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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
JAMES T. LYNN
DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET
L. WILLIAM SEIDMAN
ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS
AND
ROBERT FRY
DEPUTY ADMINISTRATOR OF ERDA

THE BRIEFING ROOM

10:30 A.M. EDT

MR. NESSEN: I think you have all the pieces of paper, the fact sheet and the copy of the legislation itself.

To answer your questions and give you more details of the EIA proposal, we have Frank, of the FEA; Bill Seidman, of the Economic Policy Board; Jim Lynn, of OMB; and Bob Fry, the Deputy Administrator of ERDA.

Let me just mention that those of you who want to go into more detail, get more technical information and explore some of the issues at greater depth, there is a briefing at 1:30 today in the 450 auditorium at the EOB. The briefers there will be Seidman; Zarb; Jim Mitchell, the Deputy Secretary of OMB; and Bob Fry.

Those of you who don't have White House press passes to get into the EOB can call Carolyn Wimmer at 456-2977.

Let's start this briefing, and let me say that because we are going on the trip and some of you need to get to the airport, I will brief immediately after this is concluded.

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MR. ZARB: I would like to go over some of the fumdament .ls of EIA, and then I am sure you are going to want to get into some of the detailed questions.

The EIA will be a Government corporation, and its primary design is to help achieve energy independence, and its vehicle is the use . of financial assistance through the private sector.

The financial resources of EIA are $100 billion, $25 billion in equity, $75 billion in debt. Now, that is $100 billion worth of projects, and in no way, shape or form implies $100 billion worth of outlays.

I am sure you are going to want to get into that after this opening statement.

Now, there is some question as to why such an activity is required. I would just go over with you some fundamental facts that I think are important.

Our domestic crude oil production is at a nine-year low and still declining and, of course, as a result, our imports are increasing. Our natural gas production, for the first time in our history since we started with natural gas, has peaked out in 1975.

There are a number of reasons why our power facilities have not gone forward and have been delayed in many sectors of the country, and that gives us a grave concern with respect to power capacity going into the 1980's.

It is our estimate that it it -going to require $600 billion over the next ten years to become independent and, of course, the bulk of that is going to come through private sector financing.

Synthetic fuels and oil shales, solar and very large projects, such as energy parks, will find financing difficult, as they have already found financing difficult at commercial stages.

The EIA will be an organization with a ten-year life. No new financing commitments will be made after the seventh year. It will have a five-person board, appointed by the President, with the advice and consent of the Senate.

The President selects the Chairman, and there will be no more than three members from any one political party.

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The financing vehicles will be used: Direct loans, loan guarantees, guarantees of prices, purchase and leaseback-up facilities, purchase of convertible or equity securities.

There will be no financing where private funds are available to complete the project. There will be a maximum encouragement for private lenders in all of these enterprises.

The terms of financing are structured so that it will not give undue advantage to any recipients over competing firms within the same industry, and that has to do with the intrastructure provisions of the bill.

There will be no permanent Federal ownership or operation of an energy facility. The tests for financing availability are quite important. I don't want to take much more of this time because I want to get to your questions, but I think these are important.

The projects funded must contribute directly and significantly to energy independence. Those are important words, and in the bill, they are written in as important tests, as criteria. The projects that would not be financed without Government assistance, but are deemed to be essential for Project Independence, will fall into those that qualify.

These are the general kinds of projects which will qualify: New technologies not yet in widespread commercial operation to produce, transport or conserve energy; technologies to support nuclear power; electric power generation and transmission through other than oil and gas sources; conventional technologies where scope or size would be too large for the private sector to handle or represent institutional or regulatory arrangements not in widespread use such as in energy park.

Those are the kinds of projects that can be funded if they pass the first two tests, and the first two tests are rather rigid and indicating that the project must contribute significantly to Project Independence and that a finding must be made that it cannot be funded through any other source.

That, incidentally, might give a particular assistance to those industries or those corporations within industries that often time have a lesser financial base than others.

Large enterprises will more often have the capability to finance a project than others, so that particular test would tend to steer projects away from big companies towards smaller ones to the extent that that was feasible.

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One last point: The regulatory authorities. The Federal Energy Administration will be authorized to coordinate and expedite Federal regulatory proceedings affecting energy projects. Congressional intent that all such processing should be accomplished within 18 months and agencies must promulgate regulations to accomplish that within 90 days of enactment -- those are two important, I think, provisions.

