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— 3/6/75

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[UT 3/6/75 Exec.]

Biweekly Progress Report

THE PRESIDENT HAS SEEN *del*

PRESIDENT'S ENERGY PROGRAM



DM

March 6, 1975

**Energy
Resources
Council**



FEDERAL ENERGY ADMINISTRATION


WASHINGTON, D.C. 20461

March 6, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Biweekly Status Report

FROM: Frank G. Zarb 

THROUGH: Rogers C. B. Morton

Legislative Status

The House Interior and Insular Affairs Committee has completed the mark up of the House Surface Mining bill with few compromises satisfactory to the Administration. The Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee reported to the full Committee legislation to prevent the President from raising the price of old oil by more than \$.50 above the January 1, 1975, national average price without making certain findings and submitting the proposal along with the findings to Congress. These findings would include an economic impact statement. The full Committee completed mark up on March 5. The Senate Interior and Insular Affairs Committee began mark up sessions March 3 on similar legislation.

The House has passed the \$21.3 billion tax cut bill with an amendment repealing the oil depletion allowance except for natural gas sold under long-term contracts. Tab A provides details.

Status of One Million Barrel Savings Program

The charts shown in Tab C assess progress toward achieving your one million barrel savings program. The forecast, target and actual graphs are updated biweekly to take into consideration changes that have occurred which affect their values, i.e., actual weather as compared with "normal," changes from forecasted economic conditions and revisions in company reports to FEA. As indicated in Tab C:

- o The weather in the continental United States during January 1975 was warmer than normal (13.8 percent fewer degree days). In the

three-week period ending February 15, degree days were 1.5 percent fewer than normal.

- o Consumption of petroleum products for the four weeks ending February 14 was slightly below your target goal.
- o Imports of crude oil and petroleum products for the four-week period were 805,000 barrels per day (or 11.9 percent) below FEA's original forecast. However, with corrections for the weather, imports are 356,000 barrels per day below your import savings goal.

TAB A

Progress in Obtaining Implementing Legislation

TAB A - Progress in Obtaining Implementing Legislation

President's Legislative Proposals

- o Both House and Senate Interior and Insular Affairs Committees completed mark up of the Congressional Surface Mining Bill after testimony from administration witnesses who outlined the critical modifications contained in the Administration's bill. Compromises were reached in very few areas.
- o OMB expects to receive drafts of the Nuclear Licensing and Siting and Nuclear Insurance Bills for its approval in the near future.
- o Hearings have been held on Building Energy Conservation Standards, Winterization Assistance, National Appliance & Motor Vehicle Energy Labeling, and Standby Authorities Act of the Omnibus Energy Bill.
- o Future hearings are scheduled regarding Clean Air Act Amendment, Winterization Assistance, National Appliance & Motor Vehicle Energy Labeling, and the economic impact of the President's program.

Congressional Action

- o House passed \$21.3 billion tax cut bill on February 28 with the amendment to repeal the oil depletion allowance, except for natural gas sold under long-term contracts. Senate Finance Committee has not scheduled hearings yet.
- o House and Senate Democrats have tentatively agreed on a 5 cent gasoline tax after difficulty over the amount of the tax. House favored higher taxes; Senate disagreed and insisted on low petroleum prices because of the recession. Package includes a special energy conservation fund, auto economy measures, an FPC study on natural gas prices/production, measures to discourage the use of natural gas and oil by public utilities restriction of federal highway funds to encourage 55 mph speed limit and the creation of a National Energy Production and Conservation Board as an independent agency which would limit oil imports, allocate fuel and ration gasoline, if necessary.
- o Eight task forces on Ways and Means Committee have prepared energy proposals which include a 40 to 50 cent gas tax and government control over bidding for OPEC oil. The Ways and Means Committee, responsible for the tax base portion of the program, will consult other committees in whose jurisdiction other sections of the program lie. It is not certain where the Ullman plan will fit into the compromise House/Senate Democratic proposals. The Committee will begin consideration of the energy tax program for 2 weeks beginning March 3.

- o Senate Standby Authorities bill was voted out of the Senate Interior and Insular Affairs Committee providing for Congressional veto over Presidential exercise of authorities, including a restriction on Presidential power to decontrol old oil, subject to disapproval by a majority of either House within 10 days, and more liberalized rules insulating final vote from parliamentary delays.
- o House Interior and Insular Affairs Committee held hearings on H.R. 49 bill to transfer the Naval Petroleum Reserves to the Department of Interior; Administration witnesses testified against the bill. Additional House Action on Naval Petroleum Reserve Development/Military Strategic Reserve and National Strategic Petroleum Reserve is unlikely until the end of March. In mid-March, the Senate Interior & Insular Affairs and Senate Armed Services Committees will hold a joint hearing on both Naval Petroleum Reserves and Strategic Petroleum Reserves.
- o Coupled with the provision regarding decontrol of oil in the Standby Authorities bill, legislation to delay decontrol for 90 days is expected to be approved by the Senate Interior Committee; similar legislation in the House will also be speedily reported.
- o Senate Commerce Committee will consider broad natural gas control bill which may be ready for floor action within 90 days.

Trends in Congress

- o A number of bills have been introduced to create a 'government corporation' empowered to develop oil and natural gas on public lands and to speed private exploration and production efforts.
- o Support is building for immediate action on winterization measures.
- o Pressure for mandating early improved auto gasoline mileage standards is building.
- o Majority in Congress support rationing as an emergency measure only.
- o Skepticism is increasing regarding Administration's proposed \$25 billion fund for oil consuming nations and plans for an international floor price for oil.
- o Critics of large-scale expansion of nuclear energy will lobby Congress to reduce breeder fund and weaken utilities support plan.
- o Support for concentration on the economy is growing; reduction of oil imports is given lower priority as a long-term goal.

CHART I

Bills Achieving a Milestone Between 2/14/75 - 2/27/75

Name of Bill or Component:

- A. Omnibus Energy Bill
 (H.R. 2633, H.R. 2650, S. 594)
 Title I: Naval Petroleum Reserve
 Development/Military
 Strategic Reserve
 (H) Armed Services
 (S) Armed Services
 (S) Interior & Insular
 Affairs
- Title II: National Strategic
 Petroleum Reserve
 (H) Interstate & Foreign
 Commerce
 (S) Interior & Insular
 Affairs

	Preparation of Bill				Actions of House										Actions of Senate																					
	Preparation by Lead Agency	Completed Agency Review	Completed OMB Review	Final Bill Form Achieved	Submitted to House	Referred to Committee	Referred to Subcommittee	Hearings Scheduled	Hearings Held	Subcommittee Reported	Committee Reported	Amended	Rules Committee - Rules Granted	Scheduled for Floor Consideration	Floor Action - Passed	Amended	Submitted to Senate	Referred to Committee	Referred to Subcommittee	Hearings Scheduled	Hearings Held	Subcommittee Reported	Committee Reported	Amended	Scheduled for Floor Consideration	Floor Action - Passed	Amended	Conference Scheduled	Conference Reported	House Action	Senate Action	Submitted to President				

x Milestones achieved this reporting period. _____ Milestones achieved to date.

