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GENERAL MOTORS CORPORATION

1660 L STREET, N.W.

WASHINGTON, D.C. 20036

March 3, 1975

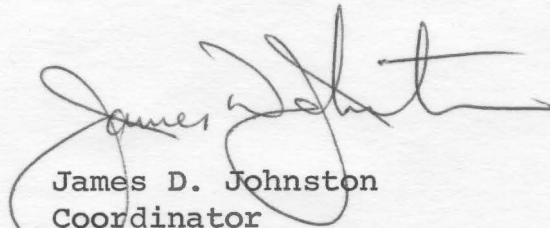
Natural
GAS

Mr. James M. Cannon
Assistant to the President for
Domestic Affairs and Executive
Director of the Domestic Council
The White House
Washington, D.C. 20500

Dear Mr. Cannon:

Last week during our visit with the Vice President, Mr. Murphy mentioned that our plants might not be able to achieve production rates today equal to those experienced in 1972 and 1973 because of the deficiencies in the supply of energy, especially natural gas. Since the Vice President and you expressed special interest in this point I thought you would be interested in the attached speech by the president of GM. His remarks on this point begin on page two.

Sincerely,



James D. Johnston
Coordinator
Industry-Government
Relations



Remarks by

ELLIOTT M. ESTES

PRESIDENT

GENERAL MOTORS CORPORATION

Society of Automotive Engineers
Annual Meeting
Detroit, Michigan

February 24, 1975

FOR RELEASE: AT 2 P.M., CST, MONDAY, FEBRUARY 24, 1975



Good afternoon. Thank you for inviting me to join you today. The topic you are going to explore in depth this afternoon is vitally important to the continued success of our industry.

To help get you started, I'd like to offer a few general observations on the conservation of resources. In inviting me to talk to you today, your arrangements committee suggested that I be very specific -- even to the point of making "least-and-most-case" estimates for the kinds and amounts of major materials which might be used in cars in 1980.

I had to decline that suggestion. My crystal ball is a little too cloudy for that. But you don't need a crystal ball to realize that shortages, escalating prices, and the need to build lighter, more efficient vehicles are causing a not-so-quiet revolution in our business.

Now, it seems to me that any discussion of resource conservation as it applies to cars and trucks should begin with the fuel that it takes to build and run those vehicles.

In both our plants and our products, this industry -- and particularly



you as professional automotive engineers -- can make a major contribution to the conservation of fuel.

The industry's manufacturing and assembly facilities are the source for less obvious, less controversial and potentially smaller savings than our products. But they are just as vital.

In at least some of General Motors' plants, we're convinced that today we would be hard-pressed to secure all the energy we need to achieve production rates equal to those we enjoyed in the peak years of 1972 and 1973.

Natural gas deficiencies are now widespread and some of our plants have experienced curtailments as high as 55 percent of normal supply. We are also concerned that in view of recent cutbacks in power plant construction, the electric utilities may not be able to handle the load growth in future years.

If we do not have enough energy to boost production rates when demand grows, it could mean more than just inconvenience to General Motors -- more than lost production and lost sales. It could mean that some of the more than 200,000 auto workers now on indefinite layoff in the industry might lose their chance to get their jobs back.

Natural gas curtailments are generally the most serious energy problem



facing the plants. As these curtailments grow, oil generally becomes the most readily available substitute fuel.

But the additional oil that is burned in industrial boilers or electrical generators has to be "borrowed" from somewhere -- and that somewhere, in more cases than not, is from the transportation sector.

We all know only too well that there is no substitute fuel for petroleum for transportation at the present time -- and that takes us to our products and our customers who use our products.

Here, the magnitude of the challenge facing the industry is clear to all of us. You have all seen details of President Ford's fuel economy program -- an average 40 percent sales-weighted improvement by the industry by 1980. It will take our very best efforts to achieve that -- and still build the kinds of cars that Americans want, the kind they will buy and the kind that they need to meet their transportation needs. It will also take some relief from pending and proposed emissions and safety regulations, as most of you know only too well.

You can rest assured that if the industry shows the slightest sign of falling short of that 40 percent goal, the present voluntary fuel economy program will be written into legislative concrete before you can say "more miles-per-gallon."

Despite the industry's progress in improving gasoline mileage, there



are those who already think that the way to better gas mileage lies in Congress rather than in our own laboratories and shops. That's distressing.

Based on our past experience with emissions and safety legislation, we can only hope that a mandatory fuel economy program, if it comes, will be realistic, cost effective, attainable, and attuned to the real world. We can only hope that it will not restrict product availability to the point where potential customers will stay out of the marketplace. If that should happen, our employees and stockholders would suffer as well as those in allied industries.

Those who support the passage of such a bill without giving our industry a chance to show what it can -- and will do -- fail to recognize that while the issues of emissions and safety were one thing, fuel economy is another. Our customers have a good idea of the fuel economy of their cars. They know how much it costs, and they recognize the importance of a fuel thrifty vehicle.

At General Motors, we plan unprecedented capital spending between now and 1980 to give the motoring public better fuel economy. This money will be spent to reduce the weight of our vehicles, improve their aerodynamic characteristics, and provide more efficient accessories. It will also buy improvements in the engines -- precise control of engine tuning and A/F ratio, for instance, and in



the transmissions and drive lines to reduce power loss.

Lighter weight is the key to our fuel economy improvement program and the selection of materials obviously plays a major role.