I have given you the high points of the bill. Why don't we get right to your questions.

Q Mr. Zarb, the Rockefeller bill put a limit on the amount that you could loan to one company. I think it was 10 percent of the total. What is the limit in here?

MR. ZARB: The current limitation is 10 percent.

Q Then you could loan up to $10 billion to one company?

MR. ZARB: Or to one group of companies or one enterprise. That is the maximum amount.

Q Mr. Zarb, is it correct that this $100 billion of Federal money is in effect going to be seed money that is going to generate another $500 billion in private capital? Is that what the goal of the program is?

MR. ZARB: There is no question but what the goal of the program is, to help facilitate the necessary private capital. If you want to use seed money, then you can use that term. I outline the criteria that we face with the declining oil and gas and increasing imports with the fact that many of our power projects are constrained by the financial critical path.

We need to insure that we begin to bring on-line gasification, liquefaction, advanced nuclear and a series of other projects which, incidentally, I will include both conservation equipment and environmental equipment within that context, which I think are two important points to make.

This can only be seen as a small part of the total and does help to create the momentum for that other $500 billion that will be required.

Mr. Bishop?

Q When the decision is made that a private industry cannot finance a project, who will make it, and will there be Congressional oversight of that decision?

MR. ZARB: The question is, when a determination is made that a funding will take place because it cannot occur any other way, and it is essential to the Project Independence, who will make it and who will oversight it?

The Board will make it. The oversight, of course, will occur in normal ways within the Executive Branch and, I am sure, within normal ways within the Congressional branch. Beyond that, there are two other audit provisions.

The GAO will do its normal thing, with respect to audit, but the bill provides for a requirement that an outside accounting audit be conducted annually and that a report then be generated against which the reserves for losses and so on will be evaluated.

I made the point earlier that $100 billion authority to do projects does not mean $100 billion outlay. The outlays will occur when there are write-offs or any losses, either expected or anticipated or reserved for or actual.

So, what you are really coming down to is if a $10 billion project is a loan guarantee, that, remember, does not require an outlay of $10 billion. What would be the outlay would be the reserve against what people judge might be a possible loss by virtue of that transaction.

The maximum, generally speaking, over the ten-year period that the corporation could generate in the way of outlays is about $25 billion equity level.

Q To follow that up, on page 4, I think Jim was referring to this, of the fact sheets projects that would not be financed without Government assistance. The original decision, who is going to decide what projects wouldn't be financed without Government assistance?

MR. ZARB: Peter, the Board, EIA, would be faced with the various options, and they will make the judgment. Of course, there will be those judgments that will be reviewed continually by the normal review agencies, but they make the judgment that this project is essential for independence and that it would not occur without some Government participation.

The board is made up of bipartisan groups of people who are confirmed by the Senate and at the President's direction will be the best possible talent that we could put on that board to get the job done.

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Q Will there be any early review of that decision made by anyone in the Government, or do you get launched on the project and then go through the normal oversight later on?

MR. ZARB: There is some early review, and the early review takes place prior to commitment, and it is in the legislation that the Board must submit to applicable Federal agencies, at the direction of the President, these projects before comment for 30 days before they are actually signed, so that means that ERDA and FEA and the Secretary of the Treasury -- who, incidentally, also has a control over the method of funding and the timing of funding -- would also have ample opportunity to comment before commitment is made.

Q Mr. Zarb, I have three questions. What is the nature of the maximum encouragement that would be given to private investment?

MR. ZARB: If you are asking me what we hope to encourage --

Q Well, you used the words that "maximum encouragement will be given to private investment."

MR. ZARB: $600 billion, if that is what I understand your question to be. We need $600 billion to get, in 1975 dollars, this total job done. This is a small part of that. This will, hopefully, take care of the marginal work and create the momentum for the rest of that investment to occur.

Q What I am asking is, why should any private company invest their own money if this money is available?

MR. ZARB: The first test of the corporation is a fundamental test. The project must prove -- and the Board must make a finding -- that private funding is not available, and your next question is how do they do that.

All I can say is that in financial institutions in the private money markets, all the time analysts and people are making judgments as to whether or not a project is fundable or should be funded.

The same kind of American thinking would go into this. These are going to be tough, hard calls by the Board for lots of reasons, not only the one you raised, but they will be empowered to make them.

Q My last question. At the end of this project, at the end of the ten years, any losses which have been incurred, would they then become part of the Treasury deficit?

