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[1975]

THE WHITE HOUSE

WASHINGTON

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: ROGERS MORTON AND FRANK ZARB

SUBJECT: Energy Resources Finance Corporation

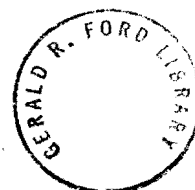
The attached memorandum with attachments proposes that there be a new initiative toward achieving the energy independence goals announced in the State of the Union Message.

The proposal has two main features which are

- That a corporation be established which would assist in the financing of energy and energy-related projects on terms flexible enough to permit substantial acceleration of these projects - assuming in the process any additional risks inherent in such acceleration.
- That the corporation be given special powers to receive expedited and final treatment by all Federal agencies involved in any regulatory determination which might affect a certified project deemed by the corporation as being of critical importance to the national goal of energy independence.

Issues

The basic premise of this proposal is that the existing mechanisms, governmental and private, are not working and will not work in sufficient time to achieve the energy independence goals.



Attached for review are:

Tab 1 - A summary of the current economic situation and statement of the problem.

Tab 2 - A summary outline of the proposed Corporation - its purpose, investment objectives, financing plan, organizational structure and summaries of several typical potential projects and how they could be financed.

Tab 3 - A summary of the principal objections to the Corporation - both from within the Administration and from executives in industry and finance - with suggested responses to these objections.

Tab 4 - Draft legislation.

Options

1. Rely on existing natural economic forces to produce the capital needed to finance utility construction.

APPROVE _____ DISAPPROVE _____

2. Rely on existing initiatives which include:

- a) Administrative actions already taken such as decontrol of old oil, increased tariffs, etc.
- b) The Congressional energy bill of import quotas, new energy trust fund, penalties on inefficiency, automobiles, etc.
- c) Regulatory reform initiative such as in the Railroad Revitalization Act and the Labor Management Committee proposals.

APPROVE _____ DISAPPROVE _____



3. Plan for and develop special initiatives of either financial assistance or regulatory reform in energy and energy-related fields whenever a blockage occurs in any element of the energy production cycle.

For example, if a problem becomes acute in the development of new coal mines, nuclear plant siting, etc.

Develop specially tailored initiatives as demonstrated by need.

APPROVE _____ DISAPPROVE _____

4. Propose tax reform measures aimed at increasing capital formation and thereby making more capital available for basic economic development including energy.

APPROVE _____ DISAPPROVE _____

5. Propose the creation of a broad-gauged Energy Resources Finance Corporation with extraordinary financial powers as described in Tab 2.

APPROVE _____ DISAPPROVE _____

6. Propose the establishment of an Energy Resources Finance Corporation as described in Tab 2, but limit its powers to government guaranteed loans with regulatory reform conditions similar to the system proposed in the Railroad Revitalization Act.

APPROVE _____ DISAPPROVE _____

7. Propose that the Federal government guarantee to purchase sufficient amounts of new energy output at a guaranteed price sufficient to enable the utilities to secure private financing.

APPROVE _____ DISAPPROVE _____

8. Have the Federal government construct sufficient utility plants to assure energy independence and either operate them or sell them to private utilities.

APPROVE _____ DISAPPROVE _____



1975

Part
RESOURCE POLICY AND FINANCE CORPORATION *File*

In a sense, the United States is at a crossroads. With high and rising unemployment, this Congress could respond by passing a series of large-scale government work programs that would add to the Federal deficit, force up interest rates and further dry up the capital available for industry.

On the other hand, if the President takes the initiative, he can devise a program to stimulate the economy, to rebuild the strength of the United States, to create desperately needed jobs and to assure the achievement of energy self-sufficiency, while at the same time restoring confidence in government and in our free enterprise system.

One possibility would be legislation to create a Resource Policy and Finance Corporation (RPFC), with authority to set up subsidiary corporations for special purposes.

Financing:

Initial capitalization of up to \$5 billion through the sale of common stock to the United States Treasury.

Authorization to issue up to \$200 billion in government-guaranteed obligations.

These obligations would be available for purchase by foreign, as well as domestic, investors.

Powers:

The RPFC would have broad powers, on a self-liquidating basis, to lend or guarantee loans to, and invest in the capital stock or obligations of, financial institutions, utilities, industrial corporations and public authorities for the following purposes and objectives:

1. Achieving the President's goal of energy self-sufficiency by 1985.
2. Assuring adequate supplies of essential raw materials or their substitutes.

3. Financing the conversion of vacant or under-utilized plants to production of goods in short supply.
4. Assuring the provision of essential transportation services.

Organization:

Management of the RPFC would be vested in a Board of Directors consisting of five (5) persons appointed by the President, by and with the advice and consent of the Senate. Of the five, not more than three could be members of any one political party and not more than one could be from any one Federal Reserve district.

Termination:

The authority of the RPFC to make or guarantee loans, or to invest in capital stock, will terminate 5 years after the establishment of the Corporation.



[1975]

OUTLINE OF AN ENERGY (OR CRITICAL
RESOURCES) FINANCING CORPORATION

PURPOSE

To allocate sufficient capital to economic sectors which are of critical importance to the goals of energy (and other critical resources) independence and sustained economic growth.

FINANCING

Initial capitalization provided through the sale of common stock to the Treasury.

Additional capital provided through issuance of government-guaranteed debt obligations. If possible, a significant portion of the debt obligations should be placed with foreign -- primarily, OPEC -- investors.

