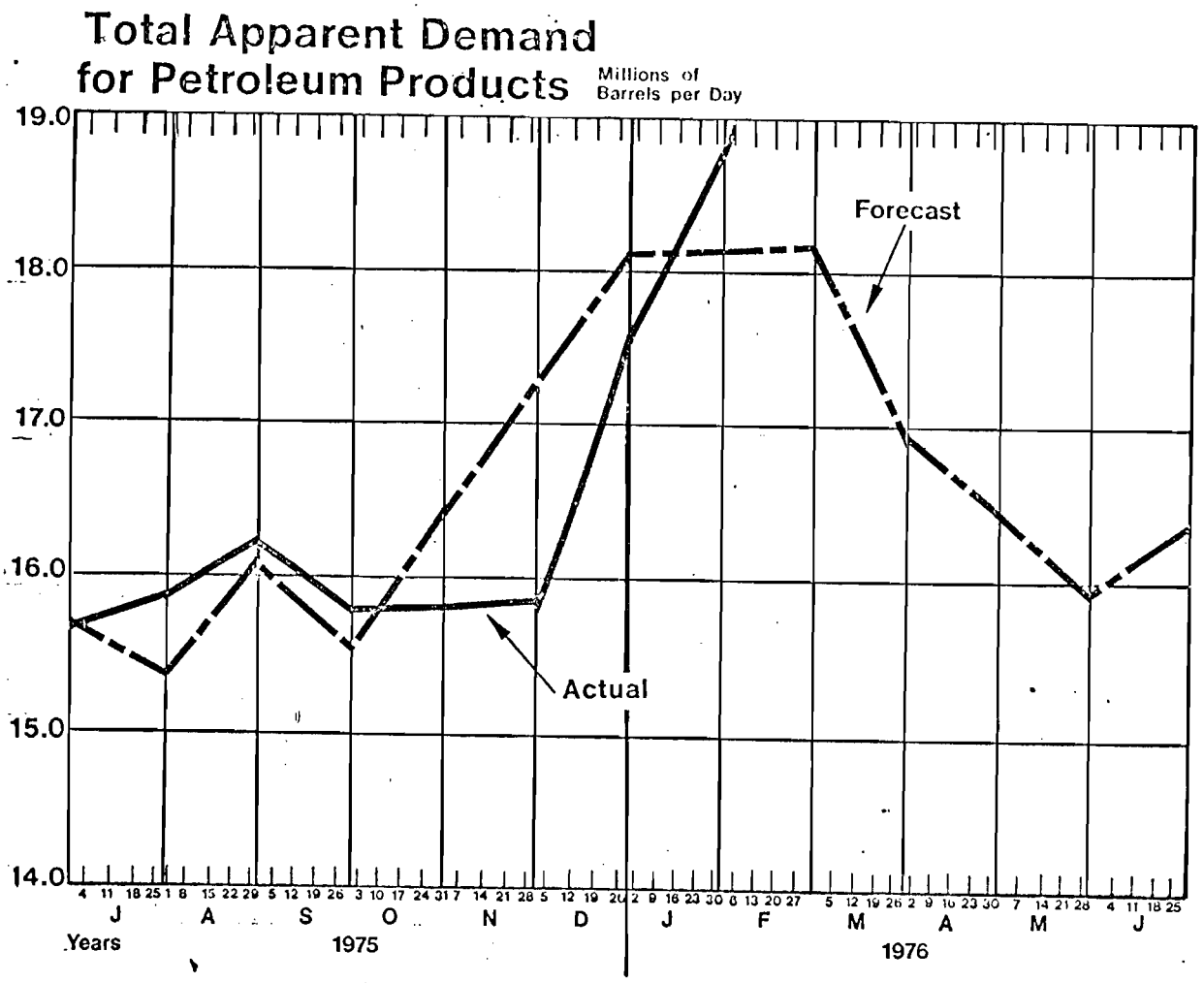
Figure 1

Total U.S. Petroleum Imports (Crude and Product)



- For the four weeks ending February 6, total imports averaged 7.16 million barrels per day, down 60,000 barrels a day from the period ending January 23. Crude oil imports at 4.94 million barrels per day were 840,000 barrels per day higher than last year while product imports, at 2.21 million barrels per day, were 570,000 barrels lower. Total imports averaged 270,000 barrels per day below last year.