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MR. ZARB: No. They would become part of the Treasury deficit as they are incurred. The write-off will occur this way, just as it does in normal accounting practices in the private sector. If a project is committed to, a judgment will be made as to whether or not there can be a loss associated with that project, and let's assume that from a reasonable standpoint it is calculated that you could lose 10 percent on this project. That 10 percent will be written off immediately to the budget. It becomes the reserve for amount.

Q Mr. Zarb, Mr. Lynn, or Mr. Seidman, any one of you, is it true none of you have much enthusiasm for this program?

MR. ZARB: I will answer first, and then we will go around the room, if you want to. (Laughter)

No.

Q No, you don't have much enthusiasm?

MR. ZARB: No, the answer to his question is no. He said is it true, and I said no, it isn't true.

MR. LYNN: No. (Laughter)

MR. ZARB: I dare you. (Laughter)

MR. SEIDMAN: I think that there is enthusiasm, and the basic reason is from our point of view, you have to have an energy base to have a sound economy and you have to have a sound energy base here in order to have a sound economy, so I can answer that very easily.

Q Mr. Seidman, isn't it true that when this first came out that immediately the reaction you got from a lot of critics on the Hill is that you are just giving more money to people who already have money and that they are just not going to go to the private sector. They are going to come to us because it is cheaper.

Do you want to respond to that?

MR. SEIDMAN: Some people did say that. I don't think that you can say that that was any uniform response that we got, that some people did say that. I think Frank has made it very clear why we don't believe that is true.

MR. ZARB: I would like to answer the observation. First of all, some of those comments were made before the facts were known, and perhaps that gave rise to them, but I would say two things.

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First of all, money is not going to be cheaper. There is a provision within the legislation which mandates that that condition will not prevail, they will not be able to come to the Government for cheaper money.

Secondly, in answer to some of those inquiries, I would simply ask this question, and I apologize for repeating it. Our domestic production is declining rapidly in all sectors. Our imports are increasing. We know we have a need for synthetic fuels and other energy capacity.

If someone has a better idea as to how we are going to combat that problem, other than surrender to the cartel, I would like to hear it.

Q Mr. Zarb, haven't you been --

MR. LYNN: Just as a person who has dealt -- six years of his experience in Government -- with programs where calls of this kind have to be made, the test here is whether or not the private sector can do it alone and whether or not the project is essential.

If the project is essential, if the private sector cannot do it alone or if the monies are not there from other Federal programs, here is the authority that can get the job done.

Now, I have heard a number of the questions here directed to the point of whether or not there might be somebody applying to this agency to this authority for money where the private sector could do it.

This is a function of the abilities, the skills, the experience of this Board, and I know that the President is going to get people that he will nominate for this Board that can tell the true need from the people who may want to have somewhat of a little bit more advantage than they would get from the private sector.

The statute is clear. The kinds of people we anticipate going on that Board will be able to tell the difference between those situations where people who just want somewhat better terms and the situation where the Government support is really needed.

I would also say anybody on this Board knows that they are going to have a number of people looking over their shoulder. They are going to know that every year they have to give these reports. They know that there will be oversight hearings. They know that OMB will be looking. They know that Frank Zarb will be looking, and the others.

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So, I think you are going to see an approach where you will be able to show that the private sector financed privately where it could be financed privately, and this agency provides that additional amount of funding that is required to get the job done for this Nation, which is the energy independence we seek.

Let me tell you, when we talk about jobs, I can't think of anything more vital to those jobs than having the kind of energy we need in this country.

Q Mr. Zarb, on page 27 of the bill, it says obligations of the authority may be accepted as security for all fiduciary trusts and public funds.

I have a two-part question. One, does this not mean that the Social Security Administration could buy these with Social Security trust fund money, buy these bonds?

MR. ZARB: It is a fully Government guaranteed instrument.

Q All right. My second question, then, is isn't it implicit in this bill that this is risk capital, so you are putting the Social Security money into very risky projects?

MR. ZARB: No.

Q Why?

MR. ZARB: That is not the case at all. First of all, you are not risking the individual fund because the full force of the Federal Government guarantees the instrument. Secondly, let me say this: In the bill, it is provided that in the unlikey case--hopefully, because this is designed to have a return for all money laid out--that there are losses of substantial amount. After the equity is lost, the $25 billion, the authority can no longer exercise the commitment of dollars, so it has a stop point at the 25 percent level.