POWERS

The financing corporation would have the power, on a self-liquidating basis, to finance energy-related (or critical resources) companies. This could be done through

- . Loans and loan guarantees
- . Purchases of preferred stock
- . Purchase and leasebacks of plant and equipment.



New Group
175
[1975]

ENERGY AND RESOURCE POLICY AND FINANCE

The United States is at a crossroads. With high unemployment, this Congress is responding by passing a series of large-scale government programs that are adding substantially to the Federal deficit without increasing our productivity or improving our competitive position in the world.

The challenge before the nation is to devise a program:

- to strengthen the free enterprise system;
- to stimulate the economy and increase its productivity;
- to create productive jobs; and
- to achieve self-sufficiency in energy and raw materials

while at the same time helping to restore confidence in government's ability to act effectively and confidence in the capacity of our free enterprise system to meet the people's needs.

~~This could be accomplished by legislation to create an energy and resource policy and finance corporation.~~

The prospects for tomorrow, for the years ahead, are far from promising -- unless action is taken now to meet the situation.

Action can be taken effectively -- action that recognizes the interrelationships of all these critical elements -- action that can help meet the urgencies for today and the needs of tomorrow.

Objectives:

A key to the whole effort is a self-liquidating financing vehicle sponsored and chartered by the Federal government that can:

1. Achieve the President's goal of energy self-sufficiency by 1985;
2. Assure adequate supplies of essential raw materials or their substitutes;



3. Assure the provision of essential transportation services;
4. Have the capacity to finance the conversion of vacant or underutilized plants to produce materials essential to achieve the above.

Operations:

The operation of this corporation will be to make investments in the capital facilities and equipment needed to achieve the foregoing objectives, and to do so through guarantees, loans, equity investments, construction or purchase, and lease or sale or other financing mechanisms.

Financing:

Initial capitalization of up to \$5 billion through the sale of common stock to the United States Treasury.

Authorization to issue up to \$200 billion in government-guaranteed obligations.

These obligations would be available for purchase by foreign, as well as domestic, investors.

Powers:

The corporation would have the broadest powers, on a self-liquidating basis, to carry on its operations and to establish subsidiary corporations for special purposes.

Organization:

Management of the corporation would be vested in a Board of Directors consisting of five (5) persons appointed by the President, by and with the advice and consent of the Senate. Of the five, all of whom would serve full-time, in staggered terms, not more than three could be members of any one political party and not more than one could be from each Federal Reserve district.

Termination:

The authority of the corporation to make investments or to make new financing arrangements will terminate ten years after its establishment.



THE WHITE HOUSE
WASHINGTON

*Talk
to Dwy*

Mr. Cannon:

These are the only two memoranda to the Vice President last week pertaining to the proposed new Federal Financing Agency (the long one only makes passing mention of it.)

Naomi

3/31

March 25, 1975

R PFC
FV

MEMORANDUM FOR THE VICE PRESIDENT

FROM:

R. L. DUNHAM

SUBJECT:

New Federal Financing Agency
For Your Information

The Economic Policy Board plans to discuss the Treasury proposal for a new RPC-type agency with the President on Friday.

The purpose of that discussion is to ask him to consider announcing the new initiative in a "fireside chat" to the people on economic and tax matters on next Wednesday.



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.



THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS

WASHINGTON, D.C. 20220

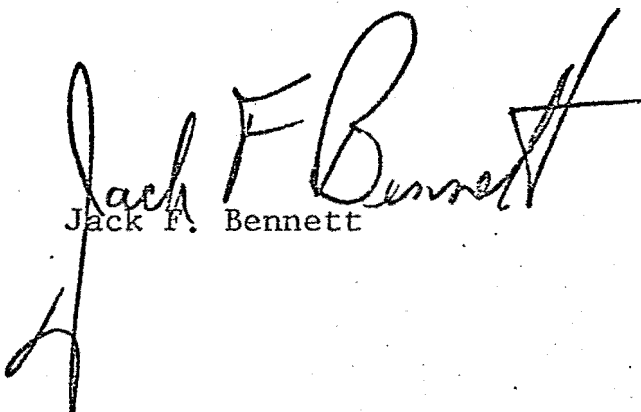
RPF

MEMORANDUM

March 26, 1975

Mr. Dunham

On the basis of our recent meeting, and in response to a request for a paper for discussion at the EPB tomorrow, I quickly turned out the attached short paper. I would appreciate any comments.


Jack F. Bennett

Attachment





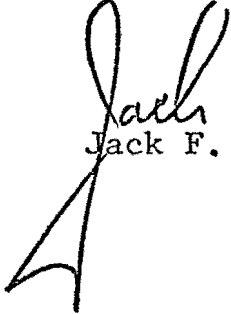
THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS

WASHINGTON, D.C. 20220

March 26, 1975

MEMORANDUM FOR MR. SEIDMAN

I was asked to produce a paper for discussion at the EPB tomorrow on a possible Energy Development Bank. Attached is such a paper. I trust you will arrange distribution to the members.


Jack F. Bennett

Attachment



An Energy Development Bank?

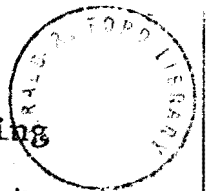
The U.S. Government is contemplating a number of uses of Federal authority and Federal funds to reduce U.S. dependence on imported energy. The question has been asked whether the package of Federal measures should include a new governmental entity to provide financing on favorable terms in some situations for the first effort at commercialization of innovative, commercially promising, energy investment projects which might otherwise not be pursued for lack of financing on acceptable terms.