Figure 2

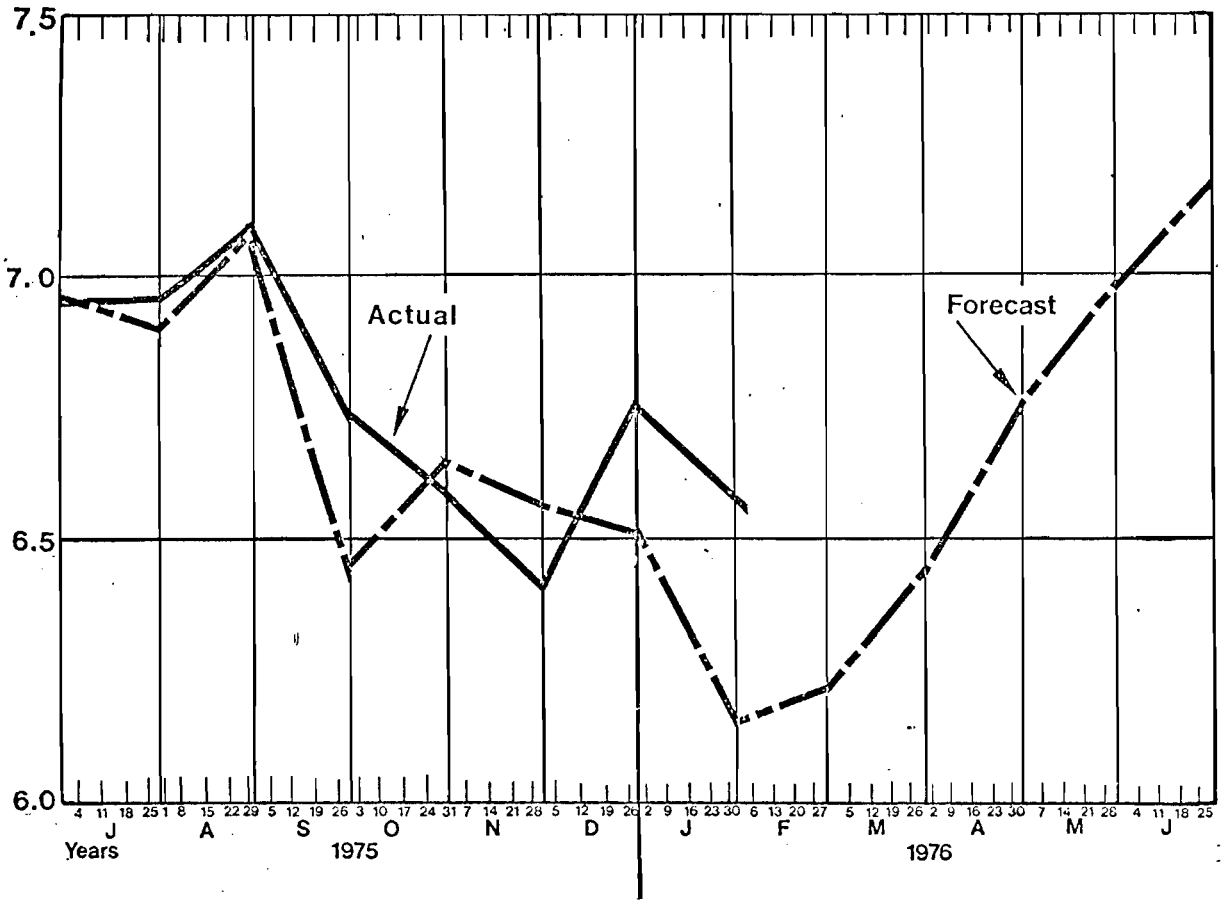


- Total apparent demand for the four weeks ending February 6 was 18.97 million barrels per day, 850,000 barrels above last year and 1,810,000 barrels per day above 1974 during the embargo, but virtually the same level as in 1973.

