The original documents are located in Box 12, folder "Energy (1)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

Energy

March 24, 1975

Dear Mr. Van Note:

Thank you for your letter and attachments of March 21, 1975. It was very thoughtful of you to provide me with this information and I will be sure to share it with those other staff members directly involved with this area of responsibility.

With best regards,

Sincerely,

James M. Cannon
Assistant to the President
for Domestic Affairs

Mr. Craig Van Note
Legislative Aide
Office of Congressman
Alphonzo Bell
House of Representatives
Washington, D.C. 20515

cc: Mike Duval w/cc: incoming

ALPHONZO BELL
27TH DISTRICT
CALIFORNIA

RICHARD BLADES
ADMINISTRATIVE ASSISTANT

SUITE 14220
11000 WILSHIRE BOULEVARD
LOS ANGELES, CALIFORNIA 90024
213-824-7222

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEES:
SCIENCE AND ASTRONAUTICS
EDUCATION AND LABOR

CRAIG VAN NOTE
LEGISLATIVE-ADMINISTRATIVE ASSISTANT

2329 RAYBURN HOUSE OFFICE BUILDING
202-225-6451

March 21, 1975

Mr. James Cannon, Executive Director
The Domestic Council
The White House
Washington, D.C.

Dear Mr. Cannon:

Enclosed is some information you will find of interest, including two propaganda packages put out by the Navy today. The Navy's "point papers" are astounding, to say the least. The hearings before the House Armed Services Committee should be lively if that is the tack the Navy will be taking.

Many thanks for all your efforts in support of the Interior bill. We now have more than 90 co-sponsors, including a broad cross-section of Congress, and the number should pass 100 soon.

??

Yours sincerely,

Craig Van Note

Craig Van Note
Legislative/Administrative Aide
to Congressman Alphonzo Bell

CVN:mek

POINT PAPER

ON THE EFFECTS

OF THE TRANSFER OF THE

NAVAL PETROLEUM RESERVES

FROM NAVY TO INTERIOR

1. America's independence will be imperiled.
2. Its citizens lives will be needlessly risked.
3. Its treasury will be denied billions of dollars.
4. Its progress on the exploration and development of the reserves will be delayed.
5. Its oil companies will make huge unearned profits.
6. It will be embroiled in another sensational scandal.

The four Naval Petroleum Reserves located at Elk Hills and Buena Vista Hills in California, Teapot Dome in Wyoming and on the North Slope of Alaska, contain oil fields of 1 billion, 30 million, 42 million and 100 million barrels of proven reserves, respectively.

As reliable domestic petroleum production continues to plunge and insecure, foreign imports continue to surge, America's very existence could depend on the vast untapped reservoirs of oil contained in the Naval Petroleum Reserves.

Oil is as necessary as blood in war! Without sufficient supplies of fuel mechanized armies are foot soldiers, air forces are grounded and navies are dead in the water.

The real value of the Naval Petroleum Reserves is not their market value which is measured in dollars but their security value which is measured in lives.

If Naval Petroleum Reserve No. 4 contains 33 billion barrels of oil, as estimated by the United States Geological Survey of the Department of the Interior, and if the price of oil is 10 dollars per barrel the current market price; then the oil contained in Naval Petroleum Reserve No. 4, alone, may be worth 330 billion dollars.

Under present law, if Naval Petroleum Reserve No. 4 were taken from the protective custody of the Navy and turned over to the Interior Department to be leased out to the oil companies under the Mineral Leasing Act:

the oil companies would receive 87½%,

the State of Alaska would receive 11¼%,

and the United States Treasury would receive 1¼%

of the amount or value of each barrel of oil removed or sold.

(See 30 U.S.C. § 191)

Each of the 220 million Americans could thus own a share of the Naval Petroleum Reserve No. 4 estimated alone to be worth $1,500.00. Most Americans will probably take exception to the dissipation of the reserves by the Department of the Interior and their exploitation by the oil companies.

It would be the height of folly for the United States to give away the immense quantities of oil in the Naval Petroleum Reserves and then buy back the same oil at stiff prices for use in the defense of the nation.

During the past two years the price of oil including that contained in the Naval Petroleum Reserves has advanced by a factor of four. Thus the federal government has profited greatly by continuing to maintain its reserve policy.

Turning the Naval Petroleum Reserves over to the oil industry through the conduit of the Interior Department has been attempted unsuccessfully in the past. The result was the catastrophic Teapot Dome scandal; a monument to political graft, bribery and corruption at the highest levels of government, which, it appears, is about to be repeated.

Inflation is not the first ploy utilized in attempting to take over the reserves, only the most recent in a continuing series. During the preceeding decade, other timely gambits have included: the reduction of the balance of payments in 1965, the environmentally acceptable avoidance of oil spills in the Santa Barbara Channel in 1968, the compensation of the Alaska Natives in 1971, and the allevaiation of "energy crisis" in 1973.

In 1953, the outer continental shelf lands were transferred from Navy to Interior. In 1974, more than 20 years later, the Atlantic and Pacific outer continental shelves remain virtually unleased and undeveloped.

Interior is at least five years behind Navy in planning for the exploration and development of the Naval Petroleum Reserves and at least two years behind Navy in execution.

Congress has already funded two years of Navy's program. Alterations at this time will lead to further delay.

The Navy does not contribute to political campaign funds oil companies do.

POINT PAPER
DISTRIBUTION OF FUNDS
FROM FEDERAL OIL AND GAS LEASES

The Mineral Leasing Act of 1920, 30 U.S.C. § 181-287, describes the amount of royalty required for production from U.S. lands and the collection and distribution of all bonuses, rentals, and royalties.

Under current law lands within a known geological structure ..."shall be leased to the highest responsible qualified bidder by competitive bidding ..." for a bonus acceptable to the Secretary of the Interior and a royalty of not less than 12½ percent in 30 U.S. C. § 226(b).

Lands not within a known geologic structure are awarded to the first applicant qualified to hold such a lease for payment of a 12½ percent royalty. 30 U.S.C. § 226(c).

A rental fee of at least 50¢ per acre per year is required after discovery of oil or gas in paying quantities. A minimum royalty of $1 per acre is payable in lieu of rental. 30 U.S.C. § 226(d).

The Secretary of Interior has the authority to change the minimum royalty as well as other portion of leases to promote cooperative or unit plans. 30 U.S.C. § 226(i).

All money received from sales, bonuses, royalties, and rentals of public

lands are paid into the Treasury of the United States. The State within which the lease is located is credited with 37½ percent of the money collected, and the Bureau of Reclamation is credited with 52½ percent. Except for the State of Alaska which is entitled to 37½ plus 52½ percent or a total of 90 percent for disposition by the state legislature.

Thus of the amount or value of the production removed or sold from a lease of public lands in Alaska 87½ would go to the lease holder while only 12½ percent would be deposited in the U.S. Treasury of that 12½ percent 90 percent would be given to the State of Alaska which leaves the Federal Government 1.25 percent.

By way of contrast, all moneys that accrue from lands within the Naval Petroleum Reserves are deposited in the Treasury as "miscellaneous receipts". 30 U.S.C. § 191.

To further illustrate this point if the lands within Naval Petroleum Reserve No. 4 were returned to the public domain and leased out by the Secretary of the Interior under the Mineral Leasing Act tomorrow and if Naval Petroleum Reserve No. 4 in fact contains 10 billion barrels of new recoverable oil valued at 10 dollars per barrel the lease holders (oil companies) would receive 87.5 billion dollars while the Federal Government could anticipate receiving $12.5 billion dollars of which all but 1.25 billion dollars would be required to be paid to the State of Alaska.

On the contrary if the Navy were to explore, develop and produce Naval Petroleum Reserve No. 4 the entire 100 billion dollars less costs of exploration, development and production would be deposited as miscellaneous receipts in the U.S. Treasury for the Federal Government to use as it sees fit.

Co-sponsors of H.R. 49

Democrats

Anderson (California)
Badillo (New York)
Benitez (P.R.)
Brown (California)
Byron (Maryland)
Carr (Michigan)
Corman (California)
Danielson (California)
DeLugo (V.I.)
Drinan (Massachusetts)
Eckhardt (Texas)
Fascell (Florida)
Ford (Tennessee)
Fraser (Minnesota)
Hannaford (California)
Harrington (Massachusetts)
Holland (South Carolina)
Howe (Utah)
Johnson (California)
Kastenmeier (Wisconsin)
Krebs (California)
Lloyd (Tennessee)
Lloyd (California)
Matsunaga (Hawaii)
Meeds (Washington)
Melcher (Montana)
Mink (Hawaii)
Mitchell (Maryland)
Oberstar (Minnesota)
Patman (Texas)
Pepper (Florida)
Riegle (Michigan)
Risenhoover (Oklahoma)
Roybal (California)
Ryan (California)
Santini (Nevada)
Sisk (California)
Spellman (Maryland)
Stark (California)
Taylor (North Carolina)
Tsongas (Massachusetts)
Udall (Arizona)
Van Deerlin (California)
Vander Veen (Michigan)
Young (Georgia)

Bingham (New York)
Edwards (California)

Baucus (Montana)

Republicans

Anderson (Illinois)
Andrews (North Dakota)
Bauman (Maryland)
Bell (California)
Biester (Pennsylvania)
Broomfield (Michigan)
Burgener (California)
Clauson (California)
Clawson (California)
Cleveland (New Hampshire)
Conte (Massachusetts)
Coughlin (Pennsylvania)
Duncan (Tennessee)
Esch (Illinois)
Fenwick (New Jersey)
Forsythe (New Jersey)
Frenzel (Minnesota)
Guyer (Onio)
Heckler (Massachusetts)
Heinz (Pennsylvania)
Johnson (Colorado)
Ketchum (California)
Kindness (Ohio)
Lagomarsino (California)
Lujan (New Mexico)
McCloskey (California)
McKinney (Connecticut)
Moorhead (California)
Pritchard (Washington)
Quie (Minnesota)
Regula (ohio)
Rousselot (California)
Ruppe (Michigan)
Sarasin (Connecticut)
Sebelius (Kansas)
Skubitz (Kansas)
Steelman (Texas)
Steiger (Arizona)
Symms (Idaho)
Talcott (California)
Wiggins (California)
Young (Alaska)

