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FEDERAL ENERGY ADMINISTRATION  
WASHINGTON, D. C. 20461

AUG 7 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *FSI*  
SUBJECT: WINDFALL PROFITS TAX

BACKGROUND

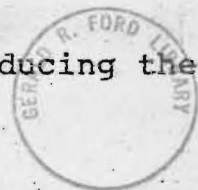
In your January State of the Union Message you proposed immediate decontrol coupled with a windfall profits tax (WFPT). Since this original proposal, a number of events have occurred which necessitates modifying your proposal.

- Congress repealed the depletion allowance.
- The Senate Finance Committee has reported a windfall profits tax in the event of immediate decontrol.

ADMINISTRATION'S NEW WFPT

Your advisors have reviewed the current situation and have developed a recommended WFPT which closely follows the Senate Finance Committee bill. The basic features of the deregulation tax are:

- Tax both old oil and uncontrolled oil (including oil from stripper wells), at 90% of difference between base price of about \$5.25 per barrel (increasing 0.5% per month) and the sales price.
- Provide constructive base price for uncontrolled oil equal to about \$11.25 per barrel.
- Phase out the WFPT tax over 67 months by reducing the amount of taxable oil by 1.5% per month.



- A plowback credit which offsets up to 25% of the tax. The credit is dollar for dollar for the amount of qualified investments in excess of a threshold. The threshold is 40% of the base price for old oil produced during the taxable period (i.e., average of \$2 per barrel). There is no threshold for the credit with respect to uncontrolled oil.

The recommended deregulation tax differs from the Finance Committee bill by:

- Providing individualized base price for uncontrolled oil depending on grade, quality and location rather than flat \$11.50 base price.
- Including stripper well production in uncontrolled oil subject to tax.

Both of these modifications increase revenues from the tax particularly in the later years.

#### CONSUMER COST INCREASES AND TAX REBATES

Your original State of the Union proposals would have increased energy costs by approximately \$30 billion and rebated to energy consumers -- corporations, individuals and state and local governments -- all of their increased costs.

Immediate decontrol, coupled with the removal of the import fees of \$2.00 and \$.60 per barrel on crude oil and petroleum products respectively will cause total energy costs to increase by about \$8.0 billion annually. Of these total costs, individuals will pay approximately 5.1 billion directly and the rest will be borne by industry and all levels of government.

The proposed windfall profits tax would collect \$7.3 billion directly and result in an additional \$1.1 billion of corporate income taxes from oil companies. However, deregulation in the absence of a WFPT would also increase Federal taxes collected. As a result of the Treasury estimates the net taxes collected from the WFPT would be about \$5.1 billion.

There is some disagreement over the level of consumer rebates. From an energy perspective, maximum support of decontrol will necessitate rebating the gross tax revenues i.e., \$7.3 billion.



On the other hand this will have the maximum negative effect on the budget deficit. Given the removal of the fees, the greatest effect on keeping the deficit as close as possible to \$60 billion would argue for lesser rebates. However, any decision to not fully rebate energy taxes is inconsistent with your State of the Union energy proposals and the statements of your advisors during the last several months.

The table below summarizes the budget deficit impact of these alternatives.

	Change in Budget Deficit in C.Y. 1976		
	<u>No WFPT</u> <u>No rebates</u>	<u>WFPT with rebates of:</u>	
		<u>\$5 billion</u>	<u>\$7 billion</u>
Same monetary policy	+6.5B	+2.8B	\$4.2B
Accommodating monetary policy	+4.5B	+0.8B	\$2.2B

The increased budget deficits are due in large part to the loss of over \$3 billion of expected Federal revenues when the tariffs are removed. The larger deficits with no WFPT or rebates are due to the adverse economic impact and resulting loss of tax receipts if revenues are not recycled. The deficit impacts in succeeding years may be somewhat larger.

The basic issue is the tradeoff between your basic energy and economic policies:

- Raising energy prices, but maintaining consumer purchasing power.
- Holding the line on the budget deficit.

The ERC recommends that all gross revenues collected from the WFPT be rebated. Your other advisors will present their views at the energy meeting later today.

#### STRUCTURE OF CONSUMER REBATES

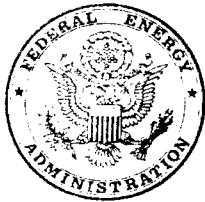
If you decide to provide rebates of the WFPT, the structure of such rebates should be modified. With the much lower levels of total rebates, two basic questions should be asked



- Should the rebates for industry and S&L governments be dropped?
- Should the rebates to individuals be on a per capita basis or only for low and middle income individuals?