CHART I (Cont'd)

Bills Achieving a Milestone Between 2/14/75 - 2/27/75

Name of Bill or Component:	Preparation of Bill			Actions of House											Actions of Senate																	
	Preparation by Lead Agency	Completed Agency Review	Completed OMB Review	Final Bill Form Achieved	Submitted to House	Referred to Committee	Referred to Subcommittee	Hearings Scheduled	Hearings Held	Subcommittee Reported	Committee Reported	Amended	Rules Committee - Scheduled for Floor Consideration	Floor Consideration Passed	Amended	Submitted to Senate	Referred to Committee	Referred to Subcommittee	Hearings Scheduled	Hearings Held	Subcommittee Reported	Committee Reported	Amended	Scheduled for Floor Consideration	Floor Consideration Passed	Amended	Conference Scheduled	Conference Reported	House Action	Senate Action	Submitted to President	
Title IX: Energy Development Security (Price Floor)																																
(H) Ways & Means																																
(S) Banking, Housing & Urban Affairs																																
(S) Finance																																
Title X: Building Energy Conservation Standards																																
(H) Banking, Currency & Housing																																
(S) Banking, Housing & Urban Affairs																																
(S) Finance																																
Title XI: Winterization Assistance (S.617)																																
(H) Banking, Currency & Housing																																
(S) Interior & Insular Affairs																																
(S) Banking, Housing & Urban Affairs																																
(S) Labor & Public Welfare																																

x Milestones achieved this reporting period. _____ Milestones achieved to date.

B

TAB B

Progress Report on Administrative Actions Within
the President's Energy Program

TAB B - Progress Report on Administrative Actions
Within the President's Energy Program

<u>Administrative Activity</u>	<u>Lead Agency</u>	<u>Status</u>	<u>Next Steps</u>
<u>Near Term Program</u>			
1. Crude Oil Decontrol	FEA	Deregulation plan being prepared to achieve crude oil price decontrol by April 1 using Administrative procedures consistent with the amended Emergency Petroleum Allocation Act of 1973.	Memo to President recommending options in preparation and will be completed during next reporting period.
2. Energy Conservation	FEA	Budget submission for increased funding for a conservation educational program is awaiting Congressional action. Total education program submitted to ERC February 27.	A detailed program including budget expenditures is to be completed in early March. Guidelines for using energy conservation "mark" to be completed by March 10.
3. Coal Conversion	FEA	Public hearings on regulations held February 19, 1975. Hearings on Programmatic Environmental Impact Statement held February 26, 1975.	Final regulations expected to be published in the <u>Federal Register</u> by March 15, 1975. First orders for mandatory conversion due June 1975.
4. Import Fee Implementation	FEA	Amended oil import regulations were effective February 1, 1975. Hearings held February 27, 1975. Comments on proposed changes were due February 24, 1975. Necessary changes to be made after hearings end.	Regulations conforming crude oil entitlements program to import fee program published on Feb. 28, 1975.

<u>Administrative Activity</u>	<u>Lead Agency</u>	<u>Status</u>	<u>Next Steps</u>
<u>Mid Term Program</u>			
1. OCS Leasing	Interior	Proposed rulemaking to ban joint bidding among major oil companies was published in the <u>Federal Register</u> February 21, 1975	Final decision on accepting or rejecting bids on South Texas OCS expected during next reporting period.
2. Emission Controls	EPA	Suspension hearings reconvened February 18, 1975, to consider sulphates. Testimony being reviewed. OMB preparing position paper on agencies views.	EPA decision targeted before next reporting period.
3. Auto-Efficiency Agreements	DOT	FEA reviewing DOT proposal. Proposal sent to ERC February 27, 1975.	Plans for monitoring process to be sent to President in early March.
4. Appliance Standards	NBS	FEA and Commerce working to formulate proposed standards. FEA and Commerce held meeting with appliance manufacturers on February 20, 1975 to discuss program.	Further meetings with individual manufacturers to be held during March. No signed agreement expected until this summer.
5. Emergency Storage	FEA	Preliminary schedule prepared calling for 2 to 3 month initial study to determine feasibility of various sites and storage modes. FEA task force being organized.	Program justification to be submitted to OMB to obtain planning funds by March 15, 1975.

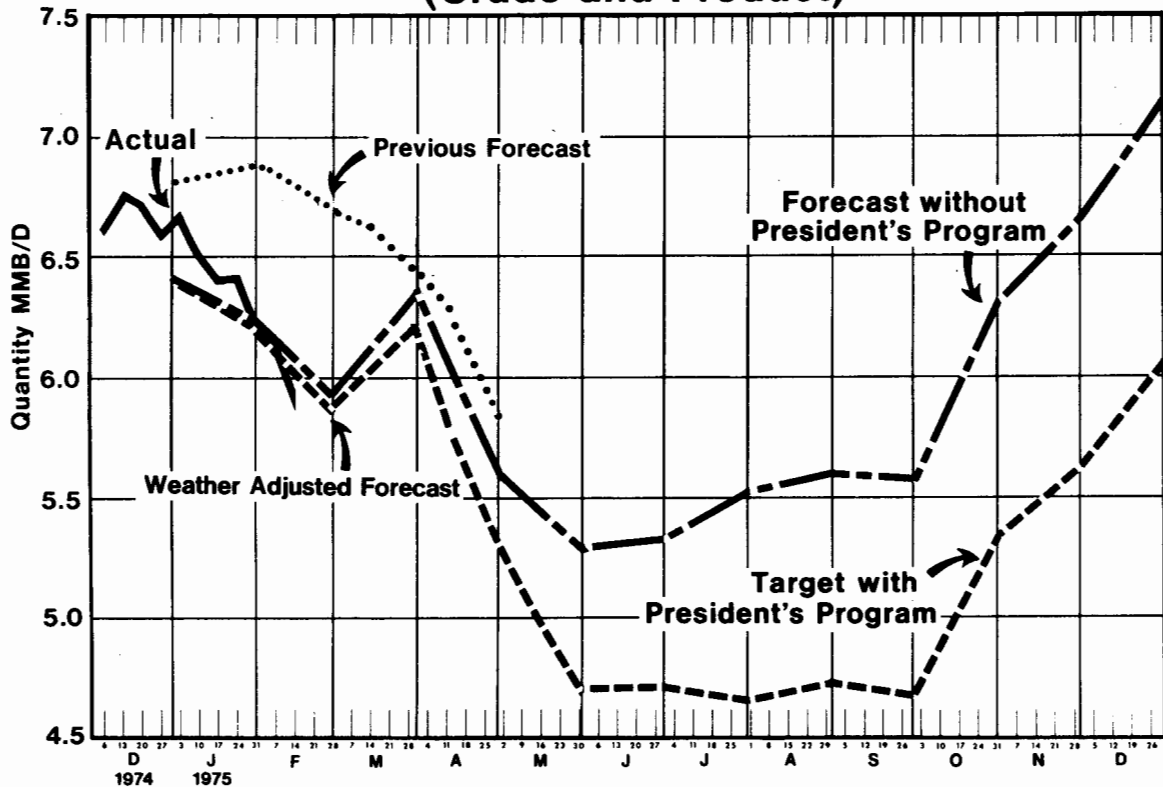
<u>Administrative Activity</u>	<u>Lead Agency</u>	<u>Status</u>	<u>Next Steps</u>
6. Utility Study	FEA	Analytical effort has been organized within FEA and commenced.	Analysis of financial problems of utilities with deadline of February 28, 1975. Further studies being considered with due date in April.
7. Price Floor on Petroleum Imports	FEA	Position paper to be completed week of March 3, 1975.	Paper to be submitted to FEA Administrator.