In addition to that, the corporation obviously is committed to making the best possible transactions and doing it in a way that it is going to gets its money back.

Q Could I follow that up, please? Because you are going to exclude the projects which can get private financing and apply it only to those who can, won't you be taking on all of the high-risk projects?

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MR. ZARB: The size of risk, I think I would be wrong if I said was not more substantial, but let's look at the kinds of projects that we are talking about.

A coal gasification plant costs about $1 billion to construct. Hopefully, we are at a point where we can make a judgment that coal gasification of commercial size is going to be able to produce effectively, and completely effectively, and be a viable enterprise.

To the extent that that does not happen in its final iteration represents a risk. To the extent that it does happen represents the return to the corporation, so there is that kind of judgment factor.

If, on the other hand, the commitment is a State has -- all other things being equal -- settled with respect to its nuclear power construction, but it is momentarily critical path is the acquisition of front-end capital because of the enormous capital requirements for nuclear power construction, if this enterprise enters into that transaction with a utility in a State to construct sizeable nuclear capacity, the risk factor is not there. The size factor is there.

So, I am not saying that your statement is completely wrong. It has to be, obviously, somewhat right.

MR. LYNN: Let me add one point to that. This kind of a middle course can be found in other statutes of the Federal Government. The SBA test, the Small Business Administration test, is one, don't make the loan to the small businessman if the private sector will make it but, on the other hand, do not take excess risk.

With ERDA, it is the same kind of thing -- don't make the loan or don't make the grant if the private sector will do it, but don't take too much risk.

The Ex-Im Bank is the same kind. Now, I should point out that there is going to be a premium charged for this assistance for the guarantee and would also be hoped as you look at all of those projects to the extent some of the risks turn out to be more than what you thought they would be or where you have any risk that actually realizes or gets into losses, you have received those premiums that help you pay for those situations that don't go well.

But, this is not new. This is the kind of a test that it has had to be applied in a number of Government programs.

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Q What is the earliest you are hoping to get EIA onstream?

MR. ZARB: Should I use this last year's activity in energy legislation as a yardstick, or do you really want my best hope?

Q Yes.

Q Do you mean you are that pessimistic?

MR. ZARB: I would hope that certainly by the early part of the year we would have the authority completed so we can get busy with its activities.

Just to finish that point, it is obvious if we are going to finance the first sizeable solar utility, that there is an element of risk in that notion, but there is also the question of the fact that it won't get done, and it is essential that it get done. If we don't get these preliminaries done in this kind of sphere over the next five years or so, whoever is unfortunate to have my job five years from now is going to wish we had.

Q Mr. Zarb, you have been saying all year that the way to get toward energy independence is to lift controls and let private enterprise do the job?

MR. ZARB: Right.

Q You are now saying that is not going to happen without a great amount of Federal assistance?

MR. ZARB: No.

Q Isn't that quite a change in philosophy?

MR. ZARB: No, I don't think so. I have said all year that if we are going to provide sufficient incentive to produce secondary and tertiary oil and outer continental shelf and also for Alaska -- I don't want to bore you with going over it again-- we are going to have to price that product at its real value.

We said right at the beginning in January that we needed to have a sizeable synthetic fuels program, that we needed to have major penetration in the nuclear power question. The President, in his State of the Union Message, outlined the objectives which were determined to be required over the ten-year period and, at that time, in early legislation, began to ask for the authority to get going in this general area.

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I see no conflict whatsoever. This has to be done through the private sector, or it won't get done. There are occasions that I see right now were a Governor of a State will say we are prepared to participate with a creator of a hardware facility who has invented a process and a coal consortium to provide gassified coal.

The State is prepared, but we need another partner in the transaction. Can the Government participate? Those are the kinds of activities that this organization should be examining.

Q Mr. Seidman, what will be the effect on interest rates and on the availability of capital for other sectors of the economy, such as housing, if $600 billion is channeled into energy alone over the next ten years?

MR. SEIDMAN: In the first place, I think you have to look at where does the country need the capital invested? Clearly, this program envisions the fact that capital in these amounts need to be invested in this sector, so what we are saying is that because it is basic to our economic success, we need to have capital invested in this way.

It will be a demand on the capital markets, as all the other sectors, and how it will affect things will, of course, depend on what is going on in the rest of the economy. If we need this to have a sound economy, then this basically will be the right place for this capital for the overall economic good.

Q Then you are saying in effect that energy will get higher priority than, say, housing or education or health or other things?

