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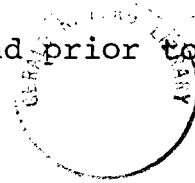
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STATEMENT OF FRANK G. ZARB
NOMINEE TO BE ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION

Mr. Chairman and Members of the Committee. It is both a pleasure and an honor to be here today as the President's nominee to be Administrator of the Federal Energy Administration. I deeply appreciate the kind words which have been expressed on my behalf by the distinguished Senators from New York, Senator Javits and Senator Buckley.

As the Committee can well appreciate, development and implementation of a national energy policy is one of the greatest and most challenging tasks facing this Country. It was with a sense of urgency and a strong desire to develop workable solutions to these difficult problems that I accepted the President's nomination. I appear before this Committee with the full knowledge that the different solutions to our energy problems will require the close cooperation of the Administration and the Congress.

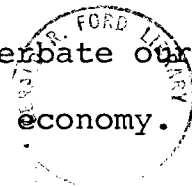
Although I am not familiar with some of the detailed problems facing the Federal Energy Administration, my present position as Associate Director of OMB for Natural Resources, Energy and Science has given me a broad background and general insight into energy problems. During last winter's oil embargo, and prior to assuming



my position with OMB, I assisted Secretary Simon in organizing the Federal Energy Office. This experience gave me the opportunity to work closely with senior FEA personnel and to become familiar with the overall organizational structure of the agency. Since the middle of November, I have been serving as the Executive Director of the President's Energy Resources Council -- a position which has made me sensitive to the need for better coordination and management among the various Federal agencies engaged in developing and implementing energy policies. I intend to continue in this important position should I be confirmed as FEA's Administrator.

Solutions to our energy problems will not come easily and a great deal of cooperation between the Administration, the Congress, and the public will be required. The time has come, however, when hard decisions must be made and positive actions taken. The seriousness of the international and domestic energy situation will not permit further lengthy studies of alternative energy strategies. Our goal is clear. We must obtain a degree of energy self sufficiency which is consistent with the nation's future economic and social well being.

We must come to grips with our present and future energy problems or conditions will continue to deteriorate. At the same time, it is imperative that we not panic or act irrationally; ill-conceived actions at this time could exacerbate our energy problems and cause further disruptions to the economy.



The Energy Resources Council is currently reviewing and examining the Project Independence Blueprint which was developed by FEA and presented to the President and to the Congress in November. Once the Blueprint has been reviewed and specific energy problems identified we will be in a position to begin developing solutions specifically tailored to meet major energy problems. This process of identifying specific energy problems will be completed in the next few weeks and we will be giving President Ford an in-depth briefing of our present situation and the available energy options.

I believe all options for resolving various energy problems confronting the nation should be fully and publicly explored. FEA, the Energy Resources Council and the Administration as a whole will work closely with the Congress in developing and implementing needed energy programs. We also have and will continue to solicit input from interested and knowledgeable members of the public.

To be successful, a national energy program must carefully balance competing national objectives. We cannot abandon our environmental goals, for example, to obtain greater energy supplies. By the same token, domestic controls must be structured in a manner that promotes the exploration and development of new energy sources without allowing any sector of the economy to profit at the expense of other sectors. Price adjustments and tax

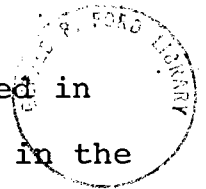


incentives designed to spur increased oil exploration and drilling activities must be coupled with appropriate measures to ensure that uncontrolled profits do not result.

Let me assure you that we need, and must rely on, the American free enterprise system. Our traditional free enterprise system, however, must at times be regulated to assure that no element of our society unduly profits at the expense and hardship of others. In this regard, oil producers who are, currently enjoying high profits should be required to use any excess earnings as investments which will assist domestic energy development. I support a windfall profits tax with provisions which give an incentive to plowback profits into the expansion of domestic energy production. I also support the elimination of the foreign depletion allowance and a limitation on foreign tax credits.

Energy conservation programs must also be designed to impact fairly and equitably on all sectors of society. A voluntary conservation program should be our first approach, but if it does not work then mandatory conservation measures will be required and I will not hesitate to recommend them to the President and the Congress, if legislation is needed, and implement them, if given the legislative authority.

It is also important that energy policy be developed in an open atmosphere which will inspire public confidence in the integrity of our national energy policy and ensure public participation and cooperation in our specific energy programs.



For this reason, I believe the openness and objectivity with which FEA has conducted itself in the past must be continued and further improved.

For the benefit of the Committee, I would like to describe briefly the complementary roles FEA and the Energy Resources Council will play in developing specific energy programs as well as an overall national energy policy. The Energy Resources Council is designed to accomplish two purposes: First, it serves as the primary vehicle for coordinating the consideration of alternative energy policies by participating Federal agencies. In this role, the Energy Resources Council will help ensure that all Federal agencies are connected to the same drive shaft for implementing national energy policy. Second, the Council is responsible for assessing various energy policy options and presenting recommendations to the President.

FEA will remain the principal driving force for developing and implementing new Federal energy programs. The agency will be expected to continue its record of independent and innovative thinking, and will be charged with the responsibility for maintaining a central core of information and expertise. FEA, of course, will also continue to make independent decisions on regulatory matters under the Emergency Petroleum Allocation Act.

In addition, FEA will provide operational staff support for the Energy Resources Council and will be responsible for researching and presenting a range of energy policy options to

the Council and the President. Consistent with its duties under the Federal Energy Administration Act of 1974, FEA will continue to serve as the Administration's chief point of contact with State and local governments as well as with public interest groups.

Let me conclude my statement by briefly summarizing my general thoughts on what the Administration, the Congress and the American people should seek to accomplish in the energy area.

Hardly anyone denies that our ultimate goal must be energy independence. While I recognize that there are and will continue to be disagreements over the appropriate strategies for achieving this goal, I believe that a reasonable degree of independence is attainable if we all work together.

The American people want to win this battle. They need and deserve a comprehensive plan that will show them how we intend to reach our goal, and what sacrifices they will be asked to make. If we develop -- as we must -- a sensible and integrated national energy policy which the American people can understand, I have no doubt that they will give us not only their cooperation, but their enthusiastic support.

In developing such a national energy plan there is no need to polarize environmentalist against pro-energy forces, industry against labor, business against the consumer. All Americans

share common needs, and although the reconciliation of differing viewpoints and perspectives will take hard work I am confident that it can and will be accomplished. I actively solicit the support of the Congress and the American people in this endeavor.

This concludes my statement. I would be happy to respond to any questions you may have.

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Draft question to be posed by Sen. Johnston (LA).

Topic of incentives for new refining capacities.

Question

Your predecessors Messrs Simon and Sawhill, were very involved in encouraging the construction of new and expanded refining capacity in the United States, particularly by independent companies. Mr. Simon was most helpful on individual projects and Mr. Sawhill came to Louisiana in October to participate in the ground-breaking for a large independent refinery which will produce substantial volumes of residual fuel oil. This committee has, of course, been deeply involved with this issue and, along with your predecessors, has concluded that among the most effective incentives for new capacity are equal treatment of new refineries under the crude oil allocation program and an assurance that, in case of a serious shortage, crude oil supplies will be shared equally and equitably by old and new refiners.

Can you assure this committee that you will carry forward these policies, particularly as they are set forth in the current regulations for allocation of crude oil to new and expanded refining capacity?

Answer

Yes. The current regulations provide that FEA will endeavor to assure crude supplies to new capacity so that capacity will generate at the national supply to capacity

ratio. FEA does not assure that the new refinery will operate in excess of that level. Factors to be considered by FEA in making allocations include the economic possibility of such capacity absent any allocation, the effect upon the crude oil supplier of sellers who are required to sell to a new refiner, the efforts made by a new refiner to obtain crude oil supplies on his own, and the type of refinery to be built.



OLD V. NEW OIL



CONTROLLED (%)UNCONTROLLED (%)

	<u>Old</u> <u>Oil</u>	<u>New</u> <u>Oil</u>	<u>Released</u>	<u>Stripper</u>
<u>1974</u>				
January	60	17	10	13
February	62	15	10	13
March	60	16	11	13
April	60	16	11	13
May	62	15	10	13
June	63	15	9	13
July	64	15	9	12
August	66	14	8	12



DEC 3, 1974

New Oil, Released Oil, Stripper Oil and Controlled Oil

Prices of domestically produced crude petroleum are established in accordance with the two-tiered pricing system. Part of production, the controlled portion, is limited to its May 15, 1973 price. The other part consisting of new oil, released oil, and stripper well oil is allowed to seek a free market price. New and released oil are exempt from price controls in order to encourage additional production.

Controls are applied on a lease by lease basis. For a given lease, new oil is the amount of production from that lease in excess of the base production control level. The base production control level is the amount of production from the lease during the corresponding month in 1972. For each barrel of new oil, a producer, as an extra incentive to increase production, is permitted to "release" from price controls an additional barrel of his base production control level as long as he does not exceed his base production. This is called released oil. The remainder of his production, i.e., total production minus new and released oil production, is the controlled portion and may not be sold above the ceiling price.

Stripper well production is that production derived from leases whose average daily production does not exceed 10 barrels per day. In 1974 there were 355,229 stripper wells, which accounted for about 12 percent of total domestic production. Stripper well production is exempt from price controls to help keep the two-tier system manageable.

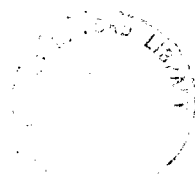
New oil and released oil volumes are reported to the FEA by producers of new oil under mandatory reporting. These figures are used to estimate new oil and released oil production as a percentage of total production, which is reported to the Bureau of Mines. Estimates of stripper well production are based on the National Stripper Well Survey, 1974, conducted jointly by the Interstate Oil Compact Commission and the National Stripper Well Association.

The percentage breakdowns of controlled, new, released, and stripper well production are shown in the attached table. In recent months the percentage of controlled oil has increased by six percent from 60 percent during April to 66 percent during August. Three percent of the increase is due to a decline in released oil which

can be explained as a natural result of new leases replacing old leases whose productions have declined. For the new leases there is no released oil.

Two reasons can be given for the decline in new oil. First, production during April 1972, upon which the new oil calculation for April is based, was down in comparison to subsequent months. This means that the base production control levels increased after April, which would result in a decline in new oil from its level during April. Secondly, there was a decrease in total production after May of 1974, which would also cause new oil to decline.

Another one percent increase in the controlled portion is due to a decline in stripper well production, which is a continuation of a downward trend.



O & G STATISTICS



Petroleum Situation Report

Federal Energy Administration National Energy Information Center



Week ended: 15 Nov. 1974

The Petroleum Situation Report for the current week contains only the U.S. petroleum industry operations tables for the current and previous week. Future reports will contain data on petroleum industry operations and will describe progress in achieving the conservation objectives established by the President.