Members of the House Interior Committee co-sponsoring H.R. 49

1. Bauman (Maryland)
2. Benitez (P.R.)
3. Bingham (New York)
4. Burke (California)
5. Carr (Michigan)
6. Clausen (California)
7. DeLugo (V.I.)
8. Eckhardt (Texas)
9. Howe (Utah)
10. Johnson (California)
11. Johnson (Colorado)
12. Kastenmeier (Wisconsin)
13. Ketchum (California)
14. Lagomarsino (California)
15. Lujan (P.R.)
16. Meeds (Washington)
17. Melcher (Montana)
18. Mink (Hawaii)
19. Patman (Texas)
20. Risenhoover (Oklahoma)
21. Ruppe (Michigan)
22. Santini (Nevada)
23. Sebelius (Kansas)
24. Skubitz (Kansas)
25. Symms (Idaho)
26. Taylor (North Carolina)
27. Tsongas (Massachusetts)
28. Young (Alaska)

ALPHONZO BELL
27TH DISTRICT
CALIFORNIA

RICHARD BLADES
ADMINISTRATIVE ASSISTANT

SUITE 14220
11000 WILSHIRE BOULEVARD
LOS ANGELES, CALIFORNIA 90024
213-824-7222

*** MEMBER'S PERSONAL ATTENTION PLEASE ***

COMMITTEES:
SCIENCE AND ASTRONAUTICS
EDUCATION AND LABOR

CRAIG VAN NOTE
LEGISLATIVE-ADMINISTRATIVE ASSISTANT

2329 RAYBURN HOUSE OFFICE BUILDING
202-225-6431

Congress of the United States
House of Representatives
Washington, D.C. 20515

March 17, 1975

Dear Colleague:

On March 13, by a roll-call vote of 32-0, the House Committee on Interior and Insular Affairs favorably reported H.R. 49. This bill would authorize the Secretary of the Interior, after consultation with the Secretary of Defense, to declare any or all of the existing Naval petroleum reserves as "national petroleum reserves" to be regulated in a manner consistent with the total energy needs of the entire Nation, including but not limited to national defense.

The time has long passed since there was a need for special oil reserves for the exclusive use of the Navy. The Naval oil reserves were set aside more than 60 years ago when the Navy was converting its ships from coal to bunker oil to insure a fuel source. The need for special reserves was eliminated, however, during the Korean War when Congress enacted the Defense Production Act of 1950. This Act gives the military top priority over all American oil supplies and production -- and during any national emergency, the Armed Forces have first call on all oil in America.

The Defense Production Act was, in fact, invoked in November and December of 1973, following the October War in the Middle East and during the Arab oil embargo. The military was allocated millions of gallons of scarce fuel from the civilian sector -- most of it jet fuel for the Air Force and the Navy.

The job of our Department of Defense is to have our fighting ships ready, our airplanes ready, our military personnel ready, and our military equipment ready to protect the United States. Its job is not to handle the energy reserves and resources of this nation. Clearly the Department of the Interior, which has traditionally held the responsibility of managing our mineral resources, has more expertise and is better qualified to administer our oil reserves.

Bringing the vast Elk Hills field in California up to full production, which would take only 1 to 3 years, would provide at least 300,000 additional barrels of badly needed domestic oil a day (or, potentially, 10 million gallons of gasoline per day.) Also, at current prices, this amount of production would have an immediate favorable impact on our balance of payments of more than $1 billion per year. Other sources promise potential production 10 or more years in the future, but Elk Hills is the only place in the United States where we can realize such sizeable quantities of oil and gas almost immediately.

We can no longer afford the luxury of allowing such a vital resource as Elk Hills, or PET 4 in Alaska, to lie dormant and insufficiently developed while the Nation's energy needs are so critical. Congress must act to help ease our very serious energy shortfall and dangerous dependence on high-priced foreign oil imports.

We urge your support for this effort when it comes to the Floor. A list of the co-sponsors of this legislation to date and the complete text of the bill in its present form are attached for your reference. If you would like to join as a co-sponsor, or want more information, please call John Gingles at X56451.

Sincerely,

William M. Ketchum, M.C. — James C. Corman, M.C. — Alphonzo Bell, M.C.

Morris K. Udall, M.C. — John B. Anderson, M.C. — B. F. Sisk, M.C.

John Melcher, M.C. — Albert H. Quie, M.C. — Spark M. Matsunaga, M.C.

Del Clawson, M.C. — Silvio O. Conte, M.C. — Claude Pepper, M.C.

Energy

March 6, 1975

Dear Mr. Johnston:

Thank you for sending me a copy of Mr. Murphy's January 24, 1975 letter sent to General Motors stockholders.

It's a good letter and I would be interested in whether it had the impact you hoped for.

Sincerely,

James M. Cannon
Assistant to the President
for Domestic Affairs

Mr. James D. Johnston
Coordinator
GENERAL MOTORS CORPORATION
Suite 814
1660 L Street, N.W.
Washington, D.C. 20036

JC:pm

GM

FROM
JAMES D. JOHNSTON
INDUSTRY-GOVERNMENT RELATIONS

February 25, 1975

TO Mr. James M. Cannon
Assistant to the President for Domestic Affairs

Here is a copy of Mr. Murphy's letter to our stockholders which we discussed in our meeting this morning. Similar letters were sent to our dealers and major suppliers.

It was a pleasure to meet with you and Mr. Dunhan and, of course, it was a special privilege to meet with the Vice President.

If I may be of assistance at any time please, do not hesitate to call.

James D. Johnston
Coordinator

Att.

SUITE 814 1660 L STREET, N.W.
659-5124 • WASHINGTON, D.C. 20036

GENERAL MOTORS CORPORATION
GENERAL MOTORS BUILDING
DETROIT, MICHIGAN 48202

T. A. MURPHY
CHAIRMAN

January 24, 1975

Dear Stockholder:

President Ford has set forth proposals to stimulate our economy and to reduce our national dependence on imported oil even while we remain alert to the dangers of inflation. Because the interests of our Corporation -- as well as those of our customers, employes, dealers, and suppliers -- are deeply involved in the success of these proposals, I am writing to recommend that you encourage prompt action by your representatives in Congress.

We favor the basic reliance in the President's program on the free-market mechanism as a means of conserving energy and augmenting domestic supply. While there is room for modification, we believe there is no time for delay in enacting a coherent and constructive program which will help the entire economy, including General Motors.

Of particular importance to General Motors is the President's request that Congress continue substantially the present auto emission standards for five years. General Motors believes the current emission controls strike the balance between cleaner air and the industry's ability to achieve the national goal of a 40% improvement in gas mileage by 1980 with due regard for the cost to our customers. We have assured the Administration that GM will make an all-out effort to meet these objectives.

We point out, however, that the goal can be achieved at less cost in gasoline and in dollars if the present emission controls are not tightened, and if there is a productive pause in other regulations which add weight and cost to our cars and trucks. If you agree, I wish you would urge your representatives in Congress to continue the 1975 auto emission-control requirements, and to defer for five years other federal regulations which would add weight and cost to our vehicles.

We believe that economic recovery and energy independence are not narrow issues for partisan debate, but rather they touch upon the interest of the entire nation. We all, therefore, have an obligation to make our views known, and I hope that you as an individual will join in this effort.

Sincerely,

T. A. Murphy

P.S. Another primary aim of the President's program is to restore consumer confidence -- a vital ingredient for improved sales for our Corporation. I therefore would like to point out the exceptional values represented by our 1975 cars now in our dealers' showrooms, and suggest that you might wish to cast your own vote of confidence in our future by buying a 1975 General Motors car.

March 25, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM: R. L. DUNHAM

SUBJECT: Federal Energy Regulation

In addition to delays caused by capital insufficiency, some critical energy-related projects are being delayed by a variety of agencies, both Federal and State, with overlapping jurisdictions in regulation of energy projects and companies. Specifically, an energy project, such as a nuclear power plant or a deepwater tanker port, cannot be constructed until approvals are obtained from several agencies. Often more than one agency will consider the same issue, e. g., the antitrust or the energy policy implications of the project. Among others, the agencies include:

-- Securities Exchange Commission
-- Federal Power Commission
-- Interstate Commerce Commission
-- Environmental Protection Agency
-- Department of Justice (Antitrust and other questions)
-- Nuclear Regulatory Agency (formerly AEC)
plus
-- State(s) Public Utility Commission(s)
-- State(s) Environment Agency(ies)

In order to reduce the delay which this regulatory "mess" produces, the President might consider proposing that all energy regulation be consolidated into one agency providing a single forum for consideration of all issues involved in a proposed energy-related project.

Creation of a single agency with exclusive regulatory jurisdiction over energy projects should produce more timely regulation. In addition, the creation of the new agency will provide the Administration with an opportunity to review the reasonableness of all aspects of energy-related regulation and to recommend elimination of those aspects which are currently superfluous or outdated. The end result could be more timely and reasonable regulation.

The announcement of this new initiative might coincide with the announcement of the proposed new Energy Finance Agency, if this is made during a "fireside chat" to the people next Wednesday.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

April 15, 1975

MEMORANDUM FOR: L. William Seidman
Frank G. Zarb

FROM: Jim Cannon

Attached are a series of memoranda which were given to me by Mike Wright of Exxon Corporation. These memoranda set forth Exxon's projections regarding the short-term energy outlook, the economic outlook, and the long-term energy outlook for the nation.

I thought they might be useful to you.

Energy

THE WHITE HOUSE

WASHINGTON

April 30, 1975

Dear Don:

I very much appreciate your taking the time to meet with me and discuss the current activities of the Rand Corporation.

I am reviewing the reports and studies you sent me following the meeting and have asked the appropriate members of the Domestic Council staff to also share in this review. I understand that much of the work you did for FEA was reflected in the President's ultimate decision on his energy program.

I look forward to following up with you on several of these key issues, especially in the energy area.

Sincerely,

James M. Cannon
Assistant to the President
for Domestic Affairs

Mr. Donald B. Rice
President
The Rand Corporation
1700 Main Street
Santa Monica, California 90406

Rand
SANTA MONICA, CA. 90406

DONALD B. RICE
President

18 April 1975

Mr. James Cannon
Executive Director, Domestic Council
The White House
Washington, D.C.

Dear Jim:

As an initial follow-up on our conversation earlier this week, enclosed are several papers on the energy subject we discussed.

First, Rand Reports R-1560/1 (Executive Summary) and R-1560 on How to Save Gasoline, Public Policy Alternatives for the Automobile, present estimates on the conservation effects of a gasoline tax and the possibilities for longer term savings based on technological changes. I suggest you read the Executive Summary.

The results of the gasoline study were made available to FEA informally during the summer of 1974. They have subsequently been considered by the Senate Commerce Committee and excerpts have been used by the Committee as a basis for eliciting automobile industry views.