A GM study, based on a typical 4200-pound regular-sized car, explored the total energy that it takes to build and operate such a vehicle over its average nine and one half year life -- from the mining of raw materials until the car is junked. Of the total energy expended, 85 percent goes into the operation of the car. Ten percent is used for extracting natural resources and turning them into forms we can use. The remaining five percent is spent in our manufacturing operations.

We found that the car's lifetime energy requirement could be reduced by five to seven percent by directly substituting as much aluminum and plastic as possible for iron, steel and glass. While this results in substantially reduced operating energy, the energy needed to produce the raw materials is about doubled.

However, if we completely redesign the vehicle to take full advantage of weight reduction compounding and if we are able to recycle aluminum back to primary sheet quality again, the total energy requirement for that car can be reduced another 10 percent. That would amount to a total energy savings



over its lifetime of 16 percent. Translated into the equivalent of gasoline, this would save 1500 gallons of fuel.

That sounds great -- and it is. The substitution of lighter weight materials should be pursued with all the vigor at our command. But it's not going to be possible to achieve maximum utilization of plastics and aluminum immediately, and it won't be for at least several years.

Assuming we could double the amount of plastics used in GM cars, the total would climb to around 300 pounds on the average. But plastics made from petrochemical feedstocks are subject to the same shortages and price fluctuations as petroleum. Many plastics cannot be recycled, and this is increasingly important -- both in conserving natural resources and determining cost-effectiveness, which must guide our every materials selection decision.

Still, several new applications of this versatile material appear very promising. Plastic, for instance, likely will become a lighter weight replacement for much of the glass in our cars. Progress has been made in developing hard coatings to reduce scratching. I'd say that we're just about to the point where we could substitute plastics for glass for everything but windshields.

Re: Use of aluminum. Maximum utilization of aluminum would require an additional 1300 pounds gross per car. By the aluminum industry's own estimates



it would take a very ambitious capital expansion program, starting now, just to raise production to the point where 100 additional pounds of aluminum would be available for each car built in the middle 1980s.

In addition to that, we still have not seen conclusive evidence that aluminum can be recycled into metal of prime quality -- suitable for large auto body panels -- after being used in automotive applications with so many other materials; about half the elements in the periodic table, as a matter of fact.

In the past 20 years, the use of aluminum in GM cars has grown from about 12 pounds on the average car to over 75 pounds. Much of that growth resulted from the use of aluminum in castings and as a substitute for copper in electrical wiring. Large increases in the use of aluminum would have to come from its use in large body panels, and our studies show that this would offer great weight savings potential -- on the order of about 40 percent. But as I said, this broad use of aluminum is still several years away, at least, and I'm sure you know the other problems that must be overcome as well.

In the short term, then, we must look for the greatest weight saving per pound of metal substituted. For example, concentrating the available supply of lightweight materials in the heavy optional items -- items such as large engines.



which control basic vehicle design weight although they are chosen by relatively few customers. By this approach, a large usage of aluminum in a few cars could save weight on all the vehicles in a model line.

We should also pursue applications involving castings rather than wrought aluminum for ease of recycling.

Incidentally, one of the reasons that steel and iron enjoy the competitive positions they do is that they can be readily recycled. About 35 percent of the nation's iron and steel production comes from recycled scrap. Most of this scrap comes from the manufacture and reclamation of consumer durable goods such as cars, trucks, locomotives, household appliances and even farm machinery.

* * *

So -- what does all this mean for the automobile designer and engineer?

I see it as a great, double-barrelled challenge.

First, we must continue to push back the frontiers -- expand the state of the art -- in the wider use of materials, such as plastics, aluminum, zinc magnesium, and maybe some that we haven't even thought of yet.



In this area, we must learn as we go -- taking a cautious step at a time toward that day when we can make wide use of these lighter weight materials in

our designs. That means that there is not going to be any easy, simple way to lighten our vehicles in the short term.

Therefore -- and this is the second barrel -- we must do a better job, a much better job, with familiar materials and new versions of those materials.

Lighter weight vehicles are going to depend not so much on material substitution as they are on better, more efficient design -- of the total vehicle and every component. This is a definite, difficult challenge to each of us as engineers. Since the sale of the first American built automobile back in 1896, our industry has had 80 years to refine our designs, find the best material for each part, and make our products the most reliable, most affordable, the safest and most convenient in the world.

As we redesign our vehicles for more efficiency and search for suitable lighter, lower cost materials, we dare not backpedal from the high standards of quality, durability, reliability, safety, appearance, comfort, convenience and affordability that we have set in the past. If we draw fully on the vast innovative talent of the engineers and designers in this industry, we can maintain and extend those standards and still give our customers mobility at a cost they can afford -- when they go into the showroom to buy a new car and when they operate it on the highways and roads of America.

That's what makes this such an exciting time and such an exciting industry



for engineers. Not since the early 1940s, when we converted to war production with a speed that startled the world, have we faced a greater, more important task than right now.

* * *

Part of our job as engineers, it seems to me, is to help the nation understand the nature of some of the problems facing us -- particularly in technical areas such as the materials and fuel shortages. In that regard, I've talked a great deal about conservation, and I certainly don't want to minimize its importance.

But conservation alone -- of either fossil fuels or raw materials -- will not guarantee us all that we will require in the future. We must develop additional sources of supply.

The world still has an abundance of minerals. At the moment a few may be in short supply. But most deposits of raw materials, with extensive use of recycling, are sufficient to last centuries.