Figure 3

Apparent Demand for Motor Gasoline

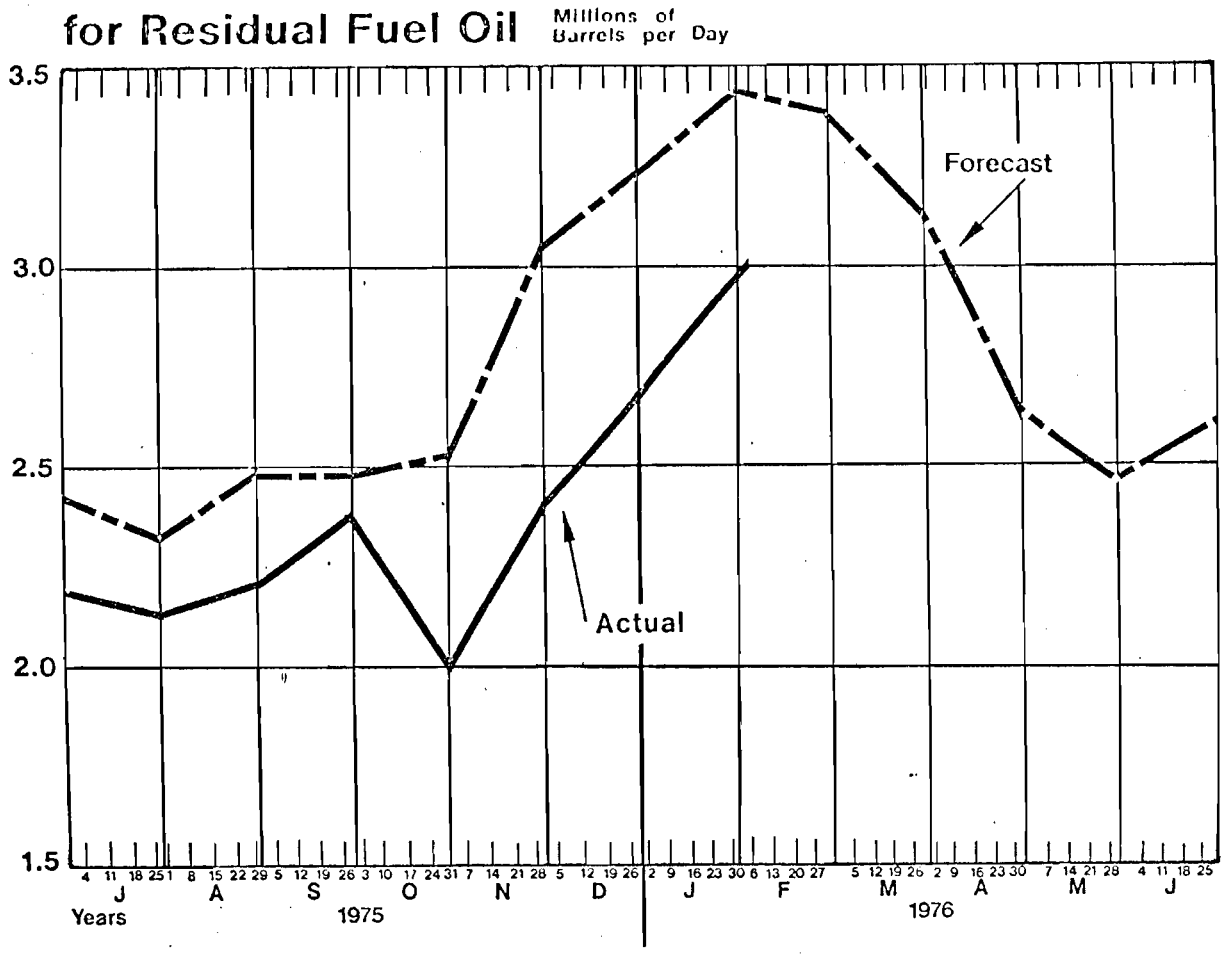
Millions of Barrels per Day



- For the four weeks ending February 6, apparent demand for motor gasoline was 6.56 million barrels per day. This was 460,000 barrels per day higher than in 1975, almost a million barrels higher than 1974 during the oil embargo, and 510,000 barrels (8.5 percent) above 1973.