Second, enclosed is a draft paper, done for and provided to FEA last summer, which treats the impacts of price changes in different energy forms on consumers of different income levels. My criticism of the rhetoric which opposes gasoline taxes as especially oppressive of the poor is based on the data in tables 2 and 6 on pages 7 and 18. These estimates are derived in part from BLS 1960-61 data, unfortunately the latest available, on household expenditure patterns.

Third, enclosed is a copy of an article which appeared in the Spring issue of Foreign Policy. It elaborates on the point I was making about the desirability of encouraging development of oil and coal reserves outside the U.S. or other major energy consuming countries.

Best regards,

Don Rice

Enclosures

THE WHITE HOUSE

WASHINGTON

April 22, 1975

MEMORANDUM FOR : MIKE DUVAL

FROM : JIM CANNON

SUBJECT : Rand Report

Attached are several papers from Don Rice on energy that I am forwarding to you for your information.

And would you also draft a note of appreciation

Attachment

THE WHITE HOUSE

WASHINGTON

1) Duncan
2) Cavanaugh
FYI.

May 22, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM LYNN

FROM: JERRY H. ~~JONES~~ 3) File

SUBJECT: Department of Energy and Natural Resources

Your memorandum to the President of May 13 on the above subject has been reviewed and the following was approved -- that DENR legislation not be sought at this time.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld
Rod Hills
~~Jim~~ Cannon
Jack Marsh
Max Friedersdorf
Brent Scowcroft
Bill Seidman

due 5/15/75
Duval

May 13, 1975

Phil Buchen
Jim Cannon
Jack Marsh
Max Friedersdorf
Brent Scowcroft
Bill Seidman

DUE: Date: Thursday, May 15, 1975 Time: cob

SUBJECT:

Lynn memo (5/13/75) re: Department of Energy and Natural Resources

ACTION REQUESTED:

____ For Necessary Action
____ For Your Recommendations
____ Prepare Agenda and Brief
____ Draft Reply
X For Your Comments
____ Draft Remarks

REMARKS:

to Cannon
Terri Cavanaugh

PLEASE RETURN THIS COPY TO MARTHA SUBMITTED.

Jerry H. Jones
Staff Secretary

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 1 [illegible] 75

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN (Signed)

SUBJECT: Department of Energy and Natural Resources

We have solicited views from affected departments and agencies as to the desirability of the Administration resubmitting legislation to create a Department of Energy and Natural Resources (DENR). A decision on this matter is needed because current uncertainties tend to deter forward planning by agencies concerned. These include the Departments of Interior, Commerce, Agriculture, Defense, Transportation, the Federal Energy Administration, and Energy Research and Development Administration.

None of the agency heads believes the Administration should initiate DENR legislation at this time. Reasons advanced include (a) the major investment of political capital entailed, (b) disruptions created in the newly organized energy area, and (c) concerns that the prior DENR model might be followed to the detriment of their agency.

The survey confirms our judgment that a DENR proposal now would require a major Administration effort, with marginal chances of success. However, this situation does not foreclose selective organization and management actions that might facilitate later creation of a DENR.

This Office is assessing what needed reorganizations are feasible in the natural resource and energy areas, thereby moving towards DENR objectives. Such consolidations and internal management actions could strengthen the Department of the Interior's capacity to provide Government-wide leadership. One objective of this effort would be to permit returning major functions of FEA to that Department when independent status is no longer required. We intend to offer assistance to Secretary-Designate Hathaway in identifying Interior's problems and opportunities.

Recommendation

° That DENR legislation not be submitted at this time and that affected agencies be informed of such decision.

Decision

☐ That DENR legislation be readied for early submission.

☐ That DENR legislation not be sought at this time.

☐ Other

THE WHITE HOUSE

WASHINGTON

May 15, 1975

MEMORANDUM FOR JIM CANNON

THROUGH: JIM CAVANAUGH

FROM: MIKE DUVAL

SUBJECT: LYNN MEMO RE DEPARTMENT OF ENERGY AND NATURAL RESOURCES

I recommend that you support Lynn's recommendation that the Department of Energy and Natural Resources not be submitted at this time. I think it is of critical importance that Congress remain focused on substantive energy legislation and not be given the "out" of passing another organizational bill.

In the event that DENR remains under consideration within the Administration, I think there are two important points which should be addressed:

1. The whole concept may be overconceived. I am not convinced that DENR or the Department of Community Development, Department of Human Resources or the Department of Economic Affairs can, in fact, be managed. I think that they may be simply too big to be managed by one Secretary, and thus an organizational mistake.

2. If the decision to go forward with something like DENR is made, I think that the name of the department should be simply Department of Natural Resources. It's true that energy is the hot ticket item today, but a year from now, or two, it might be back to the environment or something else. I think it is shortsighted to highlight energy in the name of the department.

THE WHITE HOUSE

WASHINGTON

September 2, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: —JIM CANNON

FROM: JIM CONNOR

SUBJECT: ERDA - Contract Systems Management Support

The attached memorandum was received in the President's outbox with the following notation:

> "I'm not clear on this. What is reaction of Rog Morton and Frank Zarb?"

Please put together a proposal on this subject that can be given a very careful staffing including OMB, FEA and others.

cc: Don Rumsfeld

THE WHITE HOUSE

WASHINGTON

Hold

DRAFT
9/23/77

SUBJECT: Systems Management Contract--Increasing Coal Production and Utilization

ISSUE

The issue for your consideration is whether you wish to direct that the services of a systems analysis and systems management contractor be obtained to assist the Federal government in assuring accelerated development and utilization of the nation's coal resources.

BACKGROUND

- Achieving your goals for the nation's energy independence will depend heavily on greatly expanded production and use of coal over the next ten years--from roughly 600 million tons in 1975 to 1,200 million tons or more by 1985.

- Efforts to expand coal production and use will be constrained at many points from the opening of mines, to producing, transporting, converting the coal, and to utilizing it for producing energy. Constraints will include economic, technological, environmental, and institutional factors.

- Within the Federal government, activities affecting coal production and utilization are assigned to several agencies; e.g., ERDA for technology development, FEA for policy development and promotion of resource development; Interior for federal land management, mining technology, and coal mine health and safety; EPA for environmental requirements; DOT for transportation; and several others including FPC, Treasury, Corps of Engineers, and Commerce.

- The last major review of the matter of coal production and utilization was by an interagency task force as part of work leading to FEA's Project Independence Report.

- In the case of defense and space matters of great complexity, DOD and NASA have found that systems analysis and management support obtained by contract from outside the Government has made a major contribution to achieving objectives.

- At the request of the Vice President, Dr. Seamans has submitted an initial analysis of the desirability of undertaking the contract support approach as a measure to accelerate the use of coal (Tab A). Dr. Seamans concludes that this approach could make a major contribution.

- If a contract study is to be undertaken, funding for it could be provided by ERDA alone or by ERDA with contributions from other agencies principally concerned. The detailed scope of work, contractor selection procedures, funding and contract management arrangements would be worked out among the agencies concerned by the Energy Resources Council.

Alternatives, Recommendations and Decision

Alternative #1: Proceed with the Contract Systems Management Approach.

- The efforts required to expand coal production and utilization are so great and complex that a major systems analysis and management job must be done.

- Responsibilities with respect to coal are too scattered in several agencies so that no one agency can mount an adequate in-house effort to do the job required. Interagency efforts are too slow and cumbersome.

Alternative #2: Do not proceed with a contract for Systems Management Support at this time.

- Constraints on increased coal utilization are already adequately understood. The principal problem is demand uncertainty,

which is determined primarily by Clean Air Act restrictions, which depend on Congressional action.

- The matter of increasing coal utilization is considerably different than defense and space systems problems, particularly in the much larger role of the private sector at all points from production to utilization. Systems Management Contract is unlikely to help significantly.

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

FYE

September 6, 1975

Dear Mr. Chairman:

Thank you for your September 4 letter to the President concerning energy policies, with particular reference to the proposal for a quasi-public corporation to accelerate energy resource development.

I wish to assure you that I shall call your letter to the President's attention without delay. As you know, the Administration has been exploring various alternative proposals and I know that your recommendations will be most helpful.

With kind regards,

Sincerely,

William T. Kendall
Deputy Assistant
to the President

The Honorable Henry M. Jackson
United States Senate
Washington, D.C. 20510

bcc: w/incoming to James Cannon - for appropriate handling
bcc: w/incoming to Frank Zarb - for your consideration.

WTK:VC:vo

United States Senate

COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS
WASHINGTON, D.C. 20510

September 4, 1975

The President
The White House
Washington, D. C.

Dear Mr. President:

There have been several press reports in recent days which indicate that your Administration may propose the establishment of a new Federal agency or corporation with the purpose of accelerating the development of domestic energy resources by providing financial assistance to priority energy projects and by creating new companies to undertake specific energy projects. I am enclosing for your ready reference a copy of one recent article which appeared in the New York Times on September 2, 1975.

I am greatly encouraged that the dialogue on national energy policy between the Executive and Congress may soon embrace more than the question of appropriate energy pricing which has occupied both branches for the past several months. Assuring the nation adequate supplies of energy is an enormous challenge. I believe it is a challenge which can only be met by providing an activist role for the Federal government in cooperation with private enterprise to make it happen. Clearly, exclusive reliance on high energy prices is no substitute for a national policy which addresses the broad range of energy production, development and transportation problems confronting the nation.

As you know, together with other members of the Senate, I introduced a bill to create a National Energy Mobilization Board last February. The Interior Committee has concluded several days of hearings on the bill and will soon proceed to mark-up. While the responsibilities of the Board I have proposed are apparently more comprehensive than those under consideration by your Administration, a common principal is recognized in the necessity for Federal guidance and assistance in the development of what are more often than not publicly owned energy resources.

The National Energy Mobilization Board, like the entity now being considered by the Administration, would have authority to commit investment capital for needed energy projects.

It would, however, also have a responsibility to mobilize a national effort to bring our people energy self-sufficiency and energy security. Investment and financial problems are tremendously important. Since money alone rarely solves great national problems, however, I believe the proper government role must be somewhat broader.

I welcome the signs that your Administration is considering new initiatives in the energy field which are not confined to pricing policy. I strongly urge you to pursue other initiatives in the months ahead. While serious differences divide Congress and the Executive on some issues of national energy policy, we must not fail to work together and realize the potential for constructive agreement wherever possible.