U. S. PETROLEUM INDUSTRY OPERATIONS (Excluding Puerto Rico)

FOR WEEK ENDED November 08, 1974	Weekly Data*			4-week Average*	
	Current Week	Last Week	Last Year**	1974	1973**
TOTAL DEMAND FOR PRODUCTS****	16,858	18,582	17,552	17,715	17,957
IMPORTS OF REFINED PRODUCTS.....	2,841	2,919	3,033	2,954	3,028
CRUDE OIL					
Domestic Production.....	8,652**	8,653**	9,281	8,648**	9,311
Imports.....	3,672	3,666	3,157	3,837	3,883
Ending Stocks (MMB).....	252.0	254.1	249.0	---	---
Runs to Still.....	12,210	12,710	12,509	12,450	12,760
MOTOR GASOLINE					
Production.....	6,143	6,219	6,513	6,272	6,588
Imports.....	106	147	108	160	118
Apparent Demand****	6,440	6,887	7,102	6,575	6,575
Ending Stocks (MMB).....	227.0	228.3	204.9	---	---
TOTAL JET FUELS					
Production.....	909	907	884	906	920
Imports.....	229	159	217	192	197
Apparent Demand****	1,067	959	1,049	1,050	1,095
Ending Stocks (MMB).....	32.1	31.6	25.2	---	---
DISTILLATE FUEL OIL					
Production.....	2,807	2,995	2,889	2,849	2,937
Imports.....	436	329	542	328	440
Apparent Demand****	2,512	3,308	3,039	2,810	2,999
Ending Stocks (MMB).....	239.1	234.0	206.1	---	---
RESIDUAL FUEL OIL					
Production.....	1,170	1,105	955	1,149	944
Imports.....	1,215	1,348	1,818	1,400	1,905
Apparent Demand****	2,276	2,372	2,845	2,499	2,934
Ending Stocks (MMB).....	72.5	71.7	55.2	---	---

U. S. PETROLEUM INDUSTRY OPERATIONS (Excluding Puerto Rico)

FOR WEEK ENDED November 15, 1974	Weekly Data*			4-week Average*	
	Current Week	Last Week	Last Year**	1974	1973**
TOTAL DEMAND FOR PRODUCTS****	18,013	16,926	17,818	17,715	18,129
IMPORTS OF REFINED PRODUCTS.....	2,938	2,820	3,162	2,950	3,117
CRUDE OIL					
Domestic Production.....	8,606**	8,652**	9,053	8,639**	9,243
Imports.....	4,204	3,702	3,477	3,937	3,774
Ending Stocks (MMB).....	258.4	253.0	252.6	---	---
Runs to Still.....	12,029	12,248	12,318	12,390	12,661
MOTOR GASOLINE					
Production.....	6,188	6,153	6,268	6,284	6,524
Imports.....	130	106	152	131	137
Apparent Demand****	6,521	6,528	6,603	6,638	6,626
Ending Stocks (MMB).....	225.5	226.9	203.6	---	---
TOTAL JET FUELS					
Production.....	898	910	891	898	903
Imports.....	221	229	177	224	195
Apparent Demand****	1,226	1,067	815	1,148	1,042
Ending Stocks (MMB).....	31.4	32.1	27.0	---	---
DISTILLATE FUEL OIL					
Production.....	2,799	2,806	2,863	2,878	2,928
Imports.....	363	436	493	367	440
Apparent Demand****	3,392	2,404	3,648	3,085	3,264
Ending Stocks (MMB).....	238.6	240.2	204.0	---	---
RESIDUAL FUEL OIL					
Production.....	1,226	1,170	896	1,172	937
Imports.....	1,424	1,215	1,965	1,397	1,961
Apparent Demand****	2,603	2,316	2,882	2,599	2,965
Ending Stocks (MMB).....	72.9	72.6	55.0	---	---

* Data is in Thousands of Barrels unless otherwise indicated.
 ** Data from API.
 *** Shipments from primary supply are calculated by FEA by summing supply items and adjusting for inventory change. This does not represent consumption during the period, as is does not provide an indication of usage from or build-up of supplies in secondary and consumer storage.

FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

TOTAL ENERGY CONSUMPTION
1973

<u>PRODUCT</u>	<u>TRILLION B.T.U.</u>	<u>% OF TOTAL</u>
Coal (including anthracite)	13,520	17.89
Petroleum Products	31,965	42.30
Natural Gas	23,558	31.18
Natural Gas Liquids	2,724	3.61
Hydroelectric	2,941	3.89
Nuclear	853	1.13
Total	75,561	100.00

TOTAL PETROLEUM CONSUMPTION
1973

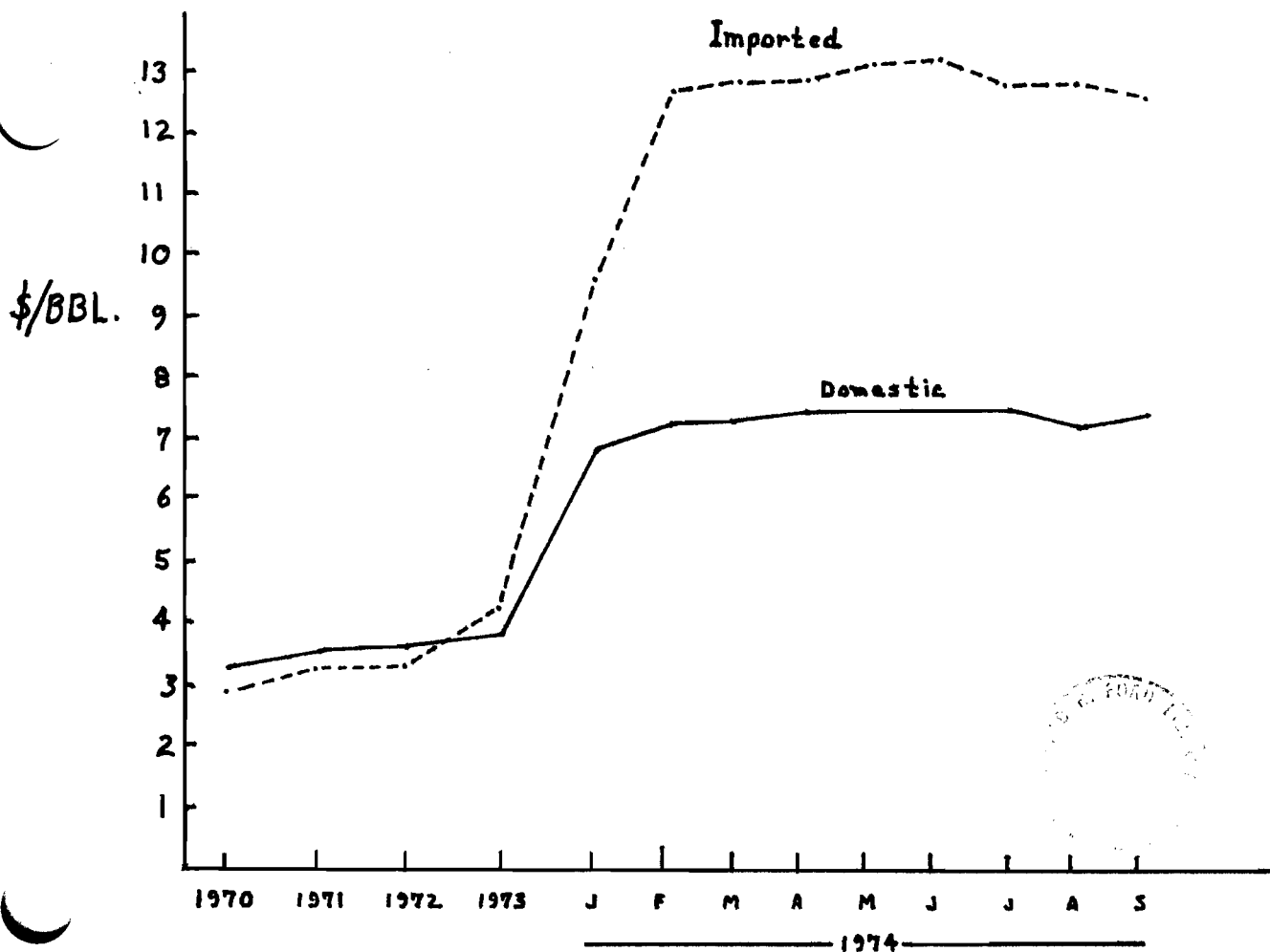
		(mmB/D)	
Motor Gasoline	12,851.3	6.4	40.20
Distillate Fuel Oil	6,518.8	3.3	20.39
Residual Fuel Oil	6,372.5	3.1	19.94
Liquefied Gases	1,139.9	.5	3.57
Naphtha-Type Jet Fuel	526.9	.2	1.65
Kerosene-Type Jet Fuel	1,604.6	.8	5.02
Still Gas	1,080.0	.5	3.38
Petroleum Coke	403.6	.	1.26
Asphalt & Road Oil	1,227.7	.	3.84
All Other Products	239.7	.	0.75
Total	31,965.0	16.0	100.00

Source: Bureau of Mines

Imported vs. Domestic Crude Cost

	<u>Domestic</u>	<u>Imported</u>
1970	\$ 3.18	\$ 2.96
1971	3.39	3.17
1972	3.39	3.22
1973	3.78	4.15
1974		
January	6.72	9.59
February	7.08	12.45
March	7.05	12.73
April	7.21	12.72
May	7.26	13.02
June	7.20	13.06
July	7.19	12.75
August	7.20	12.59
September	7.16*	12.52*

*Preliminary



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK ZARB *FZ*
THRU: ROGERS C. B. MORTON
SUBJECT: LATEST PETROLEUM STATISTICS

The attached charts and summary for the week ending November 15, indicates:

- Crude oil and product imports as well as total petroleum consumption continued their seasonal upward trend.
- Domestic production of crude oil amounted to 8.6 million barrels per day, approximately 4 percent below year ago levels.
- Total consumption was 17.9 million barrels per day as compared to 18.0 million barrels per day a year ago. Total consumption did exceed the 170,000 barrel per day savings target established for the first quarter of 1975, under your 1 million barrel per day goal by the end of 1975.
- Substantial savings in heating oil and residual oil were more than offset by much higher gasoline consumption and increases in other products.
- Imports dropped slightly below forecast, but did not reach the first quarter savings goal.

We can review these in more detail during our upcoming energy briefing.



