The original documents are located in Box 5, folder "Energy Policy Options Paper" of the Richard B. Cheney Files at the Gerald R. Ford Presidential Library.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

THROUGH: Rogers C.B. Morton

FROM: Frank G. Zarb

SUBJECT: National Energy Policy

Background

At our meeting last week, there was significant consensus with respect to our national energy goals -- both short and mid-term -- and the need for quick and decisive action both for domestic and international reasons.

This memorandum summarizes our national energy goals and ERC's recommended energy program. While broad agreement has been reached on most issues, there are still individual agencies which disagree with certain recommendations. The attached decision papers are for your decision with respect to all of the major ERC recommendations.

In developing your national energy policy, our thinking was guided by two major deficiencies in past energy policy statements. First, there has never been a clearly defined and believable goal; and secondly, such goals were never backed up with strong, pragmatic programs to achieve them.

The first energy message ever given by a U.S. President was by President Nixon in 1971. This message was followed by other annual messages and statements. These messages focused primarily on:

-- organizational changes,
-- energy supply issues
  - OCS leasing,
  - natural gas deregulation,
  - coal leasing, etc.

The program recommended by ERC is more comprehensive -- but also politically difficult and expensive. It differs in the following major ways:

-- It establishes concise national energy goals that go beyond just U.S. capability for self-sufficiency.

-- It proposes drastic, immediate action to cut imports during the next three years.

-- It deemphasizes reorganizations, several have been accomplished and more reorganization won't solve our problems.

-- It encompasses all of the previous energy supply actions, but proposes compromises to improve chances of enactment, and is expanded to deal with key nuclear and utility problems.

-- It proposes a major new mandatory energy conservation program which is more than past rhetoric, including efficiency goals for autos and appliances, and regulations and tax incentives for increased thermal efficiency in buildings.

-- It proposes a major new emergency and security storage program, including a one billion barrel storage program.

-- It requests authority to set import price floors, quotas, or price guarantees to insure domestic invulnerability in 1980-1985, even if the cartel price breaks.

ERC'S NATIONAL ENERGY GOALS RECOMMENDATION

ERC recommends the following three national energy policy goals:

(1) The U.S. must begin immediately to take those actions necessary to reduce our energy consumption and increase our domestic supply by 2 MMB/D by 1977, as well as 1 MMB/D by 1975.

(2) By 1985, the U.S.'s vulnerability to economic disruption by foreign suppliers must be eliminated by achieving the capacity for full energy self-sufficiency. This will mean 1985 imports of no more than 15 percent of total petroleum consumption, all of which will be immediately replaceable from storage and emergency measures.

(3) Within this century, the U.S. should strive to develop our technology and resources so as to supply a significant share of the energy needs of the Free World.

ERC SHORT-TERM POLICY RECOMMENDATIONS

An aggressive program will be needed to meet the 1 MMB/D goal (1975) and the 2 MMB/D goal (1977). ERC's recommended actions and their impacts are summarized below:

Short-term Action Recommendations	Impact on Imports 1975	1977
Full production of Elk Hills	160,000	300,000
Amendments to Clean Air Act for coal conversion	100,000	300,000
Petroleum decontrol & windfall profits $2.00 excise tax and tariff	1,000,000	1,500,000
Natural gas deregulation & excise tax	--	--
TOTAL SAVINGS	1,260,000	2,200,000

In addition to these actions, a stepped up voluntary education program (increased from $1 million now to $5 million) would be initiated.

These actions will achieve your targets with the least economic impact. Nonetheless, some economic impact will result and there will be significant disagreement in Congress over this program. Each action requires legislation, there are agency disagreements, and phasing questions on which you must make decisions. These are presented in Tabs A-C.

ERC'S MID-TERM POLICY RECOMMENDATIONS

In the mid-term many actions will be needed to achieve domestic invulnerability. Natural gas deregulation, petroleum price decontrol, Clean Air Act amendments and strip mine legislation are all crucial. In addition, the following table summarizes the key new actions needed to cut imports assuming a world price break. At higher prices, less actions are needed, but we must plan on the price dropping given the current world assessment. Lower prices (below $7 per barrel) are not likely given the authority we recommend to set price floors or quotas to assure domestic invulnerability.

Mid-term Action Recommendations	1985 Impact on Imports
Imports at $7 prices with no new action	12.4 MMB*
Less savings achieved by following actions:	
OCS leasing	1.5 MMB/D
Opening NPR #4 to commercial development	2.0 MMB/D
Coal conversion and new oil plant ban	0.6 MMB/D
Oil shale leasing	0.3 MMB/D
Auto efficiency goals (40%)	1.0 MMB/D
Tariff continuation	1.0 MMB/D
Appliance efficiency goals	0.1 MMB/D
Insulation tax credit	0.3 MMB/D
Thermal standards	0.3 MMB/D
Total Import Savings by Actions	7.1 MMB/D
Remaining Imports	5.3 MMB/D
Less	
Emergency Standby Allocation Program	1-2 MMB/D
1 Billion Barrel Storage Program	3.0 MMB/D
Net Imports Vulnerability	0.3 MMB/D

* Out of total consumption of about 25 million barrels per day (MMB/D)

Each of the actions summarized above also requires Presidential decisions and these are presented in Tabs D-H.

PRESIDENTIAL DECISION PAPERS

TAB A: Phasing of Short-term Measures

TAB B: Naval Petroleum Reserves

TAB C: Clean Air Act Amendments and Coal Conversion

TAB D: Price Floor and Price Guarantees

TAB E: Utilities

TAB F: Thermal and Efficiency Standards

TAB G: Building Retrofit Incentives

TAB H: Emergency Storage and Standby Capability

PHASING NEAR TERM DEMAND REDUCTIONS

ISSUE

If the United States elects to reduce energy demand significantly by 1977, how should our actions be phased?

BACKGROUND

The Energy Resources Council has concluded: (1) that the focus of our near term efforts should be to reduce consumption by two million barrels per day by the end of 1977, while maintaining our goal of a one million barrel per day reduction in 1975; and (2) that actions taken to reduce imports during this period be time-phased in a manner to reduce economic distortions, particularly during the current business cycle.

Two measures can be taken to achieve significant import reductions -- a vigorous coal conversion program and development of the Elk Hills Naval Petroleum Reserve. Taken together, these actions could save over 500,000 barrels per day in 1977.

Further reductions must focus on cutting demand and can be achieved either through measures authorized in existing legislation or through new legislation. Although options requiring new legislation are better, such options may either be substantially modified or delayed in Congress. Consequently, use of existing authorities should be considered if immediate action to reduce consumption is required, even though existing authorities were not specifically designed as consumption reduction measures and any attempts to use them as such would generate both political repercussions and undesired side effects such as additional windfall profits. If existing authorities are used, specific measures would probably have to be phased to avoid a significant jolt to the economy.

At our last meeting, you decided upon a comprehensive tax and decontrol package to cut imports with the following key elements:

(a) Elimination of price controls on old oil, either in phased steps or by allowing expiration of the price control authority in August, 1975.

(b) A tax on old oil to capture the windfall profits caused by decontrol.