For the United States and the other developed nations, the problem is that we have looked elsewhere for fuel and for raw materials because other sources were cheaper or more abundant. Our recent experience with petroleum has shown what too great a dependence on foreign sources can mean to our economy -- and to our people.



If reduced dependence on foreign supplies is a good and desirable goal for fossil fuels -- and I'm convinced it is -- then so is a greater reliance on our own reserves for basic raw materials. For a number of raw materials this, too, is an attainable goal.

As a percent of ore consumption, the United States has made progress in the past in reducing our reliance on imported minerals -- for copper, lead, zinc and iron, for instance. But much more can -- and should be done. Developing the technology to recover aluminum from U.S. low grade aluminum minerals is a good example of what is needed.

When it comes to energy, some new technology will be needed for the United States to recover more of its still plentiful fossil fuels -- and recover and use them in more environmentally acceptable ways. But more than technology, what we need more than anything right now is the national resolve to put our full energy resources to work and some consensus on how to proceed toward that goal.

In the 16 months since the Middle East oil embargo was imposed, few major energy bills have passed Congress and we still lack a cohesive, national plan for the efficient use and orderly development of our own energy supplies.

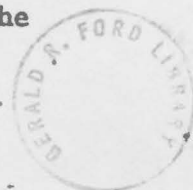


At General Motors, we believe that President Ford's energy plan is generally a sound and constructive one. While we recognize that political compromise is necessary on an undertaking of this importance and magnitude, it is now high time for action. We believe the American people deserve that. It would be tragic if indifference, inaction or political posturing permitted what should be a short-term energy problem to do lasting, long-term damage to our economy and our economic system.

I'm convinced that action on the energy front could serve as a powerful stimulus to help pull the nation out of the economic doldrums. Evidence that we were finally moving to face our energy problems -- and overcome them -- could go an awfully long way toward helping restore the confidence of the American people -- in their economy, in their leadership, and in their future. I urge Congress and the Administration to work together -- now -- to provide that spark -- to move America back toward that high road to economic recovery where it ought to be.

In conclusion, let me summarize what I see as our major challenges in the years just ahead.

First, we must design lighter more efficient vehicles to meet the nation's energy savings goals. This conservation effort will require the increased use of light weight and high strength materials as well as more efficient use of all materials.



Second, we must develop the technology necessary to help insure adequate supply of materials necessary -- for manufacturing our products as well as the energy to power those vehicles.

Third, while we must give improved efficiency top priority, we must be sure that we have cars that sell -- exciting, appealing cars that will meet our customers' various transportation needs. The most efficient car in the world doesn't contribute to the nation's conservation of energy unless someone buys it and puts it to work.

Fourth, we must design our new products for minimum tool and facilities expenditures, using existing facilities wherever and whenever possible. This is especially important in view of the industry's present financial problems.

Fifth, we must be sure that product cost continues to receive our constant attention to insure our profit position in a very price conscious market.

Finally, we must move as quickly as possible. The need for more efficient vehicles is urgent. That's what makes our business so exciting and challenging and I know we're going to get the job done.

Thank you.

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The Washington Post

AN INDEPENDENT NEWSPAPER

7-10

Natural Gas and Next Winter



THE EASTERN SEABOARD is going to get much less natural gas over the coming winter than last year. Consider a specific case: the city of Danville, Va., down near the North Carolina border. Its population is 46,000. Its principal industry is Dan River Mills, a huge textile manufacturer, that employs 9,000 people. Dan River Mills has to have gas for the cloth finishing process, which requires an open flame. Without gas, the factory shuts down.

Danville gets its gas from the Transcontinental Gas Pipeline Corporation, which is having severe supply troubles. The troubles are all related to the way that the federal government regulates gas prices, but Transco's shortfall is greater than most. Last winter Transco curtailed deliveries to its customers, but the winter was warm and no actual unemployment resulted. Now Transco is projecting much more severe curtailments, and shortages along its line are inevitable.

Under the Federal Power Commission's rules, residential consumers and small commercial establishments have first priority for gas. Transco also supplies some of metropolitan Washington's natural gas. There are no large industrial users here in Washington and most of the gas goes into private homes. As they now stand, the FPC rules mean that all gas would be shut off to all industry in Danville, regardless of the effects on employment, before there was any reduction to households in Washington. These rules say that it is more important to use gas for drying clothes or keeping houses as warm as the owner pleases, than to use it for manufacturing in which peoples' livelihoods are at stake. There is something wrong with that order of priorities.

The same thought has occurred to the FPC, which is now reconsidering some of those priorities. But it is unlikely that there will be any change in time to help Danville this winter. Dan River Mills now has two choices—both of them instructive commentaries on the way that things are going under the present system of regulation. Dan River can buy propane. But it costs five times as much as natural gas, and propane too may shortly be in shortage as other factories all over the north and east do the same thing.

Dan River's other choice is more interesting, for it involves a basic change in federal regulatory policy. Last spring the FPC told large industrial users that it would consider permitting them to buy gas on the unregulated intrastate market and ship it, through pipelines like Transco, across state lines. To see the significance of this proposal, you have to keep it in mind that the federal price controls apply only to gas in the interstate sales. As the present procedure works, Transco buys gas from a well in, say, Texas. Transco is held to

the federal ceiling price—which is so low that very few producers will sell to the interstate pipelines. Transco transports the gas to Virginia, adding its transit charge, and sells that gas to the city of Danville which resells it to Dan River Mills. The FPC is now proposing that Dan River's management get on a plane to Houston, buy gas directly from the producers at the unregulated intrastate price, and then ship that gas back to Danville via Transco. In one case the pipeline is the middleman. In the other, it is a common carrier, like a railroad carrying a customer's coal from the mine to the power plant.