TAB C

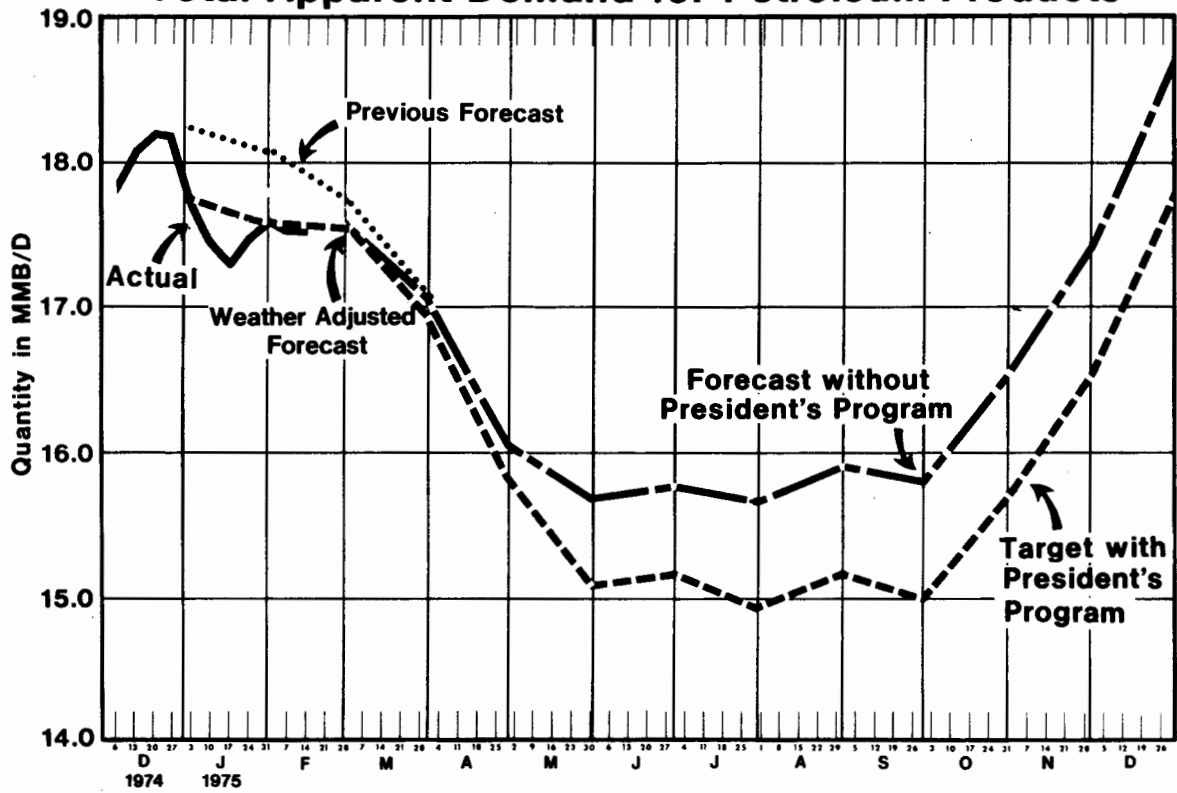
Progress In Meeting Goal of One Million Barrels
Savings in 1975

Table 1
Total U.S. Petroleum Imports
(Crude and Product)



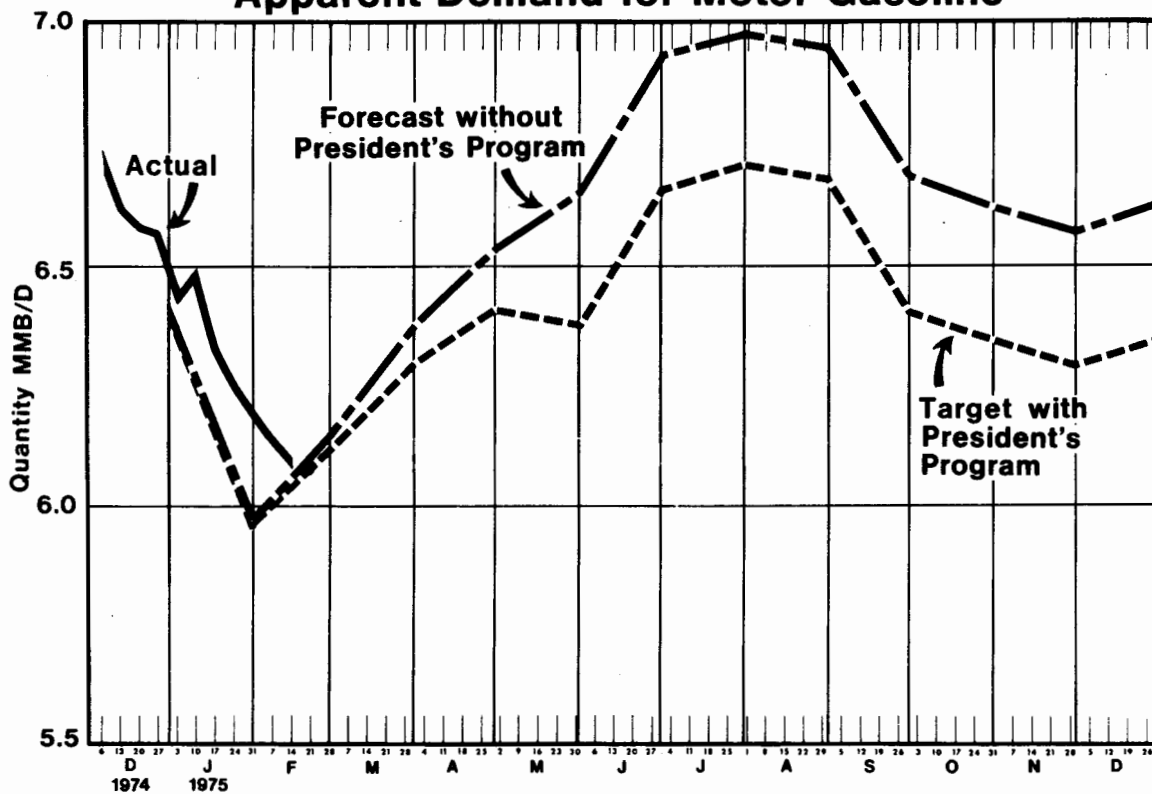
- o Imports of crude oil and petroleum products for the four weeks ending February 14 were 5.97 million barrels per day, 805,000 barrels per day (or 11.9 percent) below FEA's original forecast for the period. With the forecast corrected for weather, this level is only 413,000 barrels per day below the revised forecast of 6.38 million barrels per day with no new programs, and 356,000 barrels per day below the revised target level of 6.32 million barrels per day.
- o Imports of crude oil dropped by 4.7 percent from the 4-week period ending January 31, a decrease of 206,000 barrels per day.
- o Crude oil imports for the 4-week reporting period ending February 14, at 3.99 million barrels per day, were 64.3 percent higher than the 2.43 million barrels per day recorded during the same period last year when the embargo was in effect.
- o Total refined product imports for the 4-week reporting period ending February 14, at 1.98 million barrels per day, were 27.8 percent below 2.74 million barrels per day in the same period last year when the embargo was in effect.