It is the consensus of your advisors that general rebates to industry and state and local governments should be dropped and only targeted rebates such as for farmers be included. The issue of consumer rebate structure is still under review and a decision paper will be prepared for you.





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

August 7, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

THRU: Rogers C. B. Morton  
FROM: Frank G. Zarb  
SUBJECT: Energy Resources Finance Corporation

Attached is an analysis of alternative financing authorities to increase development of new energy supplies. This subject will be discussed at our scheduled meeting with you on Saturday.

This is a rather complex subject and the comments you receive from various advisors are going to be quite diverse. You may want to postpone any final decisions until you have had an opportunity to evaluate all views.

If you agree, we will synthesize the issues after the Saturday meeting and provide you with a concise decision paper while you are at Vail.

Attachment





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

August 8, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *FZ*

SUBJECT: ENERGY PRESS EVENTS FOR AUGUST

Listed below is the suggested timing of major press events during the month of August.

<u>Time</u>	<u>Event</u>
This week	1. No new statements raised on President's previously stated intention (99.9%) to veto the extension. Indicate that the President is examining various options to help ensure orderly transition during the post decontrol period.
Friday, August 15	1. Presidential announcement at Vail that if veto is sustained import fees will be removed. 2. Zarb and Greenspan brief press at Vail on energy and economic impacts. 3. FEA holds backgrounder for Washington press on same subject.
Thurs., August 22	1. Zarb holds press conference on natural gas <u>problem</u> and indicates that President is reviewing options.

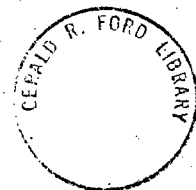


<u>Time</u>	<u>Event</u>
Aug. 27-Sept. 3	1. Major Presidential TV address on energy. The extension could be vetoed at this time. Discussion of why a bold U.S. energy program is needed including the need for de-control. Also announce comprehensive program to deal with natural gas shortage and other initiatives, if appropriate.

You will have several occasions in coming weeks to emphasize (in a general but firm way) this nation's need to put its energy house in order. They are as follows.

Monday, August 18	Oil Shale Site Visit, Rifle, Colorado
Tuesday, August 19	Media Breakfast, Minneapolis Peoria White House Conference
Monday, August 25	White House Conference, Milwaukee
Saturday, August 30	AFL/CIO in Augusta, Maine

Alan Greenspan and Ron Nessen concur with the above outline. If you approve, we will assure that speech writers receive necessary material.







FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

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8/8 - BY HAND  
TO CONNOR  
& Rumsfeld.  
gl

August 8, 1975

BRIEFING ON ENERGY RESOURCES FINANCE CORPORATION

Saturday, August 9, 1975.  
1:30-2:30 p.m. (60 minutes)  
The Cabinet Room

From: Frank Zarb

I. PURPOSE

To discuss alternative financing authorities to encourage energy development.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

1. Our State of the Union Message initiatives on energy have not been enacted by the Congress.
2. The pace of domestic energy development is unacceptably slow.
3. ERC has analyzed alternatives including the Domestic Council's proposal.

B. Participants: Henry Kissinger, Rogers Morton, Bill Seidman, Alan Greenspan, Donald Rumsfeld, John Dunlop, John Marsh, Frank Zarb, Arthur Burns, Bob Seamans, Jim Mitchell, Steve Gardner

C. Press Plan: No press plan at this time.

III. TALKING POINTS

1. As you know, the Domestic Council originally proposed the establishment of an Energy Resources Finance Corporation.



2. This Corporation would provide financial assistance to spur the development of new energy projects.
3. I know that there is considerable debate regarding this proposal and look forward to an open discussion of these issues.
4. I would like to hear each of your views on this subject.

AD:BPasternack:mef:rm.3212:x8233:8/8/75

cc: AE

Zausner

Don Rumsfeld.