KEY PETROLEUM STATISTICS SUMMARY*

TOTAL OIL DEMAND

Expected consumption without conservation	17,570,000
Required to meet President's goal**	17,400,000
Actual consumption	17,940,000
Consumption under (over) President's goal	(540,000)

OIL IMPORTS

Expected imports without conservation	6,920,000
Required to meet President's goal	6,750,000
Actual imports	6,890,000
Imports under (over) President's goal	(140,000)

CONSUMPTION OF KEY PRODUCTS

	<u>Gasoline</u>	<u>Heating Oil</u>	<u>Residual Oil</u>
Expected consumption without conservation	6,320,000	3,340,000	2,810,000
Required to meet President's goal	6,270,000	3,270,000	2,760,000
Actual consumption	6,670,000	3,100,000	2,540,000
Consumption under (over) President's goal	(400,000)	170,000	220,000

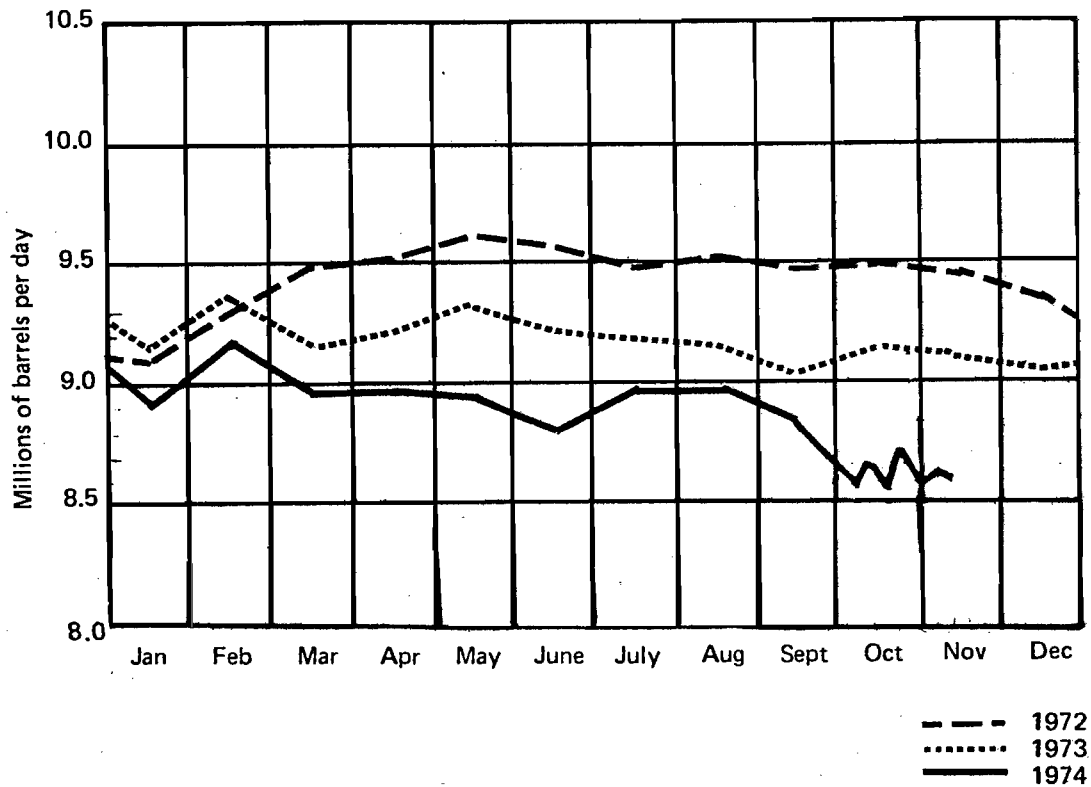
* All figures in barrels per day (MMB/D) for the latest four week period.

