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THE WHITE HOUSE  
WASHINGTON


September 26, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

ROGERS C. B. MORTON  
FRANK G. ZARB

FROM:

JAMES E. CONNOR 

SUBJECT:

OUTSTANDING ISSUES ON  
EIA

The President has reviewed your memorandum of September 24th on the above subject and approved the following:

ISSUE 1: BOARD OF DIRECTORS PARTICIPATION

Option 2: The legislation would give the President authority to select either full or part-time board members.

ISSUE 2: INCLUSION OF EIA EMPLOYEES IN CIVIL SERVICE AND EXECUTIVE APPOINTMENT SYSTEMS

Option 3: Hybrid compensation for EIA.

With this alternative, a reasonable number of executives, including the Chairman of the Board, could be paid without regard to executive pay scales, but the majority of the employees would be covered by the Civil Service system.

ISSUE 3: SCOPE OF EIA'S INVESTMENTS

Option 2: Limit EIA to only the specific items listed.

Suboption c: Include other commercial technologies if they are of a scope, size or unique institutional situation which makes their financing by the private sector impossible, i. e., a vast energy park.

ISSUE 4: TREATMENT OF EIA FOR BUDGET PURPOSES

Congressional Control

Option 1: Initially request the entire \$75 billion in borrowing authority, without any congressional appropriations.

Budget Display Issue

Option 2: Include only the equity portion of EIA's financial operations in the Federal budget, since this portion most closely reflects actual losses.

Please follow-up with appropriate action.

cc: Vice President  
William Simon  
Alan Greenspan  
James Lynn  
Don Rumsfeld  
William Seidman

**THE WHITE HOUSE**  
WASHINGTON

September 25, 1975

DICK:

I have shown this to the President  
but he still favors Option 2 as  
indicated in the enclosed Action  
Memo.

~~TERRY O'DONNELL~~



OFFICE OF THE VICE PRESIDENT  
WASHINGTON

September 25, 1975

MEMORANDUM FOR DICK CHENEY

FROM:

Peter Wallison

*Peter*

On page 11 of the memo from Frank Zarb to the President, dated September 24, 1975, the Vice President was incorrectly recorded as favoring Option 2 under "Budget Display". The Vice President should be recorded as favoring Option 3.

THE WHITE HOUSE  
WASHINGTON

Don

R

I have completed.



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

September 24, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR DICK CHENEY

FROM: FRANK ZARB *FZ*

Attached is our best effort to outline the remaining issues on the Energy Independence Authority. Inasmuch as many of the senior staff are strongly divided on several of these issues, I have coordinated the memo with them and recorded their views.

I would suggest that I take ten minutes to explain these issues to the President inasmuch as many are quite complex. He could then decide whether he would like to meet on the issues.



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

September 24, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB  
THROUGH: ROGERS C.B. MORTON  
SUBJECT: OUTSTANDING ISSUES ON EIA

Your senior advisors have reviewed the legislation to implement your decision on the Energy Independence Authority (EIA) and have identified the remaining issues for your review and decision.

ISSUE 1: BOARD OF DIRECTORS PARTICIPATION

The Authority would be governed by a 5-man Board of Directors, all of whom would be appointed by the President, subject to the advice and consent of the Senate, and would serve at the President's pleasure. The issue is whether all the Board members should serve full-time, or could some serve part-time at the President's discretion.

Option 1: The legislation would require that all Board members serve full-time.

Pros:

- Forces full-time participation to run a large and complex program.
- Avoids possibly significant conflict of interest problems.
- Congress is likely to require only full-time members.

Cons:

- May preclude top people who will not serve full-time.



Option 2: The legislation would give the President authority to select either full or part-time board members.

Pros:

- ° Allows top people, such as academicians to serve.
- ° All members are still subject to conflict of interest criteria.

Cons:

- ° Part-time members may not be as effective in managing the corporation.

Decision

\_\_\_\_\_ Option 1 (full-time) recommended by: Lynn, Morton, Greenspan

*WR*

Option 2 (Presidential discretion) recommended by: Vice President, Zarb, Simon, Seidman

ISSUE 2: INCLUSION OF EIA EMPLOYEES IN CIVIL SERVICE AND EXECUTIVE APPOINTMENT SYSTEMS

The issue is whether the employees and executive officers of the corporation are completely within the system (as in a Cabinet Department), completely exempt (as with the Federal Reserve), or some mixture (as with the Postal Service).