Figure 4

Apparent Demand for Residual Fuel Oil

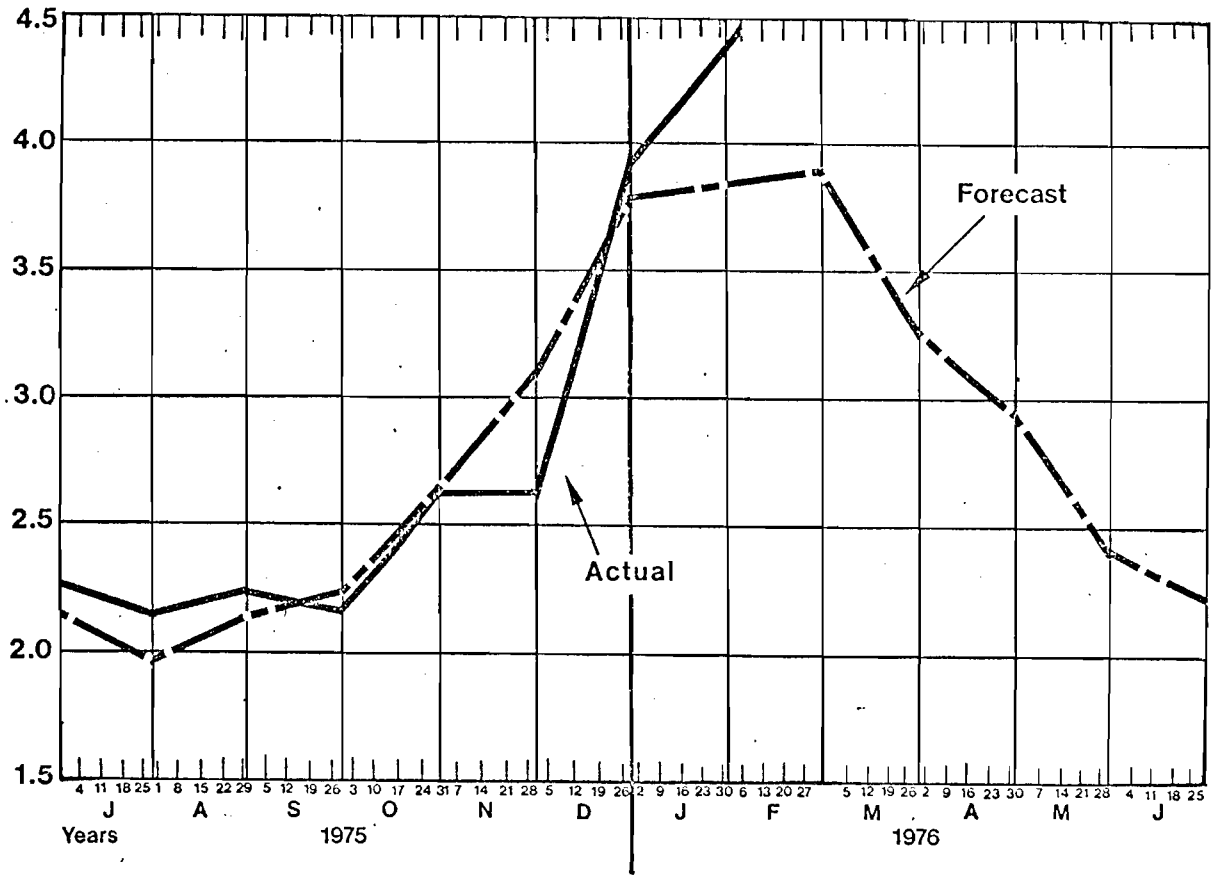


- Demand for residual fuel oil, at 3.02 million barrels per day, was 330,000 barrels per day below 1975, 90,000 above 1974 and 510,000 below 1973.

Figure 5

Apparent Demand for Distillate Fuel Oil

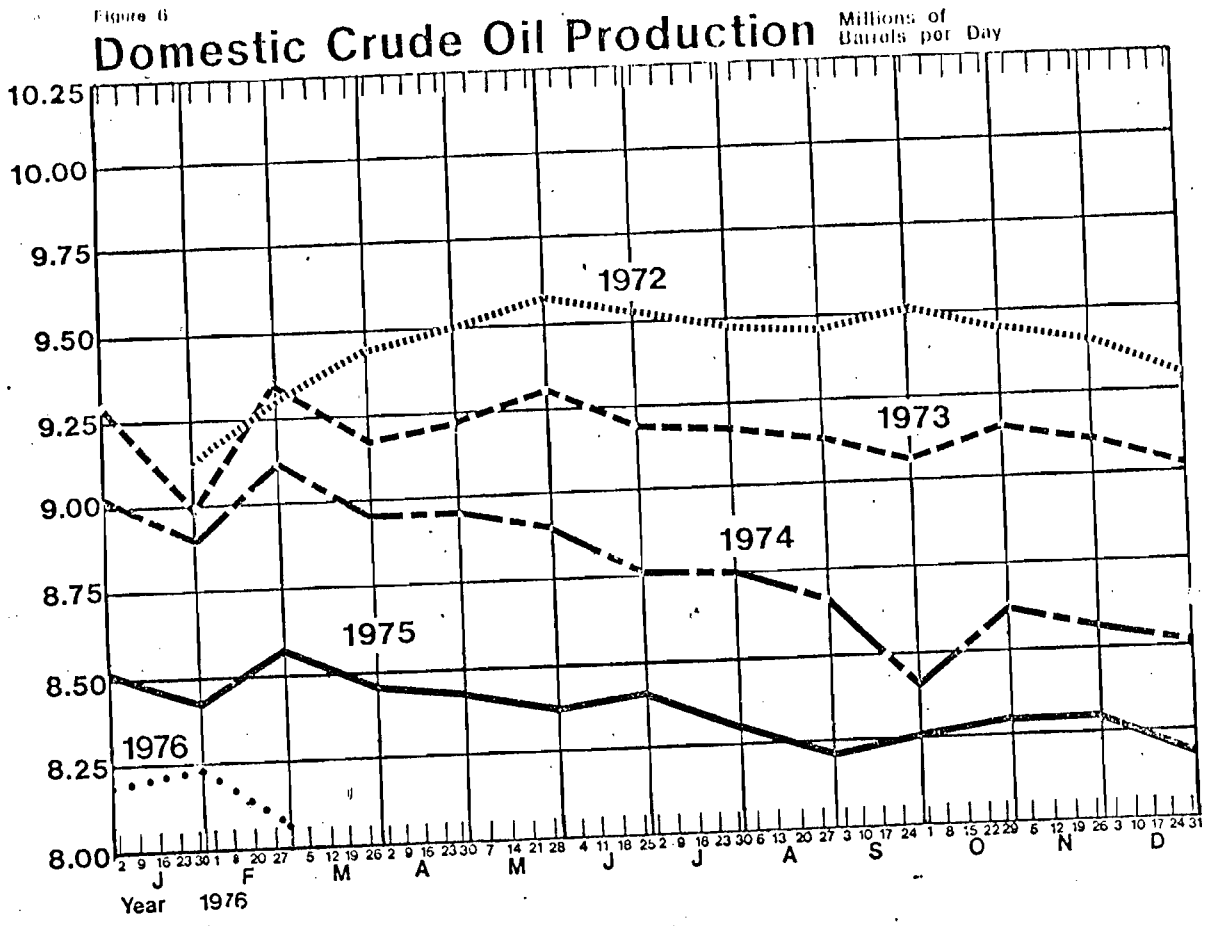
Millions of Barrels per Day



- For the 4 weeks ending February 6, apparent demand for distillate fuel oil was 4.48 million barrels per day, an increase of 330,000 barrels per day over the period ending January 23. This was 650,000 barrels per day (17.2 percent) above 1975, 690,000 above 1974, and 390,000 above 1973.