Sincerely,

Henry M. Jackson

Henry M. Jackson
Chairman

HMJ:vng

Ford About to Decide on Seeking Agency to Allot Funds for Energy Projects

By DAVID BURNHAM
Special to The New York Times

WASHINGTON Sept. 1 — President Ford is expected to decide within days whether to ask Congress to authorize a quasi-public corporation to channel up to $100-billion to projects aimed at making the United States independent of foreign sources of energy.

According to several Government officials, the decision on whether to push for the establishment of the proposed

largely independent nature of the corporation, the General Accounting Office would be authorized to conduct spot audits. The G.A.O. conducts investigations for Congress.

¶In a second modification with the same aim, Congress would be given a veto power over the energy producing subsidiaries proposed by the corporation.

The original proposal was reportedly initiated by Mr. Rockefeller and the Domestic

might attract considerable support.

"Once Congress can resolve its disagreements with the President on the question of oil prices — the decontrol issue — I think they will look at what Government incentives are needed to build equipment for the gasification and liquefaction of coal, the search for oil on the outer continental shelf," said a Democratic assistant.

The quasipublic corporation outlined in the Administration's

THE WHITE HOUSE

WASHINGTON

September 29, 1975

MEMORANDUM FOR: THE HONORABLE ROGERS C.B. MORTON
THE HONORABLE FRANK G. ZARB

FROM: JAMES M. CANNON

SUBJECT: Systems Management Contract--
Increasing Coal Production and
Utilization

The Vice President recently passed on to the President a suggestion made to him that there is a need for a comprehensive systems analysis to speed up the use of coal.

The President wanted to get your opinions.

Would you give me a call about this?

Many thanks.

UNITED STATES
ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
WASHINGTON, D.C. 20545

July 28, 1975

The Vice President
The White House
Washington, D.C. 20501

Dear Mr. Vice President:

At our recent meeting, you asked me to comment on a concept for a systems manager to accelerate the use of coal.

First, let me say that the broad concept of a systems manager for coal is a valuable suggestion. At ERDA, we are developing a variety of new technologies, but this is not the whole job to be done. Industry is developing its own technologies. As important, industry must make many other investments (in rail cars, for example) that involve little technology but are essential to accelerating the use of coal. We need to examine all these aspects of the coal "system," and the system manager concept is a powerful tool for this purpose.

However, to evaluate the specific systems manager concept that we discussed first requires some definition of the total job to be done; that is, the broad issue of how the government can accelerate the introduction of new coal technologies and their associated infrastructure into our market economy. In the enclosed memorandum, I have summarized my thoughts on this commercialization problem as background for evaluating the systems manager concept.

My thinking leads me to two main conclusions:

1. The commercialization problem is novel and complex. It involves numbers of players, types of government programs, and a sophistication in management that we may never before have faced.

2. The coal "system" is not a system in the familiar sense of the term. There is, of course, a physical system involved--from the mines to the end use of coal. But the agents that control the elements of the physical system are not themselves systematically organized. The mines, railroads, utilities, and others are not subject to central direction. Moreover, nearly every part of the system does something else than work with coal; railroads haul other materials, for example, and may consider these other business opportunities more attractive than coal.

For these reasons, I believe that management of the coal "system" is not the same as systems management problems with which we are more familiar. Management of well-organized aerospace systems, in which the government is directly responsible for development, production and operation, is a much less complex undertaking than management of the coal "system." Hence, it would be dangerous to suppose that we could transfer aerospace systems management unchanged to the management of the coal "system."

Against this background, my principal reaction to the systems management concept advanced in the memorandum you gave me is that it may uncritically transfer aerospace systems techniques to our commercialization problem. More specifically, the points set out on pages 6 and 7 of the memorandum appear to assume that commercialization involves a structure of projects and contracts under government control that could be managed as if we were building an aerospace system. As I suggest in the attached memorandum, that assumption is probably not valid.

This observation should not detract from two positive suggestions that the memorandum makes. First, as discussed on its page 5, we face a substantial systems analysis and program development task that is analogous to aerospace systems management. Second, I believe that contract support is required to do the systems analysis job and to help us define the systems management task more precisely. We should build on these suggestions.

Above all, let me urge you to continue your consideration of commercialization problems, especially in coal. Already, ERDA is deeply involved in this issue. Our National Energy Research and Development Plan must develop commercialization strategies on every technology we develop. It has been recommended that ERDA undertake the President's synthetic fuel commercialization program, and that we establish a new assistant administrator for commercialization programs. We have statutory authority for financing commercial ventures, and our role in commercializing uranium enrichment technology has already given us practical experience in the area.

As a result, I am convinced that commercialization is a new issue of critical national importance, and one that is not well understood. I therefore believe that we should begin now to develop the analytic, technical, administrative, and financial capabilities we need to resolve this issue successfully.

I would be pleased to discuss these thoughts with you at your convenience.

Respectfully,

R. C. Seamans

Robert C. Seamans, Jr.
Administrator

Enclosure

A SYSTEMS APPROACH
COMMERCIALIZING COAL TECHNOLOGY

In its national plan, ERDA calculated that coal production could grow by three or four times from 1975 to 2000, that as many as 200 large synthetic fuel plants may be constructed by the end of the century, and that a major technological effort is needed to increase the proportion of coal burned directly under utility and industrial boilers. Accelerating the use of coal at this rate is a large and complex job, and its successful accomplishment will require the coordinated efforts of many elements of government and industry.

It is easy to see this commercialization job as a major systems problem, and indeed it is. There is a large physical system involved, and all its pieces must fit together. There must, for example, be enough mines to dig the coal, enough rail cars or pipelines to move all the coal to the right places, and so on.

But the coal "system" is different in one crucial respect from the aerospace systems with which government and industry managers are familiar. The difference is that the agents who make the coal "system" go are not themselves systematically organized. Unlike the orderly table of organization for the management of, say, a ballistic missile system development, the players in the coal "system":

1. Take no central direction from anyone for the parts they play in the system's efforts. In most of previous systems management experiences, government contracts for carefully designed pieces of the system, and imposes central control on how the system fits together. In this case, a widely diversified industry, not under government contract, must build the system.

2. Usually have other and often more pressing business objectives. For example, railroads carry steel as well as coal, and may find it more profitable to do so. As a result, improving the coal "system" may not be everyone's top priority.

The problem of managing this "system" is therefore not entirely comparable to the system management of even large

scale space missions. Rather, what is required is a management approach that shepherds a loose confederation of industry and government institutions toward the objectives of:

1. Developing new coal technologies that are economically competitive and environmentally acceptable,

2. Creating stable markets for coal that will attract enough industrial participants to build the necessary coal "system," and

3. Mobilizing investment toward coal production and utilization under conditions that are more uncertain, at a faster rate, and in larger quantities than the investment has heretofore found comfortable.

In this situation, it helps to divide the management job into two parts--systems analysis and systems implementation.

The coal systems analysis job is probably more complex than aerospace systems analysis, but is not unlike it. The coal "system" should be analyzed to determine:

1. The extent and manner of coal utilization required to balance U.S. energy needs

2. The physical plant that must be put into place to meet our overall coal utilization objectives

3. The physical, technical, and financial resources required to construct and operate the physical plant

4. The likely actions industry will take to provide these resources on time, operating under normal market forces

5. The corresponding government programs required to do what industry will not do, or to ease the way for difficult industrial action.

The systems analysis task is not to be underestimated, however. It deals with extraordinary uncertainty--of U.S. energy growth, of technical success in many fields, of return on investment, of the resolution of political and institutional obstacles--partly because the coal "system" is a system in name only. The analysis job can be done, but it will require novel and sophisticated techniques to do it.

The systems implementation job is less clearly defined, because we have not done anything just like it before. It must, however, involve at least these elements:

1. Developing of a network of, and cooperation among, the players in the coal system. This network should be used to communicate the results of the systems analysis task, and as a sounding board for coordinating government and industrial programs.

2. Monitoring of industrial actions to determine if they are proceeding on the schedule anticipated by the systems analysis.

3. Managing the direct government program. This component of the systems management job is directly analogous to systems management in the aerospace field, since it involves the program operated solely by government.

4. Redirecting government effort if planned actions do not materialize on schedule. This redirection could take several forms. If industry is not moving as rapidly as planned, government could expand its direct program or attempt to remove government-imposed constraints on industry. Conversely, if actions are proceeding more rapidly than expected, the government could pull back its programs accordingly.

5. Assisting industry to finance large, capital intensive operations.

The government must develop two capabilities in order to assume its responsibility for the systems analysis and systems implementation capabilities sketched above. First, it must have a technological development capability, which is now being

established in ERDA. Second, the government needs to develop a financing capability designed to attract capital to coal projects when uncertainties of market or return impede private investments. ERDA has, or is seeking, authorities to provide financial support for a variety of commercialization projects.

The financing capabilities described above are another novel feature of the coal systems problem. ERDA has significant authority to advance commercialization projects, such as synthetic fuels, and has already been through a commercialization project for uranium enrichment. From this experience, it seems clear that:

1. The financing authority should be institutionalized, rather than supplied project by project. It is unwieldy to handle each financing on a project basis; a single financing authority would simplify the procedure. Second, combining the risk of a variety of projects under one financing authority would enable the government to manage an investment portfolio with less exposure than would exist if each project were separately financed.

2. The real financial incentives for industry emerge from hard bargaining. The government should have available a variety of financial incentives, but should not exercise them mechanically. Rather, it appears that competitive solicitation of programs and careful negotiation of individual projects--within some framework of incentives--produces a better deal for the government.

The problem of accelerating coal use is novel and important enough to warrant beginning now to establish a strong national system capability to solve the problem.

P - file

11/4/75 - B to Seamans to make decision on the merits.

Have - out at

THE WHITE HOUSE

WASHINGTON

ACTION

November 1, 1975

(By phone)

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Location of ERDA's COALCON Project--Of Interest to Senator Robert Byrd and Others

Background

The Energy Research and Development Administration is now in the final stages of evaluating possible sites for a $150 million demonstration plant using the COALCON process which involves the conversion of coal to pipeline quality gas and a liquid that could be used under industrial and utility boilers. It will be ERDA's first large demonstration project.

The controversial proposal now before ERDA resulted from a request issued by the Office of Coal Research (now a part of ERDA) in early 1974 for proposals for converting coal into clean boiler fuel. Many proposals were expected, but COALCON was the only one received that was considered responsive to the request.

The COALCON process is owned by Union Carbide, which has brought other firms (e.g., Ashland Oil, American Electric Power Co., General Tire) into a joint venture for production based on the process.