Option 1: All employees are treated as in an Executive Department.

The Chairman of the Board would be an Executive Level I or II and a limited number of Executive Level III's and IV's would be provided. All other employees would be under the Civil Service system with a conventional mix of career and noncareer employees.

Pros:

- ° No possibility of corporation being viewed as paying exorbitant salaries.
- ° Takes care of all fringe benefit problems.

Cons:

- May not be able to attract high salary people, although Cabinet and subcabinet ranks could offset this problem.

Option 2: The EIA is excluded from all Executive Branch limitations.

Under this alternative all employees would be appointed without regard to Civil Service requirements or Executive Branch salary limitations.

Pros:

- Allows rapid staffing.
- Government salary will not be a barrier at any level.

Cons:

- Subject to abuse and political charges.
- Requires establishment of a new fringe benefits system.

Option 3: Hybrid compensation for EIA.

This option reflects the agreement reached by the Vice President and Frank Zarb previously. With this alternative, a reasonable number of executives, including the Chairman of the Board, could be paid without regard to executive pay scales, but the majority of the employees would be covered by the Civil Service system.

Pros:

- Assure top level staff can be attracted.
- Provides Civil Service system and benefits for majority of staff.

Cons:

- Could hamper effectiveness of staffing middle and lower management.
- Salaries could still be viewed as exorbitant.

Decision

\_\_\_\_\_ Option 1 (Executive Branch) recommended by: Zarb

\_\_\_\_\_ Option 2 (Exempt) recommended by: Vice President, Lynn,  
Simon, Seidman

mc Option 3 (Mixed) recommended by: Morton, Greenspan

ISSUE 3: SCOPE OF EIA'S INVESTMENTS

The types of projects the EIA can finance will include:

- ° New technologies to support or directly produce or transport energy, and which are not in widespread commercial use.
- ° Technology to support the development of nuclear power.
- ° Electric power not from oil or gas sources (coal, nuclear and geothermal).
- ° Pipelines for transportation of energy.

These projects will only be undertaken if they make a significant contribution to energy independence and cannot be financed by the private sector. The issue is how tightly should the EIA be restricted to the above list of projects.

Option 1: Do not preclude other types of projects.

Under this option the EIA legislation would only require that EIA "primarily concentrate" on the above mentioned projects or others added under Option 2. However, to the extent other projects could make a significant contribution to energy independence and cannot be financed elsewhere, EIA could undertake them.

Pros:

- ° Provides additional flexibility to finance needed projects which cannot be envisioned now.

Cons:

- Opens door to a potentially more pervasive role for EIA.
- Dilutes efforts of EIA on the identified problem areas listed above.

Option 2: Limit EIA to only the specific items listed.

Under this alternative EIA could undertake only the types of projects specified in the legislation. If this option is selected, four additional categories must be reviewed for inclusion in the legislative list.

Pros:

- Restricts scope and focus activities on most critical areas.

Cons:

- No flexibility to undertake other projects which may be critical.

Suboption a: Include all transportation facilities, not just pipelines, i.e., transmission lines, railroad beds, etc.

Pros:

- Other transportation facilities could be of large scope, possibly difficult to finance and critical to energy independence.
- Many of these transportation facilities are an integral and necessary part of potential EIA production investments.

Cons:

- Further widens scope.
- Other programs are available for railroads, etc.
- If EIA finances a production facility, related transportation facilities may be financable by the private sector.

Suboption b: Include emerging energy conservation technologies.

Pros:

- Politically popular and will probably be added by Congress.
- Restricts investments to noncommercial operations which may not be financed, such as new peak metering devices.

Cons:

- Opens door to wide range of new activities.
- Could result in competition with the private sector, such as production of new, more efficient automobile engines.

Suboption c: Include other commercial technologies if they are of a scope, size or unique institutional situation which makes their financing by the private sector impossible, i.e., a vast energy park.

Pros:

- May be difficult to finance and are needed.

Cons:

- Opens door to new areas of conventional operations.