- Degree days for the 4 weeks ending February 6 were 15.5 percent greater (colder weather) than last year and 6.0 percent more than normal.

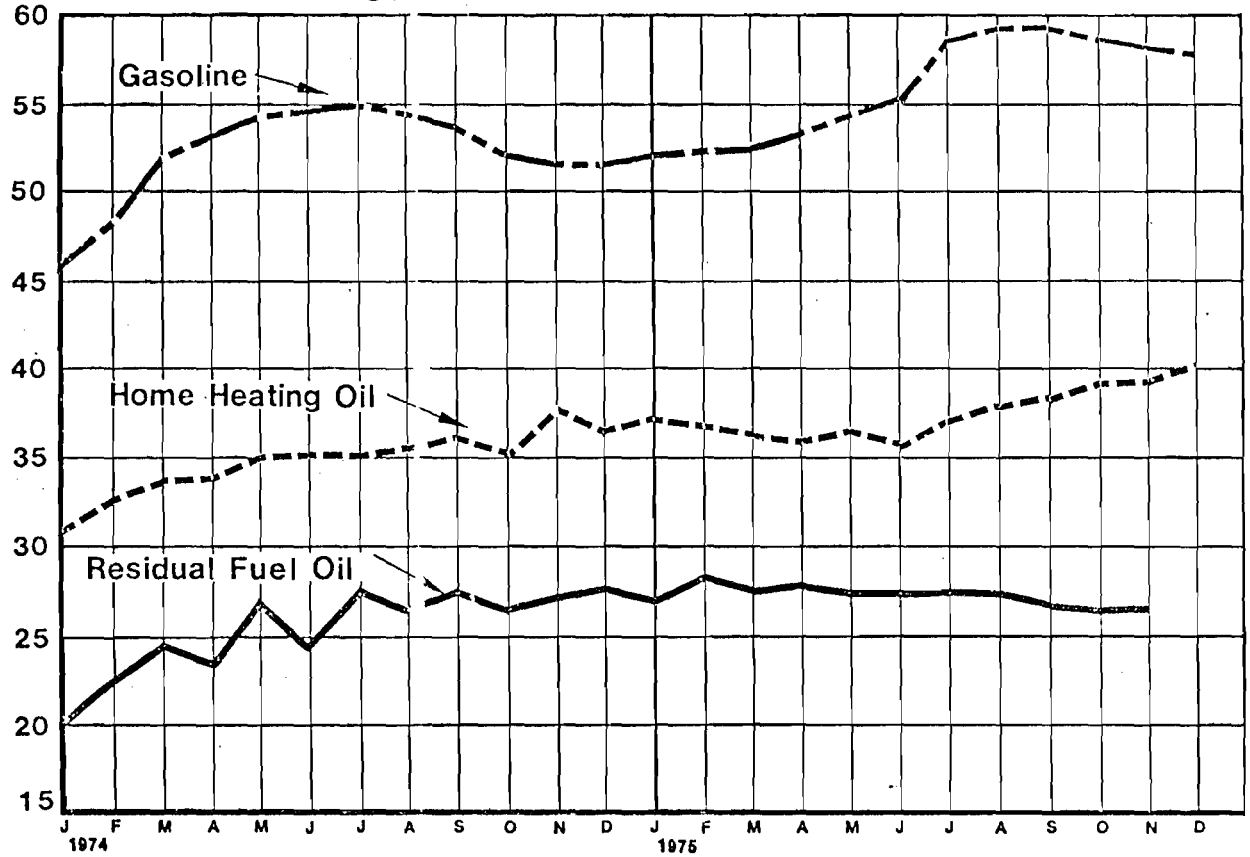
Figure 6



- Production of crude oil for February is forecast by API at 8.06 million barrels per day, 6.0 percent, 11.9 percent and 14.2 percent below the corresponding 1975, 1974, and 1973 BOM figures. This estimate was 180,000 barrels per day below January--an annualized rate of decline of 26.2 percent.