This new procedure—if the FPC decides to permit it—would constitute an elegant evasion of the regulatory principle. But since the principle is a bum one and is creating serious trouble for industry in this part of the country, the evasion is useful and welcome. The federal ceiling price for intrastate sales is 53 cents a thousand cubic feet. The unregulated price for sales within a state is anywhere from \$1 to \$2 a thousand feet, and there is no shortage at that price. With transportation charges, direct purchasing might push Dan River's gas costs two or three times as high as the present level—but, at the present level, they are not going to get any gas. Even at the unregulated price, natural gas is a great deal cheaper than propane, which runs nearly \$4 a thousand feet. More important, it is a reliable supply to maintain production and employment.

Danville is perhaps an extreme case in its vulnerability. But the example is repeated, to one degree or another, throughout this entire region. In the immediate vicinity of Washington it is easy to ignore the threat, because jobs here do not depend on manufacturing. In Baltimore, it is another matter. Baltimore depends on a different pipeline system than Danville, and fortunately the cutbacks forecast for it this winter are not quite so severe as Transco's. The distributing company, Baltimore Gas and Electric, thinks that it can get through the winter with no job losses among its customers if three conditions hold—if 1) the weather is no colder than normal, 2) its customers practice reasonable conservation, and 3) the pipeline curtailments are no worse than currently estimated. Those are, of course, large qualifications. A serious gas shortfall in Baltimore would hit steel and automobile production sharply. The biggest single user of gas in Baltimore is the General Motors assembly plant.

This country has been treated very kindly by the weather. Since the gigantic rise in fuel prices at the end of 1973, both winters have been unusually warm. Less gas used for heating means more available for industry—but the reverse is also true. A wise and foresighted nation would not count on a third warm winter in a row.

July

THE WHITE HOUSE

WASHINGTON

July 31, 1975

MEMORANDUM FOR DON RUMSFELD

FROM: JIM CANNON

SUBJECT: NATURAL GAS SHORTAGES

In a note to Jim Connor, you asked whether or not we are preparing an Economic Impact Analysis by State and Congressional District, concerning the potential curtailment of natural gas.

An Interagency Task Force, chaired by FEA (Eric Zausner) is developing this information on a State-by-State basis and expects to have it ready by the end of July.

Zausner reports that the data cannot be broken down by Congressional Districts. He says that FEA's current reporting system does not provide the necessary information to accomplish this.

We will work with Frank Zarb and the FEA Task Force to develop a plan to alert State and other officials of potential natural gas shortages expected this winter.

cc: Frank Zarb
Jim Falk



THE WHITE HOUSE
WASHINGTON

June 11, 1975

MEMORANDUM FOR:

JIM CANNON
FRANK ZARB

FROM:

JIM CONNOR

Could you let me know whether anything is going on
re the attached; and if so, what. Thanks.

Attachment:
6/11 memo from
Rumsfeld

~~Handwritten signature~~
2) Mike 7

Mike
to FEA, does this?
D



THE WHITE HOUSE
WASHINGTON

June 11, 1975

MEMORANDUM

FOR: JIM CONNOR
FROM: DON RUMSFELD

?
Natural
Today at lunch the President said to the Board of Directors of the American Newspaper Publishers Association that he was going to have economic impact analysis by State and Congressional District of the shortage of natural gas. That it would be sent out sometime this summer, cautioning about the dangers this winter.

Do we have something going on that?

State - by - State N.G. impact

Interagency Natural Gas Task Force
Zimmer is chairman

End of July

Not Cong. Dist. by
Cong. Dist.



THE WHITE HOUSE

WASHINGTON

August 11, 1975

File
Natural
(900)

MEMORANDUM TO: THE PRESIDENT
THROUGH: DON RUMSFELD
FROM: JACK MARSH *Jack*
SUBJECT: GOVERNORS' MEETING

With the impending natural gas shortage that will impact more drastically on ten states, it occurred to me that consideration might be given to inviting the Governors of these ten states to the White House sometime after the return from Vail and before the Congress reconvenes on September 3.

This meeting would be somewhat like the meeting of the northeastern Governors on energy, but would occur at the initiative of the White House. The purposes of the meeting are:

- 1) To explain to the Governors the dimensions of the problem and the reasons for the shortage.
- 2) To outline the recommendations of the Administration to try and address the problem.
- 3) To indirectly, through the Governors, obtain Congressional support from the states involved for the President's natural gas program and his energy program generally.

cc: FZarb
RMorton
JCannon ✓
JFalk



COMPROMISE NATURAL GAS BILL

Question

Your FEA Deputy Administrator, John Hill, has indicated that your Administration will not support the recent compromise Natural Gas Bill approved by the Senate Commerce Committee. Why are your people and the oil industry insisting on total new gas price deregulation rather than accepting what appears to be a reasonable compromise which could end the stalemate on this issue?

Answer

FEA has been participating in my Administration's review of the Senate Committee bill. I understand that FEA has concluded that the bill will not do as much as we would like in gaining the benefits of new gas price deregulation.

I am awaiting final recommendations from FEA and from other advisers before I take a position on the bill.

