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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

January 3, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb *FZ*

Attached is a memorandum prepared by W. J. Usery concerning petroleum industry labor negotiations.

While we will no doubt see some strike action next week, I agree that no additional Federal Government action is required at this time.

Attachment

Briefing Paper

1974/75 Petroleum Industry Negotiations

Bargaining Structure

At midnight January 7, 1975, collective bargaining agreements covering approximately 60,000 employees or nearly two-thirds of the total production workers in the petroleum refinery industry will expire. Major companies involved are Texaco, Atlantic Richfield, Amoco, Gulf, Mobil, Shell, and Standard Oil of California. Employees are represented by the Oil Chemical and Atomic Workers (OCAW).

Bargaining is on a strict plant-by-plant basis; however, it is coordinated on an industry-wide basis, primarily through the union's National Oil Bargaining Policy Committee. This committee is composed of an International President, two Vice Presidents, Secretary-Treasurer, and eight rank and file district members.

It should be noted that during all past strikes, production has continued without significant interruption. It is possible that distribution of oil products could be marginally affected.

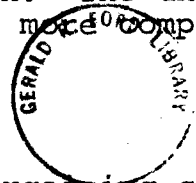
Current Status

During the 1972-73 contract negotiations, wage and price controls were in effect, and the parties settled on a six percent increase the first year and a 27¢ per hour increase the second year. This has been viewed as an extremely low settlement by the union membership and even though there have been interim voluntary company increases, approximately six percent, a volatile membership situation exists. Contributing to this militancy is the current highly visible profit picture of the industry. There are currently four major areas of bargaining concern: (1) wages; (2) cost of living escalator clause; (3) health and welfare, and (4) pensions.

Several offers have been made (up to 10 1/2% wage increase in the first year) by the major companies; however, according to the union, none are worthy of any serious consideration. The union contends that agreement without a strike of one or more companies is doubtful.

Government Action

Federal mediators have been assigned to all 430 bargaining situations and their activities are being coordinated by the National Director of the Federal Mediation and Conciliation Service, W.J. Usery, Jr. Numerous meetings have been held with the



International President of OCAW and corporate bargaining representatives of several major oil companies. This activity continues at the national level. Increased levels of activity by the Mediation Service will occur as the issues are defined and as the target and level of the union's activity is determined. It is entirely possible that the issues and the target companies may not crystallize until there has been some strike activity involving one or more companies.

Even though pressure for increased Government activity may develop, any action should be restricted to the above.



Pres Chrm



FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D. C. 20461

January 3, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

Attached is an early draft of the Energy Message. Over the weekend we will have a meeting with members of both the Energy Resources Council as well as the Economic Policy Board to review its content. Undoubtedly, there will be some changes made; however, we thought it would be useful for you to begin reviewing this material prior to our meeting on Monday.

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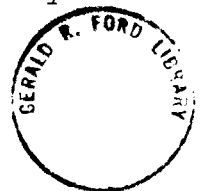
To the Congress of the United States:

Today, as the 94th Congress convenes, America and the world are confronted with problems that will provide severe tests of our abilities and our determination. Together we must address those problems and take the decisive and timely actions that citizens of the United States and the world now call for and expect.

In my State of the Union Message next week, I will forward a number of proposals to deal with the country's number one problem and challenge, the economy. In this Message, I intend to concentrate on another major and related challenge--that of energy.

Twenty years ago, this nation began to lose its energy independence. We followed a path that has not only exposed our economy to price and supply attack, but has also weakened our ability to guarantee our national security. Now, I, as President and you, as Members of a new Congress must change the direction of the past two decades. We must begin today to implement a national energy policy. The task will not be easy or universally popular. The benefits will not be fully realized until another decade passes. But the job must be done. And if we join together, it can be done.

The warnings that have been issued and the steps that have been taken to date have proven insufficient. The energy problems that we and the world face will not go away. In fact,



without action now the situation will certainly deteriorate. It can be resolved only by the concerted action of many nations. Thus, the task before us is to not only to improve our domestic situation but also to provide leadership for the world.

The Present Situation

A comprehensive assessment of the U.S. energy situation is now complete. The background is well known:

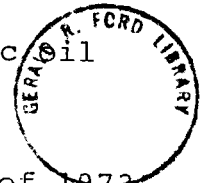
--U.S. energy consumption has been growing at a rate of 4-5 percent in recent years.

--Domestic production of petroleum has been declining since 1970; coal use remains at the levels of the 1930's; since 1968 we have been consuming natural gas faster than we have discovered it; and nuclear power and other sources have not yet begun to attain the promise of their potential.

--We now rely on coal for 17% of our energy and on oil and gas for most of the rest. Yet, we have centuries of coal reserves left and less than a generation of oil and gas.

--Petroleum imports have provided an ever-increasing share of America's energy rising from _____ percent in 1970 to the present 37 percent of domestic oil consumption.

With the onset of the Arab Embargo in October of 1973, the extent of our vulnerability was clearly demonstrated.



Our Gross National Product dropped significantly and half-million of our national labor force were forced out of work.

Even today, with the embargo and many of its attendant problems fading in time and memory, our energy situation provides little cause for comfort. Domestic demand will continue to grow, though more slowly / Domestic petroleum production will continue to decline. The gap between supply and demand will continue to be filled by imports, which already have surpassed pre-embargo levels. Thus we will rely more and more on insecure foreign sources, which have quadrupled petroleum prices over the past year and which probably can maintain today's exorbitant prices--at the growing peril of the international economic system. as it is and it will continue unless we act now to reverse existing trends.

Overseas, we see many industrialized nations--many of our traditional friends and allies with limited or virtually non-existent domestic energy sources--accumulating staggering deficits because of these exorbitant oil prices. We hear dire warnings of their bankruptcy and imminent economic collapse. We see oil-producing nations--many of them economically underdeveloped--accumulating surplus cash, that is, cash which they cannot productively employ at home, at an estimated annual rate of \$60 billion. And we hear dire warnings of the monetary chaos which these accumulations portend. And, at a more fundamentally human level, we see underdeveloped, often

impoverished nations, which at the best of times must struggle for their economic survival, now bending to the breaking point under the weight of these quadrupled oil prices. And from them we hear dire warnings, too--in fact we are seeing the tragic spectacle of starvation.

This is the situation as it is and it will continue unless we act now to reverse existing trends. This is the situation we must now rectify. To do so will require cutting our own petroleum imports, reducing our demand for energy, and stimulating production from our domestic energy sources. No single one of these broad approaches will suffice. All must be pursued. And all will require some sacrifice by our citizens.

National Energy Policy and Goals

Many of the proposals I will outline today entail difficult domestic choices--increased energy costs, environmental compromises or changed lifestyles. Some of these



proposals will be seen as major precedents or deviations from traditional Government policy--but we have no choice. Our current policies have proven inadequate; only if we set new precedents and steer a new course can we avert greater vulnerability in the years ahead.

To set those precedents and steer that course we must establish firm national energy goals that all Americans can understand, believe in and agree to. We must seek to attain those goals through a set of programs that strike a reasonable balance with and between our many other national objectives. And we must demonstrate the newly dedicated will and determination as a people to make the difficult decisions now and live by them until our goals are achieved.

The first step is to establish the goals; and I see only one set that can assure a future for the United States that is as secure and productive as its past:

(1) We must act immediately to cut energy consumption and increase our domestic supply--and thereby, to reduce imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.

year.

(2) We must eliminate by 1985, our nation's vulnerability to economic disruption by foreign suppliers. This will mean that by 1985 we should import no more than 15 percent of our total

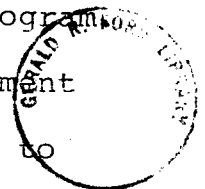


petroleum consumption--and we should have the capability to replace that 15 percent from storage, or offset a major part of its loss by emergency measures.

- (3) We must strive to develop the energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

All of these goals involve economic and political costs, largely because they cannot be fully achieved through natural market forces operating within the current mix of national and international policies. To attain them, therefore, will take a massive and far reaching program that must include:

- Drastic, immediate action to cut imports.
- Actions to increase dramatically our supplies and our ability to use our coal, gas, oil and nuclear power.
- A major new mandatory energy conservation program that must be more than just rhetoric.
- A major new emergency and security storage system including a new one billion barrel storage program.
- A program to protect our research and development efforts for alternate fuels so that our drive to achieve energy independence by 1985 and sustain it beyond that time will not be subject to foreign economic attack.

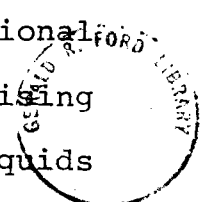


As you consider the detailed proposals I will spell out shortly, I remind you that we cannot pick the ones we like and ignore those that may be distasteful to us. We are faced with an intolerable and worsening problem and we cannot debate the merits of only increasing supply or only reducing demand. We must do both to the maximum extent possible. The program I am proposing is a complex one-- and all parts of it are necessary if we are to reach our national energy goals.

Actions to meet the Short-Term (1977) Goal

If we are to be successful in implementing a national energy policy, our first steps will be the most important. They must be taken now; they must serve to place us on the right path, and they must serve to give notice to other nations of the seriousness of our intent.

I am, therefore calling on the 94th Congress to enact a comprehensive legislative package to discourage imports and cut demand by 1 million barrels per day in 1975, and 2 million barrels per day by the end of 1977. Because of the urgent needs for action, I am, during the period of Congressional deliberation on this legislation, administratively raising the tariffs on all imported crude oil, natural gas liquids and petroleum products. The tariff levels will be \$1 per barrel effective February 1; \$2 on March 1; and \$3 on April 1. A crude price equalization program will be instituted to guarantee



that no single area of our country is benefitted or hurt disproportionately. Further, there will be no exemptions from the tariff and the current import fee on petroleum products will also be maintained.

The legislative package I am requesting to cut demand includes the following items:

- An excise tax of \$2 per barrel on all crude oil, natural gas liquids and product imports.
- Deregulation of natural gas as previously proposed by the Administration, and a windfall profits tax to capture the expected benefits to the gas producers.
- An excise tax of 40¢ per million cubic feet on natural gas to equal the \$2 oil excise tax on a thermal equivalency basis.
- Administrative price decontrol of crude oil coupled with a legislated windfall profits tax similar to that previously proposed by the Administration to ensure that no single sector of our economy gains unduly while others make sacrifices.
- A program of income tax reductions and/or other rebate measures to return to the economy the roughly \$20 billion estimated to be raised this year through these measures. Two thirds of this money is to be restored directly to consumers and one third to industry. Special measures will provide funds for the poor.



The actual legislative language for this and my other proposals will be forwarded after my State of the Union Message. I ask the Congress to act on this package within 90 days so that the money collected through the tariffs can be returned to the economy as soon as possible.