A draft of a short piece of legislation to establish such an entity is attached. The draft would provide for a bank administered by the Treasury, with an initial authority up to \$5 billion, under direction of a Board of Directors consisting of the Secretary of the Treasury, the Secretary of the Interior, the Secretary of Commerce, the Administrator of the Federal Energy Administration, and the Administrator of the Energy Research and Development Administration. The draft legislation provides that the financial assistance would be made available on favorable interest rates closely related to the U.S. Treasury's borrowing costs with a possibility of an additional fee to be paid over time in some proportion to the profits received on the venture financed.



The draft was prepared on the assumptions that commercial financing would normally be available for projects whose commercial feasibility had been demonstrated by at least one commercial-sized operation, and that ERDA already has responsibility and adequate resources for Federal assistance to basic research and to small scale, pre-commercialization demonstration plants. The draft is prepared on the assumption that there may well be a significant number of situations in which the first full-scale commercial-sized investment in implementation of new energy proposals cannot be financed on reasonable terms given, not only the specific technical uncertainties inherent in scale-up of ^a new process, but also the many basic uncertainties affecting the economic outlook for energy investments in current circumstances.

In a first discussion of the concept of the Energy Development Bank in a recent staff level interagency meeting it was pointed out that a comprehensive interagency study is now under way on all the various alternatives that could be chosen by the Federal Government to assist in the development of new synthetic energy projects. This study, under the chairmanship of OMB, is not expected to be completed for several months. It is contemplated, however, that financing assistance will be studied as one of the possibilities, but present thinking seems to be there might be other higher priority forms of assistance which should be considered first. In the meeting the representative of ERDA pointed out that



his agency now has an authorization for up to \$50 million to be used as financial assistance for small scale demonstration projects but that sufficient demonstrated need has not yet developed for the agency to send a request to the Congress for appropriations under the existing authorization. ERDA does now have under urgent consideration, however, requests from private sources for Federal assistance in some form to insure the undertaking of the first nominally private uranium enrichment plant using the diffusion method which has been employed in the previous government-owned plants. Although this project has been demonstrated in full scale plants, it is possible that a new energy institution could be the vehicle for Federal support for the first private project in the energy enrichment area. In addition, or alternatively, a new Energy Development Bank might be employed to assist the follow-on energy enrichment plant which could be the first attempted commercialization of the centrifuge technology. The ERDA representative also felt that it may be possible in the coming months/other projects will develop which could appropriately benefit from the type of financial assistance which could be available from an Energy Development Bank, but these additional projects would be unlikely to be of the size of the uranium enrichment plants, which individually could call for assistance, each in the order of a number of billions of dollars.



In view of the demonstrated ability of the U.S. energy industry in the past to undertake costly and risky developmental projects -- for example offshore drilling, exploration on the North slope, sending the Manhattan through the Northwest Passage, etc -- the question will need to be faced whether the potential benefits of financial assistance to new energy projects will be more than offset by any accompanying tendency to relax efforts to remove basic impediments to availability of large scale investments in the energy field through removal of price constraints and avoidance of tax measures discriminatory against the activities of large scale energy enterprises.



A BILL

To establish an Energy Development Bank
to provide financial assistance for the
development of innovative sources of energy.

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That
this Act may be cited as the "Energy Development Bank Act
of 1975."

CREATION OF BANK

SEC. 2. There is hereby created a body to be known
as the Energy Development Bank which shall be an agency
of the United States Government and shall have succession
until dissolved by act of Congress. The Bank shall be
subject to the general supervision and direction of the
Secretary of the Treasury. The Bank shall establish such
offices as may be necessary or appropriate in the conduct
of its business.

PURPOSE

SEC. 3. The purpose of this Act is to assure that
inability to borrow necessary funds on reasonable terms
does not prevent the development of innovative,
economically promising sources of energy.



MANAGEMENT

SEC. 4.(a) The Bank shall have a Board of Directors consisting of the Secretary of the Treasury as Chairman of the Board, the Secretary of the Interior, the Secretary of Commerce, the Administrator of the Federal Energy Administration, and the Administrator of the Energy Research and Development Administration. The Chairman and each other member of the Board may designate some other officer or employee of the Government to serve in his place at any meeting of the Board.

(b) The Board of Directors shall meet at the call of its Chairman. The Board shall determine the general policies which shall govern the operations of the Bank.

(c) The members of the Board and their designees, as such, shall not receive compensation for their services.

(d) The Chairman of the Board shall select and effect the appointment of qualified persons to fill the offices as may be provided for in the bylaws, and such persons shall be the officers of the Bank and shall discharge such executive functions, powers, and duties as may be provided for in the bylaws or by the Board of Directors.

FUNCTIONS

SEC. 5.(a) The Bank is authorized on terms and conditions determined by the Bank to purchase any obligation issued to finance the cost of any project for the development of innovative, economically promising sources of energy determined by the Bank to be in the public interest and consistent with the purposes of this Act. To finance such purchases the Bank is authorized to issue its own obligations in amounts not in excess of \$5,000,000,000 to the Federal Financing Bank in accordance with the provisions of the Federal Financing Bank Act of 1973.