Table 2
Total Apparent Demand for Petroleum Products



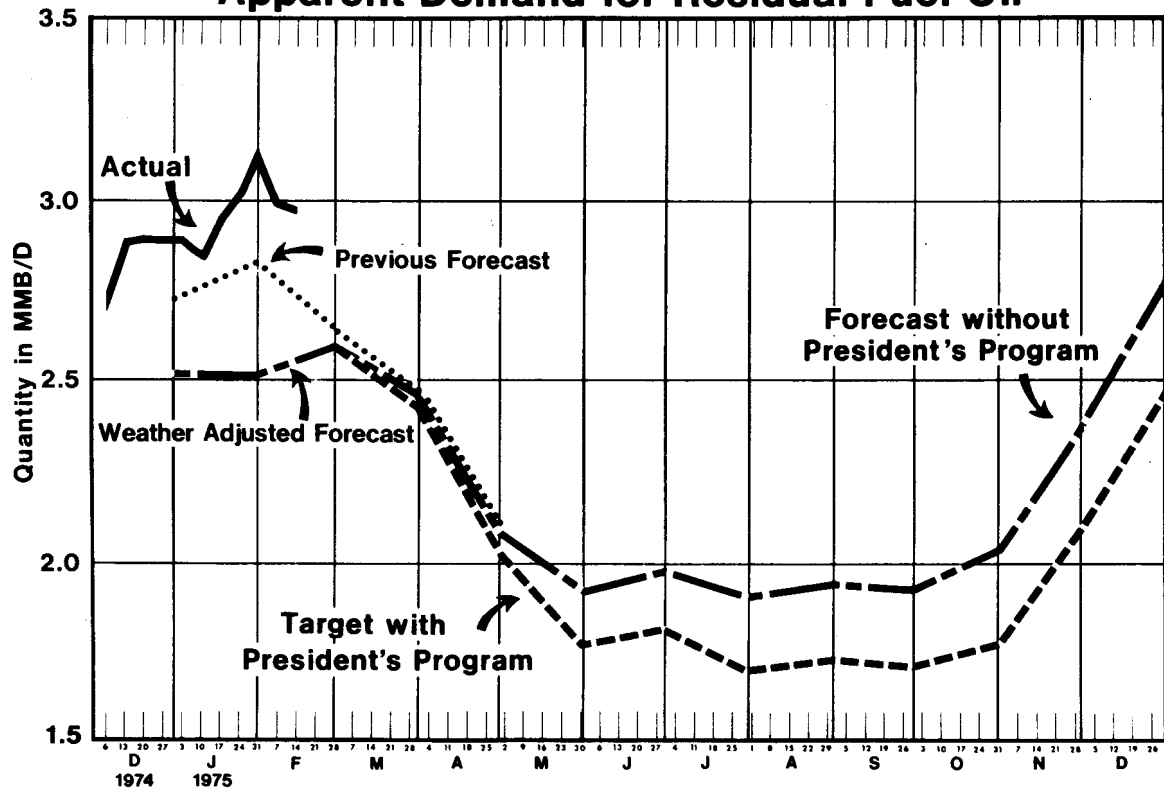
- o Total apparent demand during the four-weeks ending February 14 was 17.54 million barrels per day, 18,000 barrels per day below the revised target of 17.56 million barrels per day and 48,000 barrels per day below the projected level of 17.60 million barrels per day if there were no new programs.
- o Total apparent demand for the reporting period ending February 14 was 1.04 million barrels per day above the 16.51 million barrel per day total demand figure reported for the corresponding period in 1974. This is, of course, due to the fact that the embargo was in full effect at this time last year.