While we take these steps to cut our imports, we must also take those actions that will increase domestic supply to the extent possible. To that end, I have already met with Congressional leaders to discuss the subject of producing oil more rapidly from the Elk Hills, California, Naval Petroleum Reserve. The increased production should be used to top off military storage tanks and to increase our domestic supplies. It can also provide funds to build a more secure domestic storage program. I will submit legislation to allow commercial production of up to 160 thousand barrels per day by the end of 1975, and up to 300 thousand barrels per day by the end of 1977.

In order that we make greater use of our domestic coal resources, I am submitting a set of comprehensive amendments to the Energy Supply and Environmental Coordination Act of 1974. These will greatly increase the number of plants that can be converted to coal in the coming years. The current law only allows _____ conversions, as compared with the potential of _____.



If the Congress will act speedily and responsibly on these measures, we can attain the goal of 1 million barrels per day reduction in petroleum consumption by the end of this year, and double that figure by the end of 1977. The measures I propose are tough, but tough measures are required if we are to avoid even greater imports and provide strong leadership and example for our fellow consumer nations. With this strong beginning, we shall be in an excellent position to move toward the mid-term goal I have characterized as energy invulnerability.

Actions to meet the Mid-Term (1985) Goal

By 1985 the vulnerability of the United States to economic disruption by foreign energy suppliers must be eliminated by achieving the capacity for full energy self-sufficiency. This will mean that by 1985 we should be importing no more than 15 percent of our total petroleum consumption and that most of that amount must be immediately replaceable from storage with remaining shortages remedied through standby emergency measures.

In order for the nation to attain such a goal, we must act quickly to remove constraints and provide new incentives for domestic production because many of the measures I propose will take 5-10 years to reach fruition after the necessary laws are enacted. We cannot afford to pick and choose among fuels, because to meet our 1985 demand from domestic resources requires that:



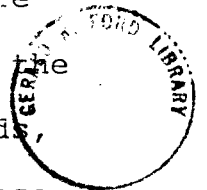
--Coal production must double.

--Trends must be reversed and new highs reached
in oil and gas production.

--Nuclear power must increase by at least _____ fold.

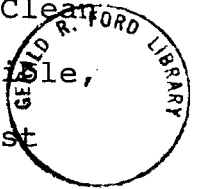
I have already discussed the need for deregulation of new natural gas, which if approved in this session of the Congress, will reverse the trend of dwindling natural gas reserves and production.

The decline in domestic petroleum production can also be reversed, and today's higher prices will provide a strong incentive to produce more oil from known fields. But the largest part of increased production will have to come from wells drilled in major new frontier areas. Thus, our position on Outer Continental Shelf leasing and development must be equally clear. Therefore, I now reaffirm that it is the intent of this Administration to move ahead with exploration, leasing and production in those frontier areas of the Outer Continental Shelf where the environmental risks are judged to be acceptable. For over 100 years we have been drilling for oil and gas on our continent, and now our reserves are declining. Yet, we know that huge reserves remain where we have not yet explored. The immense resources under the Shelf, in the Petroleum Reserves and on all public lands, belong to all Americans. We cannot afford to allow those resources--which we can develop in an environmentally sound way--to remain untouched if the price is continuing reliance upon unstable foreign energy sources.



The same statement can be made with regard to the largest of our Naval Petroleum Reserves. NPR 4 in Alaska has not yet been significantly explored or developed. As a result, it could not be available for production for several years, even in an emergency more grave than we faced during last year's embargo. As with the Elk Hills Reserve, I have met with Congressional leaders to discuss the need for exploration, development and production of NPR 4 for both the civilian economy and a working national strategic reserve. I will soon forward legislation to you to authorize the exploration and development of NPR 4 through competitive leasing to private industry. Only then can we know the true extent of the resources beneath that reserve, estimates of which run from 10 to 30 billion barrels of oil and 60 to 192 trillion cubic feet of natural gas. With accelerated exploration and production based upon the expertise of the private sector, NPR 4 could produce 2-3 million barrels of oil per day and commensurately large quantities of gas by 1985.

Our most abundant domestic resource, coal, is most severely limited by markets; and it is with this fuel that we must strike a new energy/environment balance if we are to move our economy toward a heavier reliance on domestic energy. Clean air and proper restoration of mined lands are both possible, even with greater coal use--but reasonable standards must be set first.



The Federal Government owns an estimated ___ billion tons of coal reserves. Currently 16 billion tons on Federal lands are under lease, although only 6 billion are currently scheduled to support production by 1980. To assure rapid production from existing leases and to make new, low sulfur supplies available, I have directed the Secretary of the Interior to:

- Put into force due diligence requirements for existing leases to assure their timely production.
- To meet with the western Governors to explore regional questions associated with new federal coal leases.
- To implement a new program of coal leasing consistent with timely development and adequate return on public resources provided that adequate environmental safeguards can be provided.

A matter already familiar to most Members of Congress is the need for proper legislation to assure that strip mining is conducted in a way that allows greater use of our most abundant fuel and, at the same time, provides adequate protection for the environment.

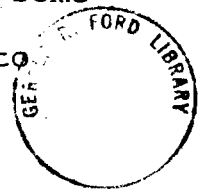
I vetoed the strip mining legislation passed by the last Congress, but it remains a valuable piece of work. With a small number of changes to make the bill more precise, I am prepared to sign a revised version into law. And I am prepared to work with the Congress so that those changes can be made and the law be enacted as soon as possible.

One of the primary objectives of the Clean Air Act



amendments proposed by the Administration is to provide for the increased use of coal while maintaining appropriate environmental safeguards. The Congress must act on these amendments to grant the environmental protection agency authority to suspend emission limitations for powerplants until low sulfur coal can be obtained or stack gas scrubbers can be installed. It should take no longer than 1980 for all urban powerplants to comply and all rural powerplants will be able to follow suit by 1985.

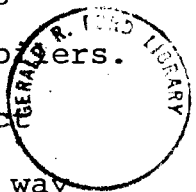
I also urge the Congress to provide legislative clarification with regard to the prevention of significant air quality deterioration in those parts of the nation where the air is already cleaner than required by Federal Health and Welfare Standards under the Clean Air Act. The Administrator of EPA has recently promulgated final regulations designed to carry out a court mandate. These regulations and their implementation can have far reaching economic, social, land use, and energy impacts. These EPA regulations are, themselves, the subject of further litigation, which could be protracted. We cannot afford continued uncertainty in the face of our serious energy problems. Among the Clean Air Act amendments I am submitting is one to deal with this critical problem. Whether the Congress chooses my amendment or some other way to deal with the problem, I urge you to act to provide an acceptable solution soon.



Nuclear power must also play an important role in our energy future. Its use, as well as the availability of electric power, depends upon the health of the electric utilities industry. In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity. Financing problems for that industry are worsening, and current regulatory practices by State commissions are largely inadequate or unresponsive. If these problems trends and obstacles persist, the cancellations and construction delays will slow the transition from oil and gas fired powerplants to coal and nuclear facilities. The delays and difficulties this industry is currently experiencing could well lead to higher oil import levels and inadequate supplies of electricity 5 to 10 years from now.

I am proposing, therefore, and will soon forward legislation to provide for:

- An increase in the investment tax credit for electric utilities from the current 4 percent to the level of 10 percent, with remission of unused dividends;
- This higher investment tax credit will be restricted to nuclear and coal-fired plants and to coal conversion facilities; we can no longer afford the extravagance of using scarce oil and gas under power plant boilers.
- A further tax reform to allow utilities to deduct preferred stock dividends for tax purposes as a way to stimulate existing investment; and



--A limited federal override of state regulatory procedures which will assure rapid rate processing and allow construction work in progress to be included in the rate base. We must not set up a new federal bureaucracy, but we must assure that utilities return to a more stable financial footing.

I am also directing the Federal Energy Administration to review the entire regulatory process as it relates to electric utilities and to make additional recommendations for reform within one year should such recommendations be warranted.

As we take these actions to increase our energy supplies, we must be aware of some potential problems. Our success should serve, as we intend, to lower world oil prices. However, before we achieve our goals of energy sufficiency, oil producing nations could, independently, set lower--but unstable--price levels, which, used as an economic weapon, could weaken our continued commitment to greater self-sufficiency. The Federal Government should take actions to encourage and protect domestic energy investment in the face of significant world price uncertainty and of our own intention to help bring about price reductions for the benefit of all nations. To do so is the only way to ensure our progress to energy invulnerability by 1985.

To provide this stability, I will request legislation to authorize and require the President of the United States to use tariffs, import quotas or other measures to protect our energy prices at levels necessary which will not jeopardize our drive for independence.



All of the actions I have mentioned would have the effect of increasing our available domestic supplies of energy. Oil production could reach 13 or 14 million barrels per day, coal production could double and nuclear generation could increase from a 4 to 30 percent share of our electric generation capacity by 1985. But those supply actions are not enough. We must dramatically cut our historical demand growth if we are to meet our goals for 1985. Higher energy prices will allow the market to reduce demand naturally but these effects are not enough--particularly in key energy intensive sectors such as buildings and transportation.

Heating and cooling of buildings account for almost 20 percent of total United States energy consumption. Energy savings of about 30 percent could be realized by energy efficient construction. I therefore propose legislation to mandate thermal standards for all new buildings in the United States. The energy savings with such standards are estimated to be 275,000 barrels of oil per day by 1980, and 560,000 by 1985 for new buildings alone. Since potential savings are greater by about half for existing homes, I also intend to ask for the institution of a 15 percent tax credit of up to \$1,000 for those owners of existing homes who add insulation, storm doors and windows or other energy efficiency improvements to their homes.

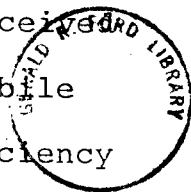
Further, I am announcing today the institution of a \$150 million grants-for-energy-saving program to be administered by



the Department of Health, Education and Welfare. Under this program, the Federal Government will purchase and volunteers will install insulation in the homes of the poor who might not otherwise be able to have such improvements made on their homes. These actions will help the homeowners adjust, with federal assistance, to today's--and tomorrow's higher energy prices.

Because we use over half of our petroleum for transportation auto emission standards directly effect our ability to conserve fuel. In 1975, automobiles emit only _____ percent of the pollution of a 1970 automobile and therefore, I propose to submit legislation to freeze automotive emission standards at current California (HC and CO) regulatory levels for 5 years, and to implement a 3.1 nitrogen oxide standard. These standards are more stringent than currently required, but to move to the even more stringent standards now legislatively mandated would produce very little environmental improvement but would seriously impair the efforts of automotive manufacturers as they work toward the goal I called for in my October 8 economic address of a 40 percent increase in efficiency over the next 5 years.

Based on the passage of this amendment, I have received written pledges from the three largest domestic automobile manufacturers that they will make that 40 percent efficiency improvement. This pledge includes yearly goals and public release of monitoring data with which to assess the progress to the goals. They have pledged to do their part; it is now



up to Congress to take the necessary action so that their promise can become a reality.