MR. SEIDMAN: No, we have other programs in housing so you cannot make that statement. It will have a priority to this extent because of the needs of the economy.

MR. LYNN: I would add one thing to that. If we don't have the kind of energy that this country needs particularly in the post-1980, 1985 period, you cannot run this country without that energy. If you don't have that energy, you don't have the jobs. If you don't have those jobs, the people don't have the wherewithall, the money that is necessary to get better housing than they have now.

Q Mr. Zarb, did I understand you to say that there will be some price guarantees and if so, how will that work if the prices are under Federal Power Commission regulation?

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I have a second question that is ally to that. Is there any limitation on the profits that can be made from those who benefit from this program?

MR. ZARB: Do you want to answer that?

MR. FRY: The question is with respect to profit -- is the specific provision in the legislation which requires the corporation to take a participation interest so that it invests in very different processes, it gets a proportion of the profits based on the risk that it absorbs.

So, for example, in projects which we don't believe to be very risky there might be no profit sharing but in projects like a synthetic fuels plant where, for example, you might guarantee, say, $12 a barrel, well, if the price went below $12 the Government would absorb it, but if it went to $17 the corporation in fact mandated to get an agreement where it would share in the profits generated much better than people thought so, it is specifically in the legislation.

MR. ZARB: I think that answers your first question as well. The price guarantee would work if per unit of output there were some uncertainty with respect to what the competitive prices will be in 1985 and that is the reason why private investment does not flow; the corporation will have the authority for a given period of time for guaranteeing a price output and make some judgments.

Obviously, they will have to judge that in their best estimate the total prices of energy would be at a certain level and that would be a safe investment. But to create that certainty, they would make the guarantee. If the prices rose above that level of guarantee, Uncle Sam would share in the profits.

Q Mr. Zarb, how is this different from Vice President Rockefeller's original proposal? I mean, in what substantial way is it different?

MR. ZARB: I really would rather not get into that. There was any number of individual proposals and, as you know, we have been at this for a great number of weeks and there are a lot of changes made both by the original sponsors of the ideas and others, and I don't have in front of me and I would prefer not to compare everybody's idea on where we came out. There are a lot of people that made contributions to this through the process.

Q If I may object to that, Secretary-Treasurer Simon and some others questioned the soundness of the Vice President's proposal. I wonder whether this is the same proposal, whether their objection still holds to this or not? I think it is a balanced question.

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MR. ZARB: I have not seen any public statement by the Secretary-Treasurer that spoke to a given proposal. I could just say this to you, that the original proposals which came from a number of different areas on how we solve this problem were worked on and worked on and worked on and virtually all of them have been changed and combined to represent the final product that the President decided on.

He looked at the proposals from various sources; he looked at the pros and cons, made judgments, made decisions and the final product is the President's decisions and the President's program.

Q Mr. Zarb, I wonder if you could be more specific as to how much this is going to cost the taxpayers. I gather the maximum exposure is $25 billion over the life of the thing, but that you don't expect it to be that high. What about, say, fiscal 1977? Can you give us a handle on that?

MR. ZARB: I will ask Jim Lynn to give you the details on that.

MR. LYNN: First of all, let me point out a distinction, a distinction between formal review and approval processes in the Congress, and budget presentation. Every dollar of capital that moves from the Treasury over into the equity of this corporation will be subject to Congressional approval. In other words, as the corporation feels it needs more equity, it will present into its presentation end of the appropriation process a request for those amounts to go to the corporation.

Now that is Congressional plus, of course, oversight, and I would assume the oversight will be fairly substantial. It is an important program and Congress will from time to time call the key players to the Hill and ask them to account and ask questions of them.

Now on the budget presentation side, what we are trying to do here is create a situation where we get closer to reality on reflecting in the budget the operations of this organization.

First of all, it is intended to be self-liquidating. But, secondly, we intended to operate in a good businesslike fashion in the sense of keeping its books in accordance with good accounting practices and so on and, therefore, there will be an outside accounting firm or firms, I suppose, that would take a look at it.

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What we are saying is that each year in the budget in the outlay side it will reflect whatever those corporate reports show as expected profit or loss. In the early years, there will be some loss. Why will there be loss? Because they will have made the loans but they will only have gotten a little bit of the premiums from the beginning of the loans; they will have had some administrative expenses which they have not caught up with yet because they don't have the real flow coming back to them and there will also be some reserve for losses.