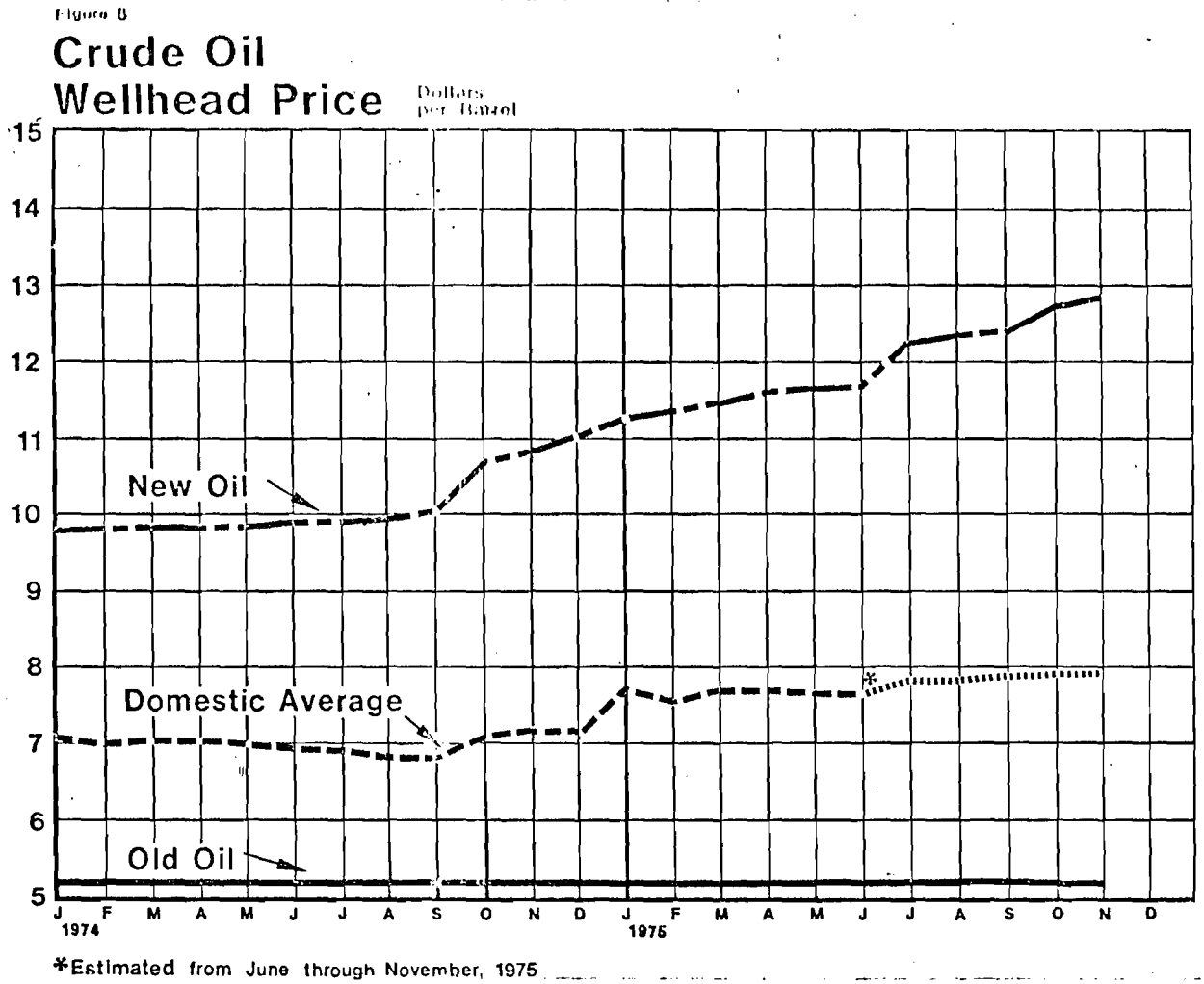
Figure 7

Retail Prices (Gasoline, Home Heating, Residual Fuel Oil) Cents per Gallon



- During December, the average retail selling price for regular gasoline decreased 0.4 cents per gallon to 58.0 cents.