** For the 1 MMB/D saving goal; 170 thousand barrels per day is the goal for the first three months of 1975.

Crude Oil-Domestic Production*

Average for the month through September 1974

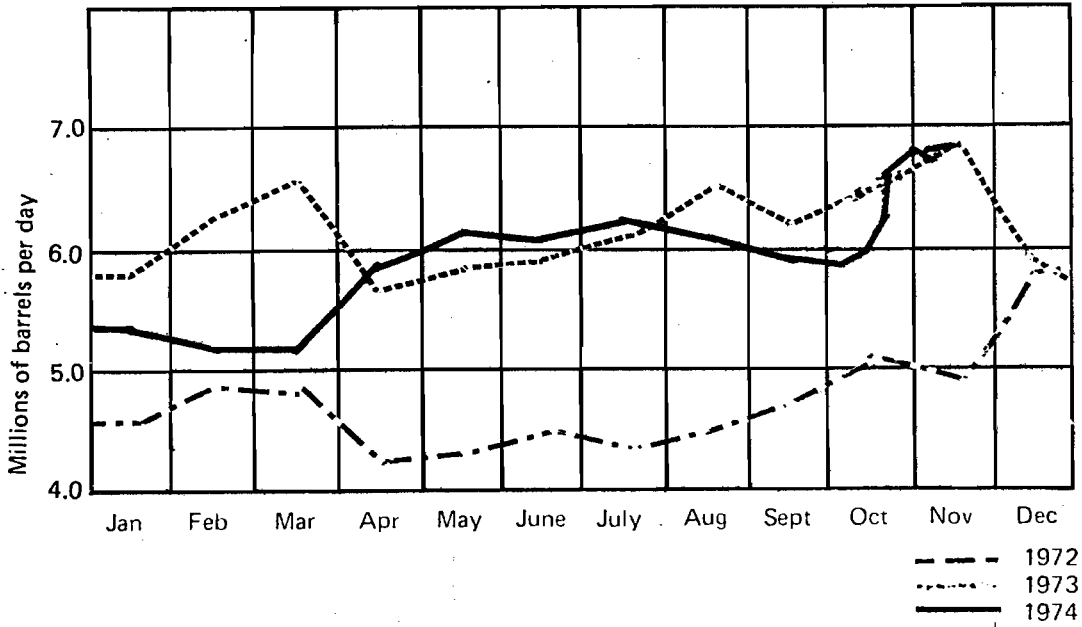
*Includes lease condensate



Total Imports

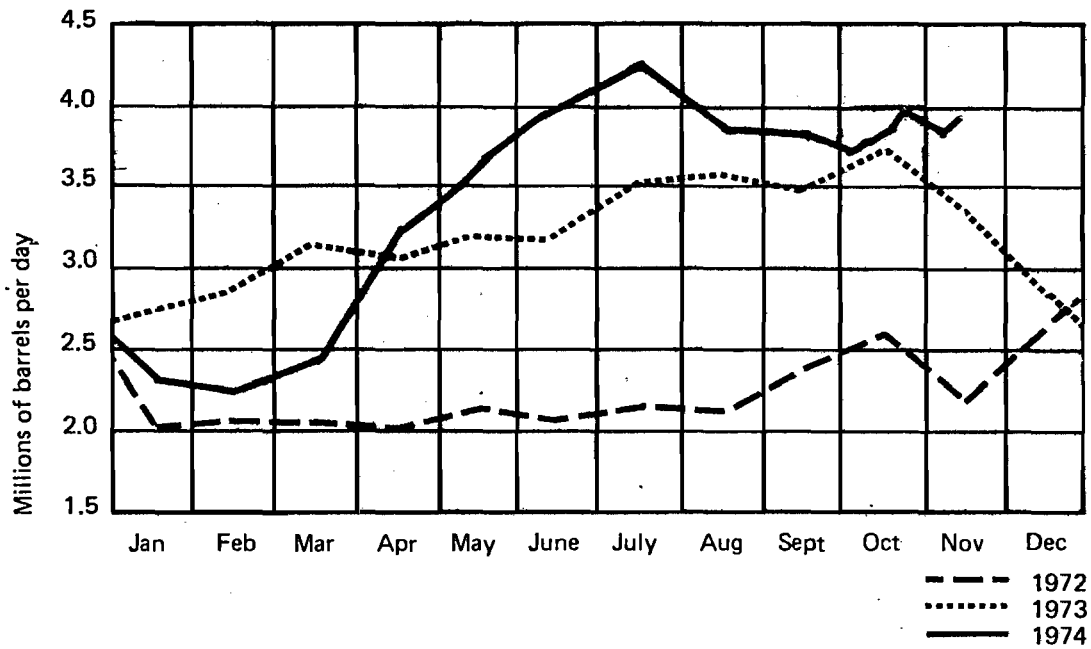


Average for the month through September, 1974



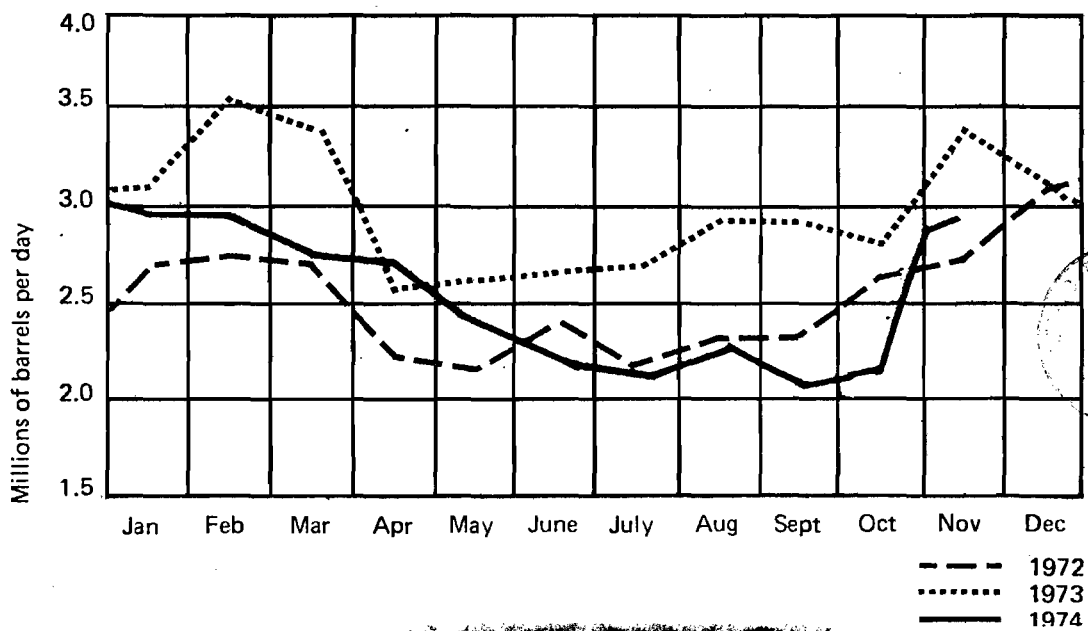
Crude Oil-Imports

Average for the month through September 1974



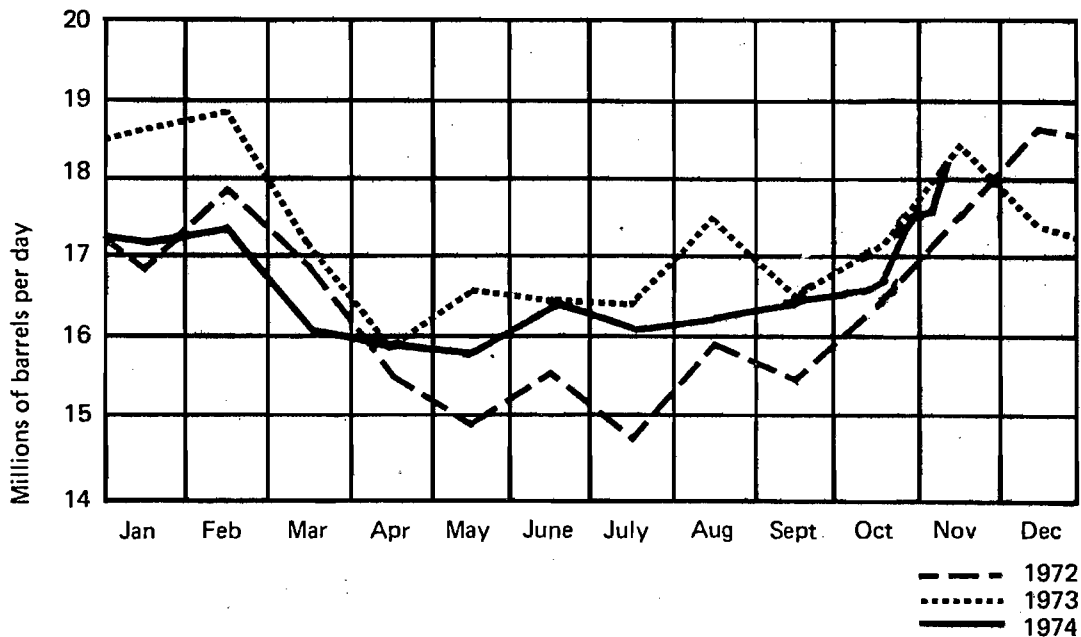
Imports of Refined Products

Average for the month through September, 1974



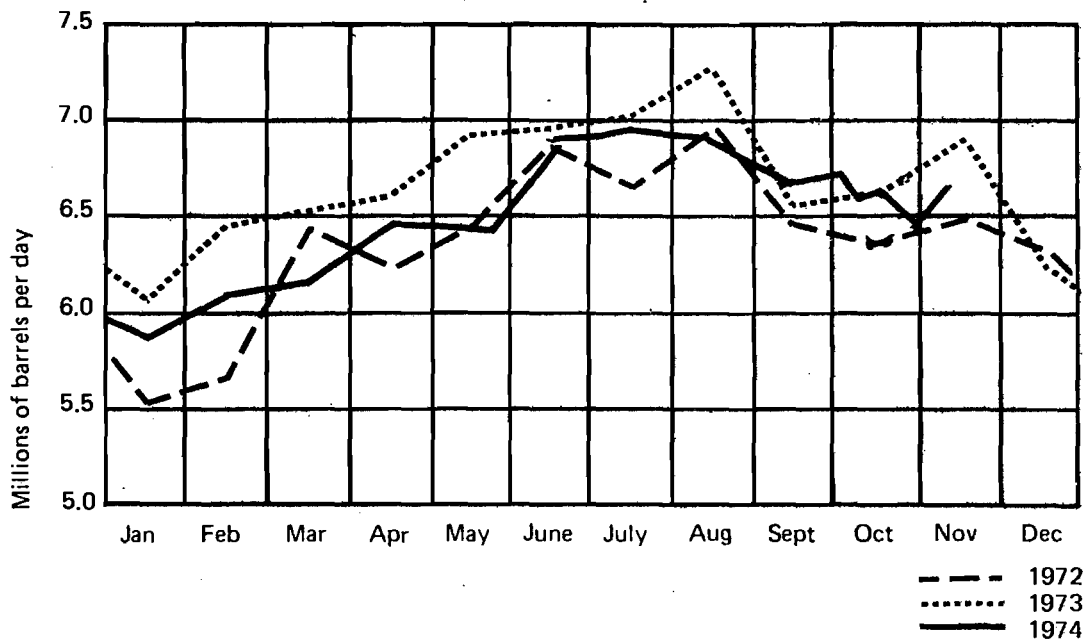
Domestic Demand for Products

Average for the month through September 1974



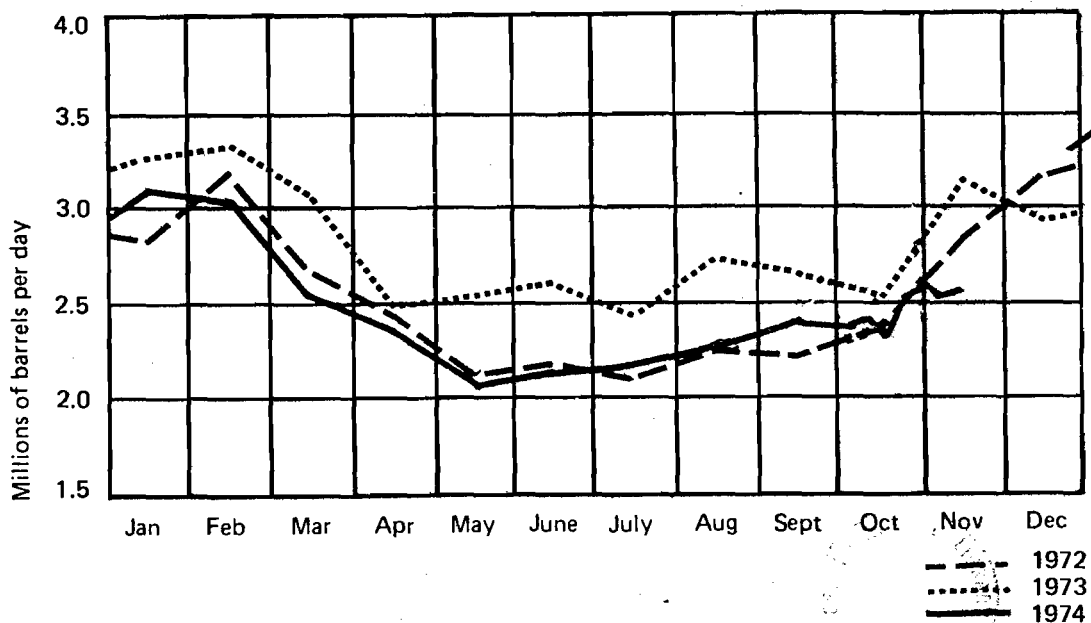
Motor Gasoline-Domestic Demand

Average for the month through September 1974



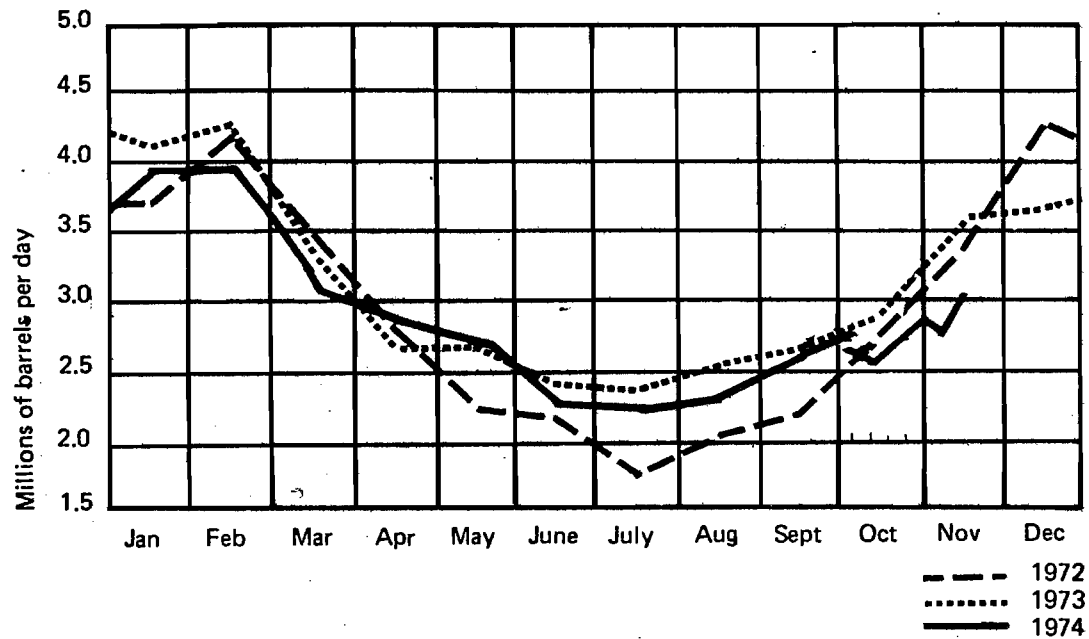
Residual Fuel Oil-Domestic Demand

Average for the month through September 1974



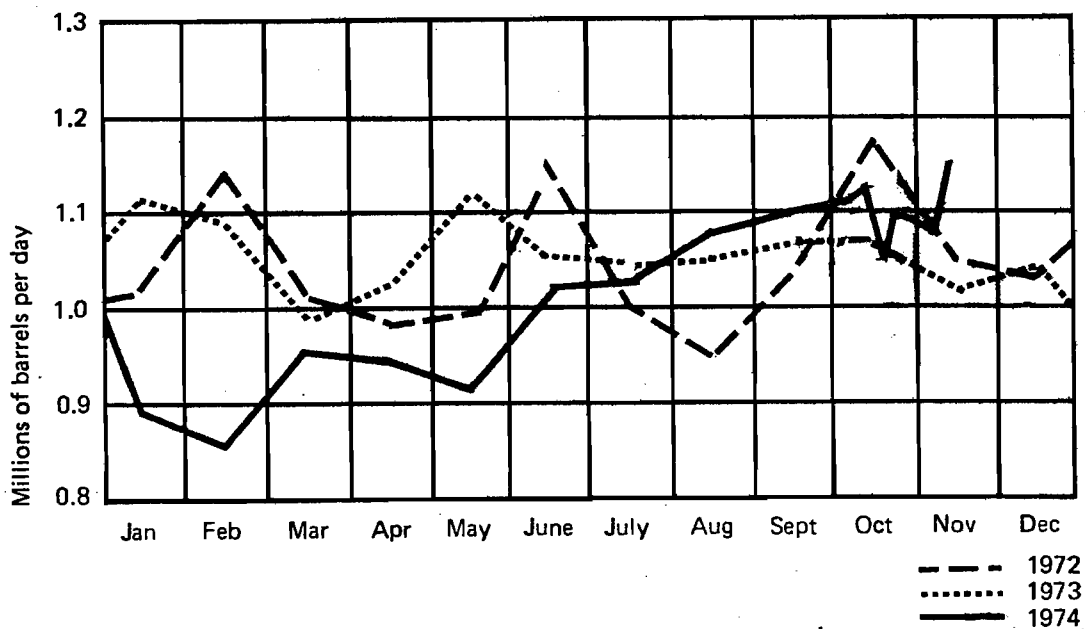
Distillate Fuel Oil Domestic Demand

Average for the month through September 1974



Jet Fuel-Domestic Demand

Average for the month through September 1974



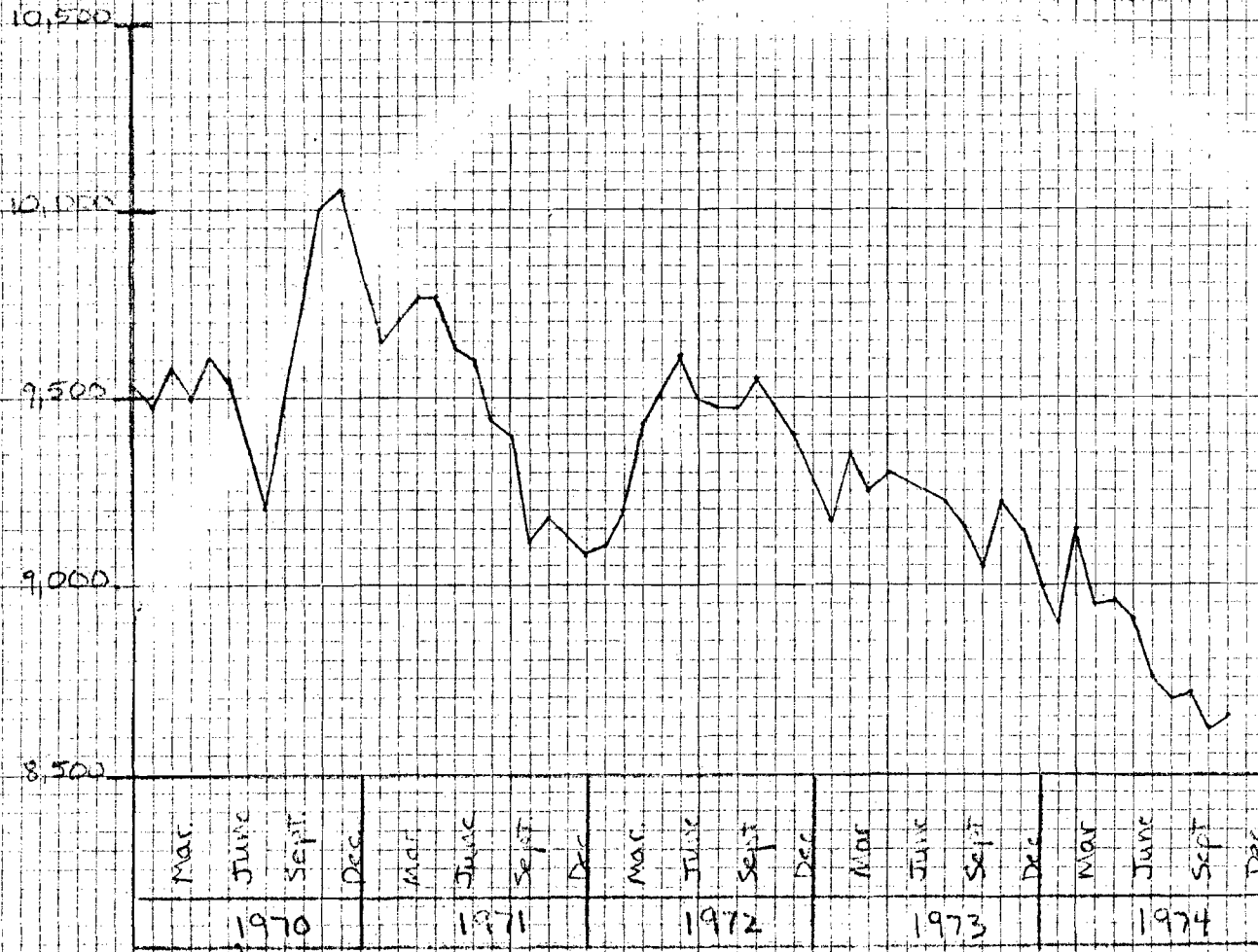
Imported and Domestic Crude Costs

Prior to 1973, the average landed cost of imported crude was lower than the average cost of domestic crude. During the year 1973, both domestic and imported crude costs increased, ~~but~~ imported crude costs increased more than domestic crude costs. The most dramatic increase in foreign prices was during October 1973 when foreign price postings were increased by 60 to 70 percent. However, the full impact of these increases was not felt until latter months due to the lead time for shipping. For the year 1973 imported crude costs averaged \$4.15 per barrel versus \$3.78 per barrel for domestic crude costs.

The initial impact of the October price increases was felt in January, 1974 during which time imported costs rose to \$9.59 cents per barrel. Effective January 1, 1974 OPEC implemented its most dramatic price increases by more than doubling prices over their October levels. As a result, imported costs rose to \$13.06 per barrel by June. Since then imported costs have declined to about \$12.52.

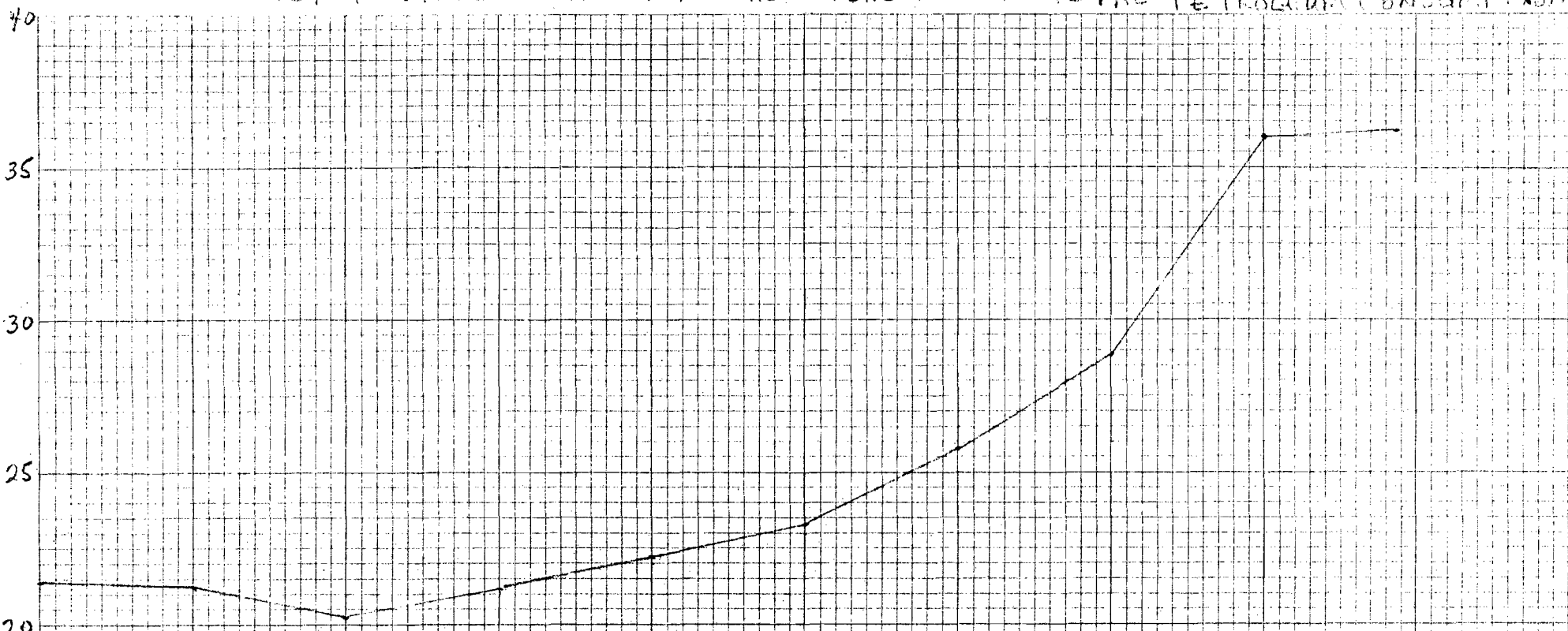
Domestic crude costs also rose after October, 1974, but, due to the fact a little more than 60 percent of domestic production is controlled at an average price of \$5.25 per barrel, domestic crude cost rose much less than imported crude costs. During January domestic crude costs were \$6.72 per barrel. They increased to \$7.26 per barrel in May and have remained in that range since.

Crude Oil Production
United States
(Thousands of barrels per day)