(c) An excise tax and import tariff to raise the price of all oil by an additional $2.00 per barrel. Composed of two key elements:

- A tax on all refinery inputs (crude oil and natural gas liquids) of $2.00 per barrel.
- An import tariff on products of $2.00 per barrel (equal to the refinery input tax) with no exemptions. This is designed to keep the refinery input tax from encouraging foreign refining. We would also maintain the current import fee on products.

(d) Actions to bring natural gas supply and demand into equilibrium by:

- Deregulation of new natural gas as per the current Administration proposal.
- An excise tax of about 40¢ per million cubic feet on natural gas to approximate the price of deregulated gas and oil on a Btu basis. This tax would help reduce curtailments and would be phased out at 5¢ per year for 8 years.

(e) A program of reductions in income taxes and/or other rebate measures to return the revenues estimated to be raised through these measures back into the economy. The method of rebate would be designed to minimize disruptive effects on the economy and provide special attention to those industries requiring unusual treatment. These revenues could provide an opportunity for restructuring the tax system.

(f) All of the tax features -- windfall and excise -- would be designed to phase out over 5 years.

The only questions which remain are the administrative actions you could take immediately while Congress debates your legislative program.

OPTIONS

Option 1: Increase existing import fee by $3.00 per barrel and utilize FEA crude equalization program to spread price increase among all refiners and importers. Increase would be phased in $1.00 increments every month. No price decontrol would be proposed.

PROS:

- can be implemented immediately
- uses price mechanism to achieve reductions in demand, and thus avoids gasoline lines, restrictions on fuel use by utilities and industrial customers, etc.
- reduces energy consumption by 900,000 barrels per day in 1977 and 600,000 barrels per day in 1975, and generates $6 billion in revenues in 1977.

CONS:

- requires a new national security finding as a basis for Presidential action
- will generate substantial Congressional opposition. Existing fee is already under attack. Higher prices will be generated by Presidential action with no Congressional debate or approval
- will generate windfall profits of $2.5 - 3.0 billion for the oil companies, even though these could be mitigated by placing price controls on currently uncontrolled oil
- provides no rebate authority to return revenues into economy
- imposes disproportionate regional burden on those areas dependent on petroleum for heating and electricity, particularly New England, but also the entire Eastern Seaboard
- could increase inflation rates by about 1 percent

Option 2: Impose import fee (as in Option 1) and propose decontrol of oil produced by secondary recovery

PROS:

- represents a step towards price decontrol
- encourages more conservation

CONS:

- could be overridden by Congress
- would result in windfall profits
- would increase inflation rate by more than one percent

Option 3: Use existing import quota program to restrict imports on a phased basis by 2.0 million barrels per day by 1977, and existing FEA regulatory program to allocate available supplies and control prices

PROS:

- will face less Congressional and public opposition than Option 1 and 2 since it doesn't entail price increases
- will not impose disproportionately higher prices on low income groups

CONS:

- will curtail industrial activity, lead to gasoline station closings due to insufficient supplies, reduce airline flights, etc. Full impact would not be felt until second year when 1 million barrel restriction level was reached. Economic distortions are difficult to predict in advance
- will generate no revenues
- will require continuation of FEA regulatory programs on volume and price

ERC RECOMMENDATION

The ERC recommends Option 1 as the most effective means of phasing in the program while Congress considers your legislative program.

A major question is the desirability of including partial decontrol and the likelihood and implications of possible Congressional disapproval.

PRESIDENTIAL DECISION

	AGREE	DISAGREE
ERC recommendation	/ ____ /	/ ____ /

Comments:

EXECUTIVE SUMMARY
NAVAL PETROLEUM RESERVES (NPR'S)

ISSUE: Should NPR-1 be produced rapidly to top off military storage tanks and to build up a national strategic reserve in storage, rather than be fully developed and shut in as a military reserve?

Pro:
- Immediate payoff in potential domestic supply for further expenditures for exploration and development.
- Maximum deliverability of NPR-1 for defense purposes if necessary, otherwise for domestic emergencies.
- Shut in capacity does not provide the increased deliverability that storage provides for either defense or domestic use.

Con:
- Abrogates the Unit Plan Contract with SOCAL, with Government loss of $55 million and possible public charges of another Teapot Dome scandal.
- Departs from statutory NPR concept and thus will elicit strong Congressional opposition.

ERC Recommendation: Yes, seek Mr. Hebert's agreement to produce NPR-1 as rapidly as possible for use indicated. (Navy dissents)

ISSUE: Should NPR-4 be explored, developed, and produced for the civilian economy and a national strategic reserve by competitive commercial leasing to private industry, rather than by Navy contracting for exploration and development, with negotiated agreements with private industry for production after reserves are known?

Pro:
- Could probably have oil flowing in substantial quantities about 3 years earlier because of more intense effort and better results achieved more quickly under the financial incentives of competitive leasing. (Navy disagrees)
- Less Federal funding.
- Earlier cash flow to Government.
- More reliance on private incentives and expertise.

Con:
- Less total return to Government than Navy plan because of uncertainty over actual volume of resources at time of bidding.
- If initial drilling success rates are poor, subsequent bonus bids and exploration efforts will fall below projections.
- Departs radically from original NPR concept and thus will elicit strong Congressional opposition.

ERC Recommendation: Yes, seek Mr. Hebert's agreement to proceed on NPR-4 by commercial leasing. (Navy dissents)

NAVAL PETROLEUM RESERVES

ISSUE DESCRIPTION

How should the major Naval Petroleum Reserves (NPR's) be explored, developed, and utilized to assure early availability of their substantial reserves in support of national defense and the civilian economy?

BACKGROUND/PROBLEM

NPR's were established after 1900 to assure the military, then the major consumer of a relatively small petroleum industry, a source of fuel during periods of national emergency. Under the governing statute the Secretary of the Navy may explore and develop the reserves but he may not go beyond maintenance production unless he finds the production required for national defense, the President approves, and Congress authorizes production by joint resolution. Congress has been and still is highly protective of the NPR's even though military needs can now be provided for under the Defense Production Act.

Two of the four NPR's (numbers 1 and 4) could make a substantial contribution to domestic energy supplies or to a strategic storage program. NPR-1, Elk Hills, California, contains close to 1.5 billion barrels of oil and 1.5 trillion cubic feet (tcf) of gas, could produce 160,000 barrels per day (bpd) within 2 months, and 400,000 bpd within about 4 years if fully developed. NPR-4, Alaska, is estimated to contain from 10 to 30 billion barrels of oil and 60 to 192 tcf gas. With accelerated exploration and development over the next 8 to 10 years, NPR-4 could produce 2 to 3 million bpd of oil and large quantities of gas.

The two other NPR's (2 and 3) are small and together, with full development, could produce only about 12,000 bpd--not significant for either a reserve or as a contribution to domestic energy supplies. Navy proposes their immediate development to full capacity and production, the net revenues to be used to help pay for exploration and development of the major NPR's.

Current capacity to deliver oil from all four NPR's is less than 175,000 bpd. Current Defense Department consumption is 600,000 bpd. Future wartime usage will not exceed 1.6 million bpd. Clearly, the NPR's have not undergone exploration and development sufficient to meet the emergency military demands for which they have been so carefully preserved. Instead the military plans to rely on current storage of more than 87 million bbls petroleum. The development time to achieve substantial production of NPR-4 is longer than any wartime period now contemplated.