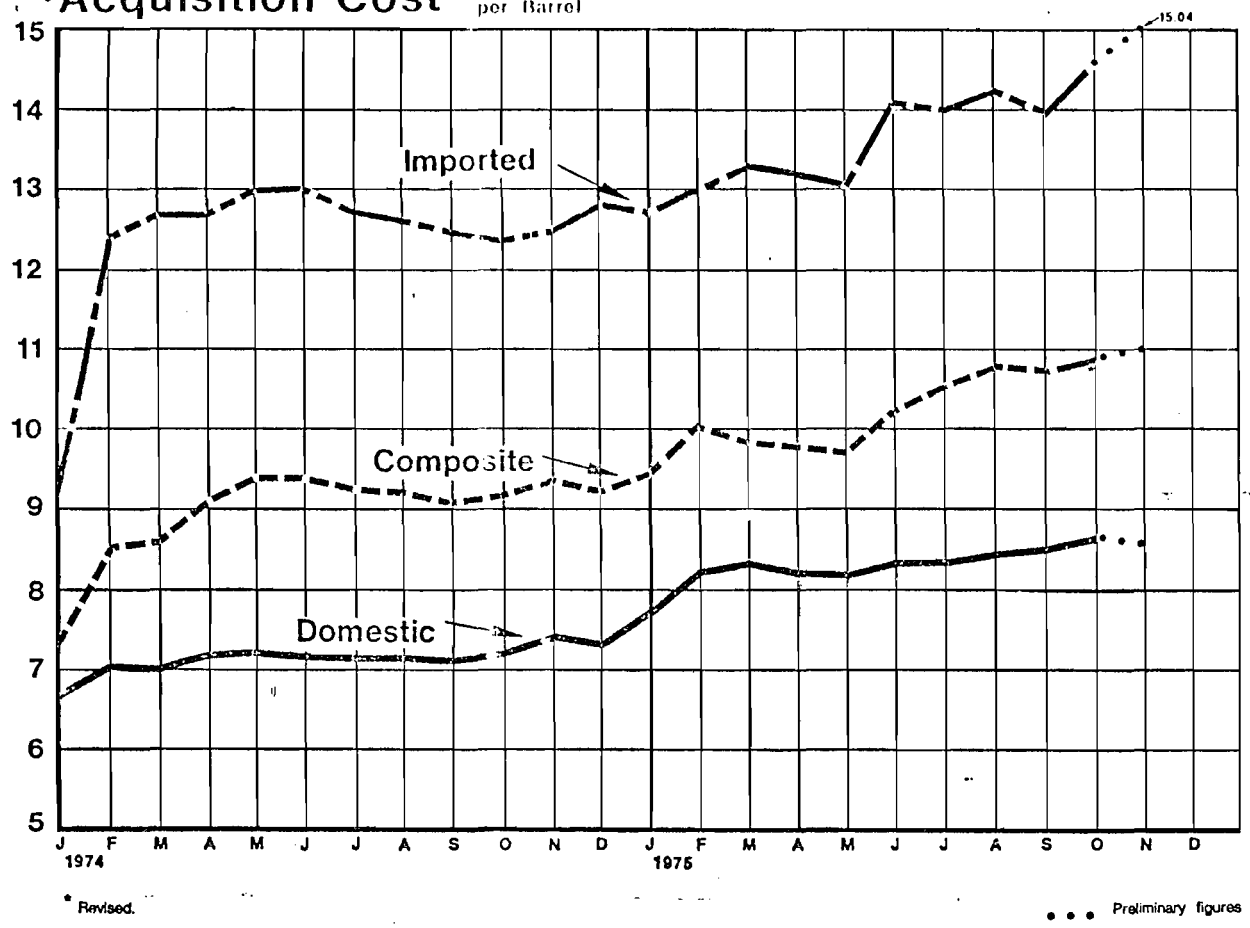
Figure 8



(no new data since last report)

Figure 9

Crude Oil Refiner Acquisition Cost



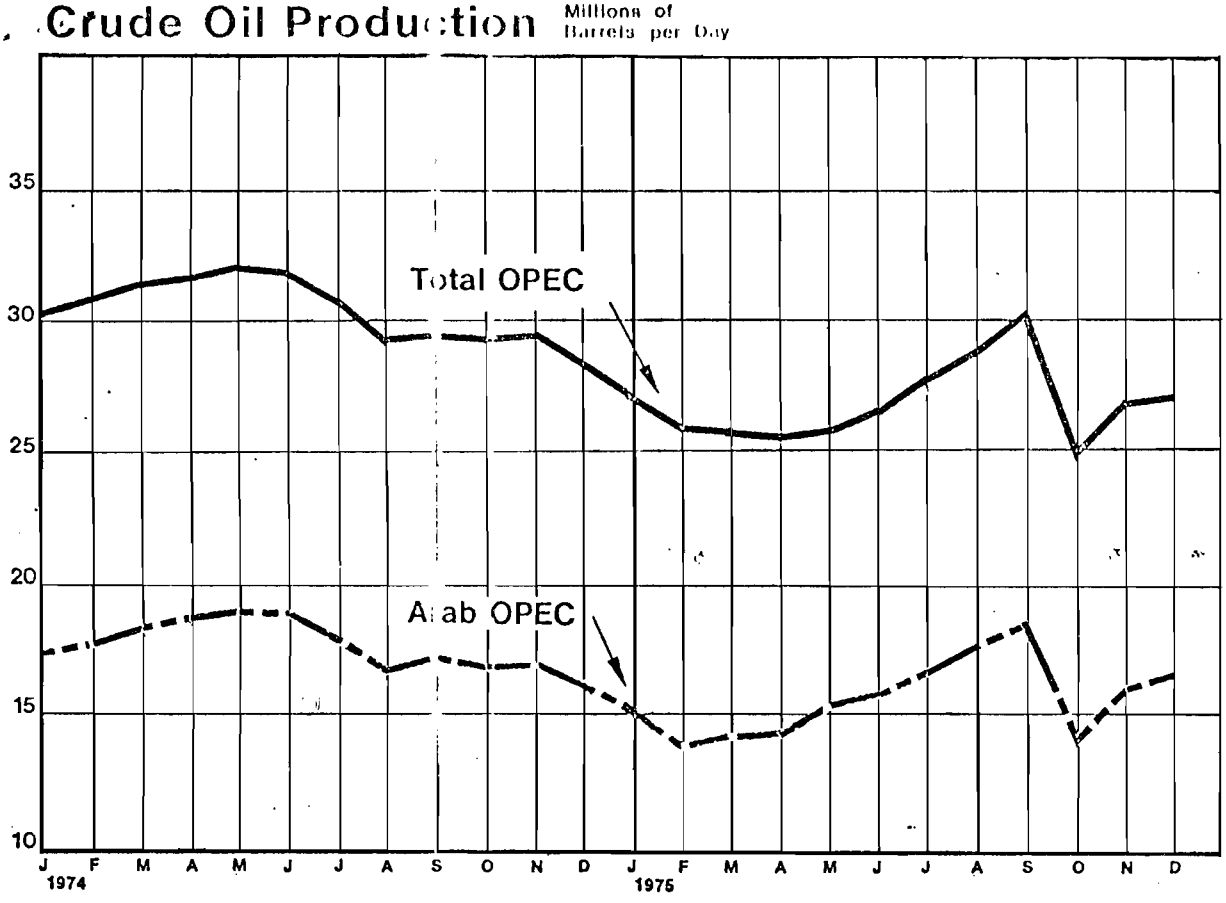
- The refiner acquisition cost of imported crude during November was $15.04 per barrel, 38 cents above the October price. This increase reflects price adjustments following the October 1 OPEC increase.