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

August 8, 1975

OFFICE OF THE ADMINISTRATOR

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7/28 - Begger for review  
 7/29 - gl  
 8/1 - ret'd to EZ per Askew

FEDERAL ENERGY ADMINISTRATION  
 AUG 13 1975

GERALD R. FORD LIBRARY

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb *Frank G. Zarb*

SUBJECT: Follow-up to Your Meeting with Governor Rhodes

As a follow up to your meeting of June 18, 1975, with Governor Rhodes, I have written to him suggesting that members of my staff meet with his key energy advisor to discuss his five-point energy proposal in greater detail.

cc: Signature File  
 Chron File  
 B. Pasternack  
 E. Zausner



CONCURRENCES

SYMBOL	▶ P&A		EC	8/12	AM		
SURNAME	▶ [Signature]	[Signature]	SM	[Signature]	[Signature]	OK for per 5/11/75	
DATE	▶ 8/15		8-12	8-12	8-12		

8/12 - G gl  
8/12 - to Hill

AUG 13 1975

Governor James A. Rhodes  
State House  
Columbus, Ohio 43215

Dear Governor Rhodes:

The President has asked me to review the material on energy policy which you left with him during your meeting of June 18, 1975.

Your five-point energy summary suggesting areas where the Federal Government should become more involved raises some interesting questions which warrant more detailed consideration.

I would be pleased to schedule a meeting with members of my staff and your key energy advisor to further discuss these proposals with him.

Sincerely,

Frank G. Zarb

Frank G. Zarb  
Administrator

cc: Official File  
Signature File  
Zausner  
Chron

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Retyped:AE:8/12/75:x8241:rm 3309



*8/12*



AUG 20 1975

*AE*

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb *Frank G. Zarb*  
THROUGH: Rogers C.B. Morton  
SUBJECT: Biweekly Status Report

Motor gasoline demand in July was lower than in 1974 for the first time this year, but only by 0.2 percent. For the first six months of the year demand was 2.7 percent higher than last year.

Total demand for all petroleum products for the four weeks ending August 1 was 6.3 percent, or 1,080,000 barrels per day below the same period last year, but 200,000 barrels per day above the forecast.

The only major product with demand below the forecast was distillate fuel oil which, at 2.09 million barrels per day, was 70,000 below the projection.

Imports averaged 5.89 million barrels per day, 270,000 barrels per day above the forecast but 820,000 below the same period last year.

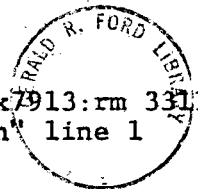
U.S. exports to OPEC nations have been growing rapidly and steadily since the oil exporting nations quadrupled their prices in 1973. Such exports, both commercial and military, were \$2.8 billion in 1972, \$2.6 billion in 1973, and \$6.7 billion in 1974. Latest data show June exports to be \$923 million (equivalent to an annual rate of \$11.1 billion), 70 percent higher than June of 1974.

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RETYPED: AD:Zausner/afd/18 Aug 75

cc: AE (2) *✓* Dwyer  
Zausner Curtis  
Rathbun Chron

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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

August 29, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB /s/ Frank G. Zarb

SUBJECT: Energy Resources Financing Corporation

Attached is a description of the Energy Resources Financing Corporation as proposed by the Vice President. I have also included the arguments presented by Alan Greenspan, Jim Lynn, Bill Simon and Rog Morton.

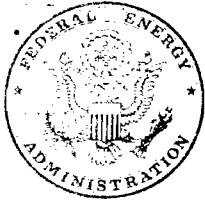
As you will note Simon, Greenspan, and Lynn are generally opposed to the proposal as it now stands.

Because Friday was completely taken up with our response to the Mansfield/Albert meeting, I was not able to complete my analysis and recommendations. However, a brief summary of the views of your advisers and my specific recommendations will be on your desk when you return.

Attachments



P. 100



FEDERAL ENERGY ADMINISTRATION  
WASHINGTON, D.C. 20461

August 30, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

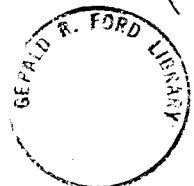
FROM: FRANK G. ZARB  
SUBJECT: THE ENERGY FINANCE CORPORATION (EFC)

BACKGROUND

The basic question which must be addressed is whether a new financing authority is needed and if implemented could it greatly speed up domestic energy development without significant adverse impact on the private sector, and the capital markets in particular.