In response to the President's request to the Secretaries of the Interior, Defense and Navy to prepare a responsible plan for the use of the NPR's, the Departments have worked together and prepared several options for consideration. There is no issue over the need for rapid exploration and development of NPR-1 and 4, and all options assume the production of NPR's 2 and 3. The primary differences in the plans center on the question whether the Reserve shall be retained for national defense, and in what form. In addition, the options describe alternative means for industrial participation in the development and production of NPR-4, which could affect the time required before oil flows in substantial volume.

OPTIONS

NPR-1

Option #1 (Navy)

a. Exploration: Complete Navy 5-year program already underway, encompassing 76 wells at cost of $30 million.

b. Development: Over the same 5 years, drill 829 development wells at cost of $417 million to achieve production potential of 400,000 bpd. Also solutions to associated transportation requirements will be recommended.

c. Production: None. Maintain the reserve under current statutory control. Continue Unit Plan Contract with Standard Oil of California (SOCAL), owner of about 20% of land within NPR-1, to keep reserve shut in and to share future production for natural defense.

d. Pro

- Substantially improves the availability of NPR's for defense use.
- Preserves the Unit Plan Contract with SOCAL to the ultimate benefit of U.S. Government.
- Consistent with statutory intent for NPR's, preserving oil supplies for national defense purposes exclusively.
- Has substantial support in the Congress consistent with FY 1975 appropriations of $64.4 million provided at congressional initiative.

e. Con

- If wartime defense demand were 1.6 million bpd, during a war longer than 90 days, the civilian economy still would have to supply 1.2 million bpd, the major share, since maximum shut-in production rate is only 0.4 million bpd.
- Nearly $450 million in scarce resources would be used to complete exploration and development of NPR-1, with no contribution to increasing domestic energy supplies in use.
- Does not provide the increased deliverability rates that could be achieved through storage.

Option #2 (Interior)

a. Exploration: Same as Navy.

b. Development: Same as Navy.

c. Production: Production under Navy control 160,000 bpd now and increase output as developed to 400,000 bpd for use to top off all DOD storage tanks (18 million bbls), the remainder to be sold on the open market. Net revenues could be used as follows:

Suboption #1: Miscellaneous receipts to the Treasury.

Suboption #2: Dedicated funds to offset costs of exploration and development of NPR's.

Suboption #3: Trust fund receipts for purchase of oil and storage for a 1 to 1.5 billion bbl national strategic reserve. Salt domes for this reserve could be prepared within 2 to 6 years to provide deliverability of 3 million bpd for 1 year after they are filled.

d. Pro

- Immediate payoff in contribution to domestic supplies for further exploration and development.
- Provides maximum, immediate availability of NPR-1 for defense purposes if necessary (by use of Defense Production Act)
- Suboption #3 provides longer-term reserves for both defense and civilian uses if necessary.

e. Con

- Abrogates Unit Plan Contract with SOCAL, with potential loss to Federal Government of over $55 million and possible public charges of another Teapot Dome scandal.
- SOCAL would have right to pump its own oil (about 20% of the Reserve) as rapidly as it wished, forcing Government to match its speed.
- Departs from traditional NPR concepts.
- Congressional opposition strong unless the strategic reserve concept of Suboption #3 could overcome the resistance to sales for domestic use.

NPR-4

Option #1 (Navy)

a. Exploration: Under Navy control, drill 26 wells at cost of $382 million over a 7-year period.

b. Development: Competitive negotiation with industry, starting within 3 years, for development and production based upon proven reserves area by area.

c. Production: Negotiated agreements with industry will reserve a specified deliverability and transportation capacity for national defense, the excess oil to be sold commercially.

d. Pro

- Accelerates the previous plan (10 years) developed by the Navy.
- If present estimates of reserves are accurate, returns to the Federal Government under this plan would be high ($125 to $275 billion) because negotiated agreements with industry would reflect full information about resources from the Navy exploration program.
- Preserves the concept of national defense reserves.
- Congressional opposition probably moderate.

e. Con

- Even on the accelerated Navy plan, the exploration and development could involve fewer companies, less intense effort, less industry expertise, and longer time (3 to 4 years) to reach substantial production than competitive leasing.

- Requires shut-in capacity; thus does not contribute maximum to domestic energy supplies.
- Requires substantial Federal funding, substituting for normal risk capital from industry in oil and gas exploration and development.
- Requires close Federal control over activities of private firms.
- Does not supply as much incentive for privately developed transportation system as competitive leasing.

Option #2 (Interior)

a. Exploration: Interior administers commercial leasing program similar to OCS. Projected industry effort would include (FY75 to FY81) 30,000 line-miles of geophysics at a cost of $197 million, plus 165 wells at a cost of $528 million. Navy continues exploration until necessary legislation is obtained.

b. Development: Included in leasing program.

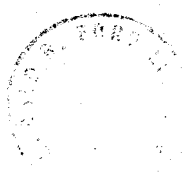
c. Production: Prompt production provided for in leasing program. Royalty oil and royalties (16-2/3%) could be used to help fill the national strategic reserve as in Suboption #3, NPR-1 Option #2.

d. Pro

- Could probably have oil flowing in substantial quantities 3 years before alternative plans because of better results achieved more quickly under the financial incentives of commercial leasing.
- Early, substantial cash flow to Federal Government.
- Lower Federal outlays.
- Less oversight of private industry activities.

e. Con

- If present estimates of reserves are accurate, returns to the Federal Government would be limited (perhaps $15 billion) by uncertainty as to actual volume of resources at time of bidding.
- Departs radically from original NPR concept although tied into national strategic reserve concept.
- If initial success ratios are poor, future bonus bids and exploration efforts will fall below projected figures.
- Congressional opposition can be expected to be strong.



Option #3 (DOD)

a. Exploration: Navy would continue for 2 years an accelerated program along the lines of its current plans.

b. Development and Production: After 2 years the President would decide how to develop and produce NPR-4, and seek necessary legislation.

c. Pro

- Recognizes need for a viable reserve for national security.
- Provides a reserve more readily accessible than shut-in production capacity.
- Proceeds with NPR-4 exploration immediately and postpones the controversy over the private vs Government role.
- Congressional opposition might be less because of postponement of the controversial point.

d. Con

- Needs legislation giving President full discretion to decide the most controversial aspect of the issue.

ENERGY AND BUDGET IMPACT

NPR-1

	Fiscal Years					
	75	76	77	78	79	80
Outlays ($ Millions):						
Option #1 (Navy)	53	101	114	102	73	12
Option #2 (Interior)a/	53	111	129	117	87	27
Receipts ($ Millions):						
Option #1 (Navy)b/	3	3	3	2	2	2
Option #2 (Interior)c/	3	512	672	876	1022	1168
Production (Million bbls):						
Option #1 (Navy)b/	0.3	0.3	0.3	0.2	0.2	0.2
Option #2 (Interior)c/	0.3	51.2	67.2	87.6	102.2	116.8

a/ Does not include salt dome storage starting in FY77 at $1 per bbl.
b/ Remedial and maintenance production only.
c/ FY76 includes Unit Plan Contract adjustments for deferred payments from SOCAL. Receipts and production shown are net of SOCAL's 20%.