Crude oil production increased to an all time high in Nov 1970 of 10 million barrels, since that time, with the exception of a short period in 1972, when fields were allowed to produce at their maximum efficient rate of recovery, production has shown a steady downward trend.

TOTAL PETROLEUM IMPORTS AS A PERCENT OF TOTAL PETROLEUM CONSUMPTION



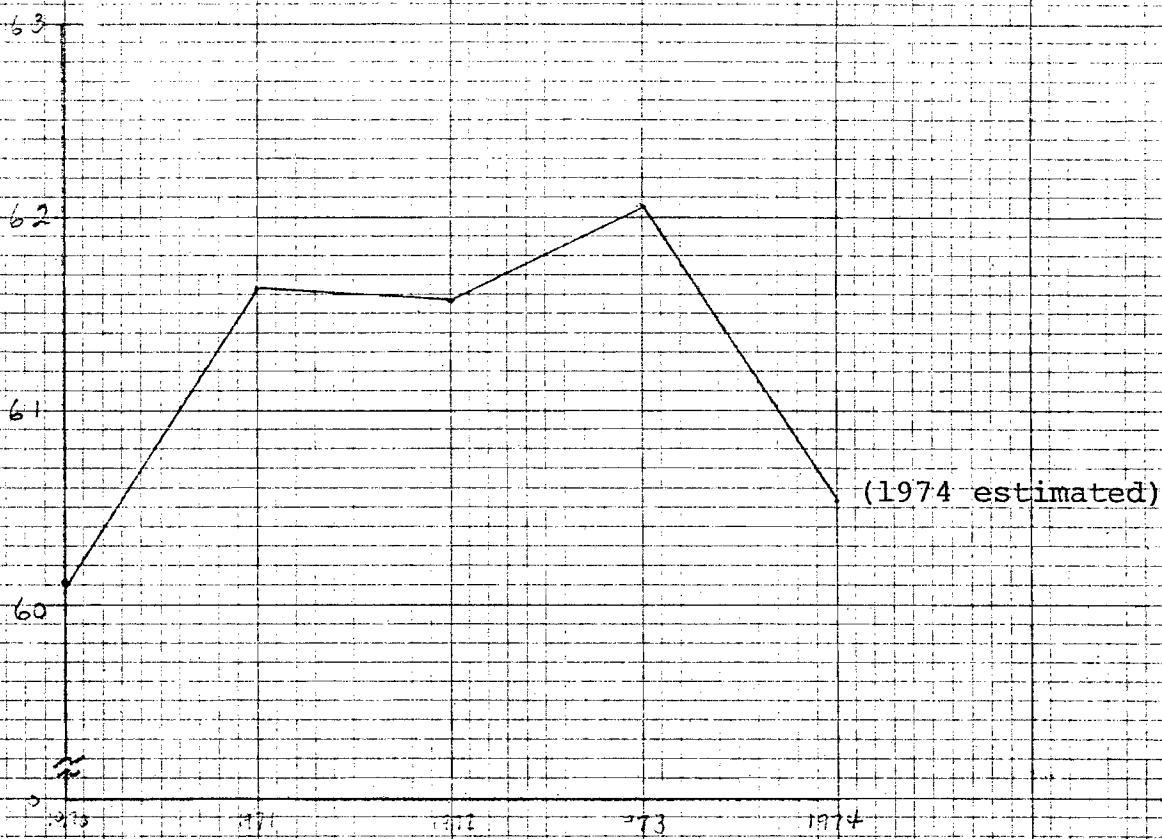
Crude oil imports for the period in question held at a steady 10 percent from 1966 to 1971. In 1972, imports of crude oil accounted for 13.5 percent of total petroleum consumption and in 1973 rose to 18.8 percent of the total and for the first ten months of 1974, crude oil accounted for 20.5 percent of total consumption.

Imports of refined petroleum products increased as a percentage of total consumption increased from 10 percent in 1966 to 17 percent in 1973, and dropped to 15.7 for 1974.

Imports of natural gas account for such small percentages of the total that the numbers were not plotted.

NATURAL GAS MARKETED PRODUCTION

(BILLIONS OF CUBIC FEET PER DAY)



SOURCE: BOM

*Marketed production of natural gas represents gross withdrawals less gas used for repressuring and quantities vented and flared.

Marketed production of natural gas rose to an all-time high of 62 billion cubic feet per day in 1973. In 1974 marketed production is expected to decline 2.5 percent from previous year.

Imports of natural gas amounted to 1.03 trillion cubic feet in 1973, a new high, but less than 5 percent of domestic production.

ENTITLEMENTS V.
ALLOCATION



Talking Points

- The crude and product equalization program is designed to reduce inequities caused by the existing price control system, specifically the two-tier pricing system for crude oil.
- Inequities occur for:
 - Refiners who have limited or no access to the low cost (\$5.25), controlled, crude oil.
 - Regions of the country which are dependent on high price imports for energy -- such as residual fuel oil.
- The program which has been selected awards entitlements on the basis of a firm's (refiner or marketer) position relative to a national ratio of old crude to crude runs and imports of residual fuel oil and heating oil.
 - Firms exceeding the ratio must buy entitlements.
 - Firms below the ratio may sell entitlements.
- Crude oil entitlements will sell for an estimated \$5.50-\$6.50 band on the price differential between old oil and uncontrolled oil.
- Old oil represents approximately 40% of total domestic runs. Each barrel of crude refined domestically will be worth approximately \$2.40 in entitlement value (e.g. 40% x \$6.00).
- Resid and distillate imports will receive entitlements equal to 30% of the value of each barrel of crude domestically refined or approximately \$.75.