(b) No purchase of any obligation shall be made unless the Bank has determined (i) that the borrower is unable to obtain on reasonable terms sufficient credit to finance his actual needs, and (ii) that the equity position and prospective earning power of the borrower, together with the character and value of any security pledged, are reasonably sufficient to protect the financial interest of the United States.

(c) No purchase shall be made of obligations issued to finance projects the permanent financing of which occurred prior to the enactment of this Act.

(d) Any purchase by the Bank shall be upon such terms and conditions as to yield a return at a rate not



less than a rate determined by the Secretary of the Treasury taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity or in its stead, whenever the Bank has sufficient of its own obligations outstanding, the current average yield on outstanding obligations of the Bank of comparable maturity.

(e) The Bank is authorized to charge fees for its purchase commitments and other services adequate to cover all expenses and provide for the accumulation of reasonable contingency reserves.

(f) The Bank is authorized to enter into agreements with the issuers of obligations purchased by the Bank providing for annual payments to the Bank of a share of any profits from the project during the period in which obligations purchased by the Bank remain outstanding.



GENERAL POWERS

SEC. 6. The Bank shall have power --

(a) to sue and be sued, complain and defend, in its corporate name;

(b) to adopt, alter, and use a corporate seal, which shall be judicially noticed;

(c) to adopt, amend, and repeal bylaws, rules and regulations as may be necessary for the conduct of its business;

(d) to conduct its business, carry on its operations, and have offices and exercise the powers granted by this Act in any State without regard to any qualification or similar statute in any State;

(e) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any personal property, or any interest therein, wherever situated, and to acquire, hold, own, improve, use or otherwise deal in and with any real property which the Bank deems it appropriate to acquire for an obligation previously contracted;

(f) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Bank;

(g) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(h) to appoint such officers, attorneys, employees, and agents as may be required, to define their duties, to fix and to pay such compensation for their services as may be determined, subject to the civil service and classification laws, to require bonds for them and pay the premium thereof;

(i) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business;

(j) to act through any corporate or other agency or instrumentality of the United States, and to utilize the services thereof on a reimbursable basis, and any such agency or instrumentality is authorized to provide services as requested by the Bank; and

(k) to determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to Government corporations.

REPORTS

SEC. 7. The Bank shall transmit to the President and the Congress the following:

(a) within 30 days after the end of each calendar quarter, a summary report specifying the nature, amount, and purpose of each purchase of obligations within the quarter;

(b) as soon as practicable after the end of each fiscal year, a complete annual report of its operations and activities therein.

GOVERNMENT CORPORATION CONTROL ACT

SEC. 8. Section 101 of the Government Corporation Control Act (31 U.S.C. 846) is amended by inserting "Energy Development Bank;" immediately following "Reconstruction Finance Corporation;".

TAXATION

SEC. 9. The Bank, its property, its franchise, capital, reserves, surplus, security holdings, and other funds, and its income shall be exempt from all taxation now or hereafter imposed by the United States or by any State or local taxing authority, except that (1) any real property and any tangible personal property of the Bank (other than that required to carry on its operations) shall



be subject to Federal, State, and local taxation to the same extent according to its value as other such property is taxed, and (2) any obligations issued by the Bank shall be subject both as to principal and interest to Federal, State, and local taxation to the same extent as the obligations of private corporations are taxed.

SEPARABILITY

SEC. 10. If any provision in this Act is held invalid, the validity of the remainder of the Act shall not be affected.

4/1/75

MEMORANDUM FOR THE PRESIDENT

FROM: Jim Cannon

SUBJECT: Domestic Council Study of National Resources
Development and EmploymentSTUDY SUBJECT

I recommend that the Domestic Council undertake a study of the private sector incentives necessary to:

- meet your energy goals for 1985;
- provide the nation with adequate supplies of raw materials;
- assure the continued existence of essential transportation services; and
- encourage the use of idle productive capacity to meet projected shortages of capital plant and equipment.

STUDY OBJECTIVE

The United States is at a crossroads. Confronted with challenges to the security of our energy supplies and other basic raw materials, to the adequacy of our essential transportation services, and to the capacity of our economy to produce and sustain high levels of employment, we can enact massive and inflationary government programs and controls or we can stimulate and assist the private sector to invest, produce, and employ.

The objectives of the study are to formulate, for your consideration, a consistent set of policies, programs and specific actions which will rebuild America's economic strength, expand employment in the private sector, and meet the basic needs of the nation's economy during the next ten years.

ORGANIZATION

The review group for this study should consist of appropriate representatives of the following Departments and Agencies:



Treasury
Interior
Justice
Commerce
Labor
Transportation

Federal Energy Administration
Office of Management & Budget
Council of Economic Advisers
Economic Policy Board
Energy Policy Council
Council on International
Economic Policy

TIMETABLE

The review group should report to the Council by
October 31, 1975.

PRESIDENTIAL DECISION

Proceed: Yes _____

No _____

Other Action: _____

April 10, 1975

Energy Resources DevelopmentI. FIRST PRIORITY

Recently the Administration established energy "independence" goals to be achieved by 1985 and the President has indicated that the development of energy resources has first priority. In other words, other worthy concerns such as adequate housing, improved transportation, economic growth and a cleaner environment are secondary to the energy independence goals.