The ERDA program involves three stages:

I. Plant design. 100% of costs will be paid by ERDA.
II. Engineering and construction. Costs will be shared 50-50 by ERDA and COALCON.
III. Operations. 100% of costs and responsibility will be carried by COALCON.

Status

ERDA's current task is to select a site from among those nominated by the joint venture. Sixteen were initially

nominated, but these have been narrowed down to eight sites--two in West Virginia, two in Ohio, one each in Illinois, Kentucky, Pennsylvania, and Indiana.

Proposed sites are now being evaluated by a board appointed by Dr. Seamans. The board will give its evaluation to Dr. Seamans within the next few days and Dr. Seamans will make and announce his selection sometime after November 4. ERDA will then have to issue an Environmental Impact Statement before work can proceed.

Sites Still Under Consideration

According to ERDA officials, the remaining sites being evaluated are:

· Leading Candidates	Congressional District
- New Athens, Ill. (near East St. Louis)	23rd (Price)
- Haverhill, Ohio (near Portsmouth)	6th (Harsha)
- Ravenswood, W. Va. (near Parkersburg)	3rd (Slack)
- Baskett, Ky. (near Evansville, Ind.)	1st (Hubbard)
· Other Candidates	
- Morgantown, W. Va.	2nd (Staggers)
- Clinton, Pa. (Northeast of Pittsburgh)	12th (Murtha)
- Mt. Vernon, Ind. (Near Evansville)	8th ~~(Zion)~~ Hays Plt
- Belmont, Ohio (Near Wheeling, W. Va.)	18th (Hays)

Interest Expressed by Congressional Delegations and Others

Senator Robert Byrd has been forceful in voicing his support for selection of a site in West Virginia. He chairs the Subcommittee that handles a large share of ERDA's appropriations. Dr. Seamans has told Senator Byrd that he has not yet made his decision and that he would consider all appropriate factors and base his decision on what is best in the overall national interest. Seamans expects his decision to be challenged no matter which site he selects. He is concerned that he will be charged with giving in to Senator Byrd's pressure if he selects a West Virginia site.

Senator Jennings Randolph, Harley Staggers and Ken Hechler also support a West Virginia site.

Governor Rhodes has written you in behalf of Ohio, pointing out that he helped get the consortium together (Tab A). Wayne Hays has talked to Max Friedersdorf in behalf of the Belmont, Ohio, site.

Senator Percy and Mel Price have expressed strong support for the Illinois site.

Dr. Seamans' Decision

Dr. Seamans does not plan to discuss his selection in advance with the White House unless asked to do so. He indicates that he could discuss it but that:

- He believes that advance discussion might unnecessarily involve the White House and the President in a decision that will undoubtedly make many losers unhappy.

- He received assurances before taking the ERDA Administrator job that decisions such as this would be his to make.

Unless we inform him otherwise, Dr. Seamans will proceed with the decision.

DECISION

___Dr. Seamans to brief the President on COALCON

___Dr. Seamans to select the COALCON site

OFFICE OF THE GOVERNOR
COLUMBUS, OHIO 43215

October 6, 1975

The Honorable Gerald R. Ford
President of the United States
The White House
Washington, D. C.

Dear Mr. President:

The federal government through a contract with Coalcon, a subsidiary of Union Carbide Corporation and a division of the General Tire Company, plans to construct and operate a coal conversion plant in the Ohio River Valley. The project began when the Office of Coal Research was part of the U. S. Department of Interior under Secretary Rogers Morton, but the $237 million contract was actually signed with the U. S. Energy Research and Development Administration after the federal re-organization.

Attracting this facility to the State of Ohio and working with Coalcon and the industrial consortium supporting Coalcon has been a personal effort of mine both before and after returning to this office. Half of the members of the consortium were attracted to the venture by me and my associates. This includes Y. & O. Coal, Ashland Oil, American Electric Power and Consolidated Gas. This is half of the consortium members, excluding the political entities.

At my request also, the Ohio General Assembly has enacted into law a specific tax moratorium bill which eliminates the following taxes: personal property, franchise, income tax, sales tax and payroll tax. In addition, the same legislation authorizes and directs the State to buy the land for the establishment and to deed it to Coalcon at no cost to the consortium and further the State shall issue the industrial bonds necessary to construct the facility, thus reducing the interest cost. In addition to the above, if the initiative petition issues on the State ballot are affirmed in November, the State will build all necessary dock facilities for the establishment at no cost to the consortium.

The Ohio coal which has been pledged as feeder for this facility is of the high sulphur type specified by the federal government. From all points of view, Mr. President, Ohio is prepared to co-venture with the federal government the costs

of establishing and operating this coal conversion facility. The purpose of this letter is to gain the support of your administration in locating the facility within Ohio.

Very truly yours,

James A. Rhodes
Governor

Copy sent to Schleede FYI Nov. 5.

November 3, 1975

Dear Matt:

Thank you for your October 30 letter to the President proposing an Energy Savings Bond program to finance the Energy Independence Authority.

I know the President will appreciate your sending him this recommendation which I will call to his attention at the earliest opportunity.

With kindest regards,

Sincerely,

Vernon C. Loen
Deputy Assistant
to the President

The Honorable Matthew J. Rinaldo
House of Representatives
Washington, D.C. 20515

bcc: w/incoming to Alan Kranowitz, OMB, for DRAFT REPLY
bcc: w/incoming to James Cannon - for your information

VCL:EF:VO:vo

MATTHEW J. RINALDO
12TH DISTRICT, NEW JERSEY

WASHINGTON OFFICE:
314 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5361

DISTRICT OFFICE:
1961 MORRIS AVENUE
UNION, NEW JERSEY 07083
(201) 687-4235

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEES:
INTERSTATE AND FOREIGN COMMERCE

SUBCOMMITTEES:
OVERSIGHT AND INVESTIGATIONS
CONSUMER AFFAIRS AND FINANCE

MERCHANT MARINE AND FISHERIES

SUBCOMMITTEES:
FISHERIES AND WILDLIFE CONSERVATION AND THE ENVIRONMENT
PANAMA CANAL

October 30, 1975

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

Dear Mr. President:

Your proposal for the appointment and funding of an Energy Independence Authority to give the U.S. self-sufficiency in energy resources within a decade, has a lot of positive factors and will receive my full support in Congress.

I feel, however, that the appeal of this plan to the general public would be valuably strengthened through modification of the proposed system of funding.

I believe your program provides an ideal opportunity to revive the patriotic spirit of wartime bond sales by inviting Americans to invest in energy independence for their country through the purchase of Energy Savings Bonds.

Such a policy, including provision for bond purchases through regular payroll deductions, would give citizens a sense of personal involvement in efforts to shake off U.S. dependence on foreign oil producers -- and in so doing give your energy independence program a broader base of support.

I hope you will give the idea your early and favorable consideration.

Cordially,

Matt Rinaldo

MATTHEW J. RINALDO
Member of Congress

MJR/cdn

cc: The Vice President

Mr. Frank G. Zarb

Speech Delivered by
Mr. Robert W. Fri, Deputy Administrator
Energy Research and Development Administration
to the
Commonwealth Club
San Francisco, California
November 21, 1975

"ENERGY ANSWERS AREN'T EASY"

Mr. Chairman, distinguished guests, ladies and gentlemen.

I think most Americans would agree that our current energy situation poses a serious challenge to the Nation. Some have gone so far as to call it the most serious challenge we have faced in the twentieth century. But whatever you believe, there should be little argument that we as a Nation are in trouble when it comes to energy and that we are going to have to do something about it.

Unfortunately, agreement falls short of deciding on that "something." Although a lot has been said and written to analyze and understand the energy problem, we still find it difficult to reach a consensus on what the "something" is that we ought to do. There is, of course, substantial disagreement on many short-term issues, such as price decontrol, but there also is disagreement on long-range solutions, such as the role nuclear power must play in the Nation's energy future.

These are disturbing disagreements not because there isn't room for substantial public debate, and not because there is only one

solution to our various energy problems. I am disturbed because I see as a root cause of much of the disagreement what appears to be a simple reluctance on the part of too many Americans to accept the hard truths about the energy situation; to contemplate the truly wrenching dislocations that are going to have to take place in our institutions and in our individual lives; and to face up to the hard choices that we are going to have to make to get us through this crisis.

Energy answers are not easy. We Americans have a tendency to look for quick solutions, frequently through gadgets or some revolutionary scientific breakthrough that makes everything all right again. It is not going to happen in energy. There are no quick and easy solutions. Until we face up to that reality, we cannot face down the problem.

I believe that Government has a responsibility to tell the whole truth, and I propose to start that process right here and now. First, I want to tell you a little bit about ERDA, the Energy Research and Development Administration, and how we think we can solve our energy problems, and then try to frame -- tentatively but not, I think, prematurely -- the changes we and our institutions must endure in the process.

Our job at ERDA is the production and supply of energy over the long haul. We were created early this year from parts of the Atomic Energy Commission, the Interior Department, and other agencies. We're big -- we have a $5 billion budget this year. We span all the

energy technologies: fossil, nuclear, solar, geothermal, fusion -- and their environmental consequences. And we hold in trust two unique national capabilities -- our high energy physics program and our nuclear weapons development and production complex. So our view is broad, deep and long term.

We expressed our view of reality on June 30th of this year when we released our National Energy Plan. One newsletter called the plan, "A Common Sense Look at Some Well Known Facts." Of course, the plan is only a first step. But if it indeed bears a stamp of common sense, and if it rests on accepted and familiar facts, then it is a step in the right direction. We think it is a fair look at the realities of energy.

Reality Number One: We have a problem. But who believes that today?

Consider the public attitude today about the existence of an energy crisis. Everyone knew we had one when there were long lines at gasoline stations and factories were closing down and the other things that happened during the Arab oil embargo of 1973. But what about now? How many people think there is an energy crisis now that there are no lines at the gas stations? I would venture that if you asked the man-in-the-street today, you would be more likely to hear that there is no energy crisis and that the higher gasoline prices are just an oil

company rip off. Yet the fact of the matter is that the energy situation is more critical today than it was two years ago, that we are far more vulnerable today to an embargo or other disruption of our energy supplies, and that we have more of an energy crisis today than we ever had.

Right now, the Nation is dependent on petroleum and natural gas for 77 percent of its total energy consumption. But unfortunately, our domestic petroleum production of oil is now in its fifth year of decline since its peak in 1970. And, although our demand for energy has slowed up somewhat, we are importing a higher fraction of our petroleum requirements today than we did just before the embargo in 1973.