Background Only

The May 25 Washington Star carries a story*by Roberta Hornig with the headline "Gas Plan Won't Get Ford Help." It indicates that the Administration has decided not to support the Senate bill. It further quotes John Hill as saying: "We are not endorsing that bill."

John Hill indicates that he made clear to Roberta Hornig that the bill was still under review and that we had not taken a position. He indicates that he was misquoted.

*page A-7





Natural Gas

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

April 2, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM TO THE EXECUTIVE COMMITTEE,
ENERGY RESOURCES COUNCIL

FROM : FRANK ZARB, EXECUTIVE DIRECTOR *3*

SUBJECT: NATURAL GAS STATUS AND FORECAST,
POSSIBLE COURSES OF ACTION

This memo outlines the current situation, key Members and possible courses of action on Natural Gas. Because early action is most likely in the Senate, it is stressed. Also included is a current Senate vote projection.

Current Senate Status: No definite course of action has been set, though there has been weekly discussion in the Senate between the Senate Leadership and other key Senators on both sides of the issue.

- both sides in the Senate uncertain of votes and so not anxious to push at present.
- both sides, for and against H. R. 9464, are split as to best course
- Senator Mansfield intends to push for action, with or without agreement by other key Senators, but is not expected to do so until after the Easter Recess (April 14-25)

Possible Senate Courses of Action:

- Refer H. R. 9464 to the Commerce Committee. This would require unanimous consent or a vote if Magnuson objects. If Magnuson objects, this would probably fail.
- Send H. R. 9464 to Conference. This would require a vote (assuming someone objects) and might carry. Senators Fannin, Hansen and others are not confident they have the votes to defeat this motion. They would move to table H. R. 9464.
- Table H. R. 9464. This would be used to prevent a vote on going to Conference or any further action at this time. A tabling motion normally takes precedence over other motions.

- Reject H. R. 9464 outright by vote. This would have to be done prior to amendment which might not be possible. The outcome of an up or down vote on an amended H. R. 9464 is very difficult to predict since amendments would tend to erode the opposition to H. R. 9464.
- Hold H. R. 9464 at the desk. Mansfield will not allow this.
- Use Finance Committee - a possible alternative provided H. R. 9464 is defeated or tabled.

Key Senators and Positions:

- Senator Mansfield not taking sides publicly. Just wants issue settled and opponents of H. R. 9464 disposed of.
- Senators Fannin and Hansen would not oppose referral to Committee. Feel votes are there to defeat or table.
- Senator Pearson wants H. R. 9464 sent to the Commerce Committee.
- Senator Long wants to use the Finance Committee as the vehicle.
- Senator Bentsen opposed going to Conference.
- Senator Tower wants H. R. 9464 defeated or tabled.
- Senator Tunney would prefer that the bill be sent to Committee.

Proponents of H. R. 9464 -

- Magnuson does not want H. R. 9464 sent to Committee.
- Stevenson/Hollings would prefer that the bill go either to Committee or directly to Conference with no other votes on the Senate floor. Hollings has introduced two amendments to H. R. 9464: a) S. 2310; and b) Title II of S. 2310.
- Jackson has not taken an active position to date but supports H. R. 9464.

Current Senate Vote Count:

- 50 Senators have indicated they would vote to table or defeat (prior to amendment) H. R. 9464.
- 46 Senators have indicated they would vote against sending H. R. 9464 to Conference.

Current House Status:

There has been talk of introducing a bill similar to S. 2310 in the House. Industry representatives are rewriting 2310 to eliminate incremental pricing and restructure the boiler fuel provisions.

Congressman Murphy (D, N.Y.) has been approached in regard to introducing this legislation. Introduction of this bill would require (1) Subcommittee hearings; (2) Committee approval; and (3) action by Rules Committee.

There is no firm prognosis at this time for the likelihood of such action, but in any event, it does not appear to be a vehicle for obtaining a quick resolution of the issue.



OIL DIVESTITURE

Senate Judiciary Subcommittee on Antitrust and Monopoly reported out favorably the Senator Hart substitute to Senator Bayh's vertical divestiture legislation entitled "Petroleum Industry Competition Act of 1976" (April 1, 1976).

Major Provisions:

- Separates crude production from refining and marketing for the top 18 integrated oil companies.
- Prohibits any form of pipeline ownership by any producer or refiner.
- Permits refining and marketing to remain together, but no new refiner/marketer relationships may be established.
- FTC reviews and approves divestiture plans.
- Provides for temporary divestiture court to handle litigation.
- Allows 18 months for divestiture plans, five years to accomplish divestiture.
- Allows exemption from divestiture requirements for assets under \$5 million in a particular sector of the oil company; i.e., oil refiner would not have to divest production activity if its production assets were less than \$5 million.

Possible Implications:

- Could delay the development of new energy supplies for several years by turning focus of oil companies on implementing divestiture and away from exploration.
 - Could result in increased petroleum prices as divested downstream operations would require greater returns on assets to remain viable.
 - Could result in reduced ability to attract capital for oil and gas exploration and refinery expansion due to loss of proven stability of divested segments.
 - Energy supply losses would adversely affect goals of Project Independence.
- 

- -- Legal and administrative problems expected in implementation could delay completion of divestiture to well beyond the five years allotted in the bill, increasing supply losses during the transition.
- Could result in reduced ability of U.S. integrated firms to compete in the international market with non-U.S. integrated companies, thereby threatening remaining U.S. supply and price security.
- Weakened U.S. petroleum firms could enhance the strength of the OPEC cartel, and adversely affect resource development and supplies available to less developed countries.
- The petroleum industry is less concentrated than other U.S. industries, and therefore the bill is unusually discriminatory.
- Could result in less research activity and reduced product quality due to losses in capital availability.