Needless to say, I am pleased with this voluntary commitment from the automobile manufacturers, and I am certain that the manufacturers of major appliances can make a similar effort. Therefore, I am directing the Energy Resources Council, with the Secretary of Commerce, to set efficiency standards for major appliances, and to secure within 6 months signed pledges to meet those goals from the leading manufacturers of those appliances. I am hopeful that this voluntary approach will succeed; but if I must, I will ask for mandatory legislation to accomplish this end.

These numerous proposals and actions that I have described taken together, can reduce our dependence on foreign energy supplies to a manageable level by 1985. But, even so, the United States will continue to import 3 to 5 million barrels of oil per day, or about 15 percent of the total we consume. Consequently, to ensure that we are capable of energy self-sufficiency, we must establish legal authority for emergency measures that can be readily implemented and, thus, guarantee equal sharing of shortages and the equitable allocation of supplies.

Further, we must commence now to prepare a strategic storage capacity of 1 billion barrels of oil above and beyond our present capacity. The stored reserves would be available in the event of a supply cutoff, and would be capable of providing 3 million barrels of oil per day for a full year. To prepare such an emergency storage capacity will take several years. But if we begin now, and we should, by



then our other actions should have exerted enough pressure to lower world oil prices, and we can then begin to provide stocks from lower priced oil. Only by taking such precautions can we act responsibly both at home and in the international community in a time of future supply interruptions.

Action to meet the Long-Term (post 1985) Goal

The actions I have proposed will enable us to meet our short-term and mid-term goals. For the longer term, our goal is to sustain our position of energy independence, and to enhance it so that the United States will again be able to supply a significant share of the, Free World's needs.

In the past, we were able to do so because we exported petroleum. That will not be the case in the future-- not in the same degree.

For the future, we must be able to help other nations through new strength in energy technology. We must, by the 1980's and beyond, find new, cleaner ways to use coal. We must tap our gigantic deposits of oil shale. We must develop solar, geothermal, and other energy forms. And these and other resources must be developed in ways that do not do grave damage to our environment.

We already have an energy R&D budget of over \$10 billion for use before 1980 but we also need new incentives to assure that new technologies are developed and brought into commercial use as rapidly as possible. Therefore, I am today setting production goal of 1 million barrels per day of shale oil and

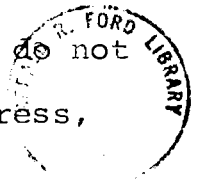


synthetic gas and liquid fuels by 1985. Further, I am directing my Energy Resources Council, working with the Administrator of the Energy Research and Development Administration, to develop and implement a program of capital subsidies, price supports and other incentives to assure that we proceed as rapidly as possible toward that goal. Such a program is possible under the Non-Nuclear Research and Development Act, which I signed into law on _____.

If the Congress and the American people will now consider these goals that I have set for the short-term, the mid-term and the years beyond, I believe we can all agree that they are attainable. To attain them will not be easy. To do so will require sacrifice and determination. But they can be attained.

The time is past for rhetoric and for talk of energy policies without clearly defined goals. We must resist the temptation to be guided by political or regional or personal considerations. We must resist the temptation to continue a piecemeal approach to our energy problems, enacting numbers of unrelated laws in the vain hope that they might somehow fit together to form a coherent and comprehensive policy.

The program I have laid out today embodies a national policy. It will enable us to meet our energy goals. But this program requires that we work together, that we take all the steps, enact all the laws, necessary to implement this policy and accomplish these goals. If we do not do so--if we do not work together as an Administration, as members of Congress,



as individual Americans--then we will have turned our backs on our responsibility to this Nation and to the people of other nations throughout the world. That we cannot afford to do.

Thank you!



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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

January 3, 1975

OFFICE OF THE ADMINISTRATOR

MEETING WITH ROGERS C.B. MORTON, JAMES SCHLESINGER, AND FRANK ZARB

Friday, January 3, 1975
3:30 P.M. (30 minutes)
The Oval Office

From: Frank G. Zarb

I. PURPOSE

To review the strategy for dealing with Congressman Hebert on the subject of Naval Petroleum Reserve 4 in Alaska.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: A meeting has been set on your schedule for January 10 with Congressman Hebert, Rogers Morton and Jim Schlesinger. In preparation for this meeting, Rog Morton and Jim Schlesinger have achieved near agreement on an Administration position on Naval Petroleum Reserves. Today's (January 3) meeting is intended as a preliminary to the January 10th meeting.

B. Participants: Rogers Morton, James Schlesinger, and Frank Zarb.

C. Press Plan: David Kinnerly photo only. Meeting is to be announced.

III. TALKING POINTS

1. I understand, Jim and Rog that you have been discussing the best possible approach for us to take on Pet 4, and that you are very close to final agreement.
2. Rog, maybe to begin work you can let us know just where we stand on our old friend Mr. Hebert.





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

January 4, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: ENERGY MESSAGE

Attached is an early draft of the Energy Message. You should be aware of the following:

1. This material has not gone through the speechwriters, a step we thought we should leave for last. While the current paper is structured as a Message to the Congress it could easily be converted into a speech to the American people.
2. A portion of the Energy Resources Council Executive Committee has had an opportunity to review this material once. However, I expect that by Monday we will have some additional changes to recommend.
3. We have met with Ron Nessen and Jerry Warren to begin planning a program for selling this package to the Congress, the press and the American people. It is our plan to equip all Administration spokesmen with sufficient background to properly support the plan.
4. A comprehensive fact sheet detailing your energy decisions is now being prepared. It will be used primarily for the press, but also assist in explaining your plan to the Congress and other groups.

During our meeting on Monday we will be prepared to go through your Message and get your reactions. In addition, we will raise for your consideration "late issues" which have surfaced in recent days.

By the close of business Monday we should be prepared to turn all necessary material over to the speechwriters.

Attachment



To the Congress of the United States:

Today, as the 94th Congress convenes, America and the world are confronted with problems that will provide stern tests of our abilities and our determination. Together we must address those problems and take the decisive and timely actions that citizens of the United States and the world now call for and expect.

Twenty years ago, this nation began to lose its energy independence and its leadership role in energy. We followed a path that has not only exposed our economy to supply cutoffs and unprecedented price increases, but has also weakened our ability to guarantee our national security and control our foreign policy. Our country is too vulnerable and the international economic system is under too much strain for us to stand still. The potential domestic and international ramifications are not only frightening, but unacceptable.

Now, I, as President and you, as Members of a new Congress must change the direction of the past two decades. We must begin today to implement a new energy policy. The actions to be taken will not be easy or universally popular. The benefits will not be fully realized until another decade passes. But the job must be done. And if we join together, it can be done.



The warnings that have been issued and the steps that have been taken to date have proven insufficient. The energy problems that we and the world face will not go away. In fact, without action now the situation will certainly deteriorate. What is at stake is the economic balance of power achieved by the Western World over the last century and a half. It can be resolved only by the concerted action of many nations. Thus, the task before us is to not only improve our domestic situation but also to provide leadership for the world.

The Present Situation

A comprehensive assessment of the U.S. energy situation is now complete. The background is well known:

--U.S. energy consumption has been growing at a rate of 4-5 percent in recent years.

--Domestic production of petroleum has been declining since 1970; coal use remains at the levels of the 1930's; since 1968 we have been consuming natural gas faster than we have discovered it; and nuclear power and other sources have not yet begun to attain the promise of their potential.

--We now rely on coal for 17% of our energy and on oil and gas for most of the rest. Yet, we have centuries of coal reserves left and only enough oil and gas to last a generation at the current levels of use.



--Petroleum imports have provided an ever-increasing share of America's energy rising from about 20 percent in 1970 to the present 37 percent of domestic oil consumption.

With the onset of the Arab Embargo in October of 1973, the extent of our vulnerability was clearly demonstrated. Our Gross National Product dropped significantly and a half-million of our national labor force were forced out of work.

Even today, as the many problems caused by the embargo have faded in our memory, our energy problem remains very serious. Domestic demand will continue to grow, though more slowly than in the past. Domestic petroleum production will continue to decline. The gap between supply and demand will continue to be filled by imports, which already have surpassed pre-embargo levels. Thus, we will rely more and more on insecure foreign sources, which have quadrupled petroleum prices over the past year and which probably can maintain today's exorbitant prices in the near future--at the growing peril of the international economic system.

Overseas, we see major industrialized nations--many are our traditional friends and allies--with limited or virtually non-existent domestic energy sources and accumulating staggering deficits because of these high oil prices. We hear dire warnings



of their bankruptcy and imminent economic collapse. We see oil-producing nations accumulating surplus cash, more than they can productively use at home, at an estimated annual rate of about \$60 billion -- and we hear predictions of the monetary chaos which these accumulations portend. And, at a more fundamentally human level, we see underdeveloped, often impoverished nations, which at the best of times must struggle for their economic survival, now being bent to the breaking point under the weight of these oil prices.

This is the situation as it is and as it will continue to be, unless we act now to reverse existing trends. This is the situation we must now rectify. To do so will require cutting our demand for energy and stimulating production from our domestic energy sources. No single one of these broad approaches will suffice. All must be pursued. And all will require some sacrifice by our citizens.

National Energy Policy and Goals

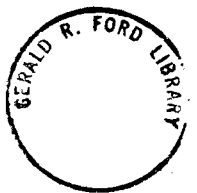
Many of the proposals I will outline today entail difficult domestic choices--increased energy costs, environmental compromises or changed lifestyles. Some of these proposals will be seen as major precedents or deviations from traditional Government policy-- but we have no choice. Our current policies have



proven inadequate; only if we set new precedents and steer a new course can we avert greater vulnerability in the years ahead.

To achieve these objectives, we must establish firm national energy goals that all Americans can understand, believe in and agree to. We must seek to attain those goals through a set of programs that strike a reasonable balance with and between our many other national objectives. And we must demonstrate the newly dedicated will and determination as a people to make the difficult decisions now and stick with them until our goals are achieved.

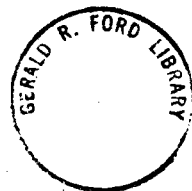
The actions I am announcing today will affect all Americans and without positive measures, the burdens will not be equally shared. The poor and the working man are always hardest hit by rising prices as they spend more of their income for energy than other groups. To compensate for these effects, I will soon announce a series of measures to help low-income consumers. In addition, all Americans will benefit from reduced balance of payments deficits and the increased domestic employment opportunities that will result from this program. In the next 10 years, we will need more people to explore, develop, produce and transform our energy resources than ever before.