NPR-4

	Fiscal Years					
	75	76	77	78	79	80
Outlays ($ Millions):						
Option #1 (Navy)[a]	16	56	88	76	87	36
Option #2 (Interior)	-	3	4	5	5	4
Option #3 (DOD)[b]	16	56	88	4	5	5
Receipts ($ Millions):						
Option #1 (Navy)	-	-	-	-	-	-
Option #2 (Interior)	-	1500	1500	2000	2000	2000
Option #3 (DOD)[b]	-	-	-	1500	2000	2000
Production (Million bbls):[c]						
Option #1 (Navy)	-	-	-	-	-	-
Option #2 (Interior)	-	-	-	-	-	-
Option #3 (DOD)	-	-	-	-	-	-

a/ Does not include associated transportation facilities assumed borne by private industry in Options #2 and #3.
b/ Assumes President will opt for commercial leasing after 2 years.
c/ Production start assumed approximately 1985 for Option #1, 1982 for Option #2, and 1984 for Option #3.

NPR's 2 and 3 (Add to each option)

	Fiscal Years					
	75	76	77	78	79	80
Outlays ($ Millions):						
NPR 2[a]	-	-	-	-	-	-
NPR 3	0.6	27.7	30.2	10.4	7.3	5.7
Receipts ($ Millions):						
NPR 2	1.1	0.9	0.8	0.7	0.6	0.6
NPR 3	1.1	26.3	98.9	76.8	55.0	42.8
Production (Million bbls):						
NPR 2	0.11	0.09	0.08	0.07	0.06	0.06
NPR 3	0.11	2.63	9.89	7.68	5.50	4.28

a/ NPR-2 is fully developed and needs no outlays.

LEGISLATION

In general, the Navy's options represent the least departure from present authorities and thus minimize congressional opposition. Conversely, Interior's options are more extreme and can be expected to meet strong opposition from the House Armed Services Committee.

NPR-1

Option #1 (Navy) needs no legislation; Navy already has authority to explore and develop.

Option #2 (Interior) requires legislation to permit production. In addition, legislation might be attempted to avoid the losses (from $25-55 million) the Government would sustain by abrogating the Unit Plan Contract with SOCAL--unless the contract can be renegotiated satisfactorily.

NPR-4

Option #1 (Navy) requires legislation within 2 to 3 years, after reserves have been identified, to provide for negotiated agreements to produce the oil that is excess to the shut-in national defense requirements. Congressional opposition to Option #1 would be moderate.

Option #2 (Interior) requires major legislation to transfer jurisdiction of NPR-4 from Navy to Interior (from Armed Services Committees to Interior Committees) for commercial leasing. This bill should grant Interior sufficient discretion over lease size, production requirements, and other terms to assure rapid production and fair return to the Government. The bill should also provide an exception to the Alaska Statehood Act so that no Federal royalties, rather than the 90% now required, need be paid to the State of Alaska. Congressional opposition to Option #2 would be strong.

Option #3 (DOD/Interior) requires legislation authorizing the President to determine how to develop and produce NPR-4 after 2 more years of an accelerated Navy exploration program. Congress is unlikely to grant the President complete discretion over the most controversial aspect of the NPR issue.

NPR's 2 and 3

All options require legislation to allow production of the small NPR's 2 and 3 to provide a net 5-year contribution of #160 million to help pay program costs.

ERC RECOMMENDATION

NPR-1: Option #2 (Interior)

NPR-4: Option #2 (Interior)

It is recommended that the President, Secretary of Defense, Secretary of Navy, and Secretary of Interior meet with Mr. Herbert first week in January to see if agreement can be reached on Options #2 or minor variations of them.

AGENCY DISSENT

On NPR-4, the Navy disagrees that:

- its approach would necessarily involve fewer companies, less intense efforts, less industry expertise, and a longer time to reach substantial production than competitive leasing; and that
- its appraoch would provide any less incentive for private investment in a transportation system.

PRESIDENTIAL DECISION

		Agree	Disagree
ERC Recommendation	NPR-1, Option #2	☐	☐
	NPR-4, Option #2	☐	☐

C

CLEAN AIR ACT

COAL CONVERSION

BACKGROUND/PROBLEM

One of the primary objectives of the Clean Air Act amendments proposed by the Administration is to provide for an increased use of coal while maintaining the appropriate environmental safeguards. Presently, there is complete agreement among the affected Federal agencies on a wide range of actions needed to accomplish the aforementioned objective. The more significant agreements include:

- Giving EPA the authority to suspend emission limitations for powerplants until 1980 if certain environmental criteria are fulfilled.
- Extending FEA's authority to enforce its orders requiring that a plant convert to coal through 1985.
- Eliminating regional environmental criteria which preclude a powerplant from converting to coal even when its own emission does not exceed ambient air standards.
- Requiring the placement of scrubbers on all urban powerplants by 1980 and on all rural powerplants by 1985

PRESIDENTIAL DECISION

	AGREE	DISAGREE
Concurrence with above agency agreements	/____/	/____/

Comments:

The following items have been discussed extensively by the ERC and are unresolved at this time:

- Establishing an acceptable level of risk to public health beyond Federal criteria as a result of converting from clean fuels such as oil to coal.

- Modifying automobile emission standards for greater fuel efficiency.

- Prevention of significant degradation of air quality in "clean" areas.

- Federal preemption of State and local emission standards when they are overly stringent.

Issue 1: What actions should be taken to provide FEA with the appropriate authority to implement its coal conversion program?

BACKGROUND/PROBLEM

- The Energy Supply and Environmental Coordination Act of 1974 gives FEA the authority to mandate the conversion of oil-fired plants to coal. Such conversion orders may be suspended by the Administration of the Environmental Protection Agency on a source by source basis, if EPA makes a finding that plant emissions of sulphates constitute a significant risk to public health.

- Although there is complete agreement that the sources ordered to convert to coal must meet existing air quality standards, Congress added the aforementioned significant risk provision in response to an increasing concern that a massive coal conversion program will increase the concentrations of pollutants, particularly sulphates, for which presently there is no air quality standard. However, presently there is insufficient scientific data to promulgate an air quality standard for sulphates.

OPTIONS

Option 1: Administratively interpret this provision to require that sources ordered to switch to coal meet State Implementation Plan requirements as a condition for conversion

- would restrict the number of sources which could convert to coal, as State Implementation Plans are more stringent than Federal standards

- could save 165,000 barrels per day

Option 2: Require that sources ordered to switch to coal meet national air quality standards as a condition for conversion but immediately prohibit the use of intermittent central systems.