ACTION MEMO

THE WHITE HOUSE
WASHINGTON

LOG NO.:

Date:

Time:

FOR ACTION:

cc (for information):

Jerry Jones

Phil Buchen

Jack Marsh

Jim Cannon

Brent Scowcroft

Jim Lynn

Bill Seidman

Max Friedersdorf

FROM THE STAFF SECRETARY

DUE: Date: Monday, May 31

Time: 2 P. M.

SUBJECT:

Memorandum from Frank Zarb
dated 5/28/76 re Natural Gas Legislation

ACTION REQUESTED:

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

___ Draft Remarks

REMARKS:

J. Connor Jones

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please

Jim Connor
For the President



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D. C. 20461

May 28, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB 

SUBJECT: NATURAL GAS LEGISLATION

BACKGROUND

As indicated to you last week, the Senate Commerce Committee has approved a new natural gas pricing bill (S. 3422) in an effort to break the House-Senate impasse on such legislation. The bill was approved in Committee by an 18-1 vote and has considerable bipartisan support (Senators Pearson, Stevenson, Hollings, Fannin, Brooks, and Stevens are among its sponsors).

MAJOR PROVISIONS OF THE BILL

In general, the bill is an improvement over current regulations, but is less acceptable than the Pearson-Bentsen bill (S. 2310) that passed the Senate last year and the Krueger bill that failed by 3 votes in the House in February. The major provisions of this new bill are:

- Establishes an initial base rate of \$1.60/mcf for all new onshore gas (compared to current FPC base rate of about \$0.52/mcf), which is adjusted quarterly to reflect inflation, and ends all regulation for new onshore gas after 7 years.
- Establishes an initial base rate for new offshore gas of \$1.35/mcf, adjusts this initial rate quarterly at the rate of inflation, and provides for a revision -- but not termination -- of offshore ceiling price regulation every 5 years.
- Leaves the intrastate gas market unregulated.
- Continues to regulate both onshore and offshore old gas.



- ° Contains several other provisions dealing with agricultural priorities, regulation of synthetic gas, conversion of natural gas boiler fuel use, and incremental pricing to boiler fuel users. The bill does not contain any of the short-term emergency measures to alleviate curtailments requested by the Administration or encompassed in S. 2310.

ANALYSIS OF THE BILL

As indicated in Table 1, the bill would result in significantly greater natural gas production in 1985 than would occur under current regulations, but less than with S. 2310 or the Krueger bill.

Table 1
Natural Gas Production Estimates

<u>Bill</u>	<u>1985 Production (Tcf)</u>
Present Regulations	17.9
S. 2310	23.0
Krueger	22.3
S. 3422	21.3

Most of the increased production would flow into the interstate market and could reduce significantly expected curtailments and shortages. However, although the gap between interstate and intrastate prices will be narrowed, some market distortions will remain. Our review of the other aspects of the bill shows a need for some technical amendments to make the bill more workable. However, with the exception of a possible desire for higher base prices onshore and offshore and assurance of eventual deregulation offshore, the bill is reasonably close to the Pearson-Bentsen bill you indicated you could accept a few months ago.

PROGNOSIS FOR THE BILL

It appears that the bill has broad support (including some conservatives), and is likely to pass the Senate with few changes. While it is also possible that the bill could pass the House in a similar form, liberal members of the House will try to lower the allowable price and extend regulations to the intrastate market, and it is likely that the bill will be changed.



OPTIONS

The bill is currently held together by a fragile coalition of liberals and a few conservatives, with support from both sides of the aisle. Major modifications to the bill are likely to break apart this coalition. It is also likely that if this bill is not enacted, there will be no natural gas legislation enacted by this Congress. Thus, the basic decision will be whether to accept this bill largely as is or to give up on this legislation. The major options are:

Option 1. Announce Administration support for the bill in substantially its current form.

- Pro:
- Would galvanize bipartisan support to assure Senate passage and enhance chances for success in the House.
 - Could be politically popular.
 - Would support a reasonably good bill that could alleviate future natural gas problems.
- Con:
- Early support may not be necessary to assure passage and could limit flexibility later.
 - Support at this time may be considered as a point of departure by the House from which to bargain.
 - Would represent a shift from support of Pearson-Bentsen.
 - Premature support could subject Administration to criticism by conservative members of Congress and the gas industry, which may ultimately accept bill, but only after all avenues are pursued.

Option 2. Defer public announcement of a position on the bill at this time, and work to amend the bill on the Senate floor or in the House. The following are possible amendments:

- ° Raise the initial price.
- ° Shorten the time frame for achieving onshore deregulation from 7 years to 3-5 years.
- ° Phase out regulations for offshore gas over a 5-7 year period.
- ° Other technical amendments, including deletion of troublesome boiler fuel restrictions.

- Pro: - By withholding announcement of support, maximum flexibility is preserved along with greater bargaining strength with the House.
- Allows possibility for making the bill more acceptable.
 - Preserves philosophical position with conservatives.
- Con: - Lack of support could jeopardize bill's chances in the House.
- Major modifications to the bill could break apart the coalition.