And that is a problem. Energy is central to our national security and our economic stability. Plentiful energy is a basis for peace, and international cohesion. At home, plentiful energy means jobs. So we simply cannot afford as a country to have our national security and economic stability hostage to outside forces. As long as we rely most on our least abundant energy resources, and least on our most abundant resources, we definitely have a problem. Yet people simply are reluctant to accept that reality.

Reality Number Two: We must do a better job at developing our own domestic sources of energy. We have large domestic sources

of energy. The problem is that we do not use them. There are several centuries of coal supply in the ground, yet less than 20 percent of our country runs on coal. There are probably decades of oil shale in the ground, and we use none of it. Geothermal resources are somewhat less plentiful, but they represent years of supply. If we could capture only one percent of the solar energy striking the land surface of this country, we would have enough energy to power our Nation at almost any conceivable level of energy demand. The breeder, if successful, will extend our uranium resources by many-fold. And the potential energy that we can obtain from fusion power is, for all practical purposes, limitless.

So the nature of the problem is clear enough: we need to shift our reliance to the abundant forms of energy that we have so readily available to us. We can no longer bind our national future to one or two depleting energy resources. Our job is to create energy choices for the future.

Furthermore, we not only have to create a new set of domestic energy choices, but we also have to do it faster than we have ever done before. It took sixty years for this country to move from wood to coal as our primary energy resource. It took another sixty years to move from coal to oil and gas. We are now starting another cycle, moving off oil and gas to something else. But one thing is clear: this time, we don't have sixty years in which to do the job.

Reality Number Three: We must develop all our energy resources. There are those among us who urge that there is one answer -- conservation, or solar energy, or the atom. Those are ideas that easily seduce us, but they are wrong, or at least overly risky.

The limits of an easy answer are manifest. We know that research and development sometimes fails, and it would be foolish to venture failure with only one technology in our kit. But beyond this risk, we also learned in our planning that any energy technology, if pushed too hard, has other substantial drawbacks. For example: -- Conservation is a good case in point. Nothing could be more important. Nothing will commit us as individuals to solving our energy problem so effectively as the practice of conservation. Drive less and drive smaller should be one of our national goals. But conservation alone doesn't solve the problem. On the one hand, we need at least some energy growth. I strongly suspect that economic growth depends on energy growth. And we must have real economic growth to enlarge the economic pie for the benefit of those who live in poverty. To do less is to fall into the trap of the middle-class argument that says: I'm on board ship, let's weigh anchor and cast off.

More importantly, conservation -- as important as it is -- does not meet the goal of switching our reliance from our least abundant energy resources to our most abundant. Conservation buys time;

conservation needs to continue for the rest of our lives; but conservation does not do the whole job. Therefore, we need to develop new sources of energy.

-- With regard to solar energy, the kind of solar energy that we can use in central power stations, it is simply a long way off. As you probably know, we do have nearly at hand a technology that allows us to use the heat of the sun to heat and cool buildings. But that is not the same thing as a central power station application. The technology for using solar power to generate electricity is extremely costly at this point, and it will take an enormous engineering effort and years of time to bring the cost down to the point where solar energy is affordable.

-- The breeder is another such example, although it is further along in development. Dr. Robert Seamans, ERDA's Administrator, recently announced his findings on the environmental impact statement prepared for the Liquid Metal Fast Breeder Reactor Program. Basically, he found that the R&D efforts on the breeder program should move forward, but that the impact statement is not and cannot be a conclusive assessment of the environmental impact of a fully commercialized breeder reactor industry. In other words, we have a lot of work to do before we will see commercial breeders.

On the demand side, the next ten years must produce improved fuel efficiency in buildings, residences, industry, and transportation.

Simultaneously, we must transform our society's waste into energy. The technology for these conservation efforts is often not complicated; but it needs to be applied and applied quickly.

If these short-term actions work, then the last 15 years of this century will see a dramatic growth in the production of synthetic fuels from coal and shale. Ours is a society based on the use of liquid and gaseous fuels, and we will not easily turn away from that habit. So we need a synthetic fuel industry to ease that transition, and therefore synthetic fuel production is a high priority energy technology.

But ultimately we must tap into the unlimited resources of fusion, solar energy, and the breeder. These are the bread and butter technologies for the future, and we must afford them high standing in our list of important things to do today.

Reality Number Four: It takes time. We hear much about the need for an Apollo-like program in energy, hoping, I think that we can overpower the problem. And it is true that we need to devote a great deal of our national resource and will to solving our technological problems. But remember this about the Apollo program. After a decade of effort, and the expenditure of enormous sums of money, we sent 18 men to the moon. We were not selling bus tickets for lunar landings at the end of the Apollo program. In the energy program, however, we need to do more than the equivalent

of sending 18 men to the moon. We need to sell the bus tickets. In other words, we need not only to develop the technology, but also to put it in place in the private sector in substantial quantities.

As another example of the time problem, consider the President's program to produce a million barrels of synthetic fuels a day by 1985. That is a very substantial and difficult objective to achieve, but by the year 2000 we may need 10 times that much synthetic fuel in this country. And to get it, starting with a million barrels of synthetic fuel in 1985, we would have to build an industry that grows at an average annual rate of 16 percent. Now that is possible to do, but it's also true that no capital intensive industry has ever grown at that rate, over the extended period of time, in the history of our country. So even if we can successfully develop the technology, we have an enormous job ahead of us.

Reality Number Five: It's not business as usual. The oil embargo was not just a happening - it was a major discontinuity in our lives. Discontinuity breeds uncertainty, and uncertainty is the central issue in energy today. Uncertainty is a radical change from the complacent, predictable energy world we knew only a few years ago, and it is important to understand that uncertainty is not going to disappear.

Unstable prices and demand for energy have, more than anything else, depressed returns and enhanced the risk of energy investments.

This uncertainty drives capital away from energy. The utilities stand as a presently somewhat shaky monument to the truth of that statement. Yet I do not see the situation changing much.

Unless the cartel breaks up, prices will remain out of our control, and therefore uncertain. I do not see much chance of the cartel breaking up soon. It has already survived a world recession.

New technology will be involved in most energy investments we make over the next two decades. New technology is itself, of course, always uncertain.

All of this will take place under extreme time pressure for changes to new energy sources, and time pressure also breeds uncertainty.

To deal with these uncertainties, industry must be prepared to take Government on as a risk partner. Since, in private investment, uncertainty is an anathema to energy independence, the national interest requires the Government to reduce investment uncertainty by sharing the risk. You've already heard of the President's $100,000,000 risk-share proposal called the Energy Independence Authority. But we are already embarked on an $11,000,000 synthetic fuels commercialization program, a several billion dollar geothermal loan guarantee program, and Congress is now considering the President's proposed Nuclear Fuel Assurance Act - an $8 billion dollar guarantee program to bring private uranium enrichment capacity into being.

Industry also must accept even greater environmental and social responsibilities. Every energy technology has some impact on the environment and on the social fabric of the country. The extreme examples include coal gasification and oil shale development in the West. Mitigation of these problems will become part and parcel of business planning for new energy developments, and industry must become attuned to that fact.

Government must make corresponding changes. For example, we must be prepared to do without regulations (where we can), that tend to drive returns down in the energy industry. Falling returns only drive energy investments away, and that is counter to our national purpose. By the same token, we must learn how to deal with industry as a sharer of risk. Sharing the risk is not the same thing as buying a product, and should require less Government involvement and interference in the business of private industry in the normal Government-business relationship.

At the extremes, Government will become the vendor, and industry the buyer, of energy technology. This is a total role reversal for these two institutions. For, in the end, Government's measure of successful energy research and development is a happy customer using the product. But that is a new and risky role for us.

Finally, uncertainty means that people are going to have to accept changes in their lives and the way they think of things. We cannot

legislate certainty, as we pretend to do with price controls. The fact is that this planet has a growing population with increasing energy demands plus a limited supply of natural energy resources. That is going to make energy expensive for many years to come.

And we also are going to have to accept the fact that no matter which energy options we choose, we are going to have to assume risks in the form of degradation of the environment, personal and financial risks, and substantial changes in the way we live. We are going to have to recognize that there are no perfect solutions that will allow us to continue living on a business-as-usual basis.

This, then, is reality as we see it. We do have a problem. We must develop all our domestic energy resources, and that takes time. And it's not business as usual. Those are not easy answers. But if we accept them, we can create choices for the future, choices that allow us to go our national way unfettered by the shackle of placing our energy future in another's hands.

Yet choice is the ultimate hard answer. For we as individuals are seized with the problem of choice. We no longer can indulge in one-side advocacy for, or for that matter, in an unremitting opposition against energy development.

The classic case is, of course, nuclear power. The main choice before us for the rest of this century is coal or nuclear. Both have

adverse consequences -- but acceptable ones, I think, if we can manage to keep our heads. At issue is how we as a country distribute both the social benefits and the social risk of the development of these forms of energy.

Nuclear power is not perfect. I'll admit to that. But I have roamed much of this country in the last few months, and more to the point, I have roamed the halls of Congress, and I can tell you this. Coal is not everyone's preferred choice. Appalachia does not intend to be raped again. The West is determined not to become the nation's boiler room. Neither cares to get all the problems and export all the benefits to some other part of the country.

Only balance will prevail. Only by having both: nuclear and coal can we all win most and lose least. Only by all of us shouldering part of the risk to earn our part of the benefits can we exist as a society.

But it is a difficult balance to achieve, and a difficult choice to make. Nuclear power carries with it the remote chance of a serious accident. Coal presents the certainty of some degradation in our air and water quality, and in the environment generally.

It is nearly a Hobson's choice -- but only nearly. We have the luck, and I believe the responsibility, to choose both.

But only responsible action can sustain this choice. For our part at ERDA, we recognize that nuclear power causes concern. Therefore, as part of our support for nuclear power, we understand that we must also:

1. Continue the active development of safety programs for nuclear power, as we are doing in cooperation with the Nuclear Regulatory Commission.

2. Continue to perfect the technology of the light water power reactor.

3. Demonstrate that the nuclear fuel cycle can be closed surely and safely, including the ultimate disposal of nuclear waste.

4. Continue an active program of the breeder reactor, with the recognition that we are in the research and development phase and not ready to make a decision on its final commercialization.

But government is not the only one involved. And here is where this organization can be so effective. We seek a responsible debate among thoughtful persons. I tire of hearing nuclear advocates say that I received more radiation on the flight out here than I would living next to a nuclear reactor. That's probably true, but it is irrelevant to the public's concern. The public is less concerned about living next to a well-functioning reactor than it is about what happens when the reactor does not function so well.