Now all of those things will result in some outlay effect but that outlay effect will be quite small. In other words, even though this operation, the new corporation, may be doing substantial business by way of guaranteeing loans by way of doing other things that it is authorized to do, I would expect that its loss reserve and so on, and its administrative expense would be quite low.

I would guess if I had to, and we are still working up final figures in this regard, certainly something under $1 billion. Because all we are doing is reflecting like an operating account that a corporation would. We are not doing it grocery store style -- money in, money out. Let me give you an example of grocery store style.

GNMAE Tandem -- in GNMAE Tandem HUD buys the mortgages. At that point, we show an outlay on the books even though we know that GNMAE is going to sell them in six months or eight months and then eight months later we show receipts. If you get to a year-end situation like we did this time at the end of fiscal 1975, since we didn't sell the mortgages we had bought as a Federal Government we increased the outlays for 1975 and, on the other hand, increased the receipts in 1976.

Incidentally, this is tighter outlay control for budgetary purposes than, say, the REA, the Rural Electrification Administration, where the direct loans by the Federal Government are not reflected in the budget of the United States at all.

Here we think we have come up with a good way that reflects the self-liquidating nature and puts the accounts on a generally accepted accounting principle basis.

MR. ZARB: We will take two more questions.

Q Isn't it true that the public utilities commissions have to come up with higher rates for utilities in order to get financing from the EIA, and isn't this going to be a major stumbling block in Congress in terms of getting this approved?

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MR. ZARB: Well, the question is whether or not this rate covenant will be represented as a stumbling block in the Congress.

The real issue is, are we ready to face up to the fact that if a community makes a decision that it is going to be into a long-range construction program, let's assume nuclear power, and as a result of the benefits of cheaper electricity on a later basis because of nuclear power are they going to pay as you go and pay for the ultimate construction?

Are they going to set the standards in place so that construction after that first facility is funded with the help of Uncle Sam all others will take care of themselves? Many States have already enacted those provisions, many of them. And it would be our hope that this organization would be in a position to insist on that kind of change so that we are not helping one State because it has not changed its regulations when another State is able to get it done on its own because it already has changed its regulations.

The Congress is going to have to make a judgment as it has in a number of these areas. Are they willing to make the hard decisions which will get the job done or not? If they don't, the job won't get done.

Steve?

Q Jim Wright on the Hill had a news conference this morning in which he said you reneged on a commitment to appear before his subcommittee to discuss this program. He said he was appalled and shocked that you did not fulfill your commitment. What is the situation on that?

MR. ZARB: I talked to Congressman Wright and I will be having lunch with him today. (Laughter) There was a conflict and a problem, and it went to the question of when this was going to be completed and in final form to go to the Hill.

Now my original judgment was that it was going to be yesterday in which case I agreed to go up to testify today. The fact that we don't have a bill up there until later today made it impossible for me to testify on a bill that we had formally submitted. That is what gave rise to the problem, and it was my fault.

THE PRESS: Thank you.

MR. ZARB: Thank you.

END (AT 11:05 A.M. EDT)

EMBARGOED FOR RELEASE
UNTIL 12:00 NOON (EDT)

October 10, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

ENERGY INDEPENDENCE AUTHORITY

The President today submitted legislation to the Congress to create the Energy Independence Authority (EIA). The EIA will be a new government corporation to help achieve energy independence for the United States by providing loans, loan guarantees, price guarantees, or other financial assistance to private sector energy projects.

It will have a limited life (ten years); its financial outlays and commitments are intended to be recovered by the government, and will be used in conjunction with private sector financing to the maximum possible extent. It will not have authority, except for very limited periods, to own operating facilities related to energy production, transportation, or transmission.

EIA will supplement and encourage private capital investment to meet the energy needs of the nation. Its scope will range across a broad spectrum of energy supply, conservation, and energy-related environmental projects.

The Authority will have financial resources of $100 billion, consisting of $25 billion of equity and $75 billion of debt. The $100 billion for energy projects could help assure that the equivalent of up to 10-15 million barrels of oil per day of new energy production is realized by 1985.