It is estimated that from an aggregate of \$500 billion to \$1 trillion of energy-related investment will be required by 1985 if the country is to achieve the goals. Major new facilities required would include:

- 200 nuclear power plants
- 250 coal mines
- 150 coal-fired power plants
- 30 oil refineries
- 20 synthetic fuel plants
- many thousand oil and gas wells.

Given the overriding priority of energy independence, how does the United States best achieve its goals? Will the current system produce the desired results or must changes be made?

II. THE CURRENT SYSTEM

While there are many skeptics, the current system (i.e., energy institutions, pricing mechanisms, tax structure, etc.) might produce the required innovation and investment. If so, the Administration need do nothing. Is the Administration convinced that the current system will fail to produce the desired results? What is the reasoning behind this conclusion?

III. REQUIRED CHANGES

If changes in the current system are required, where are the critical points?

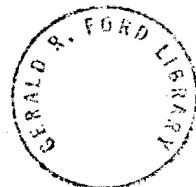
A. Financing Shortage. Lack of adequate financing is often alleged. Is this projection correct? If so, is this a capital "formation" or capital "allocation" problem?



- Capital formation - not enough savings
 - Force saving through taxation and government investment in energy.
 - Change the tax system to encourage personal savings and/or to promote corporate profits and retained earnings.
 - Increase the general rewards to savings and investment.
 - Encourage the inflow of foreign --Arab-- capital.
- Capital allocation - savings not flowing into proper investment sectors.
 - Adopt planning and reallocate capital to more appropriate uses through incentives, licenses, etc.
 - Adopt specific capital reallocation mechanisms (without general planning) to force or encourage the flow of capital into energy.
 - Change tax structure through extraordinary accelerated depreciation for energy plants, etc.
 - Make other changes noted below which would affect capital flows.

B. Other Changes

- Change regulation and regulatory procedure to produce more timely and rational regulation.
- Promote new sources of energy through Federally-sponsored R & D.
- Expand exploitation of old sources through increased offshore oil and gas leasing and coal mining on Federal lands.



THE WHITE HOUSE

WASHINGTON

April 14, 1975

MEMORANDUM FOR:

JIM CANNON

FROM:

DICK DUNHAM



The attached memorandum is a possible way to raise the RPFC subject through the Economic Policy Board. This paper is intended to provide a basis for a discussion as to whether or not a special corporation is needed. It is obvious, also, from the memo that it is an attempt to put into the discussion other alternatives than either the Treasury or F.E.A. proposal.

If you agree, I would plan to send this to Bill Seidman on Tuesday afternoon for discussion at the Economic Policy Board meeting at the next convenient time, either Wednesday or Thursday.



THE WHITE HOUSE

WASHINGTON

April 15, 1975

Energy Resources Development

Several critical sectors of the economy (such as electric utilities and railroads) are currently experiencing serious financial problems and, as a consequence, their ability to provide the required quantity and quality of goods and services is in doubt. Five or ten year projections often give increasingly dismal predictions of what the future situation will be. In general, the question arises whether the present money and capital markets, tax structure, pricing mechanisms and government regulatory scheme are adequate for the task ahead.

Recently the Administration established energy "independence" goals for 1985 and the President indicated that the development of energy resources has first priority. It is estimated that from \$500 billion to \$1 trillion of aggregate investment in the energy sector will be needed by 1985. Major new facilities required would include:

- 200 nuclear power plants
- 250 coal mines
- 150 coal-fired power plants
- 30 oil refineries
- 20 synthetic fuel plants
- many thousand oil and gas wells.

Because of this large capital requirement and the overriding priority of energy independence, the energy sector is a good starting point for analyzing the more general economic problem and what the Administration should do about it. The assumption here is that something must be done to change the current system and that the government has a major role to play in anticipating and correcting problem situations and shortages in specific important industries.



The immediate question is whether a government institution should be created to channel capital into the energy or critical resources area or whether the Administration should continue to rely solely on less direct methods of achieving the same ends (e.g., regulatory reform and tax changes)?

In deciding this question, the Administration might consider four possible alternative financing institutions:

- . An Energy Bank to make "venture capital" investments in the first commercial plants using new energy technology. (The Treasury proposal. See Tab A).
- . A Utility Finance Corporation (The F.E.A. proposal. See Tab B).
- . A corporation to finance energy and energy-related industries such as electric utilities, transportation and mining: (See Tab C).
- . A broad-gauged corporation to finance a variety of industries producing critical resources. (See Tab C).

Each of these institutions assume that a capital "allocation" problem exists. In other words, not enough savings is flowing into the energy sector. This type of problem could exist whether or not enough capital were being "formed" -- i.e., whether or not there is also a capital "formation" problem.

To meet the capital allocation problem, various direct steps can be taken:

- . Adopt specific reallocation mechanisms to force or encourage the flow of capital into energy:
 - The four possible financing institutions mentioned above do this.
 - A program of government guarantees would also.
 - Or major institutional investors (banks, pension funds, insurance companies and mutual funds) could be required to make sufficient energy investments to achieve the goals. (A variation of the Reuss credit allocation proposals).



- . Adopt general economic planning and reallocate capital to appropriate uses through tax and other incentives, regulation of financial institutions, licenses and/or a government financing corporation.