- could save 288,000 barrels per day
- is less restrictive than Option 1
- takes a direct action to address the sulphate problem by prohibiting the use of intermittent central systems in high sulphate regions

Option 3: Same as Option 2, except that EPA would conduct a formal hearing under the Administrative Procedure Act prior to making a determination of the risk to public health associated with sulphates

- hearings would be chaired by an Administrative Law Judge who can permit one side to cross examine the statements of another
- could save 288,000-317,000 barrels per day

LEGISLATION

No legislation is required to implement any of the options

ERC RECOMMENDATION

ERC recommends Option 3

AGENCY VIEWS

EPA - Option 2

FEA - Option 3

PRESIDENTIAL DECISION

	AGREE	DISAGREE
ERC recommendation (Option 3)	/	/

Comments:

FEDERAL PREEMPTION OF STATE AND LOCAL AIR POLLUTION EMISSION STANDARDS

Issue 2: Should the Federal Government be given the authority to remove State emission standards more stringent than necessary to protect public health so as to reduce obstacles to energy development?

BACKGROUND/PROBLEM

- Current emission limitations in some State Implementation Plans are more stringent than necessary to achieve ambient air quality standards and adversely affect the combustion of coal in powerplants; that is, they have a degree of "overkill" in them. EPA is currently attempting to eliminate this overkill by granting extensions to emission limitations contained in State Implementation Plans and is seeking legislation to clarify their authority for this action. Assuming passage of this legislation, no clean fuels deficit will exist. However, energy sources will have to make greater capital expenditures.

OPTIONS

Option 1: Rely solely on a voluntary program

- constitutes no change from existing policy

Option 2: Submit legislation to provide limited Federal preemptive authority to remove overkill for sulfur dioxide emissions released from either coal burning facilities or oil and gas burning facilities that are candidates for conversion to coal

- would represent a degree of Federal assumption of State authorities

Option 3: Provide Federal preemptive authority to remove overkill for all pollutants (not only sulfur dioxide) released from all source categories, that is, smelters, foundries, refineries, etc.

- would represent large Federal assumption of State authorities

ENERGY AND ECONOMIC IMPACT

EPA is encouraging the States to voluntarily revise their pollution abatement plans to remove the overkill. The voluntary program has resulted in the elimination of standards that would have precluded use of 42 million tons of coal and is expected to eliminate an additional 50 to 70 million tons of overkill, this would leave 30 to 70 million tons of overkill.

This overkill will result in additional capital expenditures of $600 million to $1.2 billion and annual operating costs of $300 to $700 million in 1985. The residual deficit in clean fuels, assuming that the voluntary program accomplishes its goal, will be eliminated through compliance extensions. Under Option 3, additional cost savings would be realized for option 2.

LEGISLATION

Legislation will be needed to implement either Option 2 or Option 3.

ERC RECOMMENDATION

ERC recommends option 2.

AGENCY VIEWS

EPA - Option 1

FEA - Option 2

Treasury, Commerce - Option 3

Some States may oppose Option 2 or 3, particularly Option 3.

PRESIDENTIAL DECISION

	AGREE	DISAGREE
ERC recommendation (option 2)	☐	☐

Comments:

PREVENTION OF SIGNIFICANT DETERIORATION OF AIR QUALITY

Issue 3: Has the Administration's position on the prevention of significant deterioration changed?

BACKGROUND/PROBLEM

- In 1973, the courts required the Federal Government to act to enforce not only air standards designed to protect health and welfare, but also declared that States must protect areas already cleaner than mandated levels from further "significant deterioration".

- Last Spring the Administration submitted an amendment which eliminated the court imposed requirement. Subsequent to the submittal of this amendment, EPA promulgated, pursuant to court order, final regulations which would require the prevention of significant deterioration of air quality in all clean areas of the country, i.e., areas where air quality is cleaner than needed to protect public health and welfare.

- These regulations provide for the initial classification of all areas of the country covered by the regulations as Class II areas. Although there is some disagreement over the numbers, Class II areas are designed to provide for a moderate amount of well-controlled growth. However, in many Class II areas the resulting air quality is significantly cleaner than required by the Clean Air Act. Although all areas covered by the regulations are initially designated as Class II areas, the regulations permit the States to reclassify an area to accomodate either more (Class III) or less (Class I) development based upon the social, economic and environmental desires of its citizenry.

OPTIONS

Option 1: Resubmit a legislative amendment changing the purpose of the Act. This would have the effect of removing the requirement that the Federal Government promulgate standards more stringent than the national ambient air quality standards necessary to protect public health and welfare

- this is the existing Administration position on this issue. Moving away from this position could be interpreted as a change in the Administration's position

Option 2: Submit legislative amendment, but with attached general statement agreed to by FEA and EPA

- the primary advantage of this option is that it is a preferable way to obtain Congressional consideration of this issue

ENERGY AND ECONOMIC IMPACT

The existing regulations provide for the initial designation of all areas of Class II areas. Such a designation could preclude the development of some major energy sources but presently it is not possible to measure this impact. The impacts of the regulations will be most sever if the States reclassify existing Class II areas to Class I, which provides for virtually no economic growth. Even if the States redesignate areas as Class III, which allows air degradation up to the levels specified in the Clean Air Act, the effect of these regulations could lead to a further deterioration of air quality in those areas which have significant amounts of air pollution.

ERC RECOMMENDATION

Option 2

AGENCY DISSENT

EPA and FEA prefer Option 2

HEW, Commerce, Interior and CEQ prefer Option 1

PRESIDENTIAL DECISION

	AGREE	DISAGREE
ERC recommendation (option 2)	/____/	/____/

Comments:

Nonsignificant Deterioration

Proposed Presidential Statement

(agreed to by EPA and FEA)

I also urge the Congress to provide legislative clarification with regard to the prevention of significant air quality deterioration in those parts of the nation where the air is already cleaner than required by Federal health and welfare standards under the Clean Air Act. The Federal courts have construed the Clean Air Act as requiring the Administrator of the Environmental Protection Agency to issue regulations to prevent significant deterioration. Unfortunately, neither the Act nor the courts themselves have provided EPA with guidance for its actions. The Administrator of EPA has recently promulgated final regulations designed to carry out the court mandate. These regulations and their implementation can have far reaching economic, social, land use, and energy impacts.

These EPA regulations are, themselves, the subject of further litigation, which could be protracted. We cannot afford continued uncertainty in the face of our serious energy problems.

The attached amendment is one way to deal with this critical problem, but there are other ways as well.

For these reasons, I urge the Congress to undertake a prompt and comprehensive review of the issue. We need legislation which achieves a reasonable degree of certainty, including the minimization of litigation, so that vital national interests are not left in jeopardy. The Congress should carefully examine the potential consequences of a nonsignificant deterioration policy, consider its complete elimination, incorporation in land use legislation, or give explicit guidance to allow environmental concerns to be appropriately balanced with economic, social, and energy concerns.

AUTOMOBILE FUEL ECONOMY AND THE CLEAN AIR ACT

Issue 4: Should the Clean Air Act be amended to allow a pause from meeting statutory standards in light of energy and economic considerations?

BACKGROUND/PROBLEM

- Automobile fuel consumption accounts for 14 percent of the total energy consumed in this country and 28 percent of the total petroleum consumed.

- You have proposed that the automobile manufacturers improve the fuel economy of their cars by 40 percent. The automobile industry claims that a major constraint which would prevent them from achieving this goal is the implementation of the statutory automobile emission standards mandated by the Clean Air Act.