But I am also weary of hearing that plutonium is the most toxic material known to man. It is, of course, true that plutonium is an extremely potent carcinogen. But calling it the most toxic material known to man puts it, in the public mind, somewhere ahead of germ warfare in its ability to kill off, instantly, millions of people. And that simply isn't so. The public has a right to know the facts on this and other nuclear issues. The debate, the choice, is too profound for overstatement or sweeping generalizations on either side.

I am, in all, an optimist. I believe in the wisdom of the majority, and its ability to dampen the excesses of either extreme. I believe we will survive the change in our institutions. I believe that the energy problem is one of the most fundamental with which we as a nation have ever dealt. And as we come to understand that, I believe that we will see that awesome marshalling of national will that has guided us through so many other crises. I believe we will choose -- wisely and for the good of us all.

THE WHITE HOUSE

WASHINGTON

ACTION

February 10, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Report to the Congress on the future of the Federal Energy Administration

OMB has prepared for your consideration the attached letters to the President of the Senate and the Speaker of the House proposing that the Federal Energy Administration be extended until September 30, 1979--thirty-nine months beyond its current termination date of June 30, 1976.

A recommendation from you six months prior to the expiration of the Federal Energy Administration Act of 1974 is required by section 15(a) of the Act. Additional information is provided in Jim Lynn's memorandum at Tab A.

OMB, Max Friedersdorf, Counsel's Office (Lazarus), Bill Seidman and I recommend approval of the letters to the President of the Senate and the Speaker of the House which have been cleared by the White House Editorial Office.

RECOMMENDATION

That you sign the letters at Tab B.

FYI - Jim Cannon

[1976]

THE WHITE HOUSE
WASHINGTON

TO: John Carlson

FROM; Glenn Schleede

Subject: Q&A on sharing OCS revenue

Here's a "quick and dirty" one I did in response to your or Ron's request to Mike. Mike hasn't seen it but I wouldn't expetc him to have problems with it.

I read it to Bob Hitt at Interior and he approved.

cc: Jim Cavanaugh
Bob Hitt
Paul O'Neill
Mike Duval
Frank Zarb

SHARING OCS REVENUES

Question:

Which of the options developed by the Interior Department for sharing Outer Continental Shelf revenue with the States does the President favor?

Answer:

The matter of sharing OCS revenues with coastal states has come up frequently over the past few years. Under current law, revenues from OCS lease sales and royalties go to the Federal Treasury. This is based on the fundamental principal that the OCS is a national resource owned by all the people of the Nation and the revenue should, therefore, accrue to the benefit of all the Nation's citizens -- those in Iowa and Montana as well as on the coast. This policy has prevailed throughout the more than 20 years successful OCS development off the Gulf Coast.

It should note three other points:

- If part of the OCS revenue which now goes to the Federal Treasury were given to coastal states, that Federal revenue would have to be replaced by taxes.

- Shoreside development that does occur as the result of OCS development increases the State and local tax base and therefore has a beneficial rather than detrimental economic impact.

- The Federal government has already increased planning assistance to the coastal states and will be working closely with the states to help assure orderly preparations for any onshore development.

For these reasons the Administration has taken the position that existing law should not be changed.

We are aware that Secretary Morton has asked his people to take another look at the question, but the Secretary has not recommended any change in position to the President. If he does make such a recommendation, the President will of course, consider it fully.

Note: OCS begins at the 3 mile limit. Inside 3 miles, the states own the land and get revenues.

Energy

THE WHITE HOUSE

WASHINGTON

February 26, 1976

SIGNING CEREMONY FOR THE ENERGY MESSAGE
Thursday, February 26, 1976
2:00 p.m. (15 minutes)
The Oval Office

From: Jim Cannon

I. PURPOSE

To highlight the submission to the Congress of your energy message.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background

The energy message proposed for your signature reiterates the importance of achieving energy independence, summarizes actions you have taken within existing authorities, and urges the Congress to act quickly on 18 major energy proposals awaiting Congressional action which are necessary to achieve energy independence and announces four new actions:

- Legislation (to be submitted within a few days) to expedite delivery of natural gas from the north slope of Alaska.

- A new policy for encouraging necessary liquefied natural gas projects (LNG) that do not cause excessive dependence.

- A special contribution of up to $5 million for strengthening safeguards programs of the International Atomic Energy Agency (IAEA).

- A $1 billion program of financial assistance to areas affected by the development of Federally-owned energy resources over the next 15 years. (Bill submitted February 4, 1976).

B. Participants

. Frank Zarb and six members of his staff who have participated in developing the message will be present to see the signing. The six are:
- Eric Zausner, Deputy FEA Administrator.
- William Rosenberg, Ass't FEA Administrator.
- Roger Sant, Assistant FEA Administrator.
- Paul Dragoumis, Assistant for Nuclear Programs.
- Bruce Pasternak, Deputy Assistant Administrator.
- Chris Rathkopf, Assistant to Zausner.

. Staff:
- Jim Cannon, Glenn Schleede

C. Press Plan

. Press photo opportunity; sound on film.

. Frank Zarb will brief the White House Press Corps following the signing ceremony.

III. TALKING POINTS

See Tab A.

THE WHITE HOUSE

WASHINGTON

SIGNATURE

February 26, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: ENERGY MESSAGE

Enclosed for your consideration is the proposed energy message to the Congress.

The proposed message was initially submitted by Frank Zarb and has the concurrence of Secretaries Richardson and Kleppe and Bob Seamans. The message has also been reviewed by Phil Buchen, Max Friedersdorf, Alan Greenspan, Robert Hartmann, Jim Lynn, Jack March, Rog Morton, Brent Scowcroft, and Bill Seidman.

The proposed message has been approved by Mr. Doug Smith.

Recommendation

That you sign the attached message at a ceremony scheduled for 2:00 P.M. today.

Energy

THE WHITE HOUSE

WASHINGTON

March 3, 1976

MEETING WITH THE ENERGY RESOURCES COUNCIL
Thursday, March 4, 1976
2:45 p.m. (15 minutes)
The Cabinet Room

From: Jim Cannon

I. PURPOSE

To hear the highlights of the Federal Energy Administration's new National Energy Outlook, which assesses the energy situation in the 1980's. This briefing provides another opportunity to highlight your determination to solve the Nation's energy problem and to encourage the Congress to act on energy legislation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

- In November, 1974, the FEA presented the first comprehensive national energy analysis -- the Project Independence Report.

- The energy outlook has changed as a result of the events of the past year. The new report -- the National Energy Outlook -- presents the FEA's latest forecast.

B. Participants:

Elliott L. Richardson
Thomas S. Kleppe
Carla A. Hills
Frank G. Zarb
Robert C. Seamans, Jr.
Russell E. Train
James Cannon
Alan Greenspan
James Lynn
Charles Robinson
John Busterud (CEQ)

B. Participants (continued):

Members of Frank Zarb's staff who prepared the report:

Eric Zausner	Frances M. Schwartzstein
William Hogan	James L. Sweeney
Bruce A. Pasternak	Michael Wagner
Edmund R. duPont	David Hanes
David H. Nissen	

Staff: Glenn Schleede

C. Press Plan: Photo opportunity; sound on film. In addition, a pool of the writing press would be permitted to remain in the meeting for 10-12 minutes.

III. AGENDA

- You would make opening remarks addressed to the participants in the meeting.
- Frank Zarb would present a brief overview of the report.
- There may be time for 1 or 2 questions.

IV. TALKING POINTS

See Tab A.

V. SUGGESTED QUESTIONS

(The questions listed are in according to the order of Frank Zarb's presentation. If there is time for only one question, the second is the most important.)

- On oil import outlook: What will happen to oil imports in the next few years?
- On natural gas outlook: If Federal regulation of new natural gas prices continues, how will this affect oil imports?
- On coal: What will be the major obstacles to Western coal development?

DRAFT TALKING POINTS

- Elliott(Richardson) and Frank(Zarb), before we proceed with the report, there are a few points I want to make to all of you who are here because you each have a major role in our effort to solve our nation's energy problem.

- Over a year ago, in January 1975, I sent to the Congress a comprehensive energy program that would permit us to achieve energy independence by 1985.

- Last week, I sent the Congress a special message on energy which pointed out that the Congress has, during the past year, completed action on only one major energy bill. (The Energy Policy and Conservation Act, which I signed on December 22, 1975).

- I also pointed out that there are 18 major legislative proposals awaiting action by the Congress.

- We have had some success during the past year. We have some programs underway that will by 1985 help hold down on our dependence on imported oil. But the fact is that we have a long way to go and we must have action by the Congress on energy legislation.

- I want all of you to know that I am not backing off one bit on my determination to achieve energy independence by 1985. I am also not going to let up one bit in my efforts to get the Congress to act responsibly on the legislation we need. I'm expecting each of you to to play a part in this effort.

- Frank, I understand that you have completed a complete reassessment and updating of our nation's energy outlook through 1985 and that you are prepared to release the report to the Congress and the public. Would you give us the highlights of the report.

THIS IS THE DRAFT SUBMITTED TO DOUG SMITH IN MR. HARTMANN'S OFFICE WEDNESDAY AFTERNOON

Energy

March 11, 1976

MEMORANDUM FOR: DICK ROBERTS

FROM: GLENN R. SCHLEEDE

SUBJECT: WESTINGHOUSE AND FERTILIZER

Thanks for the information on ERDA's activities with respect to the Westinghouse idea for producing fertilizer. We have made clear to Westinghouse that ERDA is the place to make the case for their idea.

I recognize that there are a number of questions that should be answered on a project like this -- if it should become a serious contender -- that involve other agencies, e.g.:

-- What is the possible future need for fertilizer? (The Westinghouse material I've seen deals with this only in a cursory fashion).

-- What is the likelihood of natural gas being available for continued use as a feedstock for fertilizer? (This, of course, depends in part on deregulation, Alaskan natural gas, synthetics, etc.).

-- Assuming there is or will be a need for more fertilizer, what is the technical feasibility, economics, and merits of the alternatives?

-- Does the Government really need to get involved?

I suspect it is a little too early to get into these now. But, if you have difficulty in getting help from other agencies in looking at such questions when it is the right time, please let me know and I'll try to help.