The alternative to this direct form of capital allocation is selective alteration of the tax structure, pricing mechanisms and government regulation in order to provide an economic situation which more closely approximates the "free market" model. This approach can include:

- . Changes in regulation and regulatory procedure to produce more timely and rational regulation.
- . Stimulation of capital formation through changes in the tax system to encourage personal savings and/or to promote corporate profits and retained earnings.
- . Removal of government subsidies for other sectors of the economy.
- . Encouragement of foreign --Arab-- capital inflow (a form of capital formation).
- . Promotion of new sources of energy through Federally-sponsored R & D.
- . Expansion of old energy sources through increased offshore oil and gas leasing and coal mining on Federal lands.

Since most -- or all -- of these initiatives make theoretical sense and fit the philosophy of the Administration, they should be pursued. The real issue is whether an additional initiative through a direct capital allocation mechanism is necessary. Will enough capital flow into the energy industry without capital allocation? Might a capital allocation mechanism be a useful Federal lever in forcing other changes such as regulatory reform? Would a major initiative have valuable political value?

An Energy Development Bank?

The U.S. Government is contemplating a number of uses of Federal authority and Federal funds to reduce U.S. dependence on imported energy. The question has been asked whether the package of Federal measures should include a new governmental entity to provide financing on favorable terms in some situations for the first effort at commercialization of innovative, commercially promising energy investment projects which might otherwise not be pursued for lack of financing on acceptable terms.

A draft of a short piece of legislation to establish such an entity is attached. The draft would provide for a bank administered by the Treasury, with an initial authority up to \$5 billion, under direction of a Board of Directors consisting of the Secretary of the Treasury, the Secretary of the Interior, the Secretary of Commerce, the Administrator of the Federal Energy Administration, and the Administrator of the Energy Research and Development Administration. The draft legislation provides that the financial assistance would be made available on favorable interest rates closely related to the U.S. Treasury's borrowing costs with a possibility of an additional fee to be paid over time in some proportion to the profits received on the venture financed.



The draft was prepared on the assumptions that commercial financing would normally be available for projects whose commercial feasibility had been demonstrated by at least one commercial-sized operation, and that ERDA already has responsibility and adequate resources for Federal assistance to basic research and to small scale, pre-commercialization demonstration plants. The draft is prepared on the assumption that there may well be a significant number of situations in which the first full-scale commercial-sized investment in implementation of new energy proposals cannot be financed on reasonable terms given, not only the specific technical uncertainties inherent in scale-up of ^anew process, but also the many basic uncertainties affecting the economic outlook for energy investments in current circumstances.

In a first discussion of the concept of the Energy Development Bank in a recent staff level interagency meeting it was pointed out that a comprehensive interagency study is now under way on all the various alternatives that could be chosen by the Federal Government to assist in the development of new synthetic energy projects. This study, under the chairmanship of OMB, is not expected to be completed for several months. It is contemplated, however, that financing assistance will be studied as one of the possibilities, but present thinking seems to be there might be other higher priority forms of assistance which should be considered first. In the meeting the representative of ERDA pointed out that

his agency now has an authorization for up to \$50 million to be used as financial assistance for small scale demonstration projects but that sufficient demonstrated need has not yet developed for the agency to send a request to the Congress for appropriations under the existing authorization. ERDA does now have under urgent consideration, however, requests from private sources for Federal assistance in some form to insure the undertaking of the first nominally private uranium enrichment plant using the diffusion method which has been employed in the previous government-owned plants. Although this project has been demonstrated in full scale plants, it is possible that a new energy institution could be the vehicle for Federal support for the first private project in the energy enrichment area. In addition, or alternatively, a new Energy Development Bank might be employed to assist the follow-on energy enrichment plant which could be the first attempted commercialization of the centrifuge technology. The ERDA representative also felt that it may be possible in the coming months/other projects will develop which could appropriately benefit from the type of financial assistance which could be available from an Energy Development Bank, but these additional projects would be unlikely to be of the size of the uranium enrichment plants, which individually could call for assistance, each in the order of a number of billions of dollars.

In view of the demonstrated ability of the U.S. energy industry in the past to undertake costly and risky developmental projects -- for example offshore drilling, exploration on the North slope, sending the Manhattan through the Northwest Passage, etc -- the question will need to be faced whether the potential benefits of financial assistance to new energy projects will be more than offset by any accompanying tendency to relax efforts to remove basic impediments to availability of large scale investments in the energy field through removal of price constraints and avoidance of tax measures discriminatory against the activities of large scale energy enterprises.



A BILL

To establish an Energy Development Bank to provide financial assistance for the development of innovative sources of energy.

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That
this Act may be cited as the "Energy Development Bank Act
of 1975."

CREATION OF BANK

SEC. 2. There is hereby created a body to be known as the Energy Development Bank which shall be an agency of the United States Government and shall have succession until dissolved by act of Congress. The Bank shall be subject to the general supervision and direction of the Secretary of the Treasury. The Bank shall establish such offices as may be necessary or appropriate in the conduct of its business.

PURPOSE

SEC. 3. The purpose of this Act is to assure that inability to borrow necessary funds on reasonable terms does not prevent the development of innovative, economically promising sources of energy.



MANAGEMENT

SEC. 4.(a) The Bank shall have a Board of Directors consisting of the Secretary of the Treasury as Chairman of the Board, the Secretary of the Interior, the Secretary of Commerce, the Administrator of the Federal Energy Administration, and the Administrator of the Energy Research and Development Administration. The Chairman and each other member of the Board may designate some other officer or employee of the Government to serve in his place at any meeting of the Board.