Your advisors are strongly divided on this issue. The Vice President and Secretary Morton feel that such a proposal will have strong political appeal and make a major contribution to energy independence. Your economic advisors, Alan Greenspan, Jim Lynn and Bill Simon, are all strongly opposed to the proposal as now structured on several grounds, including:

- o EFC may make no new major contribution to stimulating domestic energy supply because it will either replace investment which would occur anyway, undertake economically unjustified projects, or direct attention away from solving more basic problems, such as regulatory delays.
- o Its autonomy will put it outside of the policy and budget control of the Executive Branch.
- o Its size will divert capital from other sectors and adversely impact the capital markets.
- o Once proposed EFC would be Christmas-treed by the Congress to include: perpetual life, Congressional determination or approval of projects and priorities, and public ownership of energy production facilities. The bill ultimately passed by Congress may be so objectionable that it may have to be vetoed.

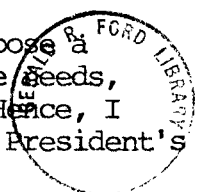


In weighing all of these options and views, I would draw several conclusions:

- o While you have proposed a comprehensive energy program, many of its elements require difficult tradeoffs with consumer and environmental concerns. In all likelihood, your program will not be passed in its entirety and energy independence will not be achieved.
- o A financing authority, such as EFC, could accelerate many energy projects and have a significant impact on achieving domestic energy independence.
- o Your goals for synthetic fuels, your uranium enrichment proposals and as yet undefined but needed proposals for new pipelines from the North Slope or NPR #4, and developing other emerging energy technologies will all require authorities similar to EFC — and large dollar commitments. EFC has the flexibility to undertake all of these projects.
- o In spite of these advantages, I am also compelled by three of the arguments made by your economic advisors with respect to its size and autonomy.
- o With \$120 billion of authority which would be compressed into 5-10 years of expenditures, its potential impacts on capital markets cannot be denied — particularly if it is autonomous and acts independently of the Treasury Department or the Federal Reserve Board.
- o EFC's unlimited scope of activities, which could include financing almost any commercial project, including related areas such as steel mills or conventional power plants, will put the government in areas which should be left to the private sector.
- o As proposed, the size and autonomy of the corporation would put it largely outside the control of your existing policy and management channels — ERC and OMB. As a result its impact could become pervasive and uncontrollable.
- o With respect to the "Christmas-tree" arguments, I feel quite strongly that there is no affirmative initiative which will avoid these problems and if we propose action we must learn to live with this Congressional reality and do our best to control it.

#### RECOMMENDATIONS

Based on the above observations, I believe that we should propose a financing authority to deal with what I believe are undeniable needs, but restructure it greatly to lessen its obvious drawbacks. Hence, I would recommend the following major modifications to the Vice President's proposal:



- o Its total size be reduced from \$120 billion to \$75 billion, with \$50 billion of debt and the equity raised to \$25 billion.
- o That clear legislative language be provided to limit its activities to preclude financing conventional energy production facilities, but allow:
  - Commercializing new technologies or concepts, e.g., synthetic fuels, advanced nuclear projects or demonstrating new institutional concepts such as energy parks.
  - Financing large-scale, risky projects which would not be put together otherwise, e.g., uranium enrichment or a trans-Canada oil pipeline.
- o While the EFC should be a separate organization, its autonomy should be restricted by:
  - Designating as its board of directors the Administrators of FEA and ERDA, the Secretary of the Treasury, Chairman of ERC, and the President of EFC.
  - Not exempting it from the normal agency review processes of ERC or OMB with respect to policy, priorities or programs.

These recommendations will provide a needed authority to stimulate new technologies and help us achieve energy independence. Its reduced scope and autonomy should greatly ameliorate, although not eliminate, the problems raised by your economic advisors. Further, I do not believe these modifications will greatly alter the public's perception of the size or boldness of the proposal.

Finally, while I believe a separate organization is the most desirable now, ultimately I believe that FEA, ERDA, this new authority, and appropriate programs of other agencies should be combined into one new energy agency or department. However, to propose this reorganization now would be disruptive of existing institutions and probably delay enactment of EFC. Consideration of a Department of Energy should be reserved for your next State of the Union Message.

#### NEXT STEPS

If you agree with these recommendations, we should go forward in the following sequence:

- o Indicate your final decisions to your senior advisors.
- o Prepare the detailed legislative and organizational proposal.
- o Develop a public statement for use in an appropriate forum later in September.

The needed legislation and supporting material can be ready for Congressional submission within two weeks of your decision or sooner if required.

