The original documents are located in Box 16, folder "Federal Energy Administration - Energy Resources Finance Corporation" of the Philip Buchen Files at the Gerald R. Ford Presidential Library.

Energy Resources Finance Corp. (pkg in Domestic Council

THE WHITE HOUSE

WASHINGTON

June 19, 1975

MEMORANDUM FOR: JIM CONNOR

FROM: PHILIP BUCHEN P.W.B.

SUBJECT: Energy Resources Finance Corporation

In response to the information submitted to me with the attached action memorandum, my comments are as follows:

1. I support proposing such a Corporation.

2. I support a recommendation to the President that the initiative, if approved, should be announced by a Presidential address to the joint session of Congress.

3. The description of the proposed Management in Tab 2 and the draft legislation at Tab 4 in Section 4 are not consistent, and the manner of structuring the Management should be rethought before the proposal is made.

4. Section 8 of the draft legislation gives unrestricted powers to finance State and municipal projects. This provision in the legislation could encourage many new Government-owned utilities to the detriment of the expansion of the private sector. Therefore, I think this section should be eliminated or the powers given should be carefully circumscribed.

NOTE: I assume that if the President gives tentative approval to the proposal, there will be additional time and opportunity to refine the proposed legislation.

HIGH PRIORITY
ACTION MEMORANDUM

THE WHITE HOUSE

WASHINGTON

LOG NO.:

Date: June 18, 1975

Time:

FOR ACTION: Phil Buchen
Jim Cannon *
Jim Lynn
Jack Marsh
Bill Seidman
Frank Zarb**

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: WEDNESDAY, JUNE 25 Time: 12 NOON

SUBJECT:

ENERGY RESOURCES FINANCE CORPORATION

ACTION REQUESTED: HIGH PRIORITY

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

___ Draft Remarks

REMARKS:

*Jim Cannon: Insure the use of members of the Domestic Council who would not be on either Energy Resources Council or Economic Policy Board.

**Frank Zarb: Members of the Energy Resources Council

SPECIAL NOTE: Insure there is no duplication of staffing.

INCLUDE IN REPLIES INDIVIDUAL REVIEWS AND ANALYSIS OF EACH OF THE PEOPLE YOU STAFF IT TO.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor
For the President

[Aug. 1975?]

ERFCO
EXECUTIVE SUMMARY

BACKGROUND

- At your direction, the ERC has analyzed alternative financing authorities to spur energy development, including the Energy Resources Finance Corporation (ERFCO) proposed by the Domestic Council.

THE PROBLEM

- Your State of the Union Message proposed a broad range of administrative and legislative initiatives, which, if enacted, would reverse our growing dependence.

    o Generally the Congress has been unresponsive and in several cases, such as price controls, they are diametrically opposed to our proposals.

    o Many of our proposals are unpopular and may never be enacted.

    o Over the longer term it is likely that some constructive pieces of legislation will be enacted.

- In addition to a lack of a national energy policy and enabling legislation there are also a number of financial, regulatory and environmental constraints which hinder more rapid energy development. Often these constraints are interrelated.

- Uncertainty over world oil prices also delays many critical investment decisions.

- The Project Independence Report indicated that $600 billion would be required to achieve energy independence over the next 10 years.

- If the economy continues its historical patterns of capital formation, this $600 billion would require 23% of total fixed business investment, or approximately energy's historical share since World War II.

- While there is not an aggregate capital problem for the energy industries, there are individual problems:

  - o Electric utilities are unable to raise adequate capital to finance needed new investment due primarily to inadequate rates of return set by State regulatory authorities, which you have sought to address legislatively.

  - o High-cost, emerging energy technologies, such as synthetic fuels, may represent too great a risk.

  - o Certain very large investments such as uranium enrichment plants or new Trans Alaskan pipelines may not be manageable by the private sector.

- There is also some disagreement concerning aggregate capital formation problems in the economy, which could in turn impact on energy investment.

  - o If such problems exist, across-the-board structural reform may be needed.

  - o If this across-the-board action is not feasible, then financial assistance to the energy sector may be the only means to obtain sufficient energy supplies, but this assistance will worsen the financial problems in other sectors of the economy.

<u>THE MAJOR ISSUES</u>

- There are already several cases where financial incentives for commercial operation are used or planned.

  - o Uranium enrichment.

  - o Synthetic fuels.

- The major issue is the extent to which new financial incentives are needed, if at all. There are two arguments for such initiatives:

  - o Because of possible financial problems.

  - o Because there are non-financial problems, such as licensing uncertainties or environmental restrictions, which will be difficult to overcome themselves and may be helped by new financing incentives.

- Beyond this issue are the questions of consolidation of these authorities organizationaly, which financial mechanisms to use, and need to provide new energy authorities to deal with existing regulatory constraints.