Attachment

cc: Jim Cannon
Paul MacAvoy

UNITED STATES
ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
WASHINGTON, D.C. 20545

MAR 4 1976

Mr. Glenn Schleede
Domestic Council
The White House

Dear Mr. Schleede:

Bob Fri has asked me to respond to your memorandum of February 10 in which you requested information on the Westinghouse plan for using a very high temperature reactor (VHTR) for industrial process heat applications including hydrogen production for use in the production of fertilizer. ERDA is presently working on three studies that, as a whole, provide a base for answering the questions that you have posed.

In the first study, ERDA is working in conjunction with industry and NASA to assess the need and provide the rationale for the development of the VHTR for industrial process heat applications. The potential processes and their probable applications are: (1) hydrocarbon reforming to produce ammonia for fertilizer, nuclear steelmaking, energy transmission and storage, hydrogasification and liquefaction of coal, and petroleum refining, (2) steam-carbon gasification of coal for synthetic pipeline gas and synthetic liquid fuels; and (3) thermochemical water splitting for hydrogen production. The responsibility for conducting the VHTR assessment has been assigned to the Oak Ridge National Laboratory (ORNL). As a participant of the VHTR assessment Westinghouse has received a copy of the ORNL study for review and comment.

In a second study, ERDA is conducting a hydrogen assessment and has assigned this responsibility to the Brookhaven National Laboratory. This study assesses the U.S. need for hydrogen through the year 2000 and the process development required to produce it.

A third ERDA study is reassessing the entire gas cooled reactor program and includes an economic assessment of the technology to commercialize the VHTR as well as the technology to produce hydrogen. The results of these three studies will be available by July 1976 and will provide a base for determining future VHTR development plans. These studies should also serve as input to further exploration of the usefulness of the VHTR for the specific application of producing fertilizer.

I hope that this provides you with the information that you desired and if I can be of further assistance to you, do not hesitate to ask.

Sincerely,

for Edward O'Connor

Richard W. Roberts
Assistant Administrator
for Nuclear Energy

file ERDA
3/19/76

~~Bob Fri~~

~~OMB~~ ~~Jim Mitchell~~

~~All~~ ~~sent~~ { ERDA
76-1

updates

on ERDA ~~6/30/75~~
~~Plan~~

National Plan for ~~ERDA~~

Energy Research, ~~and~~
Development
and Demonstration;

~~[illegible]~~

OMB has problems -

Bob Fri

New version of . 3/24/76

ERDA plan ?

OMB cleared

If policy questions,

Fri to have to

resolve

If stylistic and

language - can't afford

to wait.

JAMES A. RHODES
GOVERNOR

STATE OF OHIO
OFFICE OF THE GOVERNOR
COLUMBUS 43215

March 24, 1976

Dr. Robert C. Seamans, Jr.
Administrator
Energy Research and Development Administration
Washington, D. C.

Dear Dr. Seamans:

I have been aware for some time that one of ERDA's high priority missions is the production of synthetic pipeline gas (SNG) from coal. I have been particularly pleased with this because Ohio's industry is dependent on gas and Ohio is a major producer of coal.

I was therefore particularly pleased to learn from your recent request for proposals for demonstration plants for SNG from coal has elicited a response from the Continental Oil Company who has selected Ohio as the preferred location.

The purpose of this letter is to assure you my wholehearted support to the proposal on my own behalf and that of the State of Ohio. My reasons for this support are as follows:

First, the shortage of natural gas in the State of Ohio is well documented. We need and must have coal gasification.

Second, I support it because after reviewing the five proposals you are now evaluating, the proposed project from Conoco is unmatched in merit for the following reasons:

> The technology proposed, that is the moving bed-slagging gasifier, is the best conceivable answer to convert our Appalachian coals to SNG.
>
> This is certainly true in the demonstration program which will thereby open the door to continued improvement as the system is applied to ever larger SNG plants.

I view the extremely strong technical base of this proposal as the essential feature. The process has obviously been well tested on a large enough scale to guarantee the successful completion of the project on schedule. The nation needs a project on whose demonstration we can count with assurance. This proposal provides that assurance.

Thirdly, I support the proposal because it not only has good and safe technology, but I know that the participating companies involved in its execution have an excellent record of fulfilling their commitments. This applies to all phases of the complex job. All are well covered; the provision of coal, the competence of Conoco as contractor and operator of the plant and the technical support from British Gas, Lurgi and Foster Wheeler.

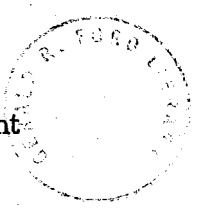
Furthermore, one of our major Ohio gas companies has offered to negotiate for the purchase and sale of the gas within the state of Ohio through their existing network.

I call your attention to the fact that the project is supported by a consortium comprising a majority of all the largest gas companies in the United States. There is no question about the financial capability of the consortium.

In short, I do not believe any SNG can be produced at equal cost or with equal assurance of success by any other project.

I hope that in making a decision, ERDA will recognize that all of the above would not be sufficient unless the project were indeed welcome at the proposed site. In this context we are proud of the site advantages Ohio has to offer.

1. A large skilled and willing labor force.
2. A nearby, presently adequate and expandable water supply.
3. An expandable plant site.
4. Excellent major highway and good secondary road system.
5. Minimum coal transportation costs.
6. Convenient waste disposal.
7. Nearby major rail transportation.
8. A minimum of negative environmental issues.
9. Long-term and expandable coal supply.
10. A healthy and enthusiastic community environment.
11. A positive state and local community attitude to plant construction.



I would like to reiterate the welcome of the State to the ERDA/Conoco plant. You can be assured that the State will continue to work with you in the successful implementation and culmination of this coal gasification project.

Sincerely,

James A. Rhodes

UNITED STATES
ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
WASHINGTON, D.C. 20545

March 26, 1976

MEMORANDUM

TO: JIM CANNON
FRANK ZARB

FROM: ROBERT W. FRI

SUBJ: California Initiative

I assume you will be putting together some thoughts for the President on the California Initiative following our meeting on the subject. Accordingly, I pass along the attached speech which I gave at the Commonwealth Club of San Francisco a couple months ago.

The speech makes three arguments that were touched on in the meeting, and so I thought it might be grist for your mills. The arguments are:

(1) We need to use all forms of energy available to us because the consequences of overemphasizing any one source (e.g. coal, offshore drilling) are unacceptable.

(2) The Federal government, particularly under this President, now has an aggressive program to resolve any remaining uncertainties surrounding nuclear power.

(3) The nuclear question is too complex to leave the zealots on either side of the issue; what is required is reasonable debate by the majority.

The thrust of the speech is pro-nuclear, and, although it was widely distributed around California, I have had no negative reaction on the pro-nuclear aspects of the speech. I have used similar arguments in other talks in California, and elsewhere, and have gotton a good reaction.

All this leads me to believe that Federal spokesmen can be strongly pro-nuclear in California without running afoul of the allegation that we are intruding into state affairs. I also suspect that the President can take the additional step of opposing nuclear moritoriums generally. However, I have my doubts that a head-on confrontation with the particular initiative in California is worth the potential risk involved. The message can get across quite clearly without actually saying the words.

I have also attached some Q's and A's on safeguards that were prepared by our staff, and which may prove of some use.

ALLEGATIONS RELATED TO SAFEGUARDS AND SECURITY IN
THE CALIFORNIA INITIATIVE ISSUE

1. ALLEGATION: Expansion of nuclear power industry will require police state to prevent diversion.

FACTS: - Actual security force required by say 250 light water (LW) uranium reactors and supporting industry would total about 5,000, a negligible increase when compared to the 500,000 policemen currently involved in U. S. law enforcement.

2. ALLEGATION: Nuclear material cannot be adequately protected in transportation.

FACTS: - Most nuclear material transported in early future years will be low enriched uranium used to fuel reactors. Even if hijacked, it is not readily suitable for conversion to a nuclear explosive or to use as a carcinogenic sabotage agent (materials such as plutonium are carcinogens and not toxic material). Spent fuel rods are generally stored on site.

- There has been developed reasonably priced transportation technology now in use for weapons transport which provides heavily secured vehicles with immobilization and cargo protection features. Such technology is available for safeguarding any particularly critical materials that might have to be transported for future designs.

3. ALLEGATION: Power reactors are vulnerable to sabotage which could expose the public to dangerous radioactivity.

FACTS: - Power reactors are inherently resistant to sabotage due to massive structure of plant and safety features designed to cope with abnormal operations or accidents. This, with additional physical protection required, makes sabotage success highly unlikely.

4. ALLEGATION: Safeguards in the nuclear industry are not adequate to prevent illegal diversion or sabotage of weapons grade material.

FACTS: - Present safeguards providing in-depth physical protection measures including fences, alarms, guards and barriers are adequate for uranium LW power reactors and for spent fuel rods neither of which are attractive for weapons application or malevolent dispersal.

- There has been designed safeguard systems for future type reactors which provide adequate additional features which will be available when needed.

5. ALLEGATION: Continued expansion of peaceful uses of nuclear power would only result in proliferation of nuclear weapons.

FACTS: - International safeguards have been developed to deter a nation from diverting nuclear materials for peaceful uses into weapons. The

risk of detection is extremely high. Any attempt by a nation would abrogate agreements of cooperation and risk eventual shutdown of his power reactors unless an indigenous nuclear source provided the material for fuel elements.

6. ALLEGATION: There have been incidents where highly enriched uranium in large quantities have been diverted from production plants involved in manufacturing nuclear fuel.

FACTS: - There is no evidence that any such material has ever been diverted. Larger than normal operating losses have occurred in several instances as a result of inadvertent or measurement errors. However, backup measurements have detected the losses and identified the cause.

7. ALLEGATION: Malcontents and terrorists can make safeguards systems ineffective.

FACTS: - Design of defense-in-depth with multiple detection capability and counter-actions allow for single or multiple human failure while still accomplishing the objective of preventing theft of nuclear material.

8. ALLEGATION: Plutonium produced in nuclear power reactors will allow numerous opportunities for terrorist and malevolent use.

FACTS: - Plutonium in fuel elements from the LWR's will for the most part be stored on-site. It is locked into the fuel elements and inaccessible due to high radiation levels until chemically separated.

- For mixed oxide fuel which may come into use after a few years the material is in highly diluted form and is difficult to separate for weapons' use or use as a carcinogenic agent.

9. ALLEGATION: Plutonium generated in nuclear power reactors presents unparalleled toxic material.

FACTS: - Plutonium is not a toxic but, at suitable levels within the lung, can be carcinogenic.

- High concentrations of plutonium have been in use in U. S. weapons programs for more than 25 years without fatal incidents.

- Many common chemicals and biological toxics can be used to create hazards with greater ease and more rapid effectiveness than plutonium.