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Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

ENERGY POLICY AND CONSERVATION ACT (S. 622)

THE PRESIDENT TODAY:

- Signed the Energy Policy and Conservation Act, S. 622, which establishes a modified system of crude oil price controls that would be phased out in 40 months and provides four major elements of the comprehensive energy legislation he requested last January.

- Announced that he was removing, effective today, the $2 per barrel import fee on crude oil that he previously imposed to reduce imports and stimulate action on energy independence legislation.

- Indicated he was urging Congress to move immediately on other pending energy legislation after its current recess.

- Directed the Administrator of FEA to take the necessary steps to remove allocation and price controls (other than those on crude prices) from a major segment of the petroleum industry as soon as possible, in order to return much of the industry to a free market.

BACKGROUND

- In his State of the Union Message last January, the President announced specific goals to achieve energy independence.

- Also in January, the President proposed comprehensive legislation to conserve energy, increase domestic energy production, and provide strategic reserves and standby authorities to cope with any future embargo.

- Beginning in February, the President imposed a fee on imported oil to reduce imports and stimulate Congressional action on national energy policy legislation.

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- During the past year, the President frequently met with Congressional leaders on his proposed energy program. At the request of Congressional Leadership, he delayed implementation of planned import fees and approved temporary extensions in the existing allocation and price control authority in order to give Congress more time to develop acceptable energy legislation.

- In addition to the new legislation, progress toward the President's energy independence goals include:

  - oil imports are about one million barrels per day less than estimated one year ago, due primarily to conservation actions by consumers and industry and better than expected weather conditions.

  - near final action in the Congress on other Administration proposals, including production from Naval Petroleum Reserves, deregulation of new natural gas prices, establishing thermal efficiency standards for new buildings, and weatherization assistance for low-income persons.

PRINCIPAL PROVISIONS OF THE BILL

The principal provisions of the Energy Policy and Conservation Act (S. 622) are:

- Pricing Provisions (amends Emergency Petroleum Allocation Act)

  - Under the existing system of price controls, "old" crude oil is subject to an average limit of $5.25 per barrel, and new oil is uncontrolled.

  - Under the new system, the average price for all domestic crude oil is subject to a composite price limit of $7.66, which can be adjusted upward. Assuming old oil is controlled at $5.25, new oil would be controlled initially at $11.28 per barrel.

  - The $7.66 composite price can be increased monthly at the President's discretion:

    - To adjust for inflation.

    - To provide a production incentive of not more than three percent per year.

    The two adjustments together may not exceed 10% per year.

  - In addition, each 90 days following February 1, 1976, the Administration may take steps to adjust upward the 3% production incentive and the 10% overall adjustment limitation. This is subject to disapproval by either House of Congress within 15 days.

- To continue any production incentive after February 15, 1977, the Administration must make a recommendation to Congress which is also subject to disapproval by either House within 15 days.

- After April, 1977, Alaskan oil can be excluded from the composite price calculation upon a recommendation from the Administration that is not disapproved by either House within 15 days.

- The mandatory control program converts automatically to a discretionary program at the end of 40 months.

- The President is directed to review the current regulatory system and to dismantle as much of the current program (other than crude oil prices) as possible. This includes the price and allocation controls on wholesalers and retailers, which are the bulk of those currently controlled by FEA. Each such deregulation action is permanent, if not disapproved by either House of Congress within 15 days.

Other Provisions

. The other provisions of S. 622 contain several elements of the President's comprehensive energy program. These include:

  - Strategic petroleum reserves similar to the program proposed by the President. This program will establish storage of at least 150 million barrels of petroleum within three years and up to 400 million barrels in seven years. Although not tied directly to production from the Naval Petroleum Reserve (NPR) #1 (Elk Hills, Calif.), it is expected that NPR legislation now before the Congress will make the important connection between revenues from NPR-1 and the strategic petroleum reserves.

  - Standby energy emergency authorities that provide most of the standby authorities requested by the President to deal with severe energy emergencies that may arise in the future. The President must develop contingency plans in six months, which will be reviewed by the Congress prior to implementation.

  - International energy authorities which are necessary to allow the United States to participate fully in the International Energy Program.

  - Coal conversion authorities to permit the conversion of oil and gas fired utility and industrial boilers to coal. An extension of this authority was requested by the President in January.

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- Appliance labelling provisions that will require appliance manufacturers to provide energy efficiency information to consumers on major appliances and set voluntary energy efficiency targets for the industry.

- Automobile efficiency standards for 1980 agreed to on a voluntary basis earlier this year are made mandatory in this bill. In addition, the bill sets mandatory standards for 1985. These standards will have to be evaluated for technological and economic feasibility, and changes will be submitted to the Congress, if appropriate.

The bill contains several other provisions including:

- General Accounting Office audits giving the Comptroller General authority to audit the records of persons and companies who are now required to submit energy data to the Federal government.

- Industrial energy conservation targets are established for the ten leading energy consuming industries and are to be monitored by FEA.

- Coal loan guarantees providing financial assistance to companies opening new coal mines that cannot obtain credit from private markets.

- Conservation grants to the States to assist in the development and implementation of energy conservation programs.

- Export controls and material allocation authorities to enhance the Federal government's ability to respond to energy emergencies.

- Mandatory conservation standards for Federal agencies to further improve the energy practices of the Federal government.

IMPACTS OF THE BILL

- The bill will initially reduce the average price of domestic crude oil by about $1.00 per barrel. This change could reduce retail prices by as much as approximately 1 cent per gallon from today's levels. By way of contrast, immediate decontrol could have raised prices at the retail level by about 5 - 6 cents per gallon.

- Compared to imports projected under the current price control program:

  - imports probably will increase by approximately 150,000 barrels per day by the end of 1976, due to lower initial prices.

  - imports probably will be about 200,000 barrels per day less after three years, due to future price increases allowed by the bill.

- Removal of price controls at the end of 40 months should increase domestic production by more than one million barrels per day by 1985 and reduce imports by about three million barrels per day.

- Other provisions of the bill will further reduce the Nation's dependency on foreign oil. The automobile efficiency standards, appliance labelling provisions, and extension of the coal conversion authorities could reduce imports by almost two million barrels per day by 1985. The strategic petroleum reserve and standby authorities in the bill will enable the Nation to withstand a future embargo of about four million barrels per day.

NEXT STEPS

- Current oil price controls will remain in effect until FEA promulgates a rule to implement the new composite price control system. The new rule must be effective no later than February 1, 1976.

- FEA contemplates continuation of a basic two-tier pricing system for domestic oil with new oil prices high enough to insure adequate incentive for exploration and development of new fields. The final structure of domestic prices will be determined through a rule-making procedure to allow all interested parties an opportunity to express their views on the best pricing program.

- The price program that FEA envisions for the entire 40 month program, including the monthly application of the price escalators allowed in the bill and the distribution of these escalators among various categories of oil, must be in place by March 1, 1976.

- FEA will take steps to remove price and allocation controls on those parts of the petroleum industry that are downstream from the refinery, primarily product wholesalers and retailers. The objective of this effort will be to once again allow the marketplace to operate so that consumers are not penalized by an unnecessary regulatory program.

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