- ° A bias for small refiners is established to ease the case flow problems of those who have large shares of old crude and would have to buy large numbers of entitlements.
- ° The program will provide positive results by:
 - Equalizing the crude costs and improving the competitive positions of refiners who are primarily dependent on high cost (imported or domestic new/released) crude.
 - Partially equalizing product costs to marketers, thus enabling them to regain or maintain margins and remain competitive.
 - Providing some product price reduction in regions having high energy costs.

Optional Point

Some benefit will accrue to east coast energy consumers in the form of decreased prices for energy products, particularly residual fuel oil and heating oil.

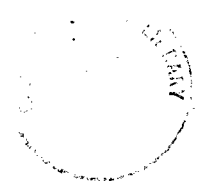


Q: What is the forecast for Curtailments of Natural Gas Service?

A. On November 15, 1974, a new report projected that gas supply deficiencies of major interstate natural gas pipelines will be 107 percent greater this coming winter than they were last year. Anticipated supply deficiencies to meet firm requirements for the coming winter, Nov. 1974 through March 1975, total 919 billion cubic feet as compared to a 444 billion cubic feet gas curtailment last winter.

The FEA is participating with the FPC in an Interagency Task Force to examine the impact of present and prospective curtailments of natural gas service. Other participants include: Departments of Agriculture, Commerce, Defense, HEW, HUD, Interior, Labor, State, Treasury, Council of Economic Advisers, Council on Environmental Quality, Environmental Protection Agency, and Office of Management and Budget.

For this winter, the FEA offices of Policy and Analysis, Resource Development, and Operations Regulations and Compliance in coordination with the FEA Regional offices, are using all available data to ascertain the location of proposed gas curtailments and the availability of alternate fuels to alleviate the impact resulting therefrom. The FEA is also cooperating with the FPC and the National Association of Regulatory Utility Commissioners (State Agencies) in an effort to provide for more adequate information for later periods.



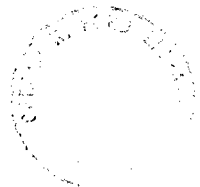
Q. What efforts are being made to insure the projected natural gas shortage won't result in inordinately high prices for substitute fuels such as propane?

A. FEA's Office of Compliance and Enforcement has initiated an in-depth investigation of propane prices, called Project Speculator. This project includes investigations of 86 firms and has identified more than 55 million dollars in challenged costs which should be refunded to the American consumer. We feel this continuing investigative presence will help insure price-gouging in this area not to occur again.

In addition, FEA will publish in the near future an amended regulation on the pricing of natural gas liquids, to include propane. These regulations will be tailored to provide just enough incentive, but no more, to assure the maximum possible propane production.

Q. What are the prospects for propane supplies and prices this winter?

A. Propane supplies are adequate to provide for the needs of traditional users and to provide some relief to those natural gas users facing increased curtailments. Because of the physical limits of the propane distribution system, we may expect spot shortages in some sections in case we have protracted and severe cold spells. The FEA is monitoring the propane supply situation closely and is prepared to redirect products among suppliers to cope with any shortages that may develop.



1990



NATURAL GAS DEREGULATION

For over 20 years price regulation has kept prices for natural gas artificially low resulting in greatly increased demand, inefficient use, and a declining incentive for exploration development and production of new domestic supplies. This regulation has been recognized as the cause of our current shortage of natural gas and a major cause of our national energy problem.

In President Nixon's April 18, 1973 Energy message, he asked Congress to provide for competitive pricing of newly developed gas supplies in order to encourage new drilling and to direct new gas into premium uses.

Pursuant to this request the Administration sent to Congress a deregulation bill (S. 2048). This bill would exempt from regulation the sale of gas (1) newly dedicated to interstate commerce (2) rededicated to interstate commerce after expiration of existing contracts (3) and produced from new wells. The bill would also eliminate FPC authority over natural gas imports and exports. It would also give FPC jurisdiction over rates for direct industrial sales of interstate pipeline (purpose is to control sales and set rates to encourage reallocation of natural gas from industrial and utility use to premium uses such as residential consumption). It would also give the Secretary of Interior authority for three years after the passage of the bill to impose price ceilings on new gas supply if it should become necessary.

Attempts to move this legislation through the Senate Commerce Committee have been unsuccessful. Senators Stevenson and Pearson attempted to introduce a compromise bill. This bill was opposed by the Administration on the basis that it would not result in deregulation since both the definition of exempt gas and the pricing standards were more restrictive than the present situation and would deter investment in domestic drilling. It is also felt the legislation would lead to confusion as to the respective roles of the FEA and FPC.

Status

The Stevenson-Pearson bill, as well as the Administration proposal, appear dead for this Session. Administration efforts are currently aimed at supporting Senator Buckley's efforts to add his deregulation amendment to a House passed bill. The Buckley amendment has been filed as an amendment to the Trade Reform Bill (H.R. 10710) now in the Senate Finance Committee but Senator Long may not support this in which event another approach will have to be taken. The Buckley Amendment would amend the Natural Gas Act to end Federal controls on "new" gas well head prices and to allow pipelines to recoup the costs incurred in purchasing new gas for

the interstate market. Further, the amendment would authorize the FPC to disallow costs between affiliates in excess of current arms length prices.

NATURAL GAS MARKETED* PRODUCTION

(BILLIONS OF CUBIC FEET PER DAY)



SOURCE:-- BOM

*Marketed production of natural gas represents gross withdrawals less gas used for repressuring and quantities vented and flared.

Marketed production of natural gas rose to an all-time high of 62 billion cubic feet per day in 1973. In 1974 marketed production is expected to decline 2.5 percent from previous year.

Imports of natural gas amounted to 1.03 trillion cubic feet in 1973, a new high, but less than 5 percent of domestic production.



ENERGY TAXES

BACKGROUND

- In his January 23, 1974 Energy Message President Nixon stated that he would propose legislation which would prevent major domestic energy producers from making unconscionable profits as a result of the energy crisis.
- In April 1973 the President proposed that the investment credit provisions of present tax laws be extended to provide a credit for all exploratory drilling for new oil and gas fields to provide an incentive for such drilling.
- In his January 23 speech the President asked Congress to eliminate foreign depletion allowance, while retaining the depletion allowance for domestic oil production, so as to encourage greater development of U.S. energy resources.

Present Law

Foreign and domestic oil and gas production is entitled to percentage depletion at the rate of 22 percent of the value of the mineral at the point of its production (limited to 50 percent of the net income from the mineral property) if it exceeds cost depletion. Percentage depletion is not limited to the cost or investment in the mineral property but continues for so long as such property continues to produce. However, no adjustment to basis below zero is required.

Geological and geophysical costs of exploring for oil and gas are considered to be capital in nature. Accordingly, they are deductible only as a loss when the property to which they relate is abandoned or through the depletion allowance (cost or percentage) if the property produces income.

Ways and Means Bill (H.R. 17488, Reported, November 1974)

1. Percentage depletion on foreign oil and gas is eliminated as of January 1, 1974.
2. Percentage depletion on domestic oil and gas is reduced to 15 percent beginning January 1, 1974, and is eliminated beginning January 1, 1975, except that it continues at the election of the taxpayer at the 15 percent rate until January 1, 1979, for either:
 - a. The first 3,000 bbl./day of oil production, or
 - b. Oil wells producing fewer than 10 bbl./day, or
 - c. Oil wells located north of the Arctic Circle.

Furthermore, percentage depletion on gas wells continues at 15 percent for so much of their production as is regulated below free market prices (computed on a BTU equivalent basis with uncontrolled oil prices) or subject to a long-term contract in effect in April, 1974, below free market prices. The limitation of percentage depletion to 50 percent of net income is increased to 100 percent of net income.

3. Beginning the month after enactment, an excise tax is imposed on domestic crude oil sales at graduated rates varying from 10 percent to 85 percent of the price received in excess of the adjusted base price. The adjusted base price is an amount which begins at the December 1, 1973, Cost of Living Council ceiling price per barrel for that oil, plus \$.50, and increases each month over the 60-month period of the tax. For example, the adjusted base price in the first month of the tax for an average barrel of oil would be \$4.50 which would have increased to \$7 by the 37th month of the tax. The amount subject to tax with respect to any barrel is reduced by the amount of any increase in state severance tax on such barrel over the December, 1973, level. Furthermore, the amount subject to tax cannot exceed 75 percent of the net income from the property attributable to such barrel. The tax is imposed on a calendar year basis and will be recomputed to allow offsets directly against tax liability for investments made during the entire 60-month period of the tax in the following energy related areas ("plowback"):

- a. intangible drilling and development costs and geological and geophysical costs;
- b. depreciable assets used in exploration and development of oil or gas (including oil shale);
- c. the conversion of oil shale, coal or liquid hydrocarbons into oil or gas;
- d. the refining of oil or gas;
- e. oil or gas pipelines and related facilities;
- f. secondary or tertiary recovery of oil or gas; and
- g. to a limited extent, the acquisition of oil and gas leases (other than offshore leases).

(Two dollars of plowback credit will be allowed for one dollar of qualified investment when the expenditures are not deductible under the regular corporate income tax in the year incurred, except for lease acquisition costs.)

For 1975, however, only 50 percent of the tax attributable to oil production of a taxpayer in excess of 3,000 bbl./day may be offset by qualifying investment. The windfall profits tax unreduced by any credit must be deducted from oil production income before percentage depletion is calculated. The net amount of windfall profits paid is deductible in computing income taxes.

Further Information

1. The increase over the past 12-18 months in the price of domestic oil reflects in part the increased costs experienced in the oil business but primarily results from the increased prices charged for the 35-40 percent of domestic oil consumption which is represented by imports. The increased prices of imported oil have driven up the prices of an additional 25 percent of domestic oil consumption which is not subject to price controls. Another 35 percent or so of domestic oil consumption is represented by oil subject to price controls.

2. Imported and uncontrolled oil sell at about \$10/bbl. and controlled oil sells at about \$5.25/bbl. The weighted average price for domestically produced oil is about \$7.15/bbl. and for all oil is about \$8.30/bbl.

3. The concerted actions of foreign governments to raise and maintain world oil prices have created a temporary windfall to domestic oil producers whose profits could be maintained at historical and average levels at oil prices considerably lower, perhaps around \$5/bbl. currently. It is important to permit these higher prices to be charged to allocate the supplies through the markets without inefficient government programs. However, this creates political pressures to prevent or retrieve the large increases in oil producers' profits which have resulted.

4. To attain 85-90 percent self-sufficiency in oil would require a price of about \$7/bbl. at 1976 price levels with 22 percent depletion and \$8.40/bbl. without percentage depletion.

Status

The chances of Energy tax legislation appears slim this session. However it is possible legislation could pass if some of the more controversial provisions are removed such as the elimination of Domestic Depletion allowance. FEA has supported elimination of Foreign depletion but has questioned the wisdom of eliminating the domestic depletion allowance at a time when we are attempting to increase domestic production.



NAVAL PETROLEUM RESERVES

Background

- o The nation has vast oil and oil shale reserves which years ago were set aside for national defense purposes by placing them under the control of the Secretary of the Navy. That action was taken at a time when Naval petroleum reserves were an especially important share of total national petroleum consumption.
- o Under the law, production of these reserves is authorized only when the Secretary of the Navy finds that such production is necessary for the national defense, the President approves such finding, and the Congress consents by joint resolution.
- o The Secretary of the Navy issues and the President has approved a finding that production of oil from Naval Petroleum Reserve No. 1 is necessary for national defense purposes.
- o The Administration now seeks the necessary Congressional approval.