Table 3
Apparent Demand for Motor Gasoline



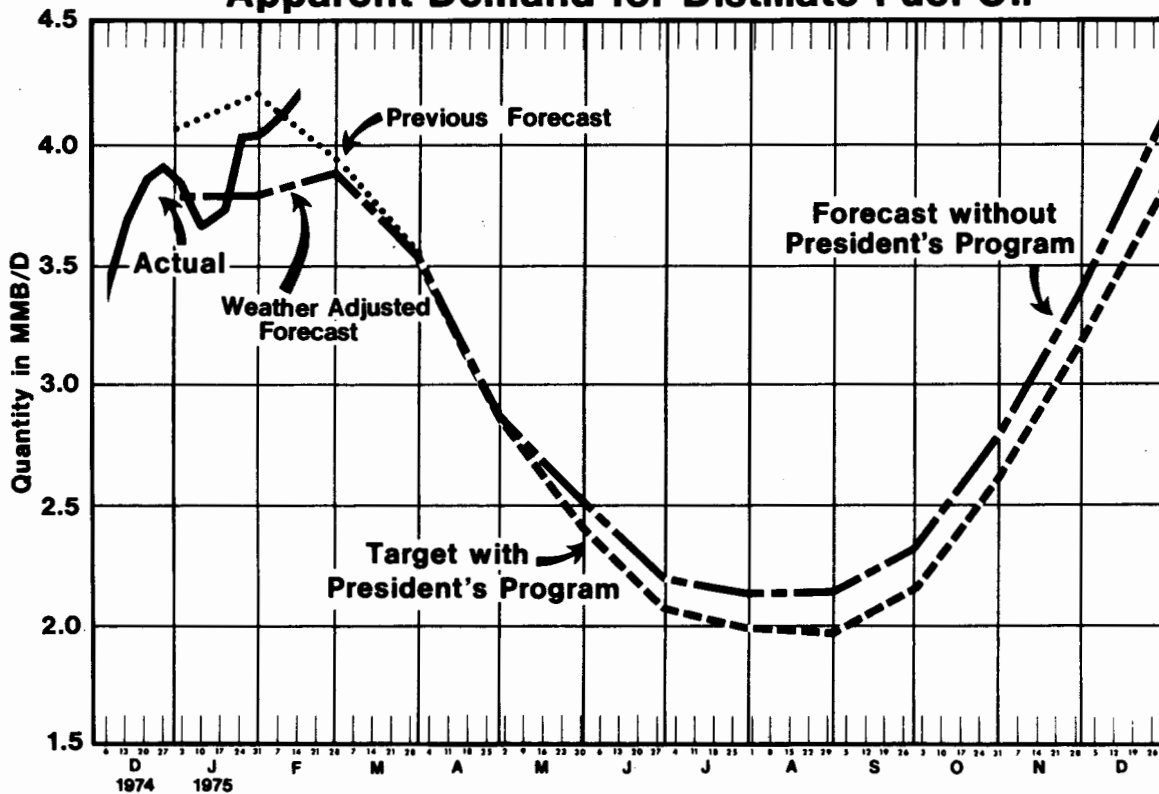
- o Apparent demand for motor gasoline for the four weeks ending February 16 was 6.10 million barrels per day which was 44,000 barrels per day above the revised target of 6.05 million barrels per day and 28,000 barrels per day above the projected level of 6.07 million barrels per day if there were no new programs.

Table 4
Apparent Demand for Residual Fuel Oil



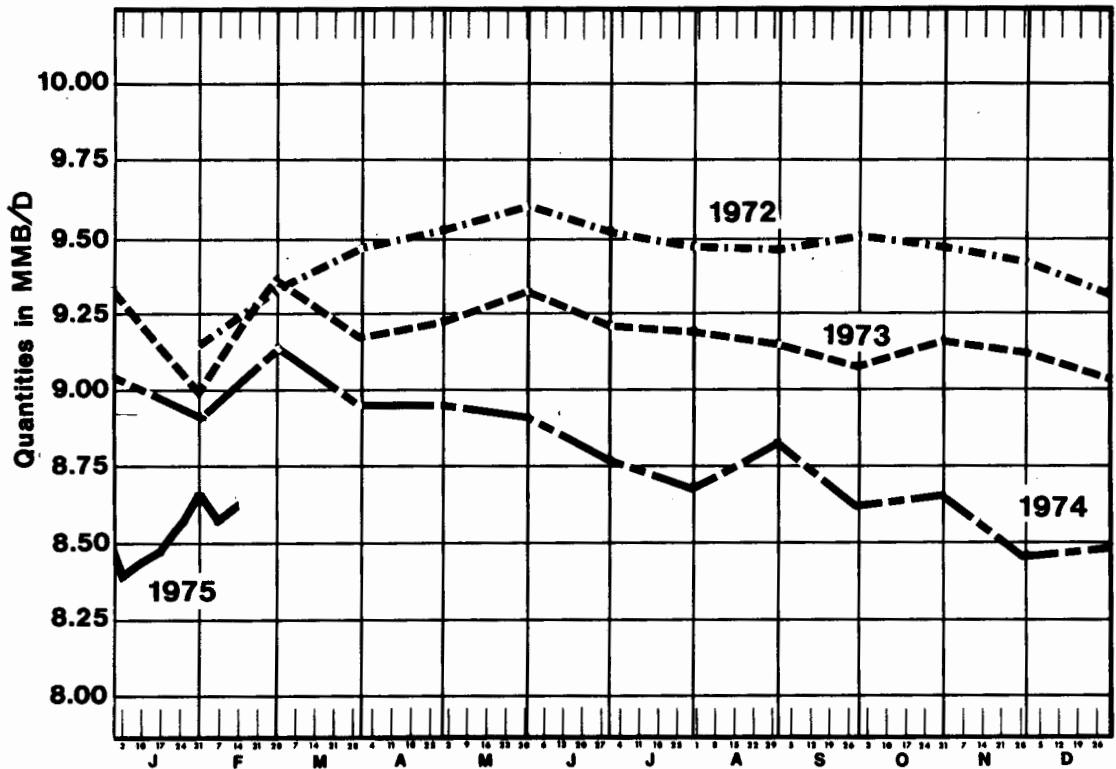
- o Apparent demand for the four weeks ending February 14 was 2.98 million barrels per day, which is 436,000 barrels per day above the target of 2.55 million barrels per day and 423,000 barrels per day above the projected level of 2.56 million barrels per day if there were no new programs.
- o The upward trend in apparent demand in January and February follows the pattern established in past years.
- o The difference between apparent demand for residual and the forecast figures may be due to substitution of residual for curtailed natural gas (which has been substantial this winter) and changes in secondary inventories as a result of the coal strike. However, the historical pattern of residual consumption is so erratic that residual has proved to be the most difficult petroleum product to forecast.