As a first step I am establishing the following national energy goals to assure that our future is as secure and productive as our past:

- (1) We must act immediately to cut energy consumption and increase our domestic supply--and thereby, to reduce imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.
- (2) By 1985, we must eliminate our nation's vulnerability to economic disruption by foreign suppliers. This will mean that by 1985 we should import no more than 15 percent of our total petroleum consumption--and we should have the capability to immediately replace that 15 percent from storage and standby measures in the event of a supply disruption.
- (3) We must strive to develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

All of these goals involve economic and political costs, largely because they cannot be fully achieved through natural market forces operating within current national and international



policies. To attain them, therefore, will take a massive and far reaching program that must include:

- Drastic, immediate action to cut imports.
- Actions to increase dramatically our supplies and our ability to use our coal, gas, oil and nuclear power.
- A major new mandatory energy conservation program.
- A major new emergency and security storage program including up to one billion barrels of petroleum storage.

As you consider the detailed proposals I will spell out shortly, I remind you that we cannot pick the ones we like and ignore those that may be distasteful to us. We are faced with an intolerable and worsening problem and we cannot debate the merits of only increasing supply or only reducing demand. We must do both to the maximum extent possible. The program I am proposing is a complex one--and all parts of it are necessary if we are to reach our national energy goals.

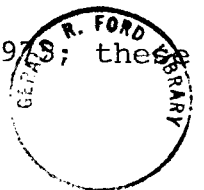


Actions to meet the Short-Term (1977) Goal

If we are to be successful in implementing a national energy policy, our first steps will be the most important. They must be taken now; they must serve to place us on the right path, and they must serve to give notice to other nations of the seriousness of our intent.

In the short-term, there are only a limited number of actions which can increase domestic supply. I intend to pursue all of them. To that end, I have already consulted with Congressional leaders to discuss the subject of producing oil more rapidly from the Elk Hills, California, Naval Petroleum Reserve. Increased production from this area should be used to top off military storage tanks, provide funds for storage, and result in increased domestic supplies. It can also provide funds to build a more secure domestic storage program. I will submit legislation to allow commercial production of up to 160 thousand barrels per day as soon as possible in 1975, and up to 300 thousand barrels per day by the end of 1977.

In order that we make greater use of our domestic coal resources, I am submitting a set of comprehensive amendments to the Energy Supply and Environmental Coordination Act of 1974. These will greatly increase the number of plants that can be converted to coal in the coming years. The current law only allows 23,000 barrels per day of conversions in 1975; the

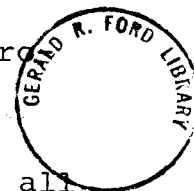


amendments could allow almost 100,000 barrels per day to be saved.

These supply actions are not nearly enough to meet my import goal. To reach these levels, voluntary conservation is essential, but will not be sufficient. To assist the voluntary program, the Federal Energy Administration is stepping up its energy conservation public information program from one to five million dollars. I am, also, calling on the 94th Congress to enact a comprehensive legislative package to cut demand to reach the goal of import reductions of 1 million barrels per day in 1975, and 2 million barrels per day by the end of 1977. Because of the urgent domestic and international need for action, I am, during the period of Congressional deliberation on this legislation, administratively raising the fee on all imported crude oil, natural gas liquids and petroleum products. The fee levels will be \$1 per barrel effective February 1; \$2 on March 1; and \$3 on April 1. The crude price equalization program will be modified to mitigate disproportionate benefits or impacts in any single area or our country.

The legislative package I am requesting to conserve energy use is a tough program including the following items:

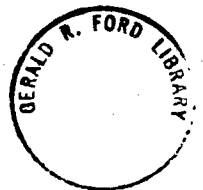
- An excise tax of \$2 per barrel on all crude oil, natural gas liquids and product imports.
- Deregulation of new natural gas as previously proposed by the Administration.
- An excise tax of 37¢ per thousand cubic feet on all natural gas to equal the \$2 oil excise tax on a thermal equivalency basis.



--A windfall profits tax to ensure that no single sector of our economy gains unduly while others make sacrifices. I will administratively decontrol the price of crude oil on April 1 and urge Congressional enactment of this tax by that time.

--A program of income tax reductions and/or other rebate measures to return to the economy the roughly \$30 billion estimated to be raised this year through these measures. Most of this money is to be restored directly to consumers, with special measures to provide funds for the poor.

The actual legislative language for this and my other proposals will be forwarded after my State of the Union Message. I want to work closely with the Congress so that this package will be enacted within 90 days and our import goals can be met. Only prompt action will enable the money collected through the tariffs to be returned to the economy quickly and the inequities caused by the tariff to be corrected. This proposal will result in some windfall profits, but rapid Congressional action can also remove this problem. The windfall profits tax, as well as rebates, would be retroactive to February 1, 1975. These actions are harsh and my administrative authorities are limited--but they are the only powers I have and the situation is too serious to wait.



In making the decision to propose this comprehensive package of legislation, I had to choose between fundamentally differing approaches to conserve energy. The only viable method to achieve large and immediate reductions in energy consumption, other than this market approach, is through greater use of Government controls--either by import quotas, allocation, or rationing. While each of these measures has some merit, each would result in large inefficiencies, bureaucracy, and disruptions in our way of life. Rather than the spectre of gas lines or rationing coupon lines, we must let the free market work to the maximum extent possible. But higher prices alone would create economic pressures that must be relieved by tax measures to return revenues to consumers.

Actions to meet the Mid-Term (1985) Goal

By 1985, the vulnerability of the United States to economic disruption by foreign energy suppliers must be eliminated by achieving the capacity for full energy self-sufficiency. This will mean that by 1985 we should be importing no more than 15 percent of our total petroleum consumption, which would be about 6 percent of total energy use, and that most of that amount must be immediately replaceable from storage and standby emergency measures.



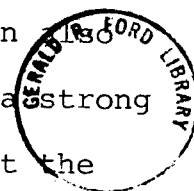
In order for the nation to attain such a goal, we must act quickly to remove constraints and provide new incentives for domestic production and conservation because many of the measures I propose will take 5-10 years to reach fruition after the necessary laws are enacted. We cannot afford to pick and choose among fuels, because to meet our 1985 demand from domestic resources requires that:

- Coal production must double.
- Trends must be reversed to realize our fullest potential in oil and gas production.
- Nuclear power must increase to more than twenty times current levels.
- Emerging energy sources have to accelerated.

The specific measures I will propose have been selected after a careful evaluation of all our national goals-- energy independence, economic well-being, environmental quality, and social welfare. Actions that would unduly compromise any of these goals have not been taken.

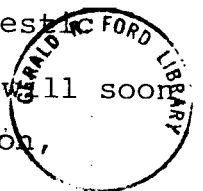
I have already discussed the need for deregulation of new natural gas, which must be approved in this session of the Congress to reverse the trend of dwindling natural gas reserves, production, and continued unemployment due to natural gas shortages.

The decline in domestic petroleum production can be reversed, and today's higher prices will provide a strong incentive to produce more oil from known fields. But the



largest part of increased production will have to come from wells drilled in major new frontier areas. Thus, our position on Outer Continental Shelf leasing and development must be equally clear. Therefore, I now reaffirm that it is the intent of this Administration to move ahead with exploration, leasing and production in those frontier areas of the Outer Continental Shelf where the environmental risks are judged to be acceptable. For over 100 years we have been drilling for oil and gas on our continent, and now our reserves are declining. Yet, we know that huge reserves remain where we have not yet explored. The immense resources under the Shelf, in the Petroleum Reserves and on all public lands, belong to all Americans. We cannot afford to allow those resources--which we can develop in an environmentally sound way--to remain untouched if the price is continuing reliance upon unstable foreign energy sources.

The same statement can be made with regard to the largest of our Naval Petroleum Reserves. NPR 4 in Alaska has not yet been significantly explored or developed. As a result, it could not be available for production for several years, even in an emergency more grave than we faced during last year's embargo. As with the Elk Hills Reserve, I have consulted with Congressional leaders to discuss the need for exploration, development and production of NPR 4 for the domestic economy and a working national strategic reserve. I will soon forward legislation to you to authorize the exploration, development, and production of NPR-4 to provide petroleum for the domestic economy. Only then can we know the true extent



of the resources beneath that reserve, estimates of which run from 10 to 30 billion barrels of oil and 60 to 192 trillion cubic feet of natural gas. With accelerated exploration and production based upon the expertise of the private sector, NPR-4 could produce 2-3 million barrels of oil per day and commensurately large quantities of gas by 1985.

Our most abundant domestic resource, coal, is most severely limited by markets; and it is with this fuel that we must strike a new energy/environment balance if we are to move our economy toward a heavier reliance on domestic energy. Clean air and proper restoration of mined lands are both possible, even with greater coal use--but reasonable standards must be set first.

A matter already familiar to most Members of Congress is the need for proper legislation to assure that strip mining is conducted in a way that allows greater use of our most abundant fuel and, at the same time, provides adequate protection for the environment. I vetoed the strip mining legislation passed by the last Congress, but it remains a valuable piece of work. With a minimum of changes to make the bill more precise, I am prepared to sign a revised version into law. And I am prepared to work with the Congress so that those changes can be made and the law be enacted as soon as possible.



One of the primary objectives of the Clean Air Act amendments proposed by the Administration is to provide for the increased use of coal while maintaining appropriate environmental safeguards. The Congress must act on these amendments to grant the Environmental Protection agency authority to suspend emission limitations for powerplants until low sulfur coal can be obtained or stack gas scrubbers can be installed. It should take no longer than 1980 for all urban powerplants to comply and all rural powerplants will be able to follow suit by 1985.

I also urge the Congress to provide legislative clarification with regard to the prevention of significant air quality deterioration in those parts of the nation where the air is already cleaner than required by Federal health and welfare standards under the Clean Air Act. We cannot afford the continued uncertainty which now exists in the face of our serious energy problems. Among the Clean Air Act amendments I am submitting is one to deal with this critical problem.

The Federal Government owns over 200 billion tons of coal reserves. Currently 16 billion tons on Federal lands are under lease, although only 6 billion are currently scheduled to support production by 1980. To assure rapid production from existing leases and to make new, low sulfur supplies available, I have directed the Secretary of the Interior to:



- Put into force legal diligence requirements to assure timely production from existing leases.
- To meet with the western Governors to explore regional questions associated with new federal coal leases.
- To implement a new program of coal leasing consistent with timely development and adequate return on public resources provided that adequate environmental safeguards can be provided.

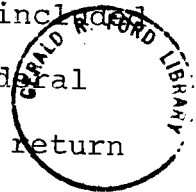
Nuclear power must also play an important role in our energy future. Although nuclear power was expected to play an important role in the early 1970's, it now only supplies about 1 percent of our energy needs. There have been technical problems, construction delays, and other bottlenecks to slow its progress. To rejuvenate nuclear power, I am announcing a markedly increased budget appropriation for nuclear waste disposal and for continued improvements in safeguards. I will also resubmit the Nuclear Facility Licensing Act and urge prompt Congressional action on this bill. But the use of nuclear power, as well as the availability of all electric power, depends upon the health of the electric utilities industry. In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned



additions to non-nuclear capacity. Financing problems for that industry are worsening, and current regulatory practices by State commissions are largely inadequate or unresponsive. If these problems, trends and obstacles persist, the cancellations and construction delays will slow the transition from oil and gas fired powerplants to coal and nuclear facilities. The delays and difficulties this industry is currently experiencing could well lead to higher oil import levels and inadequate supplies of electricity 5 to 10 years from now.