Decision

\_\_\_\_\_ Option 1 (Flexible Scope) recommended by: Vice President

*LR*

\_\_\_\_\_ Option 2 (Limited Scope) recommended by: Lynn, Simon, Zarb, Morton, Greenspan, Seidman

Include:

\_\_\_\_\_ Suboption a (transportation): Vice President, Zarb, Morton, Seidman

*LR*

\_\_\_\_\_ Suboption b (conservation): Vice President, Zarb, Morton, Seidman

\_\_\_\_\_ Suboption c (large projects): Vice President, Zarb, Seidman

ISSUE 4: TREATMENT OF EIA FOR BUDGET PURPOSES

The financial operations of the corporation can either be included or excluded from the Federal budget. If they are included

- The normal Presidential/congressional budget control would be observed.
- Such operations will contribute to the bottom line surplus/deficit Federal budget figure as would the operations of most other Federal agencies.

As presently conceived, EIA would have borrowing authority from the Treasury up to \$75 billion, to be reloaned to borrowers or to be used in guaranteeing borrower's obligations to other lenders, and would also have \$25 billion of equity capital. The corporation cannot continue to commit funds if the aggregate losses its Board of Directors then anticipates would exceed its equity capital.

Control

There is agreement that \$100 billion in funding authorization will be initially requested by the Administration for EIA. There is also agreement that the \$25 billion of equity will be subject to the budget/appropriation process and requested incrementally. This allows congressional review of EIA's losses. The issues are whether the \$75 billion in borrowing authority should be subject to the budget/appropriations process or backdoor financing and whether it should all be requested initially or in increments over time. The options are\*:

Option 1: Initially request the entire \$75 billion in borrowing authority, without any congressional appropriations.

Pros:

- ° Allow complete funding availability at the onset of EIA permitting a "full speed ahead" implementation of the program.
- ° Gives clear signal of the U.S. Government's intentions to become energy independent.

\* Funding would be "no-year" in either option.

- Minimizes administrative and legislative delays on this initiative.
- Still provides some congressional review of EIA's activities which involve losses.

Cons:

- Gives a new untested U.S. Government program full funding authority without knowing through experience whether the approach can be successfully implemented.
- Effectively gives EIA blank checks with limited subsequent policy control by the Congress.
- Contrary to anti-backdoor provisions of Budget Reform Act.

Option 2: Request that the borrowing authority be appropriated by Congress and request \$75 billion initially.

Pros:

- Conforms to policy of Budget Reform Act against backdoorring.
- Reduces congressional wrangling over whether Appropriations Committees should be involved.
- Still gives "full speed ahead" signal.

Cons:

- More time consuming than Option 1.
- Appropriations Committees are not likely to grant full amount and may limit amounts to one year.

Option 3: Request that the borrowing authority be appropriated by Congress (as in Option 2) and request portions of the \$75 billion over time as needed.

Pros:

- Provides for initial program implementation to gain experience with merits of the new program.

- Provides greater Presidential and congressional control by permitting periodic policy and program reviews of progress when additional funds are requested.
- Would tend to minimize U.S. Government disruption of private capital markets and financing of on-going energy projects.
- Conforms to Budget Reform Act.

Cons:

- Could slow progress of program as initial funding authority is used up since additional funding would probably be needed and would be subject to Presidential/congressional approval.
- Could detract from U.S. Government's full impact of the commitment to greater energy independence.

Budget Display Issue

At issue is whether the EIA financial operations should be reflected in the Federal budget. The options are:

Option 1: Include all financial operations as a normal part of the Federal budget.

Pros:

- Consistent with sound fiscal policy and current Executive/Legislative Branch policies including the Budget Reform Act.
- Provides public accountability on EIA activities for a major Federal program.
- Overall proposal may be viewed more favorably by the Congress.

Cons:

- Deficits would be very high.
- Deficits would not be related to losses actually anticipated.



Option 2: Include only the equity portion of EIA's financial operations in the Federal budget, since this portion most closely reflects actual losses.

Pros:

- Would account for the anticipated losses, which represent actual cost of the program to the U.S. Government.
- Would provide limited accountability to the Congress and the public on EIA operations.
- From a public perception point of view, would show minimal deficit increases for expected losses.

Cons:

- Could show losses even if none exist.
- Inconsistent with all other Federal Government operations, except the Postal Service.

Option 3: Place all of EIA financial operations off budget.

Pros:

- Would not further increase the reported Federal deficit.