Table 5
Apparent Demand for Distillate Fuel Oil



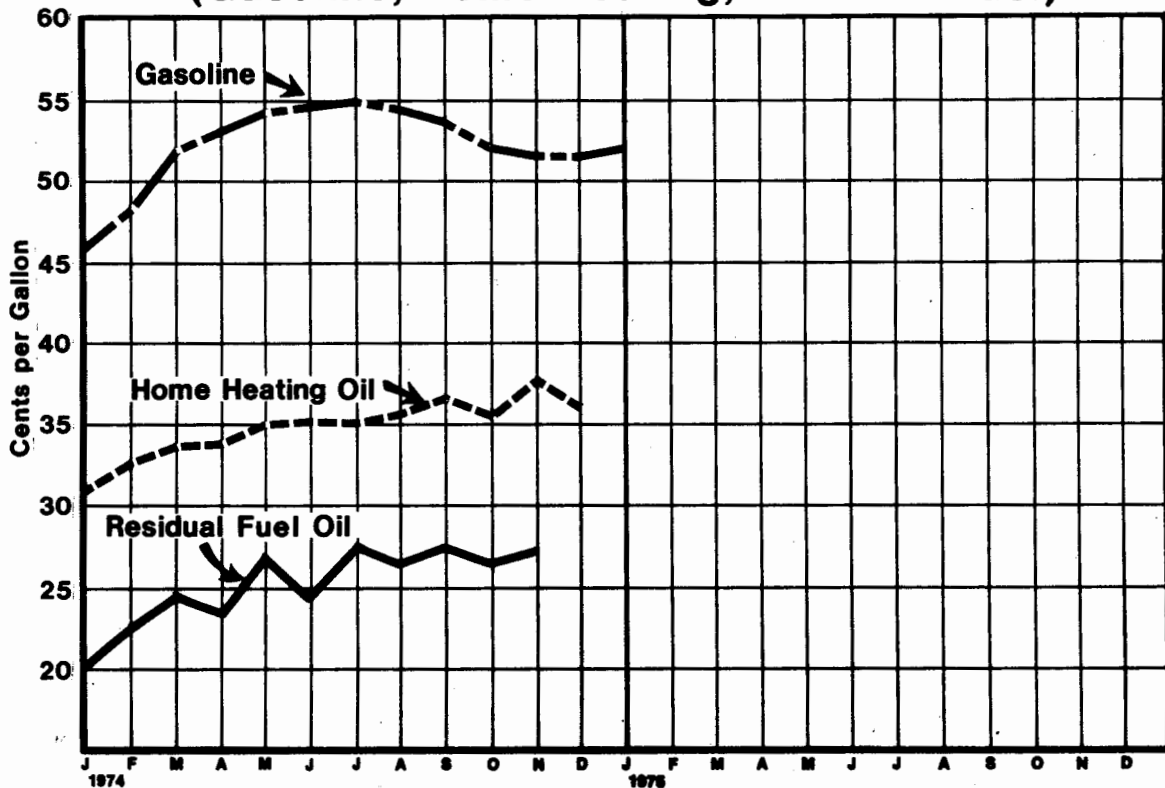
- o Apparent demand for the four weeks ending February 14 was 4.23 million barrels per day, which is 371,000 barrels per day above the revised target of 3.87 million barrels per day.
- o The increase in apparent demand in January and February parallels changes in demand for distillate fuel oil in these months in past years.

Table 6
Domestic Crude Oil Production



- o Production of crude oil for the four weeks ending February 14 at 8.612 million barrels per day is 6.5 percent below the same period of 1974 and 8.2 percent below the same period in 1973.
- o The increase in 1975 represents a minor fluctuation; it should not be interpreted as a reversal of the long-term decline in production established in earlier years.

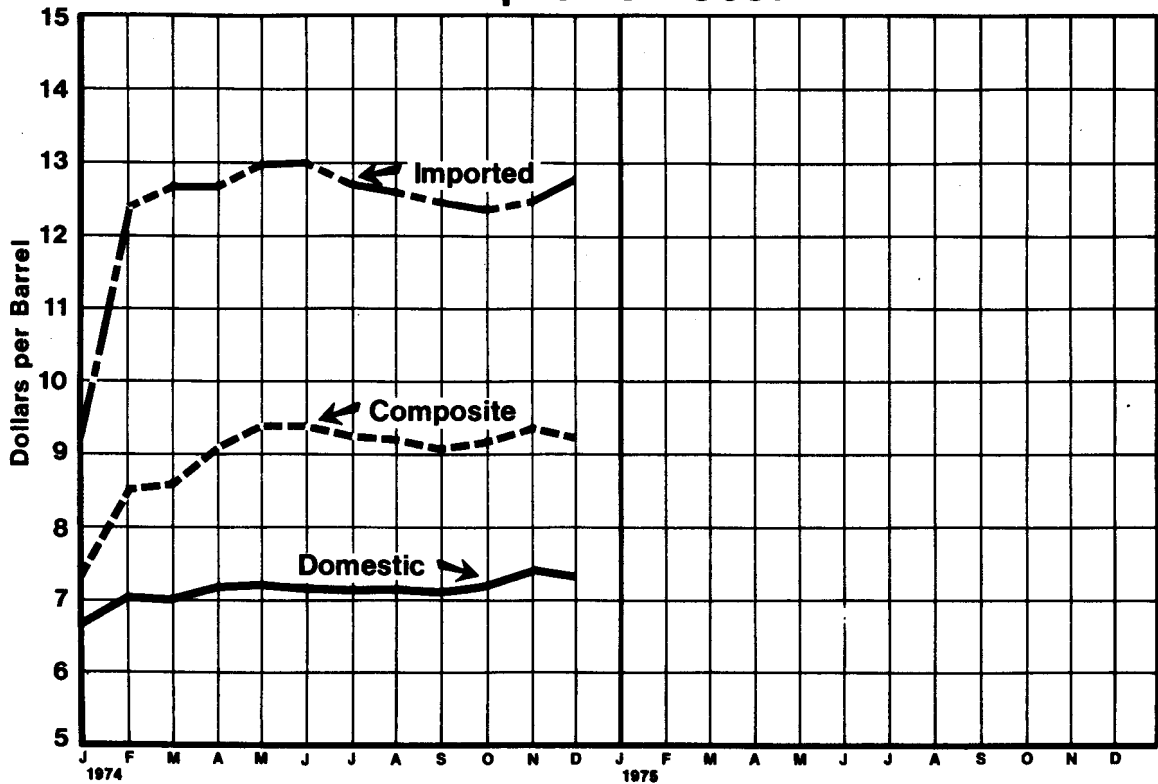
Table 7
Retail Prices
(Gasoline, Home Heating, Residual Fuel)



Product Prices

- o The national average gasoline price increased by 0.4 cent per gallon in January, the first increase since gasoline prices began falling in August 1974. The increase in the average price was due mainly to price increases by eight major oil companies. Independent retailers generally did not increase prices.
- o The average price for heating oil declined 1.3 cents per gallon in December, reflecting a general softening of heating oil prices.