If Option 2 is chosen, the following strategy in the Senate may be desirable:

1. Indicate that the current bill is inadequate because onshore deregulation is too slow, deregulation of offshore gas is at best uncertain, and the ceiling prices are too low.
2. Seek amendments to S. 3422 to make it correspond to the Pearson-Bentsen bill (S. 2310).
3. If unsuccessful in amending the bill to correspond to S. 2310, seek amendments to improve the bill as indicated in Option 2 (while recognizing that amendments could destroy coalition of support).
4. If unsuccessful with these amendments, withhold support and seek better bill on the House side (although a better bill would be hard to achieve in the House).

Option 3. Announce opposition to the bill and intention to veto if passed in its present form.

- Pro: - Maintains stance on Pearson-Bentsen and strict conservative support.
- If a decision is ultimately made to veto the bill, an early indication may be helpful to sustain the veto.
- Con: - Puts President in a veto posture, since this bill is likely to pass, and could mean no natural gas bill this year if veto is sustained.

The bill and the options outlined above have been reviewed by your advisers. All agree that the bill has substantial merit if it is the best we can expect from the Congress this year. Several agencies (e.g., Interior, HUD and ERDA) agree with Option 1. Others (e.g., FEA and CEA) lean towards Option 2, but not at the expense of breaking apart the coalition of Senators supporting the bill.

Before making your decision on which course of action to adopt, we recommend:

- That you meet with Senators Pearson, Stevens, Fannin, Bellmon, Hansen, Bartlett, and Tower so that you may have the benefit of their views on how best to handle this legislation.
- That following this meeting you meet with your advisers to get their detailed positions.

THE WHITE HOUSE
WASHINGTON

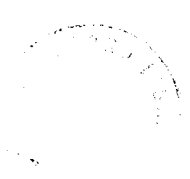
June 2, 1976

MEMORANDUM FOR: JIM CANNON
FROM:  GLENN SCHLEEDE

I recommend that you approve and sign the attached memo which comments on Frank Zarb's May 28, 1976 memo on Natural Gas Legislation.

The background on this is rather complex and I will be glad to discuss it with you if you wish.

Attachment.



THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Natural Gas Legislation

We have reviewed Frank Zarb's May 28, 1976 memo which recommends that:

- . You meet with Senators Pearson, Stevens, Fannin, Bellmon, Hansen, Bartlett and Tower to discuss pending natural gas legislation (particularly S.3422) which was approved two weeks ago by the Senate Commerce Committee.
- . Meet subsequently with your advisers before taking a position on the Senate bill.

I concur in both recommendations.

Frank Zarb's memo also outlines three options for Administration action on S.3422. These options are useful as a basis for preparing for the discussions with Senate leaders, but I believe they should be reconsidered following the proposed meeting with the Senators, if you follow that recommendation. The review should also include an appraisal of the chances of the new bill introduced by 19 House members (H.R.14069) which parallels the Pearson-Benson bill previously passed by the Senate.

We believe that S.3422 is only marginally acceptable at best. If it does pass the Senate, it seems quite likely that it would be made less acceptable in the House. If this occurs, you will be faced later this year with a bill that will be very difficult to accept.

At this late date, it is doubtful that any natural gas bill will pass this session. Any indication now that the Administration is prepared to accept a compromise would make it difficult or impossible to seek next year something close to the Pearson-Benson deregulation bill.

MEETING WITH PRESIDENT AND MEMBERS
OF THE SENATE
Tuesday, June 8, 1976
Cabinet Room (45 minutes)
11:00 a.m.

Re: Gas Deregulation

MEETING WITH ZARB AND WHITE HOUSE
STAFF
Tuesday, June 8, 1976
Cabinet Room (30 minutes)
11:45 a.m.

Re: Gas Deregulation



THE WHITE HOUSE

WASHINGTON

June 7, 1976

MEMORANDUM FOR: JIM CANNON
FROM: GLENN R. SCHLEEDE
SUBJECT: BRIEFING NOTES FOR MEETING ON NATURAL
GAS LEGISLATION

Meetings Scheduled for Tuesday

The meetings are scheduled with:

- . 11:00 - Senators Pearson, Stevenson, Fannin, Hollings, who are principal sponsors of a compromise natural gas bill recently reported by the Senate Commerce (S. 3422) and Bartlett, Hansen, Tower, and perhaps others that have a strong interest in natural gas.
- . 11:45 - Senior energy and economic advisers to decide a position for the Administration on the Senate bill.

I understand that Zarb is doing briefing papers for both meetings at Max Friedersdorf's request.

Recent History

- . Last Fall, the Senate passed the Pearson-Benson bill -- acceptable to us -- (vote 50-45) which, principally, provided for:
 - immediate decontrol of onshore new gas.
 - decontrol after 5 years of new offshore gas production.
- . When natural gas was taken up in the House, an attempt (led by Krueger of Texas) was made to substitute a new gas deregulation bill, but that lost out when the "Smith" bill passed as a substitute by a vote of 205-201. Briefly, the Smith bill maintained most existing controls and extended Federal price regulation to intrastate supplies.
- . The Senate has refused to go to Conference with the House-passed Smith bill.
- . S. 3422 has now emerged from Senate Commerce Committee without hearings, as a compromise bill, by a vote of 18-1.
- . Last week, Congressmen Murphy, Kreuger and 17 others from the House Commerce Committee introduced a bill (H.R. 14069) which is much like the Krueger bill. Allegedly, Murphy will be joined by four other members of the Commerce

Committee after June 8 primaries -- constituting a majority of the 42-member House Commerce Committee.