I am proposing, therefore, and will soon forward legislation to provide for:

- An increase in the investment tax credit for electric utilities from the current 4 percent to a level which eliminates the gap between its tax credit and those of other industries. There will also be remission of unused credits.
- This higher investment tax credit will be available for all powerplants, with the exception of oil and gas plants; we can no longer afford the extravagance of using scarce oil and gas in power plants.
- A further tax reform to allow utilities to deduct preferred stock dividends for tax purposes as a way to stimulate equity, rather than debt financing; and
- A limited federal override of state regulatory procedures which will assure rapid rate processing and allow construction work in progress to be included in the rate base. We must not set up a new federal bureaucracy, but we must assure that utilities return to a more stable financial footing.



I am also directing the Energy Resources Council to review the entire regulatory process as it relates to electric utilities and to make additional recommendations for reform.

As we take these actions to increase our energy supplies, we must be aware of some potential problems. Our success should serve, as we intend, to lower world oil prices. However, before we achieve our goals of energy sufficiency, actions of oil producing nations, or economic conditions, could result in lower--but unstable--price levels, that could weaken our continued commitment to greater self-sufficiency. The Federal Government must take actions to encourage and protect domestic energy investment in the face of significant world price uncertainty. To do so is the only way to ensure our progress to energy vulnerability by 1985.

To provide this stability, I will request legislation to authorize and require the President of the United States to use tariffs, import quotas or other measures to protect our energy prices at levels which will achieve full national capability for self-sufficiency and protect our energy industry and jobs. I have directed the Administrator of FEA to deliver recommendations to me within 90 days on the use of these authorities for implementing a long-term price floor immediately.



All of the actions I have mentioned would have the effect of increasing our available domestic supplies of energy. Oil production could reach 13 or 14 million barrels per day, coal production could double and nuclear generation could increase from a 4 to 30 percent share of our electric generation capacity by 1985. But those supply actions are not enough. We must dramatically cut our historical demand growth if we are to meet our goals for 1985. Higher energy prices will cause market forces to reduce demand, but these effects are not enough-- particularly in key energy intensive sectors such as buildings and transportation.

Heating and cooling of buildings account for almost 20 percent of total United States energy consumption. Energy savings of above 30 percent could be realized by energy efficient construction. I therefore propose legislation to mandate thermal efficiency standards for all new buildings in the United States. The energy savings with such standards are estimated to be 275,000 barrels of oil per day by 1980, and 560,00 by 1985 for new buildings alone. Since potential savings are even greater for existing homes, I also intend to ask for legislation to institute a 15 percent tax credit for investments of up to \$1,000 for those owners of existing homes who add insulation, storm doors and windows or other energy efficiency improvements to their homes. Further, I am announcing



today the establishment of an energy conservation program for low-income families, to be administered by the Department of Health, Education and Welfare. Under this program, which will be funded at \$55 million in Fiscal Year 1976, the Federal Government will purchase and have volunteers install insulation and other energy conserving devices in homes owned or occupied by low-income citizens, who might otherwise not be able to have such improvements made on their homes. These actions will help the homeowners adjust, with Federal assistance, to today's--and tomorrow's higher energy prices.

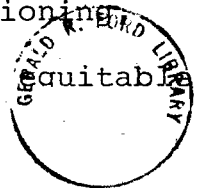
Since over half of our petroleum is used in transportation, it is imperative that we find ways to further reduce consumption by automobiles. The level of automotive pollution control directly affects our ability to conserve fuel. We have made tremendous improvements in reducing automobile emissions in the last few years. To improve auto efficiency, I propose to submit legislation to freeze automotive emission standards for hydrocarbons and carbon monoxide for 5 years at current California regulatory levels and to implement a 3.1 grams per mile nitrogen oxide standard. These standards are more stringent than currently required, but to move to the even more stringent standards now legislatively mandated would produce very little environmental improvement but would seriously impair the efforts of automotive manufacturers as they work toward the goal I called for in my October 8 economic address of a 40 percent increase in efficiency over the next 5 years.



Based on the passage of this amendment, I have received written pledges from the three largest domestic automobile manufacturers that they will make that 40 percent efficiency improvement. This pledge includes yearly goals, Federal monitoring and public release of the data with which to assess the progress to the goals. They have pledged to do their part; it is now up to Congress to take the necessary action so that their promise can become a reality.

Needless to say, I am pleased with this voluntary commitment from the automobile manufacturers, and I am certain that the manufacturers of major appliances can make a similar effort. Therefore, I am directing the Energy Resources Council to set efficiency standards for major appliances, and to secure within 6 months signed pledges to meet those goals from the leading manufacturers of those appliances. I am hopeful that this voluntary approach will succeed; but if I must, I will ask for mandatory legislation to accomplish this end.

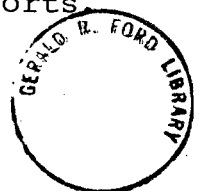
These numerous proposals and actions that I have described, taken together, can reduce our dependence on foreign energy supplies to a manageable level by 1985. But, even so, the United States will continue to import 3 to 5 million barrels of oil per day, or about 15 percent of the total we consume. Consequently, to ensure that we are capable of energy self-sufficiency, we must establish legal authority for emergency measures that can be readily implemented, including rationing and, thus, guarantee equal sharing of shortages and the equitable allocation of supplies.



Further, we must commence now to prepare a strategic storage capacity of 1 billion barrels of oil above and beyond our present capacity. The stored reserves would be available in the event of a supply cutoff, and would be capable of providing 3 million barrels of oil per day for a full year. One-fourth of the stocks would be earmarked for military use in case of future cutoffs. To prepare such an emergency storage capacity will take several years. But if we begin now, and we must, our other actions may exert enough pressure to lower world oil prices by the time we are ready to provide storage stocks. Only by taking such precautions can we act responsibly both at home and in the international community in a time of future supply interruptions.

This program will assure our nation's invulnerability in the 1980's. But no country can embark on such a program alone. Ultimately we are still dependent until all allies are free from the economic impacts and political coercion associated with insecure oil imports. We must build upon the tremendous progress already made in consumer country cooperation. I am directing the Secretary of State to continue his efforts with the members of the International Energy Agency to:

--Seek more stringent energy conservation by other consumer nations, further cutting petroleum imports



- Direct, joint negotiations with other consumer nations on floor prices, quotas or other mechanisms as a means of assuring a reduction and elimination of vulnerability to oil disruptions.
- Seek greater joint cooperation in our long-term energy programs discussed below.

Action to meet the Long-Term (post 1985) Goal

The actions I have proposed will enable us to meet our short-term and mid-term goals. For the longer term, our goal is to sustain our position of energy independence, and to enhance it so that the United States will again be able to supply a significant share of the Free World's needs. In the past, we were able to do so because we exported petroleum. That will not be the case in the future--not to the same degree.

For the future, we must be able to help other nations through development of new energy technology. We must, by the 1980's and beyond, find new, cleaner ways to use coal. We must tap our gigantic deposits of oil shale. We must develop solar, geothermal, nuclear, and other energy forms. And these and other



resources must be developed in ways that do not severely damage our environment.

This means that we, as a Nation, must reaffirm our commitment to a strong energy research and development program, aimed not only at developing the capability to tap all our major domestic energy resources but also at improving the efficiency of energy utilization in all sectors of our economy.

Last year, the United States committed itself to a five year \$10 billion energy R&D effort. The 1975 energy R&D budget resulted in almost a doubling of our program from the level in 1974 and three times that of 1973. In 1976, I will continue this accelerated effort and I pledge today to make available whatever funds are needed for future R&D activities to ensure that America can maintain its energy independence. With the activation of the new Energy Research and Development Administration on January 19, we now have, for the first time, both the unified Federal organization and the financial commitment to get the job done.

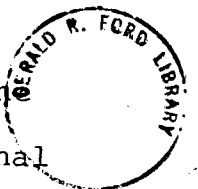
Energy R&D funds and organization are not enough; we also need new incentives to assure that emerging technologies are not only developed, but brought into commercial use as rapidly as possible. Therefore, I am announcing today a National Synthetic Fuels



Commercialization Program. This effort, which will assure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, will entail a program of Federal incentives designed to reduce the price uncertainty, help raise capital, and overcome unnecessary delays in bringing existing or nearly developed technologies into commercial use. The program will result in the demonstration of technologies of several types and perhaps 30-50 major new plants, using both oil shale and coal resources, and will not only provide additional incremental domestic fossil fuels capacity by 1985, but will assure early availability of critical environmental, economic and other information necessary to decisions concerning the continuing growth of a synthetic fuels industry. The Energy Resources Council will develop, within six months, the detailed guidelines for implementing this program, including appropriate consideration of implications for regional development, water use, and environmental protection.

If the Congress and the American people will now consider these goals that I have set for the short-term, the mid-term and the years beyond, I believe we can all agree that they are attainable. To attain them will not be easy. To do so will require sacrifice and determination. But they can be attained.

The time is past for rhetoric and for talk of energy policies without clearly defined goals. We must resist the temptation to be guided by political or regional or personal considerations. We must resist the temptation to continue a



piecemeal approach to our energy problems, enacting numbers of unrelated laws in the vain hope that they might somehow fit together to form a coherent and comprehensive policy.

The program I have laid out today embodies a national policy. It will enable us to meet our energy goals. But this program requires that we work together, that we take all the steps, enact all the laws, necessary to implement this policy and accomplish these goals. If we do not do so--if we do not work together as an Administration, as members of Congress, as individual Americans--then we will have turned our backs on our responsibility to this Nation and to the people of other nations throughout the world. That we cannot afford to do.

Thank you!



THE WHITE HOUSE

WASHINGTON

January 4, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

WILLIAM SEIDMAN
FRANK ZARB
RON NESSEN

The considerable and generally accurate leaks about the contents of your planned economic and energy programs are damaging the planned impact of your proposals. We feel that you should reevaluate your plans to announce the economic and energy proposals in the State of the Union speech and consider making at least some announcement before then in order to prevent a complete loss of impact.

There are several reasons we think the leaks are damaging:

1. They give your opponents an opportunity to attack your proposals during the next 2 1/2 weeks while you cannot answer.
2. By having all the proposals out in the newspapers ahead of time, the reaction to the State of the Union may be, "there is nothing new in that".
3. Senators Jackson and Proxmire are likely to begin hearings before the State of the Union speech on these matters and by the time you make your speech you will appear to be merely reacting.
4. There is a great deal of anticipation being built up on this speech. People are looking not just for specific details but for signs of decisive and knowledgeable leadership which will determine to a large extent the country's estimation of you as President. A strong implication of you as a leader in firm command of the economy and the energy field may be lost if you don't speak out before the details of your programs are completely leaked.