BACKGROUND

- The Nation's energy situation continues to deteriorate:
  - -- Domestic crude oil production peaked in 1970 and has declined by more than one million barrels per day since then. Production is now at a nine-year low.
  - -- Oil imports are about 37 percent of oil consumption and are expected to rise to more than 50 percent of consumption or 12 million barrels per day by 1985 if no new actions are taken.
  - -- As a result of our increasing import dependence, our payments to foreign producers for imported oil has increased from less than $3 billion in 1970 to about $25 billion last year and will increase by another $2 billion annually because of the OPEC price rise announced last month.
  - -- Natural gas production peaked in 1973, declined by six percent last year (the equivalent of over 230 million barrels of oil), and has dropped another 8.5 percent during the first half of 1975, leading to rising curtailments of service that threaten jobs in many parts of the country.

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- -- Electric utility financial problems and regulatory delays have in part resulted in the cancellation or postponement of about three-fourths of all planned nuclear plants and about one-third of all coal plants previously scheduled for operation between now and 1985.

- o In his State of the Union Message, the President proposed major new initiatives to explore and develop our domestic energy resources, conserve energy resources, and reduce our vulnerability through standby authorities. Since then no major new legislation to increase domestic supply or cut energy use has been passed by the Congress.

- o The Federal Energy Administration (FEA) estimates that investments for energy independence could total about $600 billion (in 1975 dollars) over the next ten years. While most energy projects should be able to be financed in a conventional manner, some projects in selected energy sectors will find financing more difficult:

  - -- Some emerging technologies, such as synthetic fuels from coal, shale oil, solar, and methods to use energy more efficiently, have uncertain economics due to long lead times and technological uncertainties, and considerable risk if world oil prices drop. The Energy Resources Council (ERC) synthetic fuels task force concluded that a variety of Federal financial incentives is needed to achieve any significant synthetic fuel production by 1985.

  - -- Many new projects, such as uranium enrichment plants, are too large and economically risky to be financed by the private sector alone.

  - -- Some industries, such as electric utilities, are not able to finance needed expansion because capital requirements are too large in light of insufficient earnings and regulatory delays or inaction.

- o A Federal role in financing and otherwise supporting projects vital to the national interest is not unprecedented, or unique. For example, the Federal Government has taken an active role in such areas as the Communications Satellite Corporation (COMSAT), crash commercialization of new technologies such as synthetic rubber plants in World War II, and uranium enrichment.

<u>EIA Organization</u>

The Energy Independence Authority will be a new government corporation. A five person Board of Directors will be appointed by the President, subject to the advice and consent of the Senate. A member of the Board will be designated by the President as its chairman and will be the chief executive officer of the Authority. No more than three of the Board members may be of any one political party. At the discretion of the President, the members may serve either full-time or part-time. A limited number of the Authority's executives may be paid without regard to executive branch salary limits, but the majority of the Authority's staff will be within the Civil Service system.

EIA Liquidation and Accountability

The EIA will have a legislated life of ten years, with new financial commitments permitted only in the first seven years of its existence. On or before June 30, 1983, the corporation will prepare a Liquidation Plan for the corporation's investments. The Liquidation Plan will describe how each activity, project or obligation involving financial assistance, and any substantial asset or liability will be disposed of.

The EIA will terminate on or before June 30, 1986, unless the President determines that orderly liquidation requires continuation of its authorized life for up to three years after that date. Any remaining assets, obligations or required functions after its termination will be transferred to the Secretary of the Treasury.

The EIA will submit an annual report to the Congress and will be subject to independent audits by nationally recognized public accountants, as well as by the General Accounting Office at its discretion. Also, the Energy Resources Council, and other agencies designated by the President, will be provided an opportunity to evaluate all projects before commitments are made.

Financial Structure

The EIA will have authorized capital stock of $25 billion and the authority to issue and to have outstanding at any one time notes, debentures, bonds or other obligations of $75 billion. The Authority's obligations will be backed by the full faith and credit of the United States of America.

The Treasury will purchase equity and the EIA will pay an annual dividend on its outstanding capital stock, but its Board could defer such dividends if it has no earned surplus or if the Board determines that other uses of its funds in support of the goal of energy independence are more desirable. The EIA's issuance of its securities, as well as loan guarantees or other similar obligations which directly impact the capital markets in a manner similar to government debt, will be subject to approval by the Secretary of the Treasury as to the timing, method, source, interest rate, and other terms and conditions. At the discretion of the Secretary of the Treasury, EIA's obligations may be purchased directly or channeled through the Federal Financing Bank.

Total loans, guarantees, and other forms of financial assistance by the Authority over its life cannot exceed $100 billion and it can make no further investments if its expected losses, as determined by an annual independent audit, exceed its equity and earned surplus.