Problems To Be Solved

- o Approximately one-half of DOD petroleum needs are obtained from overseas sources, of which 80 percent come either directly or indirectly from Arab sources.
- o Since DOD needs must now be obtained from domestic sources, added defense needs increase the gap between supply and demand in the civil sector.

What This Bill Would Do

- o Authorizes the production of not more than 160,000 bbl. of oil per day from Elk Hills Naval Petroleum Reserve No. 1 for one year.
- o Provides that funds from the sale or exchange of the oil could be used for further exploration and development of Elk Hills and for exploration of Naval Petroleum Reserve No. 4 in Alaska.
- o Provides for the appropriation of \$72 million to achieve the purposes of this Resolution.

Status

- o Passed Senate - S.J. Res. 176.
- o Pending in House Armed Services Committee. Subcommittee has issued negative report.



Opposition to S. 3267 (H.R. 13834)

Standby Energy Emergency Authorities Act

Background

S. 3267 is an outgrowth of the veto of S. 2589, the Energy Emergency Act, by President Nixon in March, 1974. Changes in the bill included the deletion of rollback provisions. Portions of the original bill were separated and have become law in the Energy Supply and Environmental Coordination Act. (ESECA included sections on coal conversion, Clean Air Act amendments, and energy information reports).

The Administration submitted a substitute bill, S. 3151 (the Special Energy Act), which would have authorized the imposition of rationing and conservation plans, but it has since asked that the bill be withdrawn in view of the changed circumstances.

Summary of Reasons for Opposition

The Standby Energy Emergency Authorities bill is not a meaningful and constructive response to the Nation's energy problem. The bill contains a number of unacceptable provisions which either:

- . Are counter-productive
- . Approach the problem incorrectly (e.g. unemployment compensation);
- . Are administratively deficient (vesting of authorities);
- . Or are duplicative of existing authorities (e.g. car pools).

Furthermore the bill does not contain authorities in a reasonable form that are needed on a standby or other basis (e.g., conservation, rationing).

The Nation must proceed with a solution to our energy problem by promoting energy conservation and increasing domestic energy production. The Congress can act in support of this effort by enacting the various energy bills proposed by the Administration which are now pending, including natural gas deregulation, mined area protection, deepwater ports, Clean Air Act amendments and others.

Specific Points of Objection

Listed and described below are a number of the sections that are objectionable and the reason why:

1. Vesting of Authorities. Most authorities in the bill are vested in the FEA Administrator, not the President.

ADMINISTRATION: The direction of a multi-agency response under "Emergency" legislative authorities inherently must be Presidentially orchestrated with FEA as the coordinating agent.

2. Ineffective rationing authority (Section 103). The legislation provides authority to prepare and end-use rationing plan if that should become necessary but the plan would not go into effect if either House or the Congress vetoed the plan at some time during a period of 15 calendar days of continuous session. ADMINISTRATION: This approach builds in delays and does not provide clear authority for the President to act in a time of emergency.

3. Energy Conservation Plans (Section 104). This section provides the authority to institute energy conservation measures with a mandatory Congressional review (including veto authority) over each plan and a six-month termination date for each plan implemented. ADMINISTRATION: The six-month termination date is unnecessarily short, and the requirement for Congressional review of each plan prior to implementation would unnecessarily delay implementation.

4. Materials Allocation (Section 106). FEA administrator given authority to allocate materials essential to the energy effort. ADMINISTRATION: This is duplicative of existing authority.

5. Federal Actions to Increase Available Domestic Petroleum Supplies (Section 107). This section authorized the production of oil fields for defense purposes beyond the rate of production that would insure maximum recovery of oil in accordance with sound engineering and economic principles. ADMINISTRATION: Existing petroleum reserves held for defense purposes should be used in lieu of, and certainly prior to, production of other oil in a wasteful manner.

6. Franchised Dealers (Section 109). No refiner or distributor may terminate the franchise of a retailer or distributor except for breach of contract or if he withdraws entirely from the U.S. market. ADMINISTRATION: This has the effect of "locking in" existing franchise retailers and distributors regardless of need or the ability of the refiner to produce and make distributions.

7. Unemployment Assistance (Section 111). This provides for special additional benefits for those unemployed as a result of "energy shortages." ADMINISTRATION: The energy causality basis is vague, unworkable, and would inherently create inequities and discrimination in administration of such benefits.

8. Use of carpools (Section 115). The bill provides for involvement by DOT in a national carpool effort through grants and other assistance administered through an Office of Carpool Promotion in DOT. ADMINISTRATION: This provision is unnecessary because of the Emergency Highway Conservation Act which provides sufficient authority and funding to carry out the objectives of this provision.

Status

S. 3267 has been "pending business" in the Senate for several months. A similar "companion bill" in the House, H.R. 13834, failed under suspension of rule 5-21-74.



STRATEGIC RESERVES
(S. 4151)

BACKGROUND

The Project Independence Blueprint found that emergency petroleum storage would be cost-effective in reducing the impact of an embargo. However, it also found that the implementation of such a program would have several significant drawbacks:

- It will take a few years to implement and our vulnerability will be greatest during that period.
- It requires more imports now, which will act to sustain cartel prices in the near term.
- We could suffer major capital losses - \$4 billion for each one billion barrels stored if the world oil price drops from \$11 to \$7.

A soon-to-be signed international agreement requires the maintenance of a 90 day petroleum reserve (I.E.P.).

S. 4151

S. 4151 would create a Strategic Energy Reserve Office within FEA to administer three types of strategic fuel reserves capable of replacing at least 90 days of imports:

- industry storage reserves
- utility storage reserves
- national strategic reserves

A national coal stockpile would also be created consisting of Federal coal and Federal coal lands.

ADMINISTRATION POSITION

In his letter to Senator Jackson, President Ford stated that the ramifications of building strategic reserves involved long-range considerations too complex to be resolved immediately. Although S. 4151 itself appears to have internal difficulties with respect to time and cost, the basic Administration position on strategic reserves has yet to be set.

STATUS

Pending in Senate Interior Committee.



ENERGY RESEARCH AND DEVELOPMENT ACT
(Non-Nuclear R&D Bill)

Presently in conference, S. 1283, the Energy Research and Development Act, describes the methods and policies to be followed by ERDA. Concentrating on non-nuclear energy the bill requires the Administrator of ERDA to:

- Review the full range of Federal activities and financial support for R&D
- Formulate comprehensive energy R&D strategy.
- Utilize funds appropriate to advance R&D strategies
- Report to Congress pursuant to the research priorities set forth by Congress.

In order to conduct and assist a national R&D program, ERDA is authorized to enter into various forms of financial assistance, including -

- Joint Federal-industry corporation,
- Contractual arrangement with non-Federal participation,
- Construction and operation of federally owned facilities,
- Federal purchase or guaranteed prices for the purchase of products resulting from demonstration plants or activities, and
- Federal loans to non-Federal entities.

The main stumbling block to the successful enactment of S. 1283 is the patent and mandatory licensing provision. After an intensive effort Senate staffers and Administration spokesmen worked out a compromise - endorsed by OMB - which would give title to inventions resulting from non-nuclear energy R&D financed by the government to the U.S. However, the ERDA Administrator would be authorized to waive title if he determines that the interests of the government and general public will best be served by such a waiver. The compromise sets out specific criteria based on four objectives which the Administrator must consider. Waivers may be terminated after three years in the event that another person petitioned to have the license revoked on the basis of non-use or anti-competitive effect.

The bill would authorize not more than \$10 million.



LICENSING AND CONSTRUCTION OF NUCLEAR FACILITIES

BACKGROUND

- In his January 23, 1974 Energy Message President Nixon noted that nuclear power is an essential part of achieving our program energy self-sufficiency, and as such, the Administration would take steps to get vitally needed nuclear power on-line more rapidly.
- Existing law provides for a two-step facility licensing process. Permits must be obtained both to begin construction and operation, and a formal "on the record" public hearing must be held at each stage. The Advisory Committee on Reactor Safeguards, an advisory group of independent experts, reviews each application for a construction permit and operation license.

THE PROBLEM TO BE SOLVED

- It presently takes 9-10 years to complete the planning, licensing and construction of nuclear power plants.
- Public hearings have become forums for the resolution of disputed licensing issues rather than means for public education as they were originally conceived. Under these circumstances, the holding of a public hearing when none is desired by an interested member of the public appears to serve no useful purpose and wastes technical resources.
- Since nuclear reactors are becoming more standardized, the Advisory Committee on Reactor Safeguards should be relieved of its mandatory review function to allow it to concentrate its efforts on standard design and on more novel and difficult questions of nuclear facility safety.
- The AEC is not currently authorized to examine sites for approval outside of the construction permit context.
- The AEC may not expedite the construction and operation licensing cycle to allow for a one-step process even where a standardized plant is planned.

WHAT THE BILL WOULD DO

- Establishes a three-track system for the licensing of nuclear power plants, and an applicant may choose any one of the paths to follow -

- First track is much like the present system in that it provides for a separate construction permit and operating license.
 - Second approach allows for the issuance of a construction permit and operating license at the same time if the application contains the relevant environmental information and a final plant design.
 - Third track would allow the applicant to come to the AEC with a predesignated (and approved) site, combined with an approved preliminary of a final standardized design.
- o Common to all three tracks are the following elements:
- Although there is opportunity for a formal, adjudicatory hearing at the key stages of the licensing process when requested by an intervenor, there no longer is a mandatory public hearing at construction permit stage of the process.
 - Review of application by the Advisory Committee on Reactor Safeguards no longer is required.
 - When a hearing is requested at the operating license stage, the AEC may issue an interim operating license in advance of such a hearing if it determines that the public interest (for example, need for power in the affected area) demands it.

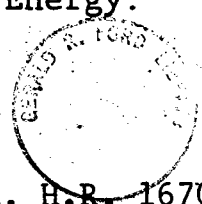
STATUS

- o Pending before the Joint Committee on Atomic Energy.

S. 3179

H.R. 13484

A bill currently active in the Joint Committee, H.R. 16700 (Introduced by Cong. Price), would retain almost all of the essential features of the AEC bill. The provisions of the Price bill are supported by the Administration with the single exception of that the bill fails to provide for a hearing on violation, of licensing requirements.





ENERGY SUPPLY ACT

(OCS LEASING)

BACKGROUND

Prospects for large, new discoveries of onshore oil and gas deposits in the lower 48 states are small. For this reason, leasing of the Federal OCS must be greatly accelerated with a target of ten million acres annually in 1975. This is an amount 5-times larger than the 2 million acres expected to be leased during 1974; and 1974 in turn is twice the acreage leased during 1973. To sustain this schedule it will be necessary to lease frontier areas off Alaska, California and the Atlantic coast. The accelerated leasing program will comply with all provisions of the National Environmental Policy Act, and every step will be taken to insure that development will be carried out under environmentally sound conditions. The President and the Secretary of Interior have met with coastal state officials to establish the program needed to rapidly develop Outer Continental Shelf resources.