- . Congressman Dingell has stated publicly that he will not allow a bill to pass the House which does not include a lower price ceiling than provided in the compromise Senate bill as well as an extension of Federal regulation to intrastate gas.

The Current Issue

- . The current issue to be enlightened in the 11:00 meeting and decided in the 11:45 meeting is Administration position on the Senate compromise natural gas bill (S. 3422). This bill will be taken up on the Senate Floor Thursday of this week. The bill is expected to pass.
- . The principal provisions of S. 3422 are:
 - Establishes initial base rate of \$1.60 per 1,000 cubic feet (mcf) for new onshore gas, (compared to current \$.52), adjusted quarterly for inflation.
 - Ends regulation of new onshore gas after seven years.
 - Sets ceiling of \$1.35 for new gas offshore for next five years with subsequent adjustment permitted by FPC. Quarterly inflation adjustment permitted.
 - Regulates offshore gas indefinitely.
- . Zarb's 5/28/76 information memo to the President (TAB A) outlines three alternatives for Administration position:
 - Option 1. Announce Administration support for the bill in its current form.
 - Option 2. Defer public announcement of a position and work to amend the bill with respect to: (a) raising initial interstate price ceiling; (b) shorten the time for onshore deregulation from seven years to 3-5 years; (c) insert a phase-out period for regulation of offshore gas, and (d) obtain other technical amendments.
 - Option 3. Announce opposition to the bill and intention of vetoing if passed in its current form.

Positions of Various Advisers

- . Most advisers seem concerned principally about the bill being made worse in the House and are therefore reluctant.
- . Zarb, Seidman seem to favor Zarb's Option 2.
- . MacAvoy considers S. 3422 marginally acceptable as a first step toward deregulation, but would strongly recommend veto if tightened in any way.
- . OMB opposes S. 3422 and recommends a veto signal unless it is improved in specified ways.
- . Most advisers seem concerned that current effort could lead to an unacceptable bill on the President's desk in early Fall that would be difficult to veto. (not unlike the situation with the energy bill last December), but, except for Lynn, are leaning toward the Senate bill.

THE WHITE HOUSE
WASHINGTON

Energy
ACTION
URGENT

June 16, 1976

MEMORANDUM FOR: JIM CANNON
FROM: *Glenn R. Schleede* GLENN R. SCHLEEDE
SUBJECT: PENDING ERDA ANNOUNCEMENT OF THE
SELECTION OF A CONTRACTOR FOR A MAJOR
COAL TO GAS CONVERSION PLANT

OK
Jim

I have learned that Dr. Seamans plans to announce later this week his selection of a contractor (possibly two) leading to the construction of a plant to demonstrate advanced technology for converting coal to high BTU (pipeline quality) synthetic gas. Total cost of the project would be in the range of \$300 to \$500 million.

ERDA inadvertently did not include this significant event on its reports to us.

General information about the project is as follows:

-- Proposals for the project were formally requested by ERDA about one year ago. Five firms responded:

- ①
- Conoco Coal Company of Stamford, Connecticut with plans to build in Ohio.
- ②
- Illinois Coal Gasification Group (six Illinois gas pipeline companies) of Chicago, to build in Illinois.
 - Kentex Energy Corporation (consisting of the States of Kentucky and Texas Gas Pipeline Companies) Warrenboro, Kentucky; plant to be built in Kentucky.
 - Wyo-syngas Group of New York; Texaco, planning to use its coal holdings in Wyoming.
 - Wheelebrator-Frye of Birmingham (leading to a consortium of several companies; including Rust Engineering, Mead Corporation, etc.); plant to be built in Alabama.
- 100-100000*

-- The ERDA plan contemplates four phases, with ERDA paying the share of costs indicated:

- | | | | |
|---|------------------|------------------|----------------------------|
| ° Conceptual Design and Demonstration Plant | 100% | <i>2 or more</i> | <i>± few more (5 or 6)</i> |
| ° Detailed design | 100% | | |
| ° Construction | 50% | | |
| ° Operation | 50% of net costs | | |

-- The Request for Proposals left up to the interested firms the decision on the size of a demonstration plant needed to demonstrate the feasibility of moving to a commercial scale operation. Proposals received call for ERDA expenditure ranging from \$200 to \$360 million, with industry shares ranging from about \$100 to \$180 million.

-- Following normal practices, ERDA established a selection board to evaluate the proposals. That board made recommendations to Dr. Seamans late last week.

Dr. Seamans' Special Assistant (Ray Walters) indicates that Dr. Seamans probably will announce the selection later this week. Dr. Seamans may decide to award contracts for the conceptual design phase to two or more proposers.

I have not inquired as to the likely winner(s).

I have a call in to Dr. Seamans in which I plan to ask him not to announce his selection until he discusses the matter with you.

OPTIONS

- Take no further action.
- Ask Dr. Seamans not to make and announce a selection until he reviews the matter with the President.



Phone call 12:40 p.m.

THE WHITE HOUSE

WASHINGTON

June 16, 1976

MEMORANDUM FOR JAMES CANNON

FROM: GLENN SCHLEEDE

Bob Seamnas has not returned my telephone call on this subject. As indicated in my earlier memo, I had intended to ask him to discuss this matter with you before making any announcement. He did instruct his general counsel to call me and inform me that it was improper for me to be discussing the matter with him (Dr. Seamans).