The $25 billion of equity will be subject to the appropriation process and requested incrementally as needed; the $75 billion in borrowing authority will be requested initially as a one-time Congressional authorization without any further need for Congressional appropriations. Because the Authority is to be self-liquidating and its investments repaid, its outlays will not be included in the budget of the United States. However, the Authority's losses or gains from its operations will be included in the Federal budget.

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The Energy Independence Authority could provide financing in various forms including direct loans, loan guarantees, guarantees of price, purchase and leaseback of facilities, and the purchase of convertible or equity securities. EIA financing will not be available for projects which can be financed by the private sector and to the extent practicable, will be in the form of loans and loan guarantees.

The EIA's financial assistance will provide for the maximum participation of private financial institutions in projects. Such assistance will be provided in ways that will not give recipients undue advantage over competing firms. This will be assured through minimum interest rate requirements and other terms that will be required by the Authority before financing is executed.

Financial commitments by EIA will not be for the purpose of acquiring a permanent controlling or operating interest in commercial production, transportation, or distribution of energy. Federal ownership or operation could occur only temporarily, in the event of default, or in providing financial assistance which involves construction, testing and demonstration of a facility provided to a business on a "turnkey" basis, or in providing lease-purchase and sale-leasebacks. No permanent ownership, control and operation of energy production facilities by the Federal Government will be authorized.

Scope of EIA Investments

The Energy Independence Authority will concentrate on energy projects deemed critical to our national energy objectives.

The Energy Independence Authority will only support projects which meet the following criteria:

-- Projects that will contribute directly and significantly to energy independence.

-- Projects that would not be financed without government assistance.

The specific types of projects which the EIA could finance would be limited to projects entailing commercialization of:

-- New technologies not yet in widespread domestic commercial operation either to support, produce directly, transport, or conserve energy.

-- Technologies essential to the production of nuclear power.

-- Conventional or new technologies for production and transmission of electric power generated by sources other than oil or gas.

-- Conventional energy technologies for the production or transportation of energy that are of such size or scope that they would not otherwise be financed by the private sector or represent institutional or regulatory arrangements which are not in widespread use, or individual transportation or transmission facilities related to such energy projects.

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The projects that could be supported by the EIA range across the full spectrum of energy, excluding research. These would cover such areas as synthetic fuel technology commercialization (e.g., coal gasification, liquefaction, and production of oil from shale); other emerging technologies (e.g., solar energy or geothermal energy); and conventional technologies (e.g., uranium enrichment, coal, nuclear, and geothermal power plants).

EIA could support projects that increase efficiency of energy use and production of energy that involve new technologies not yet commercially proven. Projects of unusual size or scope could include new energy parks or major new pipelines for transportation of oil and gas.

The EIA will not relieve State regulatory commissions of their responsibility to assure the health of regulated industries. Thus, EIA financial assistance will require as a condition of assistance to a regulated utility, sound and expedited regulatory response from regulatory rate commissions, including the regulatory commission's agreement to a rate covenant with EIA and the regulated firm that assures adequate earnings to protect EIA's investment.

New Federal Energy Regulatory Procedures

Regulatory problems often make financing difficult by adding uncertainty about a project's ultimate fate and timing and by adding inflationary pressures to construction costs through delay. In addition to its financial authorities, the EIA legislation will establish an important new procedure for coordinating and expediting Federal regulatory proceedings that affect energy projects.

Although it would have no power to override regulatory decisions at any level of government or determine the ultimate fate of the project, the Federal Energy Administration may certify (if such certification is needed to assure expeditious completion) that any project which requires a Federal permit or other Federal action is of critical importance to achievement of energy independence.

Any Federal agency receiving such FEA certification of a project will commence promptly all proceedings needed to reach a final decision concerning the project and each Federal agency may give such proceedings priority over other matters before it. The legislation makes it the intent of the Congress that all proceedings on these critical projects be completed within 18 months and requires that each Federal agency promulgate regulations within 90 days to carry out the expediting actions contemplated in the legislation.

In order to coordinate, simplify, and expedite the processing of applications to construct, license or review energy projects, the FEA, in cooperation with all relevant Federal agencies, will oversee the entirety of the Federal approval process. The authority to approve or disapprove applications for energy projects will remain in those Federal agencies required by law to consider such projects. However, the FEA would be authorized to develop a single composite application that will be the sole application required for Federal approval prior to commencement of a project.

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