- There are two strategies available to implement any reduction from the statutory emission control requirements. One strategy is to announce a specific action in the State of the Union or the Energy Message. A second is to indicate the need for a reduction and that specific recommendations will be made after hearings to be conducted by EPA in January, 1975.

OPTIONS

Option 1: Propose legislation to freeze the 1975 interim standards through 1980

- represents a five-year pause in meeting the 1977 statutory standards set forth in the Clean Air Act

Option 2: Propose legislation to freeze emission standards at current California standards for 5 years, but implement a 3.1 NO_x standard

Option 3: Defer a decision until additional information can be gathered from EPA hearings tentatively scheduled for January, 1975

- EPA believes that the chances for Congressional and public acceptance are greatly enhanced by awaiting the completion of hearings. Currently the data available to the government is only from industry sources and has not been subject to public scrutiny

ENERGY AND ECONOMIC IMPACT

- There are considerable uncertainties regarding the cost and fuel penalties associated with meeting the 1977 statutory emission standards relative to the existing 1975 interim standards. Per vehicle estimates of initial costs, that is, excluding operating costs, range from $75 to $200. Estimates of initial fuel penalties range from no penalty for 70 percent of the cars (EPA) to a substantial penalty for virtually all cars (industry).

- Air quality studies indicate that any additional reduction of nitrogen oxide (NO_x) emissions from automobiles will have little significant impact on air quality in all cities other than Los Angeles and Chicago. The impact of not achieving statutory standards for carbon monoxide are somewhat more significant. Although the data shows that even if the emission standards were lowered (Options 2 or 3), the six cities with the greatest concentration of CO will continue to have levels which exceed the national air quality standards, six additional cities will marginally exceed the national air quality standards by holding the automobile emission standard at its current level (Option 1).

- Holding automobile emissions at the 1975 level (Option 1) will have little impact on oxidants which are controlled by the level of hydrocarbons (HC).

- In summary, the benefits of relaxing the standards from statutory levels are: (a) lower initial automobile costs compared to meeting the statutory standards, and (b) fuel economy savings. The costs of freezing the standards are related to higher ambient air quality levels of CO and to a much lesser extent oxidants.

LEGISLATION

Legislation will be required to implement either a five year pause (Option 1) or a relaxation of the 1977 interim standards (Options 2 and 3).

ERC RECOMMENDATION

ERC recommends Option 2, because it will allow signed agreement with auto companies on 40 percent goal for inclusion in your State of the Union Message. Because the auto is such a significant element and with our current understanding of the problem we should proceed at once. However, if the EPA Administrator develops new facts in his January hearings, he should report these to you for reconsideration of the proposal.

AGENCY VIEWS

EPA - Option 3

DOT - Option 2

Treasury, Commerce - Option 1

FEA - Option 2

PRESIDENTIAL DECISION	AGREE	DISAGREE
ERC recommendation (Option 2)	/____/	/_____/

D

DOMESTIC PRICE UNCERTAINTY

ISSUE

Should the Federal Government take actions to encourage and protect domestic energy investment in the face of significant world price uncertainty?

BACKGROUND/PROBLEM

- World prices are highly uncertain and significantly affect domestic energy economics.
  - -- at today's high prices almost all domestic alternatives are economic
  - -- Middle East oil costs only pennies to produce and world financial strains, supply/demand economics or Middle East predatory practices could cause a major price break
  - -- at pre-embargo prices literally all new domestic petroleum investments are uneconomic
- At very low world oil prices, our expected dependence on foreign oil is high and hence our vulnerability is unacceptable.
  - -- lower prices do mean greater economic growth
  - -- but at $3-4 prices we would be importing 20 million barrels per day or 66 percent of all consumption by 1985
  - -- we are willing to give up some economic growth for increased security and invulnerability
- New domestic energy sources are generally more expensive than at least some of the possible future world oil price levels.

OPTIONS

Option 1: Establish a $7 price floor on imported oil and provide price guarantees to selected new technologies

PROS:

- leaves room to negotiate 40 percent lower world oil prices
- provides certainty to conventional domestic technology and new technologies at lower costs than experienced today
- new Alaska, OCS, and most onshore development would be economic at $7 or below
- the economic costs of an embargo if expected import levels are disrupted in 1985 without a price floor and with $5 prices, would be over $150 billion for a 6-month embargo of 10 million barrels per day

CONS:

- precludes prices lower than $7
- more complex administratively
- if world prices drop to $5 per barrel, a $7 price floor would cost the consumer $45 billion annually due to higher energy costs. The economy would suffer a $4.5 billion loss with the rest going to energy producers and the government
- no way to set price today with absolute certainty

Option 2: Request legislation to authorize and require the President to use tariff, import quotas or other measures to achieve energy price levels necessary to reach self-sufficiency goals, also provide price guarantees on new technology

PROS:

- provides more flexibility to adjust for changed domestic and international events
- allows more room for negotiating lower prices
- guarantees new technologies

CONS:

- doesn't provide as much certainty for long term investment as a straight floor

- Congress might be unwilling to give the President this much administrative discretion

Option 3: Request legislation which would require price floor within six months, but only after public hearings, rulemaking and chance for congressional disapproval. This option would also include price guarantees on new technology.

PROS:

- provides greater certainty, with only minimal delay

- allows public and Congress to participate in the process of setting the price floor

CONS:

- removes flexibility to ultimately have lower prices

LEGISLATION AND BUDGET COSTS

- Legislation would be needed

- Budget and administrative costs would be negligible for the price floor.

- Budget costs for the price guarantee could be as high as several hundred million per year, starting in 3-6 years. It could be zero also, depending on world oil prices and the costs of new technology.

ERC RECOMMENDATION

ERC recommends Option 3, with immediate negotiations with other consuming countries to set some floor.

AGENCY POSITION

Treasury favors Option 2. State Department favors Option 3.

PRESIDENTIAL DECISION	AGREE	DISAGREE
ERC RECOMMENDATION (option 3)	☐	☐

Comments:

ELECTRIC UTILITIES

ISSUE

What Federal actions are needed to restore the health of electric utilities and to assure a favorable long-term fuel mix?

BACKGROUND/PROBLEM

- In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity.
- Utility financing problems are worsening and current regulatory practices by state commissions are inadequate.
- Continued cancellations or construction delays will slow the transition from oil-and gas-fired powerplants to coal and nuclear facilities (high capital cost, long lead times) and result in higher import levels.

OPTIONS

There are munerous alternative approaches to cope with the electric utility problem. There are several upon which there is no disagreement within the ERC, including:

Option 1: An increase of the investment tax credit from 4-10 percent with remission of unused credits.