Cons:

- Would undermine the intent of the Budget Reform Act.
- Hides extent of Federal priorities in energy relative to other Federal programs such as housing, mass transit, etc.

RECOMMENDATIONS

Congressional control

- WCF Option 1 (off-budget): Vice President, Zarb, Seidman
- \_\_\_\_\_ Option 2 (on-budget, \$75 billion request):
- \_\_\_\_\_ Option 3 (on-budget, as needed): Lynn, Greenspan,  
Simon, Morton

Budget Display

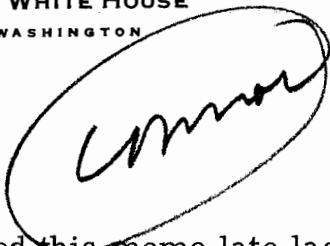
- ART Option 1 (on-budget): Lynn, Simon, Greenspan, Morton
- ART Option 2 (equity only): Vice President, Zarb, Seidman,  
Lynn (fallback)
- \_\_\_\_\_ Option 3 (off-budget):

There are four other issues which are being explored and may need your review:

- Authority of EIA to purchase equity.
- Floor on interest rates EIA may charge.
- A more sweeping provision to deal with time delays caused by environmental laws.
- Desirability of withdrawing Labor-Management Committee tax proposals for utilities.

If these remaining issues cannot be resolved by your staff, they will be submitted for your decision by Friday.

THE WHITE HOUSE  
WASHINGTON



Jim -

Received ~~this~~ memo late last night from Bob Linder --- we had no record of the Zarb memo that Sec. Morton comments on --

Called Zarb's office --- they promised to call back.

No call back -- called Zarb's office --- seems Zarb gave a memo to Cheney -- including everybody's comments that were at a meeting yesterday (presumably Morton's comments are included in the memo Zarb prepared).

Do you want to ask Dick Cheney about it? Trudy

1975 SEP 24 PM 5 41

RECEIVED SECURITY UNIT  
THE WHITE HOUSE  
WASHINGTON



THE SECRETARY OF COMMERCE  
WASHINGTON, D.C. 20230

MEMORANDUM FOR THE PRESIDENT

FROM: ROGERS C. B. MORTON

SUBJECT: Remaining Issues Related to the Energy  
Independence Authority (EIA)

This memorandum sets forth my views on the specific issues raised in Frank's memo, plus some additional thoughts I wish to share with you:

Issue #1: Board of Directors' Participation.  
I favor Option 1 (legislation requiring a full-time board).

Issue #2: Inclusion of EIA Employees in Civil Service and Executive Appointment Systems.  
I favor Option 3 (the hybrid compensation).

Issue #3: Treatment of EIA for Budget Purposes.  
In general, I favor putting all EIA activities on the budget. (Option #1)

I believe our friends on the Hill will be more comfortable with the whole activity on the budget. Arthur Burns has raised very significant arguments in favor of having EIA on the budget. The mood of the Congress on off-budget financing was clearly expressed in the Budget Control and Impoundment Act of 1974. I think we would run into opposition that does not derive from the substance of the proposal. No political, energy, or economic purpose critical to the proposal is really at stake.

Issue #4: Scope of EIA's Investments  
I favor option 2 with the inclusion of suboption a and b. A serious issue, not focused on in Frank's memo, but which I feel should be very clearly understood is the possibility that proponents of a Federal Oil and Gas Corporation will seize upon the equity participation of EIA as an opportunity to create a federal energy corporation. I am ambivalent on the issue of equity participation.

Con

Con

- o The best means of avoiding conversion of the EIA legislation into a federal energy corporation would be to delete the equity participation authority from the Bill.
- o Limited EIA to loans will insure that private capital and private investment decisions are involved in all EIA initiatives.

Pro

- o The arguments raised in support of equity participation certainly are well grounded with respect to the expansion of the authority's scope. Without it, EIA will be limited to the more developed technologies.

If you determine that equity participation should be retained:

- o The EIA should be limited to minority ownership.
- o In cases where EIA owns facilities and leases them to the private sector, a lease/buy contract should be executed before the facility is constructed.
- o Safeguards against conversion of this function into federal energy corporations should be built into the law so clearly that amendment of them in the legislative process clearly justifies your consideration of a veto when the final Bill appears on your desk.

*Rogers Morton*