Therefore, we suggest you consider the following options:

1. Make a speech or use your news conference Tuesday to announce as many of the economic and energy proposals as you have decided on by then.
2. Make a major television speech announcing your energy program only. Frank Zarb favors this and says the complete energy package will be ready to go Thursday, January 9 or Friday, January 10.
3. Go ahead and announce the energy and economic proposals in the State of the Union as planned. We do not favor this.

Assistant Secretary Enders says that Dr. Kissinger also favors announcing the energy and economic proposals at the earliest possible date.

We would welcome an opportunity to discuss this with you.




THE WHITE HOUSE
WASHINGTON

January 7, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: WILLIAM SEIDMAN
~~FRANK ZARB~~
RON NESSEN

FROM: JERRY H. JONES 

Your memorandum to the President of January 4 on leaks has been reviewed and the following notations were made next to each option:

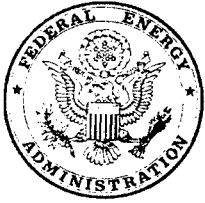
1. No.
2. Ok.
3. The following was crossed out -- "energy and ..."

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

JAN 11 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

SUBJECT: Petroleum Situation

The attached statistics summarize key statistics for the month of December.

- ° Total energy demand was lower than your target, but still about 500,000 B/D above last year.
- ° Most of the savings were achieved in heating oil, residual oil and other products, while gasoline demand continued to exceed our goal.
- ° Inventories of all major products remained stable and at very adequate levels.
- ° Imports are running substantially above last year and slightly above our forecast.



KEY PETROLEUM STATISTICS SUMMARY

For four-week period ending December 27, 1974

(In barrels per day)

TOTAL OIL DEMAND

Expected demand without conservation	18,793,000
Required to meet President's goal*	18,623,000
Apparent demand**	18,168,000
Demand under (over) President's goal	455,000

OIL IMPORTS

Expected imports without conservation	6,807,000
Required to meet President's goal*	6,637,000
Actual imports	6,586,000
Imports under (over) President's goal	51,000

DEMAND FOR KEY PRODUCTS

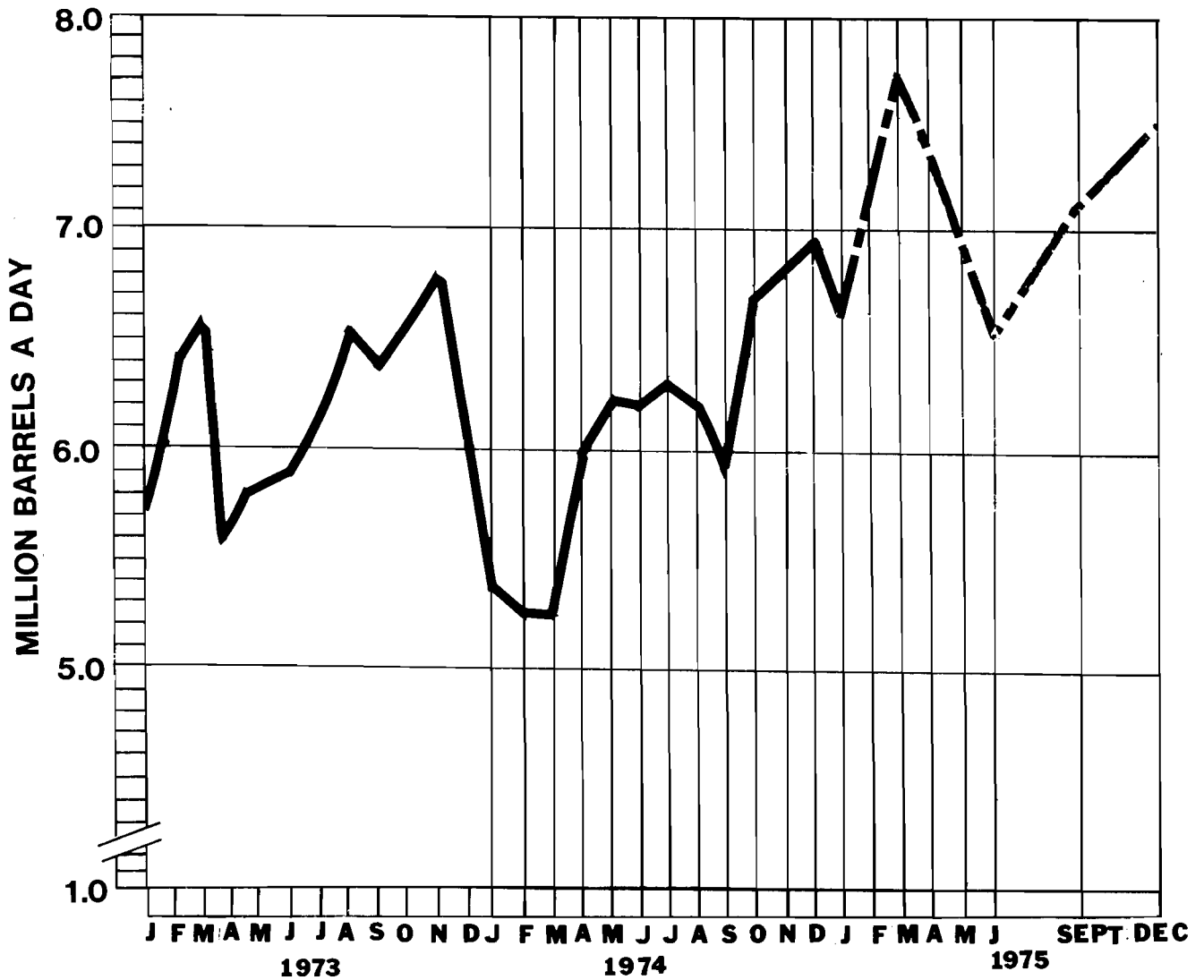
	<u>Gasoline</u>	<u>Heating Oil</u>	<u>Residual Oil</u>
Expected demand without conservation	6,348,000	4,073,000	3,218,000
Required to meet President's goal	6,298,000	4,047,000	3,197,000
Apparent demand**	6,556,000	3,900,000	2,896,000
Demand under (over) President's goal	(258,000)	147,000	301,000

*For the one million barrel per day saving goal, 170,000 barrels per day is the goal for the first three months of 1975.

**Production plus imports, adjusted for inventory change in primary storage



Petroleum Imports

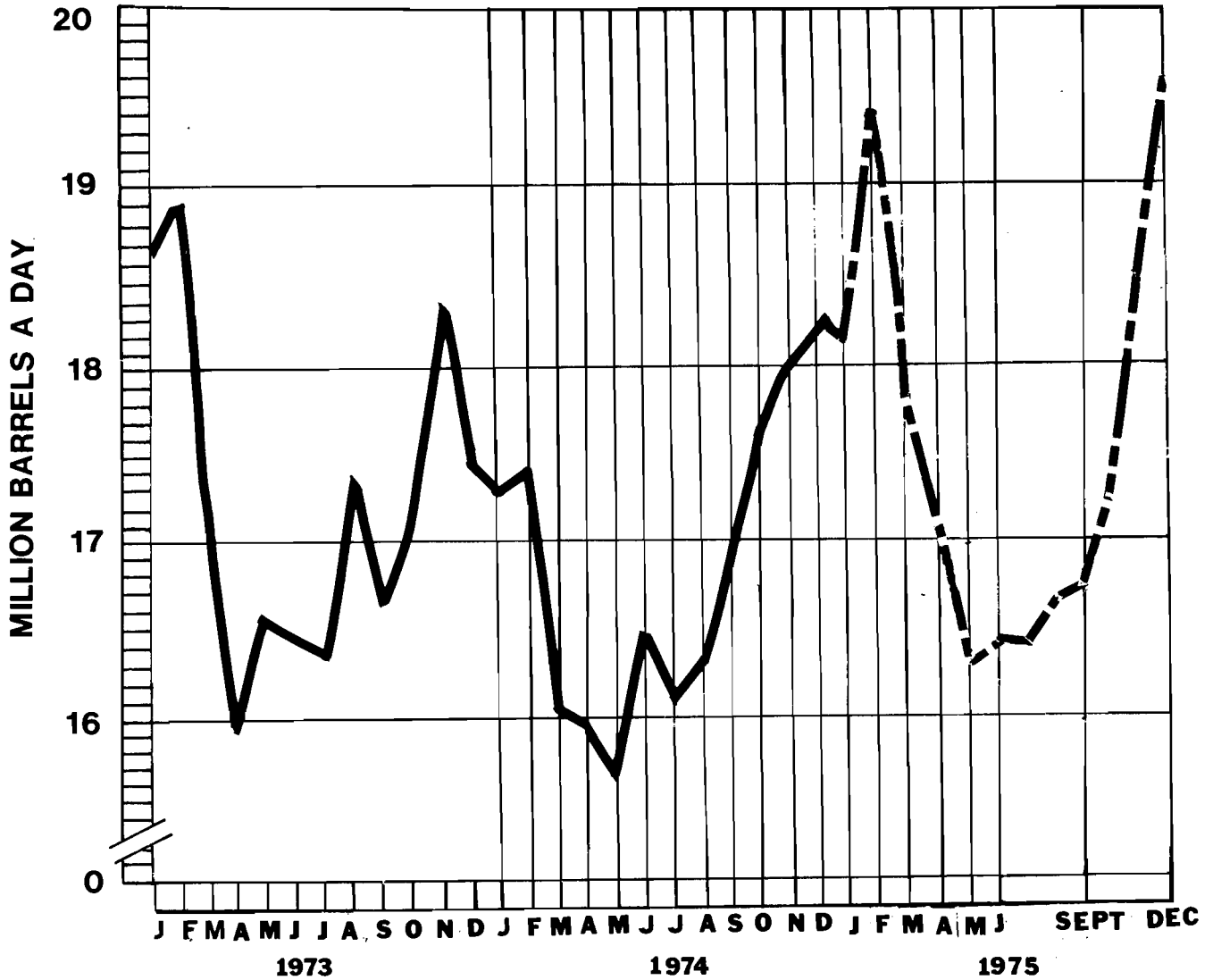


Sources: FEA from May 1974 forward.

Bureau of Mines for April 1974 and earlier.