ISSUE: THE SCOPE OF FEDERAL INVOLVEMENT

- No new coordinated Federal initiative.

  o Under this option, actions would be dealt with under existing agencies and programs.

  o No major budget impacts would result, nor would new legislation be needed, hence normal budget and management controls would be continued.

  o While new and needed programs could still be initiated, disparate initiatives could be time consuming and would lack any political appeal.

  o Some feel that the needed increase in domestic energy supplies is not very likely without Government action and that the current effort would largely be dominated by an R&D orientation. Others argue that the private sector can and will provide the needed capital.

- A limited emerging technologies initiative.

  o This option would implement your synthetic fuels goal and could be expanded to other specified emerging technologies, such as plutonium recycle, geothermal or solar.

  o Its advantages are that its limited focus is justified in terms of energy development that probably will not occur if left to the private sector. As a result it limits budget impact, impact on capital markets and is easiest to keep from being "Christmas-treed."

  o On the negative side, it may not be viewed as a new "Manhattan-type" Federal initiative and its focus is on technologies which are the least justifiable economically. Finally, its impact on achievement of energy self-sufficiency through the next decade is marginal at best, although probably significant thereafter.

- A broader initiative which includes selected conventional technologies which are not expected to be financed by the private sector.

  o This alternative would include emerging technologies and a very limited (and specified) list of conventional technologies which may need financial assistance (uranium enrichment, Alaskan natural gas pipeline, floating nuclear power plants, etc.).

- o Once into commercial technologies, this financing authority will require significant funds ($30-50 billion) with obvious effects on the budget, energy industries and the capital markets.

- o It will require much more Federal intervention, may supplant private investment which would have occurred anyway, and could easily be "Christman-treed" into an all pervasive authority.

- o On the positive side, it will be viewed as a major new "Manhattan-type" initiative.

- o It could have a more significant energy impact, although also not in the next decade.

- Broad initiative without major limitations.

  - o This would be the most extensive proposal and would allow broad flexibility to finance new or existing technologies.

  - o As such it would be seen as a major new initiative which could have significant political appeal and substantive energy impact.

  - o On the negative side, it would require substantial central planning and its impact on the budget deficit and capital markets would be pervasive.

  - o It could also develop a life of its own which would be difficult to terminate. It could delay many projects which would await review by ERFCO rather than seek private financing. In any event, it would finance many projects which would have been undertaken anyway.

<u>ISSUE: ORGANIZATIONAL STRUCTURE</u>

- To what extent should decisions on energy priorities be independently determined by a free-standing entity or subject to existing OMB review and ERC coordination?

  - o The setting of priorities solely within the new entity could allow rapid decisions and new approaches.

  - o On the negative side, it would make the unit unresponsive to Presidential or Executive Branch policy and budget guidance.

- To what degree should the implementation, i.e. financing, of specific projects be undertaken by existing agencies; a single new unit within an existing agency, such as ERDA or FEA; or by a free-standing new agency?

  - o Use of existing agencies minimizes the need to change existing authorities, but does not provide economies of scale, organizational focus, and is less likely to attract new people.

  - o A single "commercialization/financing" unit within ERDA or FEA would provide organizational focus, new management and the perception of a new initiative, but would be under the control of the host agency.

  - o A free-standing unit would provide organizational focus and new management, but is likely to acquire a life of its own independent of Administration direction.

ISSUE: FINANCIAL MECHANISMS

- There are only two alternative financing options:

- Loan, price guarantee, grant, and royalty participation authorities.

  - o Provides flexibility and also some upside potential to offset costs of poor risk loans or guarantees.

- Equity participation by Federal Government.

  - o Might allow financing of very risky but desirable projects and allow greater returns to Government where successful.

  - o Might be an excessive Government role and lead to Federal management of currently private sector projects.

ISSUE: NEW REGULATORY AUTHORITIES

- Regulatory delays and uncertainties are at least as important as financial problems and need to be addressed. There are three basic options:

- No new regulatory authorities.

  - o Regulatory problems are not the central focus of ERFCO and avoiding this issue will make the proposal easiest to sell on the Hill and not alienate environmental, safety, or other constituencies.

  - o Regulatory barriers are a major problem.

- Limited regulatory intervention authorities.

  - o This option would allow intervention by ERFCO, perhaps one-stop permit processing and time limits on regulatory agency review of projects.

  - o It could help the problem, but not considerably.

  - o Such authorities have been proposed in the absence of ERFCO.

- Federal override authorities.

  - o In theory, this would be the strongest and most simple way to assure energy development.

  - o It would be violently opposed and might jeopardize chances of enactment of the whole proposal.

  - o It probably does not strike the proper balance between legitimate competing goals.

  - o It could lead to all financing being channelled to ERFCO.