Concerned that the Outer Continental Shelf Lands Act of 1953 - which has never been amended - does not provide adequate authority and guidelines for the kind of development activity that probably will take place in the next few years, Senator Jackson introduced S. 3221, the Energy Supply Act. In introducing the bill, he gave a more detailed expression of his purposes:

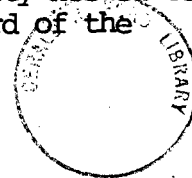
There are two basic thrusts to my bill. First, it reasserts Congress' special constitutional responsibility to "make all needful rules and regulations respecting the territory or other property belonging to the United States." (U.S. Const. art. IV sec. 3 cl. 2). The 1953 act is essentially a carte blanche delegation of authority to the Secretary of the Interior. The increased importance of OCS resources, the increased consideration of environmental impacts and emphasis on comprehensive planning, require Congress to put some "flesh on the bones" in the form of standards and criteria for the Secretary to follow in the exercise of his authority.

Second, the bill gives the Secretary new authority needed to manage the programs anticipated in the last third of the 20th century.

ADMINISTRATION OBJECTIONS

Specific major objections include:

1. Requirements for exhaustive evaluations - geological, environmental, and other - which are required before leasing, would delay early development
2. Public access to geophysical information might discourage private companies from developing their own unique geophysical information for the purpose of bidding on lease sales



3. The increase in royalties to 30% could result in the early abandonment of production or the failure to develop marginal leases.

STATUS

Passed Senate
Pending in House Interior Committee





DEEPWATER PORTS

The two versions of the deepwater ports bill must now be reconciled by a House-Senate joint conference. Since the House bill in toto was supported by the Administration, one may assume that the Administration will favor the House passed measure where it differs from its Senate counterpart. Although conferees have not yet been named, the conference is expected to occur shortly after the Congress returns from recess.

Significant differences between the two bills are as follows:

1. Federal Agency Coordination. S. 4076 would authorize DOT to issue licenses for the construction and operation of deepwater ports. H.R. 10701 would divide these responsibilities, authorizing DOI to issue construction permits and DOT to issue operating licenses. In their September 17 joint letter to Senator Jackson, Secretaries Morton and Brinegar stated that the latter allocation of responsibility approach was preferable.

2. Best available protection. S. 4076, as does H.R. 10701, would have deepwater port operators attempt to minimize adverse environmental impacts. S. 4076 would mandate that operators use the best available technology in achieving this requirement. The Administration has opposed this concept with respect to the OCS bill as being prohibitively expensive.

3. Dredging of Harbors. S. 4076 would direct DOI, after an application for a deepwater port is filed, to compare the economic, social and environmental effects of the construction, expansion, deepening and operation of a harbor if a State has existing plans for a deep draft channel and harbor. Secretary Morton has strongly recommended the deletion of this section as superfluous since NEPA requires that alternatives to a deepwater port be evaluated before a license is issued.



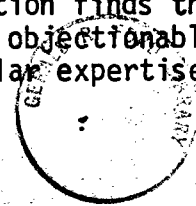
4. Licensing priorities. S. 4076 would require DOT, in considering relatively equal competing license applications within a geographic area, to give preference (1) to an application from a state or local government unit; (2) in the absence of such an application, to an applicant who was independent of the petroleum or natural gas producing, refining or marketing industry, or (3) to any other person who otherwise qualified under the Act. H.R. 10701 has no comparable provision. The Administration has expressed no preference between these two positions, but would probably favor the House provision.

5. State role. S. 4076 would give a State the opportunity to prevent the construction of a deepwater port if any one of the following conditions applied: first, if the facilities would be connected to the State, second, if the State is located within 15 miles of the proposed deepwater port, or third, if there is a:

"substantial risk of serious damage, because of such factors as prevailing winds and currents as determined, in his discretion, by the Administrator of the National Oceanic and Atmospheric Administration pursuant to section 9(a)(2) of this Act, to its coastal environment as a result of oil spill incidents that originate from a proposed deepwater port or from a vessel located within a safety zone around such proposed deepwater port".

H.R. 10701 would give both the adjacent coastal state and any other state which would be indirectly affected a consultative role. While there is no explicit state veto, H.R. 10701 would require the proposed port to be consistent with existing state programs controlling land or water uses.

While preferring the House provision, the Administration finds the third condition of the Senate provision particularly objectionable as involving NOAA in an area where it has no particular expertise.



Cargo Preference



H.R. 8193 CARGO PREFERENCE

Status

The Cargo Preference legislation was agreed on by the Conferees and has been accepted by the House and is pending a vote in the Senate. H.R. 8193 would amend Section 901 of the Merchant Marine Act of 1937 to add a new sub-section d.

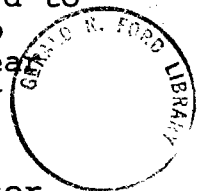
Provisions

This sub-section would provide that (1) the Secretary of Commerce shall take such steps as necessary to assure a quantity equal to 20% of the gross tonnage of all oil imports be transported in bulk on U.S. vessels. This is to increase to 25% by June 30, 1975 + 30% by June 30, 1977; (2) it provides for remission of certain import fees for oil carried on U.S. vessels - 15¢ for crude and 42¢ for residual fuel; (3) establishes a pilot project in the West Coast for double bottoms; (4) provides anti-pollution construction standards for new vessels; (5) gives the President authority to waive requirements of the legislation upon determination that an emergency exists.

Administration Position

This legislation would be inflationary and drive up the cost to the consumer. It would also be in violation of agreements with other nations and is against our traditional position favoring free trade. It could also lead to retaliation from other nations. FEA in a letter to the Commerce Committee members (copy attached) has pointed out that the rebate of import fees will have little if any effect in the near term in regard to reducing the cost to the Northeast consumer. This is so because the import program is to phase in over a five-year period and there are currently practically no fees being collected on residual fuel.

The Undersecretary of Commerce in cooperation with Senator Curtis is coordinating a program to defeat the legislation. The original vote in the Senate was 42-28, however it is felt that with everyone present the opponents of the legislation would have had at least 15 additional votes. There is also indication that some of the Northeast Senators who voted for the bill, such as Pell and Hathaway, might change their votes when they understand the inflationary aspects of the legislation. OMB has recently forwarded a letter to the Senate regarding the inflationary aspects of this legislation.



Franchised Dealers



FRANCHISED DEALERS LEGISLATION

(S. 1697, H.R. 13670)

A refiner or distributor shall not cancel, fail to renew, or otherwise terminate a franchise unless he furnishes 90 days notification.

- . there is a lack of substantial compliance,
- . a failure to act in good faith, or
- . a withdrawal from the U. S. market

Remedies

- . Federal court jurisdiction
- . equitable relief as well as actual punitive damages
- . In the case of actions for a failure to renew damages limited to actual damages

ADMINISTRATION OBJECTIONS

The macroeconomic concept embodied in the Emergency Petroleum Allocation Act and the regulations promulgated by FEA pursuant to it is already sufficient.

This bill has the effect of "locking in" existing franchise retailers and distributors of gasoline regardless of need or the ability of the refiner to produce and make distributions. This could adversely affect the consumer in both the short and long term because of gross inefficiencies that could develop in the retail market structure. Such inefficiencies would be passed along to the consumer in the form of higher retail prices. Prospective applicants or franchises might not be accepted by the refiners/distributors, thereby eliminating new competition and there may be no incentive in the long term to improve or even maintain the level of services or lower prices by existing franchises.

The judicial review provision may require the courts to make determinations on the reasonableness of terms of the franchise agreement itself which could mean a redefinition of the terms of the franchise by the courts in settling claims of franchises. This clearly could undermine one of the fundamental tools of our economic system; that of negotiating and performing under the terms of a contract or agreement with judicial intervention only where default by either party occurs. In addition, it throws another unwarranted problem onto our already overburdened court system.

Status - S. 1694 - passed Senate. S. 1694 (H.R. 13670) pending in House
Commerce Committee. Committee allegedly will not act on this.





FACT SHEET

CLEAN AIR AMENDMENTS OF 1974

BACKGROUND

- In his January 23, 1974 Energy Message President Nixon stated that some changes in the Clean Air Act are needed to promote greater flexibility in statutory deadlines and other requirements without having a significantly adverse effect on our progress in improving air quality.

THE PROBLEMS TO BE SOLVED

- Transportation controls needed in some areas to meet the deadline standard would be infeasible or have an unacceptable economic or social impact - e.g., a 100% deduction in vehicle miles traveled in the Los Angeles area would be required.
- Many stationary sources of air pollution cannot meet current requirements and deadlines because fuel or emission control equipment is not available.
- State implementation plans are in many cases more stringent than necessary to meet national-health air quality standards and, if enforced, state plans would in 1975 prevent the use of an estimated 100 million tons of coal — roughly one-third of the total national coal production.
- Alternative or intermittent control measures are not authorized, thereby wasting much fuel and not encouraging the use of coal.
- Court interpretations of the Act which require EPA to take action to prevent "significant deterioration" of air quality in those areas that are cleaner than required to meet the national average have limited the range of choice in economic development and land use decisions at the state and local level.

WHAT THE BILL WOULD DO (Administration Bill)

- Transportation control standards: Would allow EPA, upon the request of a Governor to extend the deadline for meeting air quality standards (now 1975-77) for up to 10 years in those metropolitan areas where transportation controls are needed to meet air quality standards.
- Extension of compliance dates: Permits EPA and the states to issue enforcement orders for individual sources which extend the deadline for meeting air quality requirements for stationary sources of air pollution, but only when the source is on a fixed schedule for achieving full compliance.

- Review of State Air Quality Implementation Plans: Requires EPA to determine what changes are needed in state air quality implementation plans to eliminate the deficit in clean (low sulfur) fuels that otherwise would result.
- Alternative and Intermittent Control Measures: Authorizes the use of alternatives or intermittent control measures (such as adjusting plant operations or switching from low sulfur to high sulfur fuels when meteorological conditions are favorable) as long as ambient air quality standards are met. (EPA opposes)
- Significant deterioration: Provides legislative relief from court interpretations of the Act which require EPA to take action to prevent significant deterioration of the air quality in those areas that are cleaner than required to meet national standards.

STATUS

- The Congress passed a few provisions ameliorating some of the impact of the Clean Air Act in H.R. 14368, the "Energy Supply and Environmental Coordination Act" which includes coal conversion, relaxation of auto emission standards and energy information gathering provisions. It also contains several study provisions. This bill was signed by the President on June 22, 1974. PL 93-319. (Summary attached)
- Administration bills
 - S. 3287 - Pending Senate Public Works Committee
 - H.R. 13894 - Pending House Interstate and Foreign Commerce Committee



FACT SHEET

MINERAL LEASING ACT

BACKGROUND

- In his January 23, 1974 Energy Message President Nixon called for the enactment of a bill which would place all mineral exploration and mining activities on Federal lands under a single Federal leasing system.
- Presently, the Mineral Leasing Act of 1920 governs the exploration and production of oil, gas, coal, and other minerals on Federal lands, while the Mining Act of 1879 governs the exploration and mining for "hard rock", (gold, silver, copper, etc.) minerals.

THE PROBLEMS TO BE SOLVED

- Present law requires the maintenance of a dual mineral leasing system.
- Both acts have become obsolete.

WHAT THE BILL WOULD DO

- Place all mineral exploration and mining activities on Federal lands under a single Federal leasing system.
- Require the same stringent performance standards over mining as required by the Administration's proposed Mined Area Protection Act.
- Provides for pipeline right-of-way.

STATUS

- Pending before House and Senate Interior Committees.

Senate S. 1040
House H.R. 5442