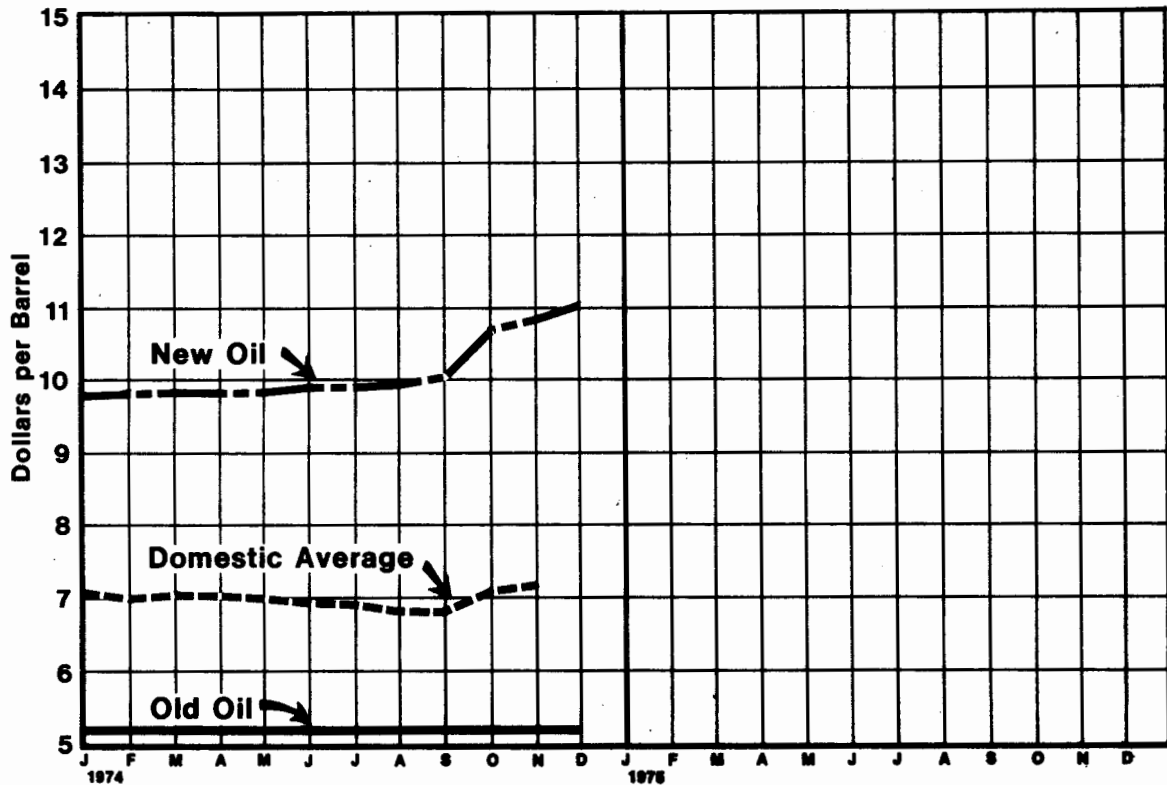
Table 8
**Crude Oil Refiner
 Acquisition Cost**



Refiner Acquisition Costs

- o Composite costs represent the amount of crude costs that refiners may pass through to customers. These costs have increased about 15 cents per barrel from September to December.
- o Rising new oil prices have pushed up domestic acquisition costs about 20 cents per barrel since September. (The decline in composite and domestic acquisition costs in December is due to the fact that November costs had been inflated to recover retro-active price adjustments.)
- o Imported crude costs increased in December by nearly 30 cents per barrel, reflecting earlier increases in tax and royalty rates by some OPEC countries.

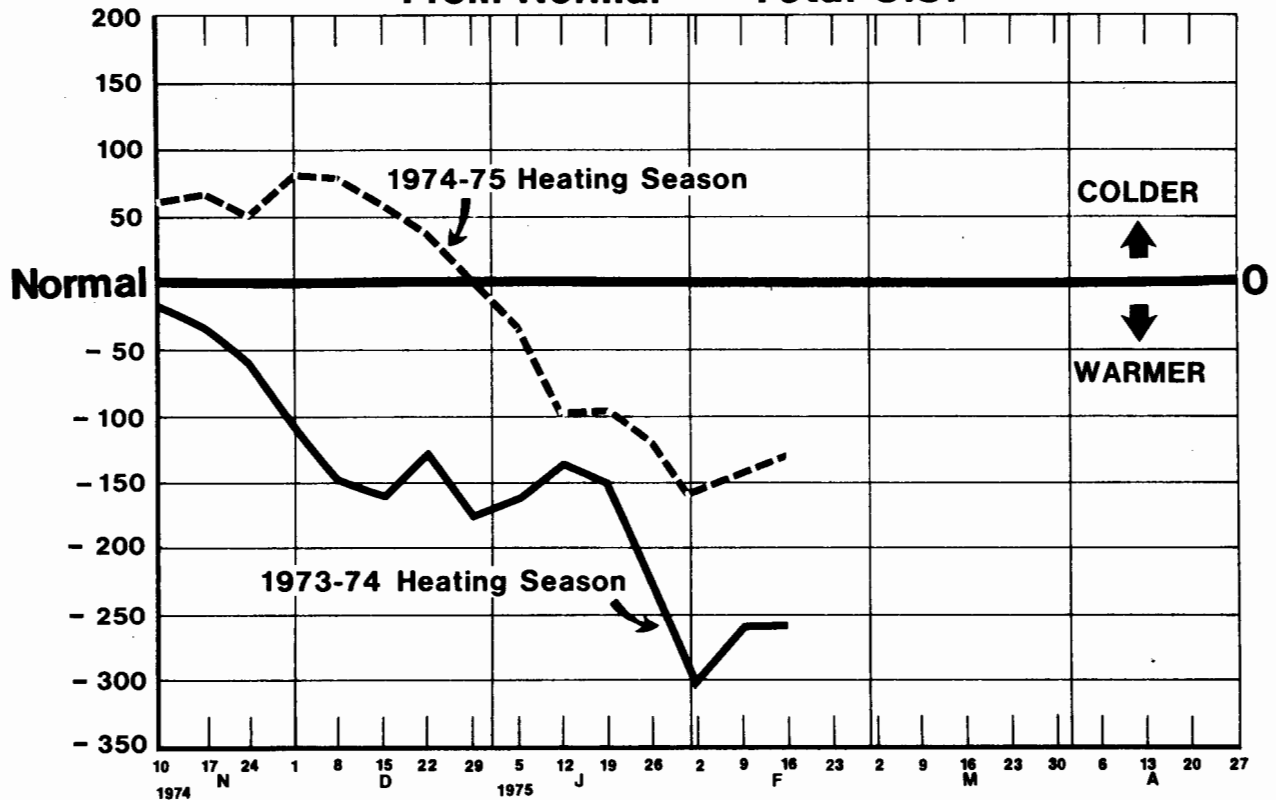
**Table 9
Crude Oil
Wellhead Price**



New Oil Prices

- o New oil prices continue to increase in selected areas, driving the average new oil price up to \$11.08 per barrel in December. Many new oil prices are being applied retroactively to earlier months and are being passed through in the current months, overinflating the crude acquisition costs by refiners.
- o The uncontrolled percentage of production that sold at uncontrolled prices during November declined to 33 percent from 34 percent during October.

Table 10
**Departure of Cumulative
 Distillate Heating Oil Degree-Days
 From Normal — Total U.S.**



- o For the 3-week period ended February 16, 1975, distillate heating oil degree-days for the continental United States were 1.5 percent below normal (warmer weather).
- o Cumulative U.S. distillate heating oil degree-days for the 1974-75 heating season through February 16 were 3.8 percent below normal; a year ago, distillate heating oil degree-days for the 1973-74 heating season were 7.6 percent below normal.
- o Through February 16, the western third of the country accumulated less degree-days this heating season than last, while the rest of the Nation accumulated more degree-days. The percentage changes are as follows: +4.9 percent in PAD I (East Coast); +3.3 percent in PAD II (Mid-Continent); +11.1 percent in PAD III (Gulf Coast); -0.6 percent in PAD IV (Rocky Mountain); and -2.7 percent in PAD V (West Coast).