PROS:

- would refund about 300 million dollars annually
- would eliminate most of the utility sector's tax payments

CONS:

- does not address the major problem faced by utilities -- the failure of regulatory commissions to permit adequate rates
- will not, by itself, have a major effect and could not be used immediately by utilities with no current taxable income (e.g., Consolidated Edison)
- regulatory commissions are not inclined to let utilities keep tax benefits -- they try to pass them on in rate decreases

Suboption: Restrict this tax credit to nuclear and coal plants and coal conversion facilities

PROS:

- only provides incentive for desirable fuel mix

CONS:

- adds additional complexity to tax code

Option 2: Tax reform to allow utilities to deduct preferred stock dividends for tax purposes

PROS:

- reduces cost of capital for utilities
- decreases reliance on debt

CONS:

- as a limited measure, it is not a cure for utilities' problems
- could reduce tax revenues by $100 million in 1975 and $300 million in 1977

Option 3: Development of Federal voluntary guidelines for regulatory rate process, rate structures, and consumer conservation

PROS:

- requires no legislation and has minor administration costs
- does not constrain local decision-making

CONS:

- is not legally binding and may not be effective

Option 4: Propose energy facility siting legislation

PROS:

- could reduce construction bottleneck/now takes 8-10 years to build a nuclear powerplant

CONS:

- represents some Federal interference in local planning

Suboption: Expand previous Administration proposal to allow Federal eminent domain authority.

PROS:

- will assure needed sites

CONS:

- greater Federal intervention
- will result in many politically unpopular decisions

The above options will help alleviate, but will not solve the electric utility problems. There are two additional measures that should be seriously considered:

Option 5: Direct Federal financial incentives such as partial interest subsidy or guarantee, but tied to adoption of state regulatory reforms

PROS:

- would lower cost of utility debt and may lower power price
- would make capital investments easier and could be pinpointed to coal or nuclear plants
- Would facilitate adoption of guidelines

CONS:

- would target assistance to utilities and could lead to pressures for similar relief by other industries
- would shift some electricity cost from rate payers to general taxpayer
- subsidies could cost $100-200 million per year and not relieve interest coverage problems

- some utilities could default on loan guarantees leaving the government with considerable expense

- guarantees would be contested by existing owners of utility debt

Option 6: Propose selective, legislatively mandated reform of utility commission process.

This would be accomplished by mandating appropriate depreciation rates, rate structures, and treatment of construction work in progress. It would not set up a bureaucracy to review all local decisions. Establishment of a Presidential study commission to review the entire regulatory process and make additional recommendations would also be included.

PROS:

- would assure adequate rates of return, reduce lag times without local circumvention, and adequate handling of depreciation and accounting procedures

- would reduce political pressure on state commissions to keep rates low

CONS:

- would represent a radical departure from current system

- would involve a significant Federal role in what has traditionally been a local area of jurisdiction

LEGISLATION AND BUDGET COSTS

With the exception of option 3 (guidelines), each of the above options would require new legislation. The tax credit and election of stock dividends (options 1 and 2) would be relatively straightforward tax law revisions. The facility siting legislation (option 4) has a history of Federal vs local jurisdiction battles, but is generally accepted by industry and environmental groups. Options 5 and 6 would require major new legislative actions and might have stiff opposition in the Congress.

The administrative costs of each option are small, with the possible exception of Federal override and loan guarantees which could require a Federal staff of about 100 people. The budget costs of the guidelines and regulatory reform are small; facility siting legislation could require funds for planning purposes; the others are estimated below:

Option 1 - tax credit -- 200-300 million dollars annually.

Option 2 - election of deductible preferred stock dividends -- $100-200 million annually.

Option 5 - loan guarantee -- minimal unless loans are defaulted; then could be as high as several hundred million dollars.
interest subsidy -- $100-200 million or more annually, depending on the level of the subsidy.

ERC RECOMMENDATION

Approve option 1, with suboption restricting use of credit to certain sectors of the utility industry. Approve options 2 and 3, option 4 (with suboption), and option 6.

AGENCY VIEWS

Treasury dissents on narrowing option 1 to electric utilities or any specific industry

FPC supports the ERC recommendations.

PRESIDENTIAL DECISION

	AGREE	DISAGREE
ERC recommendation (option 1 - with suboption)	☐	☐
ERC recommendation (option 2)	☐	☐
ERC recommendation (option 3)	☐	☐
ERC recommendation (option 4 - with suboption)	☐	☐
ERC recommendation (option 5)	☐	☐
ERC recommendation (option 6)	☐	☐

Comments:

THERMAL AND APPLIANCE EFFICIENCY STANDARDS

ISSUE

What Federal actions are needed to improve thermal performances by new buildings and energy efficiency of appliances?

BACKGROUND/PROBLEM

- Heating and cooling in buildings account for almost 20 percent of total U.S. energy consumption; energy savings of about 30 percent per unit could be realized by energy efficient practices during construction.

- Marketplace may not effect these construction changes because builders generally minimize first costs and meaningful information on efficiency is not always available to the buyer.

- Appliances account for 8 percent of energy consumption and while efficiency can be significantly improved, consumers usually purchase based on initial costs.

OPTIONS

There are two basic Federal alternatives to promote increased efficiency of new buildings and appliances:

Option 1: Public education and voluntary standards

PROS:

- requires no new legislative authority.

CONS:

- not binding or totally effective.

Energy and cost impacts:	1980	1985
Energy savings (barrels per day equivalent)		
buildings	140,000	270,000
appliances	75,000	145,000
Costs to government ($ million)		
buildings	$ 15	$ 2
appliances	$ 4	$ 4

Option 2: Federal standards

PROS:

- achieve greater energy savings.
- provide for mandatory reductions in consumption.
- demonstrates Administration's balance between supply and demand actions.

CONS:

- requires new legislation.
- would intervene in traditional free markets.

Energy and cost impacts:	1980	1985
Energy savings (barrels per day)		
buildings	275,000	560,000
appliances	235,000*	615,000
Costs to government ($ million)		
buildings	$50	$30
appliances	$ 5	$ 5

LEGISLATION

A mandatory building standard would require legislation in 3 phases: thermal standards 1-2 family dwellings; performance standards for commercial buildings; and minimum performance standards for all residences. Implementation plans would be required; compliance could be by certification or review of plans before issuance of permit; enforcement would be done by states; Federal grants could be provided to assist state compliance or for demonstration programs. This could be accompanied by establishment of an Advisory Board of labor and industry representatives to determine the levels for thermal standards. An executive order could be issued by the President to include stringent thermal standards for mobile homes as part of HUD's responsibility under 1974 HUD Act. FEA, HUD, and Commerce (if appliances) could have implementation responsibility.

* Crude oil savings would be 105,000 and 275,000 barrels per day in 1980 and 1985 respectively.

A voluntary program would consist of efficiency guidelines and could require legislation if standby mandatory authority is requested. The Federal Government could monitor effectiveness of voluntary program and then recommend use of mandatory program to President (such mandatory standards could be rejected by Congress within 90 days). Legislation could also be required for research, testing, and funds for monitoring the program.

ERC RECOMMENDATION

- Phased mandatory Federal building codes for thermal standards on new homes and offices. Establishment of an Advisory Board.

- Executive Order to Secretary of HUD to include stringent efficiency standards in mobile homes, also phased.

- No appliance efficiency standards, but Presidential direction to the Secretary of Commerce to develop appliance efficiency goals and receive compliance commitments from industry similar to DOT's work with the auto industry.