FORECAST 
ACTUAL 

Apparent Demand For Products

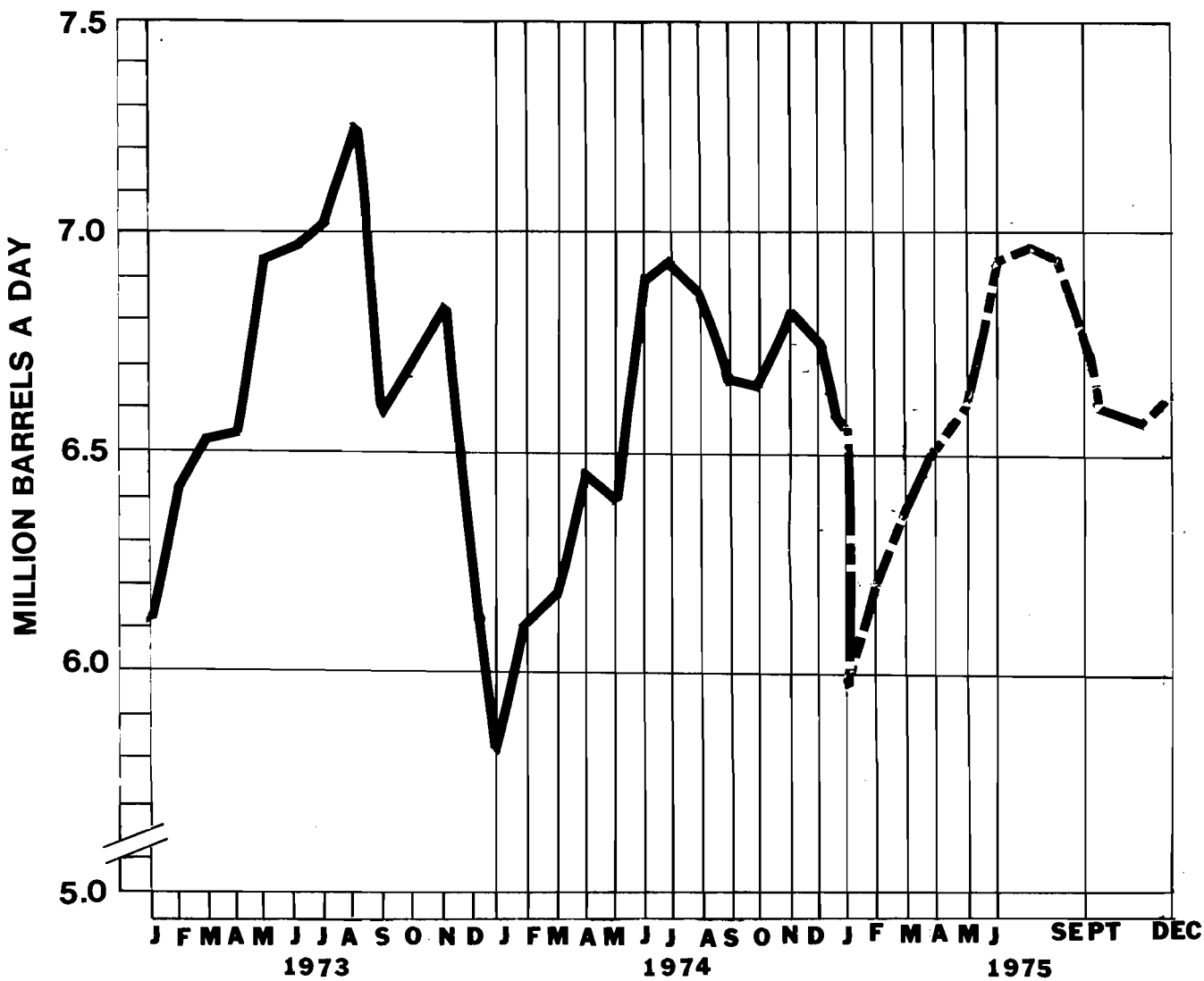


Sources: FEA from May 1974 and earlier.
 Bureau of Mines for April 1974 and earlier.

FORECAST 
ACTUAL 



Apparent Domestic Demand for Motor Gasoline



Sources: FEA from May 1974 and earlier.

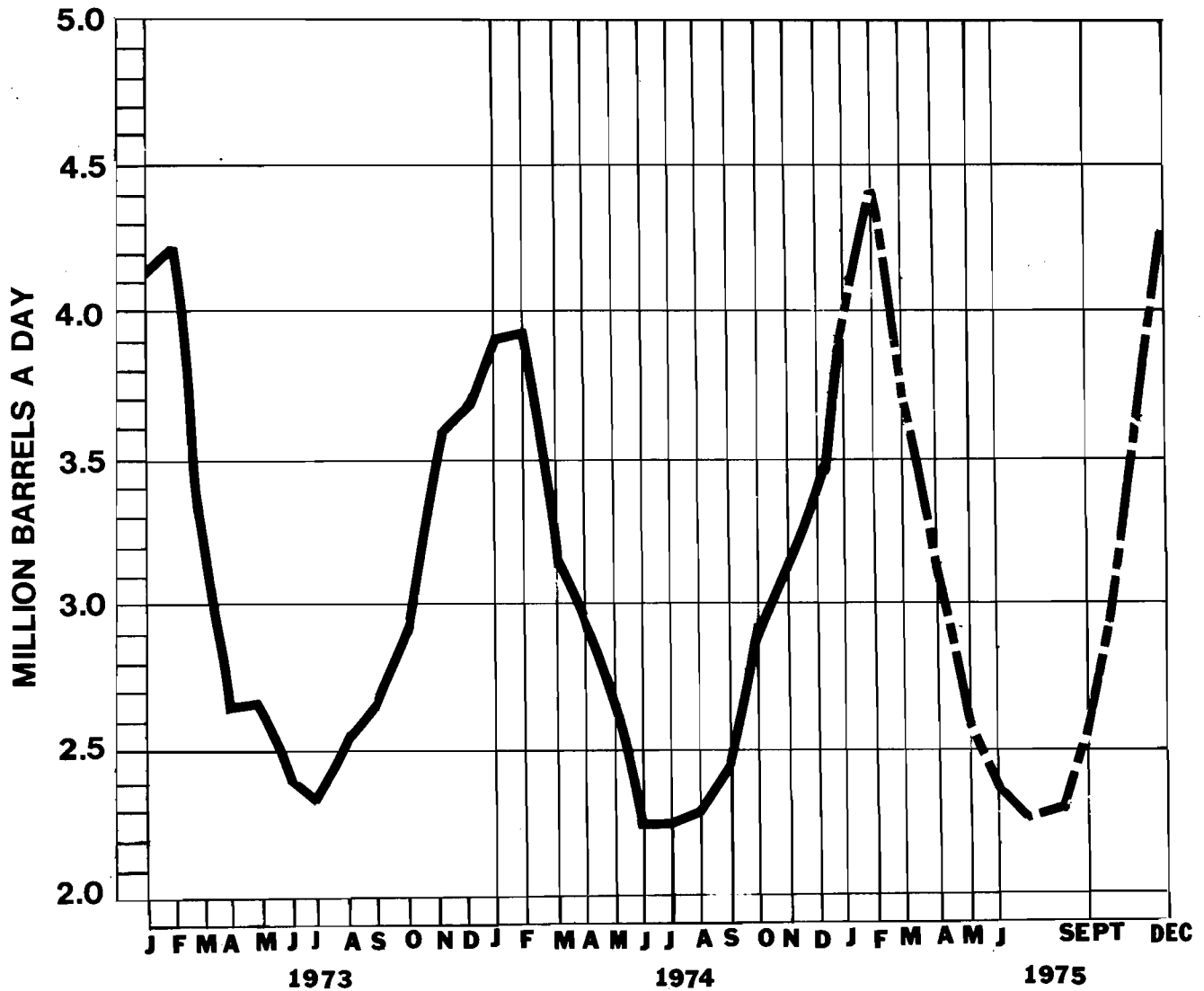
Bureau of Mines for April 1974 and earlier.

FORECAST - - - - -

ACTUAL _____



Apparent Domestic Demand for Distillate Fuel Oil



Sources: FEA from May 1974

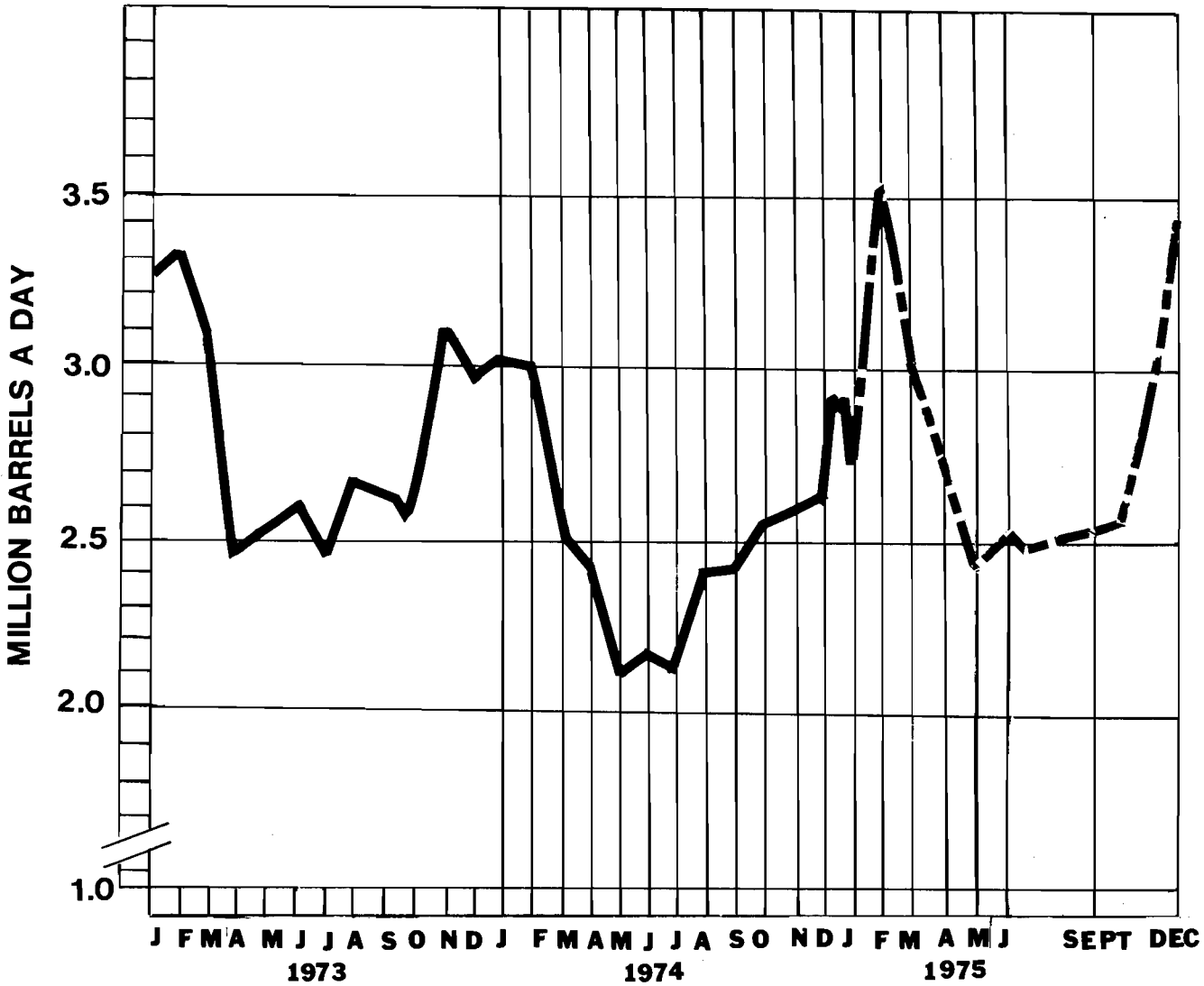
Bureau of Mines for April 1974 and earlier.