- The average cost of domestic crude purchased by refiners during November was $8.67 per barrel, 1 cent below the revised October price.

- The composite cost of crude petroleum purchased by refiners during November was $11.05 per barrel, 20 cents more than the revised October figure.

Figure 10

OPEC Countries
Crude Oil Production



(no new data since last report)

DEFINITIONS

Apparent Demand -- Domestic demand for products, in terms of real consumption, is not available; inputs to refineries plus estimated refinery gains plus net imports of products plus or minus net changes in primary stocks of products are used as a proxy for domestic demand. Secondary stocks, not measured by FEA, are substantial for some products.

Actuals -- Monthly data through December from FEA's Monthly Petroleum Reporting System, and 4-week moving average from the API Weekly Statistical Bulletin for 4 weeks ending February 6 (Figure 1). Demand after December estimated for Figures 2, 3, 4, and 5 by FEA primarily from the API Bulletin. Figure 6, BOM through September 1975; API monthly for October, November and December, API projection for January and February. Figures 7, 8, 9, and 10 from FEA.

Geographical Coverage -- The area covered by these data is the 50 States plus D.C. "United States." "Imports" include receipts from Puerto Rico and the Virgin Islands. In this, FEA follows BOM practice, as does API. Imports as reported by Census cover the "Customs area" which includes Puerto Rico. Imports, mostly of crude oil, into Puerto Rico are included while receipts, mostly of products, by the "United States" from both Puerto Rico and the Virgin Islands are excluded. Census reports imports into the Virgin Islands separately. For balance of payments purposes, Commerce totals imports into the United States and all of its territories and associated areas (but excludes butane, propane and some minor products from the total).

Forecast -- This is actually a composite "backcast"/forecast. The petroleum product demand forecast is based on a projection of the state of the economy, without implementation of the President's conservation program, and on the expectation of normal weather. In this case, the forecast is simulated from June 1975 to June 1976.

The backcast simulates petroleum demand from January 1975 to May 1975. Modifications are made to account for actual weather and macroeconomic changes. However, as with the forecast, it is assumed that none of the President's conservation proposals (including the crude and product fees which were actually imposed) were implemented.

[ca. 2/76]

FEDERAL ENERGY ADMINISTRATION

Not sent
See Note

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK ZARB

SUBJECT: ENERGY CONSERVATION

Our latest review of the energy statistics continues to reveal reduced energy consumption. Through November, last year's total energy consumption was 2.8 percent below 1974 and 5.2 percent below 1973. This is nearly 13 percent lower than we would have expected if pre-1973 trends had continued through 1975. These energy savings are in good part a result of higher energy prices and other conservation efforts. Moreover, it is impressive that the savings increased during the fall months in spite of the sharp economic gains in that period.

This picture could, of course, change rapidly in the months ahead both as a result of colder than normal weather and of a rapid upsurge in the economy. However, it is clearly a better result than expected and one which should give encouragement to the American people. FEA is in the process of implementing conservation programs in the Energy Policy and Conservation Act which should aid in achieving greater efficiency in utilizing energy resources; although, as you are aware, further legislative actions in this regard are still pending.

PAE:DBakke:jj:2/18/76:Rm 6448:x 7193
MPower:Rm 6513:x 8195

CONCURRENCES

SYMBOL	PAE	C				
SURNAME	JWPower	WBakke	DA	JC		
DATE		2/18/76		2/20	2/20	

FEA-F-47

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FORD, Gerald R.