(b) The Board of Directors shall meet at the call of its Chairman. The Board shall determine the general policies which shall govern the operations of the Bank.

(c) The members of the Board and their designees, as such, shall not receive compensation for their services.

(d) The Chairman of the Board shall select and effect the appointment of qualified persons to fill the offices as may be provided for in the bylaws, and such persons shall be the officers of the Bank and shall discharge such executive functions, powers, and duties as may be provided for in the bylaws or by the Board of Directors.

FUNCTIONS

SEC. 5.(a) The Bank is authorized on terms and conditions determined by the Bank to purchase any obligation issued to finance the cost of any project for the development of innovative, economically promising sources of energy determined by the Bank to be in the public interest and consistent with the purposes of this Act. To finance such purchases the Bank is authorized to issue its own obligations in amounts not in excess of \$5,000,000,000 to the Federal Financing Bank in accordance with the provisions of the Federal Financing Bank Act of 1973.

(b) No purchase of any obligation shall be made unless the Bank has determined (i) that the borrower is unable to obtain on reasonable terms sufficient credit to finance his actual needs, and (ii) that the equity position and prospective earning power of the borrower, together with the character and value of any security pledged, are reasonably sufficient to protect the financial interest of the United States.

(c) No purchase shall be made of obligations issued to finance projects the permanent financing of which occurred prior to the enactment of this Act.

(d) Any purchase by the Bank shall be upon such terms and conditions as to yield a return at a rate not

less than a rate determined by the Secretary of the Treasury taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity or in its stead, whenever the Bank has sufficient of its own obligations outstanding, the current average yield on outstanding obligations of the Bank of comparable maturity.

(e) The Bank is authorized to charge fees for its purchase commitments and other services adequate to cover all expenses and provide for the accumulation of reasonable contingency reserves.

(f) The Bank is authorized to enter into agreements with the issuers of obligations purchased by the Bank providing for annual payments to the Bank of a share of any profits from the project during the period in which obligations purchased by the Bank remain outstanding.



GENERAL POWERS

SEC. 6. The Bank shall have power --

(a) to sue and be sued, complain and defend, in its corporate name;

(b) to adopt, alter, and use a corporate seal, which shall be judicially noticed;

(c) to adopt, amend, and repeal bylaws, rules and regulations as may be necessary for the conduct of its business;

(d) to conduct its business, carry on its operations, and have offices and exercise the powers granted by this Act in any State without regard to any qualification or similar statute in any State;

(e) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any personal property, or any interest therein, wherever situated, and to acquire, hold, own, improve, use or otherwise deal in and with any real property which the Bank deems it appropriate to acquire for an obligation previously contracted;

(f) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Bank;

(g) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(h) to appoint such officers, attorneys, employees, and agents as may be required, to define their duties, to fix and to pay such compensation for their services as may be determined, subject to the civil service and classification laws, to require bonds for them and pay the premium thereof;

(i) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business;

(j) to act through any corporate or other agency or instrumentality of the United States, and to utilize the services thereof on a reimbursable basis, and any such agency or instrumentality is authorized to provide services as requested by the Bank; and

(k) to determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to Government corporations.



REPORTS

SEC. 7. The Bank shall transmit to the President and the Congress the following:

(a) within 30 days after the end of each calendar quarter, a summary report specifying the nature, amount, and purpose of each purchase of obligations within the quarter;

(b) as soon as practicable after the end of each fiscal year, a complete annual report of its operations and activities therein.

GOVERNMENT CORPORATION CONTROL ACT

SEC. 8. Section 101 of the Government Corporation Control Act (31 U.S.C. 846) is amended by inserting "Energy Development Bank;" immediately following "Reconstruction Finance Corporation;".

TAXATION

SEC. 9. The Bank, its property, its franchise, capital, reserves, surplus, security holdings, and other funds, and its income shall be exempt from all taxation now or hereafter imposed by the United States or by any State or local taxing authority, except that (1) any real property and any tangible personal property of the Bank (other than that required to carry on its operations) shall

be subject to Federal, State, and local taxation to the same extent according to its value as other such property is taxed, and (2) any obligations issued by the Bank shall be subject both as to principal and interest to Federal, State, and local taxation to the same extent as the obligations of private corporations are taxed.

SEPARABILITY

SEC. 10. If any provision in this Act is held invalid, the validity of the remainder of the Act shall not be affected.

B

Extract from F.E.A. Draft
Position Paper dated April 7,
1975, titled:

"Electric Utilities Financing
Problems: Additional Government
Initiatives to the Utilities Act
of 1975."



LONGER-TERM FEDERAL ACTIONS

Since the immediate threat of dividend passes or bankruptcies appears to have passed, the Government's focus should be on actions which will enable utilities to raise capital sufficient to restore their construction programs. There are six primary options available to the Administration to mitigate or resolve the utilities' longer-term financing problems:

1. Utility Finance Corporation -- Establish a Federal Utility Finance Corporation to purchase a special class of utility preferred stock upon joint application by the utility and its regulatory authority.
2. Federal Loan Guarantees -- The Federal Government would guarantee utility debt. These loan guarantees would be provided for use in the construction of new coal and nuclear facilities. Availability would be contingent on a regulatory authority's granting stipulated rate increases or allowing a rate of return sufficient to enable a utility to sell additional equity. These guarantees would be available for a limited time; i.e., 5 years.
3. Allow dividends on utility common stocks and new issues of preferred to be tax free to recipients.
4. Federal Government contracts to purchase output from new non-petroleum generating plants.