FORECAST 

ACTUAL 

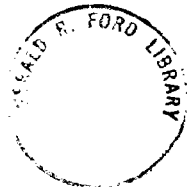


Apparent Domestic Demand for Residual Fuel Oil



Sources: FEA from May 1974 forward.
 Bureau of Mines for April 1974 and earlier.

FORECAST - - - - -
ACTUAL - - - - -





United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

January 16, 1975

Dear Mr. President:

It is our understanding that Congress will resume consideration of surface mining legislation in the next few days. The principal sponsors of S. 425, the bill which you vetoed in the last Congress, have reintroduced an identical bill which they believe will be quickly passed by both Houses.

If the Administration is to achieve needed changes in those undesirable provisions of this legislation which were the basis for the veto, it is imperative that an attempt be made to arrive at an accommodation with the principal sponsors, Senator Jackson, Representative Udall and Representative Mink in return for Administration support. Without such an agreement we may be soon faced with a new bill passed by Congress which is identical to the one vetoed with little chance of sustaining a second veto.

While the bill approved by the last Congress contains a number of deficiencies, most of these are of secondary importance. Your veto was addressed principally to adverse coal production impacts, inflationary effects and administrative uncertainties. We believe that five amendments, if adopted, will result in acceptable surface mining legislation in terms of impact on energy supply and environmental protection. These are:

1. Modification of the prohibition against stream siltation;
2. Modification of the prohibition against hydrological disturbances;
3. Clarification and limitation of the scope of citizen suits;
4. Provision for executive authority to define ambiguous terms in the Act subject to a limited judicial review; and
5. A substantial reduction of the mined land reclamation fee from 25 cents and 35 cents per ton.



Save Energy and You Serve America!



There is reason to believe that these amendments will be acceptable to the principal sponsors of S. 425 if they can be assured of your support for the amended bill. While it may not be possible to obtain any amendments in Committee, they could be introduced on the Floor.

We believe early enactment of a surface mining bill amended as we have suggested is clearly in the best interest of the Nation. Our amendments to the bill would assure greater certainty as to the impact of the bill and would substantially lower coal production losses anticipated from the bill. Moreover, enactment of such an amended bill would provide the industry with the degree of certainty which will permit long range planning and capital investment so vitally necessary for increased coal production.

If you agree, we recommend this position be communicated to Senator Jackson, Representative Udall and Representative Mink. We and our staffs could then follow up with the specific amendments and other necessary details.

Respectfully,

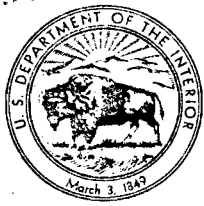
Rogers CB Norton
Secretary of the Interior

J. S. Gal
Administrator of Federal Energy Administration

Russell Train
Administrator of Environmental Protection Agency

The President
The White House
Washington, D. C. 20500





United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

1/16/75

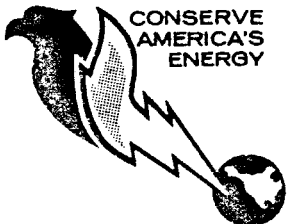
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Respectfully,

Rogers C. Morton
Secretary of the Interior

Julius B. ...
Administrator of Federal Energy Administration

...
Administrator of Environmental Protection Agency

The President
The White House
Washington, D. C. 20500

Concern ?
Sant *feed*
Anderson *DRL*
Ligon





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

OFFICE OF THE ADMINISTRATOR

January 17, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *FZARB*
THROUGH: ROGERS C.B. MORTON
SUBJECT: STATE OF THE UNION FOLLOW-UP

The Energy Resources Council will continue to follow-up on the energy proposals delivered in the State of the Union Message. We will report to you bi-weekly indicating progress on each segment.

Attachments

ENERGY FOLLOW UP TO STATE OF THE UNION MESSAGE

AGENCY RESPONSIBILITY FOR
COMPLETION OF LEGISLATION BY
JAN. 22 AND FOLLOW THROUGH
CONTACTS WITH THE CONGRESS

LEGISLATION

Utility Act	FEA
Facility Siting	FEA
Natural Gas Deregulation	FEA
Standby Authority/IEP	FEA
Emergency Storage	FEA
Long-Term Price Uncertainty	FEA
Low Income & Elderly Winterization	FEA
Coal Conversion (ESECA)	FEA
Appliance & Auto Labeling	FEA
Clean Air Act Amendments	EPA
Surface Mining	Interior
Naval Petroleum Reserves	Defense
Windfall Profits Tax	Treasury
Excise and Petroleum Taxes	Treasury
Nuclear Licensing Act	NRC
Tax Credit for Insulation	Treasury
Building Conservation Standards	HUD

REGULATIONS

Proclamation	FEA
Proposed Rulemaking	FEA
Amendments to Oil Import Regulations	FEA

FOLLOW-UP ANALYSES

Utility regulatory processing/ financing study	ERC (FEA Lead)
Synthetic Fuel Plan	ERC
Emergency Storage Planning	FEA/Interior/DOD
Price Floor Decision Paper	FEA/State
Appliance Efficiency Standards	ERC (Commerce Lead)
Contingency Plans if Tax Package is Not Enacted	ERC
Implementation of Fee System	FEA/Customs



POSSIBLE ENVIRONMENTAL
IMPACT STATEMENTS

AGENCY RESPONSIBILITY FOR
COMPLETION OF LEGISLATION BY
JAN. 22 AND FOLLOW THROUGH
CONTACTS WITH THE CONGRESS

Coal Conversion Program	FEA
Facility Siting Program	FEA
Emergency Storage Program	FEA
Utilities Program	FEA
Natural Gas Deregulation Program	FEA
Price Guarantees	FEA
Oil Import Fee	FEA
Standby Authorities	FEA
Low-Income Conservation Grants	FEA
Synthetic Fuels Program	ERDA
Surface Mining	Interior
Naval Petroleum Reserves	Defense
Appliance Labeling	FEA
Windfall Profits Tax	Treasury
Residential Insulation Tax Credit	Treasury
Nuclear Licensing	NRC
Thermal Efficiency Standards	FEA

PROGRAM MONITORING

Modification of existing monitoring system to track progress of President's program	FEA
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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

OFFICE OF THE ADMINISTRATOR

January 18, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: Talking Points and Background Paper for Possible Meeting with Armed Services Committee Chairmen

Attached for your information are talking points (Tab A) and background information (Tab B) for your possible meeting this week with the Armed Services Committee Chairmen.

Attachments



PETROLEUM RESERVES ADMINISTRATION POSITION

National Strategic Petroleum Reserve (NSPR)

- Legislative authority will be sought to plan, construct, fill as appropriate, and maintain a National Strategic Petroleum Reserve. Government receipts from NPR-1 and NPR-4 will finance this effort through a Special Fund in the Treasury under the President's control.
- NSPR will include 1 billion bbls for domestic/civilian use and 300 million bbls for military use.
- The Reserve, which will take 4-6 years to complete, could be used only in case of an embargo or similar emergency, or a military emergency.
- Development and utilization of the Reserve will be under the control of the President.

NPR-1, Elk Hills, California

- Exploration and Development
 - Proceed with current, 5-year, Navy program involving 76 exploratory wells and 829 development wells at cost of \$447 million.
- Production (Navy control)
 - 160,000 barrels per day (b/d) as soon as possible in Fiscal Year 1975.
 - 250,000 b/d or more as development progresses.
 - Government share of production is approximately 80% under existing contract.
- Disposition of Government Share of Production
 - Store in NSPR
 - Store in Military Mobilization Tanks
 - Sell at auction or exchange for refined petroleum products used by DOD.
- Use of Sales Revenues
 - Deposit in Special Fund in Treasury from which the President may authorize expenditures for the following purposes:
 - (1) Exploration, Development, Maintenance and Production of present Naval Petroleum Reserves.
 - (2) Finance construction, filling, and maintenance of the National Strategic Petroleum Reserve. (Reserve is petroleum and products stored in salt domes and possibly tanks.)
 - (3) Other military energy requirements.



. Unit Plan Contract with Standard Oil of California (SOCAL)

- Seek agreement with SOCAL to establish new unit plan contract in keeping with above plan and avoid loss of \$55M (current balance owed U.S. under current contract normally payable when reserve is produced for national defense) as well as potential loss of Government oil from speedup of SOCAL production from its own property; or failing to reach such agreement.
- Seek legislation that would protect the Government from losses.

NPR-4 Alaska

. Exploration, Development and Production

- Proceed with current Navy program, but seek broad legislative authority to explore, develop, and produce as rapidly as possible through a program managed by Defense/Navy.
- The President to be given broad authority to determine optimum approach for pursuing the program, including but not limited to exploration, development and production. After the new authorities are obtained, the President would direct the approach so determined according to criteria established in law (e.g., early production in significant volume, adequate return to the Government, sufficient rate of return to investors in exploration, development and production efforts).
- Production rate of 2 million b/d or more by 1985 or sooner is ultimate objective.
- Government share of production is estimated to be 15 to 20%, but will depend upon the choice of optimum approach by the President. All of the remainder will be sold in commercial market.

. Disposition of Government Share of Production

- Store in NSPR.
- Sell at auction or exchange for refined petroleum products used by DOD.

. Use of Sales Revenues

- Proceeds from sale of Government share of production deposited in Special Fund and used as indicated under NPR-1 above. President is authorized to transfer from Special Fund to the Treasury as miscellaneous receipts any of these proceeds in excess of those required for the purposes indicated under NPR-1.
- All other receipts deposited in Treasury as miscellaneous receipts.
- No share of Government receipts would go to State of Alaska.



POINTS FOR DISCUSSION WITH COMMITTEE CHAIRMEN

- . I will soon be submitting legislation to establish a National Strategic Petroleum Reserve.
- . Under my plan, a portion of the oil in Naval Petroleum Reserves 1 and 4 will be used to build a 1.3 billion barrel emergency storage program: 300 million barrels to be dedicated for the military, and 1 billion barrels for the domestic economy in case of a future embargo.
- . In addition, a portion of the Government share of production from these Naval Reserves will be sold at auction or exchanged for refined products used by DOD. Sales revenues from the Government share of production will then be deposited in a Special Fund at Treasury under my control.
- . I would point out that under this plan the 1.3 billion barrels in storage will be far more useable for our national defense than the Naval Reserves are in their present form.
- . We are not asking the military to give up control of its reserves. DOD and the Navy will remain responsible for carrying out this program which will significantly reduce our vulnerability to future coercion.