DEFINITIONS

- Apparent Demand -- Demand for products, in terms of real consumption, is not available; production plus imports plus withdrawals from primary stocks is used as a proxy for demand (consumption). Secondary stocks, not measured by FEA, are substantial for some products.
- Actuals -- Four-week moving averages computed from the Weekly Petroleum Reporting System.
- Forecast -- A petroleum product demand forecast is simulated to obtain a Base Case. The forecast reflects the behavior of the economy which would occur without the President's program. It assumes normal weather and makes use of the best current estimates of future economic conditions.
- Revised Forecast -- The revised forecast is made every two weeks to take account of actual weather and economic conditions, and revised forecast of these variables.
- Target With President's Program -- The Target incorporates reductions in consumption implicit in the President's energy policy as given in the State of the Union Message. In addition it was assumed that:
- domestic production increases by 160 MB/D by the end of 1975 due to the development of Elk Hills.
 - petroleum demand is reduced by 98 MB/D due to switching from oil to coal.
 - petroleum demand due to natural gas curtailments ceases after May 1, 1975, due to the deregulation of new natural gas at the wellhead.
 - price changes due to the President's policies are held constant in real terms at their May 1975 levels.
- Degree-Days -- The number of degree-days in one day is the number of degrees by which the mean temperature for the day is below 65°F. Statewide averages for degree-days are based on population weights. These statewide averages are then aggregated into P.A.D. Districts and the national average using a weighting scheme based on each State's consumption of fuel oil per degree-day, thereby relating the impact of the weather to distillate heating oil demand. Note that "above normal" degree-days correspond to "below normal" temperatures.



TAB D

Major International Events

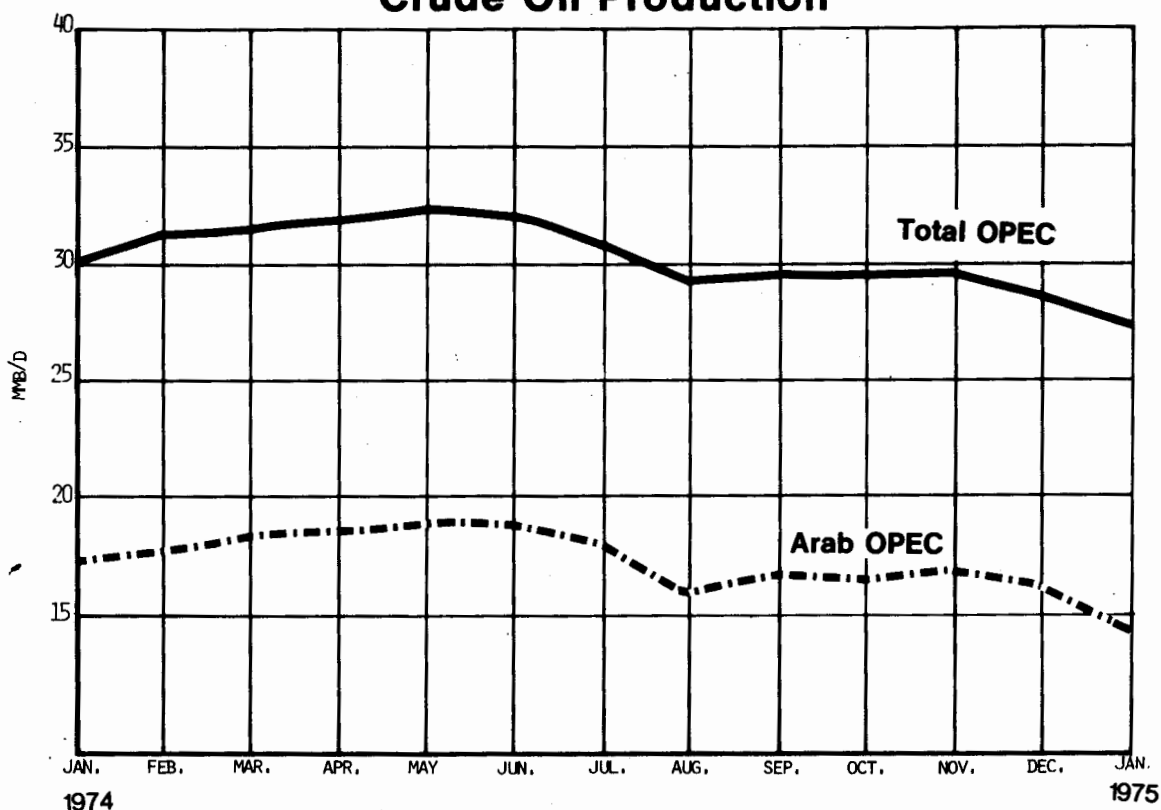
TAB D - International Events

OPEC meeting. OPEC ministers are currently meeting in Vienna to prepare for the OPEC Heads of State Meeting to be held early in March. Under discussion are the implications of the declining value of the dollar and the producer position at the upcoming producer/consumer conference.

Aramco. Aramco representatives and representatives of the Saudi Arabian government are meeting to discuss the terms of the eventual takeover of Aramco by the Saudi government. At issue are guarantees of access to crude supplies for the shareholders and the fee to be paid for services provided by the shareholders. Aramco representatives have expressed discouragement over the lack of progress during the negotiations.

Chinese exports. The People's Republic of China has agreed to raise its exports to Japan to approximately 100,000 barrels per day during 1975 at approximately \$12.10/barrel, perhaps heralding the role China is expected to play in the future as a major oil exporter.

OPEC Countries Crude Oil Production



- o Crude oil production by the Organization of Petroleum Exporting Countries (OPEC) declined for the third consecutive month. January 1975 production was an estimated 27.2 million barrels per day, down 2.9 million barrels per day from a May 1974 high of 32.1 million barrels. Arab OPEC production of 15.3 million barrels per day was 10 percent below the January 1974 rate when output was curtailed by Arab cutbacks and embargoes. Production cuts are reactions to high oil prices, reduced economic activity, and mild winter temperatures.
- o For the first time in its 24-year history, the Trans-Arabian Pipe Line (TAPLINE) from Saudi Arabia's Persian Gulf fields to the Mediterranean at Sidon, Lebanon, has been shut down for purely economic reasons.
- o Several new production areas outside the established OPEC countries will come on stream in substantial quantities before 1980. The estimated contribution of these areas by 1980 could be 9 million barrels per day. The most important of these, the North Sea and Alaska, should be able to supply 5.5 million per day by that time. Other non-OPEC areas expected to have significant new production are Mainland China, Brazil, Mexico, Malaysia, Greece, and Zaire.