5. Federal Government and utilities establish joint ventures for construction of new non-petroleum fired generating plants, with the ability to re-purchase on an installment basis.
6. Federal Government purchases and leases back to a utility generating plant.

Of these six options, a Utility Finance Corporation (UFC), if properly structured, has some merit. A UFC patterned after the Reconstruction Finance Corporation has been proposed by many sources. It would purchase a special class of utility preferred equity upon application of the utility and its state regulatory commission. In order to be eligible for such an investment, both the utility and the regulatory authority would have to agree to a series of actions, such as implementation of the "Guidelines", etc. The very establishment of such a UFC would provide an incentive to avoid the use of its investment authority. Once such funds are requested, actions would be required which would substantially reduce the need for such funds by the user utility.

Introduction of such a proposal at this time would totally undermine the Utilities Act of 1975, and impair voluntary acceptance of the Guidelines. It would be advisable to prepare a detailed legislative package for a UFC, to be kept quietly on the shelf for use only in the event of necessity.

Many industry and financial representatives strongly believe that such a fund, for use only by utilities, would be more harmful than beneficial, just by its presence. They argue for a broader fund available for all business, or for all energy companies. No matter which route is followed, we have strong reservations about the legislative process recasting such a concept into a bail-out device inconsistent with the Administration's philosophy.



~~CONFIDENTIAL~~

R P F E

April 30, 1975

TO: The Vice President
FROM: William J. Ronan
SUBJECT: Agency for Energy, Employment and Resource Development

Here is the promised redraft of the "Resource Policy Finance Corporation" concept.

I believe a name that is not so close to the old "RFC" and that embodies the employment feature may be desirable hence the acronym "AMCEER" for American Corporation for Employment, Energy and Resources.

E

ENERGY, EMPLOYMENT AND RESOURCE DEVELOPMENT

I. THE PROBLEM

Today America confronts:

- An unemployment rate of nearly 9 percent.
- A major recession in business and industry.
- A critical condition in energy that could become a national crisis almost without notice.
- A chaotic picture of bankruptcy in transportation -- air, water, rail and automotive.
- A serious difficulty in raising capital funds for investment in essential productive facilities and raw material procurement.
- A need for environmental and conservation facilities with no ready means to finance them.

The prospects for tomorrow, for the years ahead, are far from promising -- unless action is taken now to meet the situation.

Action can be taken effectively -- action that recognizes the interrelationships of all these critical elements -- action that can help meet the urgencies for today and the needs of tomorrow.

The crux of the problem is to meet the energy crisis head on with a program of construction and development of new energy sources and additional domestic power generation and sources, and environmental enhancement facilities. In that process, and as part of it, employment and business actively can be accelerated to materially help pull the nation out of the economic recession and the transportation condition can be assisted in a major way.

A key to the whole effort is a self liquidating financing vehicle sponsored and chartered by the Federal Government that can:

- Raise the necessary capital without increasing the Federal deficit;
- Provide the magnitude of monies needed to initiate and process the program of development and construction.



- Can work with and through private enterprise, public enterprise, state and local governments;
- Have the continuity essential to ensure the carrying forward of commitments for financing and development;
- Operate in an efficient, business-like manner and return to its investors public or private, domestic or overseas, their equity and their appropriate return thereon;
- Have the confidence of labor, business and finance, state and local government, and the general public.
- Would terminate in ten to fifteen years.

II. THE PRECEDENT

Facing a parallel but obviously different situation in the depression years from 1931 through World War II, the United States government created the reconstruction Finance Corporation. It served the nation well -- in depression and wartime. It helped to maintain our Federal government's financial stability and to buttress our free enterprise economy.

It made its investments. It monitored them. It sold the bonds. It paid off its debts and returned a surplus to the Federal government. With its job completed, it went out of business.

III. THE PROPOSAL

To encompass today's special capital needs for energy and its transmission, for transportation, for plant conversion, for conservation, for industrial stimulation and employment in these crucial areas, and for developing an adequate supply of essential raw materials, there should be created:

American Corporation for Employment, Energy and Resources
(AMCEER)

AMCEER should be a Federally chartered corporation by Congressional statute. It should have a maximum life of fifteen years and the following:

Financing:

Initial capitalization of up to \$5 billion through the sale of common stock of the United States Treasury.

Authorization to issue up to \$200 billion in government-guaranteed obligations.



These obligations would be available for purchase by foreign, as well as domestic, investors.

Powers:

AMCEER would have broad powers, on a self-liquidating basis, to lend or guarantee loans to, and invest in the capital stock or obligations of financial institutions, utilities, industrial corporations, selected state and local government enterprises, and public authorities for the following purposes and objectives:

1. Achieving the nation's energy goals;
2. Assuring adequate supplies of essential raw materials or their substitutes.
3. Financing the conversion of vacant or under-utilized plants to production of goods in short supply.
4. Assuring the provision of essential transportation services.
5. Through all of the above, creating jobs in private business and the public sector -- meaningful productive employment, not a dole.
6. Creating subsidiary corporations as necessary to achieve special or specific purposes.

Organization:

Management of the AMCEER would be vested in a Board of Directors consisting of five (5) persons appointed by the President, by and with the advice and consent of the Senate. Of the five, not more than three could be members of any one political party and not more than one could be from any one Federal Reserve District.