AGENCY VIEWS

HUD - agrees with executive order on mobile homes and the phased mandatory building standards

Commerce - agrees with appliance standards recommendations

PRESIDENTIAL DECISION

	AGREE	DISAGREE
ERC recommendation	/	/

Comments:

BUILDING RETROFIT INCENTIVES

ISSUE

How can the Federal Government encourage thermal improvements in existing homes and commercial buildings?

BACKGROUND/PROBLEM

- Two-thirds of the buildings in 1985 are buildings in existence today. At least 18 million homes have inadequate thermal efficiency and proper retrofits (new insulation, storm windows, weatherstripping) could reduce consumption by 15 percent.

- Although retrofitting may be economic, the money used to improve thermal efficiency may be needed for food, clothing, or other goods. Consumer debt is already high and high population mobility gives little incentive for investing now to achieve long-term (3-5 years) savings.

- Manufacturers of insulation are only operating at 65 percent of capacity, as new building construction has slowed.

OPTIONS

Option 1: Major Federal voluntary marketing effort (possibly including demonstration program).

PROS:

- no new legislation required
- would save 165,000 and 225,000 barrels per day in 1980 and 1985 respectively
- low cost program

CONS:

- shows little commitment to help consumer adjust to higher energy prices
- limited effectiveness

Option 2: Provide Federal subsidies for retrofit including any or all of the following:

- A tax credit, for 3 years, for 15 percent of the cost of certain retrofit actions. Homeowners would be limited to a $150 credit, but would not have to claim it all in one year.

- Offer direct subsidy to low-income homeowners for the cost of certain retrofit materials. About 5 million families who cannot afford high costs of fuel, would not benefit from tax credit programs, and could have difficulty qualifying for loans.

- Shorten depreciable lives of investments for commercial buildings retrofit, expiring in 3 years, from 9-10 years to 3-5 years on the average.

PROS:

- these actions could have significant impacts on energy:

energy savings (barrels per day)	1977	1980	1985
° marketing and demonstration	100,000	165,000	225,000
° 15 percent tax credit	55,000	25,000	35,000
° low-income subsidy	10,000	25,000	35,000
° commercial accelerated depreciation	30,000	70,000	125,000
	195,000	400,000	720,000

- would demonstrate conservation commitment and provide balance to Administration's program.

CONS:

- not needed if marketplace works correctly -- savings in fuel costs exceed improvement costs in a few years (2-4).

- would have significant revenue impacts and administrative costs

- would require careful definition of qualifying improvements and may be difficult to administer and enforce.

costs (millions of dollars)	1975-1977	1980	1985
° marketing and demonstration	50	50	50
° 15 percent tax credit	270	0	0
° low-income subsidy	55	55	55
° accelerated depreciation (deferred revenues)	50	0	10
program total	425	105	115

LEGISLATION

- Marketing and demonstration: no authorizing legislation needed; supplemental funding could be required.

- Fifteen percent tax credit: requires legislation to amend the tax code requiring definition of eligible retrofit actions; initiation and expiration dates; and direction to IRS to develop appropriate reporting and audit procedures.

- Low-income subsidy: requires Congressional authorization of funds, probably through OEO or HEW

- Shortened depreciable lives: requires legislation to amend the tax code similar to tax credit.

ERC RECOMMENDATION

The ERC recommends option 1 and option 2:

- Expanded education program

- A tax credit of 15 percent on expenditures of up to $1000 for approved thermal efficiency improvements.

- Direct subsidy to low-income homeowners for the cost of certain retrofit materials.

- Shorten depreciable lives of investments for commercial building retrofit.

AGENCY DISSENT

Treasury, as well as most other agencies, dislikes the tax credit on strictly economic and philosophical grounds. However, most also recognize the need for some assistance for the average American to adjust to higher prices. This appears to be the best Presidential alternative.

PRESIDENTIAL DECISION

ERC recommendations	AGREE	DISAGREE
1. Expanded education program	/	/
2. Tax credit	/	/
3. Subsidy to low-income homeowners	/	/
4. Shorten depreciable lives	/	/

Comments:

EMERGENCY STORAGE

ISSUE

Should the United States initiate a security storage program to protect against a supply disruption?

BACKGROUND/PROBLEM

- By 1980-1985, it is very likely that the United States will still be importing significant quantities of oil (3-5 MMB/D or more).
- Standby allocation and conservation measures cannot cushion against more than one million barrels per day.
- Emergency supplies held in storage can cushion the United States economy from harm in case of a supply disruption, and may even act to avert a supply disruption.
- Standby reserves are a relatively cheap method of insurance against disruption.
- Significant storage cannot be acquired in the near-term due to lead times (about 2 years) to acquire and prepare storage facilities. A one billion barrel system, which would be enough to supply 3 MMB/D for one year, could not be completed until 1980.
- Emergency stocks should not be acquired under current prices -- they would act to maintain the high prices and would be expensive.
- Some stocks could be set aside for defense purposes.

OPTIONS

Option 1: Build no storage capacity

PROS:

- valid option if no likelihood of a supply disruption in the future or if expected level of imports is essentially zero

CONS:

- provides no insurance if embargo occurs

Option 2: Prepare storage facilities (salt domes) immediately, and develop implementing mechanisms, but await lower world oil prices before committing to major oil purchases

PROS:

- would cost only about 10 percent of total program costs
- provides greater flexibility
- initiates key actions which have long lead times

CONS:

- would leave us vulnerable in the next few years, when a supply disruption is likely

Option 3: Prepare and fill storage facilities as soon as possible

PROS:

- would provide somewhat more immediate protection
- can serve additional purpose of increasing domestic production if the cost of storage is charged to imports

CONS:

- there are complex institutional and regional questions to be worked out
- may be very costly if oil prices decline later

The major unresolved questions involve resolution of ownership (public or private) of the facilities and oil, financing the costs of the program, as well as the type of oil (crude, refined products) stored and the location of storage.

LEGISLATION/BUDGET COSTS

Legislation will be required to develop and implement any kind of storage program. If storage is to be privately owned, authority will be needed to require accumulation of petroleum and storage facilities; to control the rate of growth; use of stored products; and for enforcement purposes.

If there is to be public storage, legislation would be needed to authorize acquisition, development, lease, and eminent domain of facilities; acquisition of crude oil; appropriations for purchases; and conditions for use of stored materials.

The actual amount of crude oil and products to be stored should be left flexible. There will be pressure to spread the costs of storage, although some regions are more dependent on imports then others. There will probably be a need for an environmental impact statement before a salt dome storage program is implemented.

Estimated budget costs are $100 million for the first year (planning, acquiring, or leasing facilities) and then $1 billion per year to purchase and store oil.

ERC RECOMMENDATION

The ERC recommends option 2 -- prepare salt domes for 1 billion barrel capacity, begin to fill slowly and add more oil as world prices permit. Consider use of naval petroleum reserves for storage. ERC also recommends that you request standby authority with legislation to control current inventory levels and provide standby capability to impose the program. There may also be a tradeoff with the military on control of storage in return for commercial development of NPR #4.

The ERC further recommends that we begin immediately to resolve the private vs. public ownership, financing, and implementation problems. It is also recommended that defense requirements be included in the storage program.

PRESIDENTIAL DECISION	Agree	Disagree
ERC recommendation	☐	☐

Comments: