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[Sept. 1976]
File

Energy

SIGNING STATEMENT

Today I have signed H.R.13655, a bill which establishes within the Energy Research and Development Administration, a program to develop alternatives to existing automobiles which could operate with no adverse impact on the environment and with greater fuel economy.

The program includes a five-year \$100 million project involving research and development of integrated test vehicles, with emphasis on advanced propulsion systems. The legislation also provides for a study of the feasibility of Federal loan guarantees for advanced automobile R&D -- ERDA is required to report their findings and recommendations for appropriate legislation within one year.

The program will augment programs already established in ERDA and the Department of Transportation and will accelerate ongoing efforts of ERDA to develop new energy efficient and virtually pollution free propulsion systems with industry.

I believe that there should not be Federal intervention where there are incentives and willingness for the private sector to assume responsibilities and this legislation specifically provides that the research and development of the integrated test vehicles are not to supplant or duplicate efforts of the private industry.



[Sept. 1976?]

Energy

Hudson

Kristaller

Memoranda
#31



Wm Brown

Another issue of Future

100,000 Quads of Natural Gas?

Paul Ames

July

1969 -

~~to~~ Journal of
Publication
Technology

[Sept. 1976?]
Energy

THE WHITE HOUSE
WASHINGTON

TO: GLENN SCHLEEDE
FROM: JIM CANNON

Please talk to me about this.



Technology

Facing the Challenge of Nuclear Waste

By VICTOR K. McELHENY

The disposal of past and future nuclear reactor waste is moving to the forefront of the nuclear industry's many technical, economic and social problems.

A report on nuclear wastes by Dr. Mason Willrich, an independent expert who moved this month to the Rockefeller Foundation, revealed several dramatic proposals to resolve the question of the wastes, which Dr. Willrich calls a "permanent challenge to government."

Drafted for the United States Energy Research and Development Administration, and still circulating for comment, the report indicates that the waste issue is chiefly one of institutions rather than technology and that prompt action now would avoid collisions with vested interests—such as a large nuclear fuel reprocessing industry—that don't exist yet.

Waste Increase Expected

Dr. Willrich proposed:

¶A federally chartered national radioactive waste authority. This would take over from ERDA the large existing stock of military wastes and the civilian power-station waste expected to increase rapidly in the years ahead. The authority would handle both highly radioactive wastes and the lower-level wastes contaminated with such "transuranic," man-made elements as plutonium.

¶Resumption by the Nuclear Regulatory Commission of all authority, now partially delegated to the states, for licensing waste disposal.

¶Including the waste-disposal issue in the much delayed N.R.C. proceeding that is considering the safety of recycling plutonium extracted from used nuclear fuel back into existing power plants.

¶A nuclear waste commission under the International Atomic Energy Agency to pass on deep-sea disposal projects and review national plans.

¶A California law, passed in May just before the defeat of an initiation nuclear power, ties resolution of the waste problem to future approvals of nuclear electric stations in that state.

Moratorium on Licensing

Decisions in July by the United States Court of Appeals in the District of Columbia requiring deeper consideration of waste disposal by the N.R.C. before issuing licenses for power plants has resulted in a de facto licensing moratorium similar to one that lasted 17 months in 1971-72.

Improvements in the light-transmitting power of hair-thin glass fibers and in the lifetime of the tiny semiconductor lasers that can send infrared light rays through such fibers, have been so rapid that lightwave communica-

Continued on Page 67, Column 4



An engineer examines a cut-away of a cylinder of dark glass in which radioactive waste could be stored. This method of long-term storage is being studied by the Government. The wastes are dissolved in molten glass.



Asst Fuels

THE WHITE HOUSE
WASHINGTON

September 8, 1976



MEMORANDUM FOR: JIM CANNON
FROM: JIM CAVANAUGH
SUBJECT: GAO Synthetic Fuels Report

Apparently GAO has a copy of a report on the synthetic fuels program. Would you get one to me as quickly as possible. I suspect Glenn Schleede is on top of this. Thanks very much.

*Called Schleede
9/10/76
Sent to J.C.*

THE WHITE HOUSE

WASHINGTON

September 8, 1976

MEMORANDUM TO: JIM CANNON
FROM: GEORGE W. HUMPHREYS
SUBJECT: CEQ REPORT ON ERDA

and

As you requested, I am attaching the newest CEQ draft after Schleede's comments were reviewed.



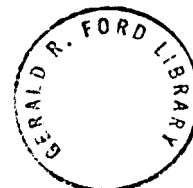
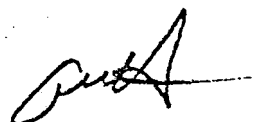
21508

THE WHITE HOUSE

WASHINGTON

September 7, 1976

MEMORANDUM TO: ART QUERN
FROM: GEORGE W. HUMPHREYS
SUBJECT: CEQ Report on ERDA



You asked the status of the ongoing discussions.

Schleede is reviewing CEQ's newest draft to see to what degree his original objections are being met. I do not believe that Glenn will find the new draft completely acceptable, based on my understanding of his original problems.

I do not think that the overriding issue is whether the report does or does not follow Administration policy. I believe it to be a mistake for us to hold up the issuance of this report. Its existence, and substance, is already known and the charge of "heavy-handed White House pressure" will create more problems than will the report.

Without arguing the merit of Glenn's objections, I strongly recommend we do nothing further to delay CEQ's release.

SUMMARY

When the federal government began a major restructuring of energy research, development, and demonstration programs in late 1974, a new Energy Research and Development Administration was established -- with a nonnuclear energy RD&D mandate to complement existing nuclear programs. In the implementing legislation, the Nonnuclear Energy Research and Development Act of 1974, the Congress paid particular attention to two areas that had been largely neglected in nonnuclear energy technology development: environmental protection and energy conservation.



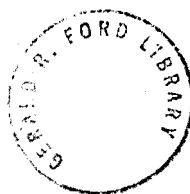
The act gave the Council on Environmental Quality unique responsibilities with respect to federal nonnuclear energy RD&D programs: to conduct an ongoing analysis of the adequacy of attention to energy conservation methods and to environmental protection and to report to the President, the Congress, and the Administrator of ERDA on Council findings. This report is our first under that mandate; it covers activity through March 1976.

Our principal focus here is the Energy Research and Development Administration. We also examined related programs of the Environmental Protection Agency. ERDA's far-reaching goals and strategies, with implications for both the environment and energy conservation, are expressed in A National Plan for Energy Research and Development (ERDA-48) in 1975 and in the 1976 version (ERDA 76-1).

The many projects and people shifted to ERDA from other agencies brought with them programs and approaches that may well change under ERDA direction. The agency is still organizing its planning system and programs. To say that substantial improvements are necessary does not detract from ERDA's accomplishments. Moreover, some of the improvements which this report recommends are planned, and others are underway.

In approaching our review of the extent to which ERDA is taking conservation and environment into account, we first identified certain factors which we believe should characterize program planning and implementation. We then compared programs, interviewing officials in both ERDA and EPA, reviewing relevant documents, and undertaking special studies. The CEQ public hearings in September 1975 provided useful information and insights. Public hearings are planned on this report and the National Plan late this year.

In addition to overall assessment of planning and implementation, we analyzed two areas in depth in order to determine the extent to which environmental and conservation considerations are built into ERDA programs. This year's analyses focus on coal technology and end use conservation. It should be noted that federal conservation RD&D is but one aspect of the overall national energy conservation effort. The private sector can and must play a critical role in developing energy conservation alternatives in response to rapidly growing energy prices and associated influences upon demand for energy supplies. Conservation efforts can often be applied at state and local government levels as well. And even within the federal structure, conservation programs take many forms and involve many agencies.



Adequacy of Attention to
Energy Conservation

The Council defines "adequacy of attention to energy conservation" in federal energy research, development, and demonstration as the capability to identify a range of possible energy conservation RD&D options, to create a factual basis for comparing them to other energy RD&D choices, and to develop programs that will ensure availability of the best options.

The National Plan

In April 1976, ERDA published its second National Plan. ERDA 76-1 singles out conservation technologies, ranking them along with several different supply technologies as a highest national priority. This step represents a major shift in emphasis from ERDA-48, the first National Plan. It is based on further analysis of conservation opportunities, is responsive to public comment on the initial plan, and reflects ERDA's conclusions that only moderate progress is being made to date on development of supply technologies. To give effect to this priority, ERDA 76-1 establishes an immediate 5-year planning period during which energy conservation opportunities ready for commercialization will receive special attention. Further, the President's FY 1977 budget increases ERDA's energy conservation RD&D resources by 64 percent.

The Council assessment focuses on the revised National Plan and its underlying analyses and assumptions. We believe that ERDA 76-1 represents a substantial accomplishment for such a new agency:



- o The revised plan is a major improvement in addressing energy conservation and can serve as a benchmark from which to begin a systematic and complete approach to conservation RD&D.
- o The plan -- and its agenda for the future -- illustrate ERDA's commitment to a rational and analytical approach to energy RD&D. It is moving toward the systematic and explicit identification of energy problems and the development of technology to resolve them.
- o ERDA is actively seeking wide review and comment on its programs and appears responsive to comment.

These developments are most encouraging. However, our assessment raised a number of other issues which we believe were not adequately addressed in ERDA 76-1 but which are essential to building energy conservation into ERDA programs. These issues should be given high-priority attention and should be addressed specifically in the next revision of the National Plan in order to provide the basis for public review and debate which ERDA recognizes is important:

- o Is the near-term priority role established by ERDA for new energy conservation technologies -- primarily stressing demonstration and application of existing end use products and processes -- the appropriate one?
- o Is the energy conservation program for the mid-term and the long-term adequate when measured against the potential benefits of conservation-intensive energy choices?
- o Are all potential conservation RD&D options fully considered, and are the energy conservation technology programs designed with adequate technical focus?



Identifying and Implementing Conservation RD&D Opportunities

To address these issues and to provide for building conservation into federal energy RD&D adequately will require the following:

- o A task-oriented, energy systems definition of energy choices, one which looks first at the nature of the tasks which energy is to perform and compares ways of doing the work, from the basic resource to end use
- o A process for deciding what RD&D should be done based upon ongoing comparisons of all potential RD&D options, whether they are supply or conservation oriented
- o Comparisons based on comprehensive assessment of the energy, economic, environmental, and social impacts of the options.

Without ongoing comparisons of RD&D opportunities based on a task-oriented, systems definition of choices and comprehensive assessment of impacts, ERDA's RD&D priorities may be misplaced.

Perhaps the most critical facet of building conservation into energy RD&D is development of the research programs. Individual program design must consider the energy needs that a technical option can fulfill, anticipate RD&D uncertainties, determine whether federal sponsorship is appropriate, and provide a likelihood of technical and commercial success. To do this, conservation program planning should:

- o Develop and use search and screening techniques for identification of high-payoff conservation RD&D opportunities
- o Establish a work planning procedure which focuses on individual high-payoff opportunities and ensures the availability of sufficient resources to resolve technical uncertainties.



Energy conservation offers substantial environmental benefits. Special care should be taken to develop environmental and other impact information on conservation technologies.

Principal Findings

Although the magnitude and technical direction of an adequate conservation program are not easy to determine, CEQ has serious concerns about the pace of improvement:

- o Although ERDA undertook systemwide analyses which considered the possible benefits of end use efficiency improvements in establishing priorities in the National Plan, it has not yet performed a task-oriented, systemwide evaluation of a full range of technological opportunities or made explicit side-by-side comparisons of RD&D options. Improvements in its planning and analysis systems, now being implemented, could provide the basis for the necessary comparisons.
- o Many of the basic agency policies and capabilities necessary to give conservation the same level of planning and management attention as supply enhancement, particularly for the more advanced technologies such as nuclear and coal, are still in a very rudimentary stage. Plans for improvement are vague.
- o Social, economic, and environmental information should be developed and made available. More important, sufficient research to provide this information is not built into the RD&D of the supply and conservation program offices.
- o The search for RD&D opportunities is ad hoc and is not uniformly applied over all time periods. It lacks the context of a long-term conservation strategy and does not employ innovative techniques to identify potential efficiency improvements. The method for screening RD&D options for inclusion in the program is more sophisticated but it lacks benefit, cost, and risk information.
- o ERDA's planning and budgeting are not effectively linked at all important levels. Without such linkage, broad agencywide decisions about what RD&D should be carried out cannot be translated with confidence into specific research projects.



- o Conservation planning resources are limited compared with those for the supply programs, which are supported by ERDA's extensive field laboratory structure.

Needed Improvements

Conservation RD&D is one of ERDA's high priority programs for the near term. Delay in building the capability to analyze, plan, and implement energy conservation RD&D options could jeopardize the national effort toward energy self-sufficiency in this period.

Equally important, there are potentially significant conservation RD&D opportunities over the mid- and long-terms. These opportunities must be fully considered in the critical formative stages of ERDA planning. There is a momentum behind a number of supply programs, backed up by a relatively sophisticated planning capability. Failure to give adequate attention to mid- and long-term energy conservation programs will make it difficult to redress the balance later.

To ensure adequate attention to energy conservation, the following general improvements must be made within the next 2 years:

- o ERDA's analytical capability for planning, which is quite advanced, should fully incorporate conservation technology options. Information on economic, environmental, and social impacts must be considered.
- o Guidance to ensure the generation of necessary impact information and consideration of all the impacts of public concern should be formalized.
- o In the planning process specific conservation and supply RD&D opportunities should be compared across all planning periods; the comparisons should be used in establishing priorities and allocating resources.



- o The conservation RD&D programs must identify conservation RD&D opportunities over all planning periods, generate information to analyze the opportunities, and organize the research in order to realize the benefits of the best opportunities.
- o ERDA should carefully evaluate the extent to which the private sector can be expected to undertake the RD&D necessary to attain the potential national benefits of energy conservation.

ERDA appears to recognize these needs and is committed to a number of improvements. Included among these are a comprehensive planning system which is task oriented, will add economic data to its analytical capabilities, and will employ market analysis to gauge the likelihood of commercial success of the technologies. These improvements could provide the basis for adequate consideration of conservation.

ERDA should prepare a detailed action agenda for making needed improvements. Until improved analytical planning methods are used to consider conservation programs equally with all other options in establishing RD&D priorities, ERDA's National Plan should make clear that priorities will be closely reevaluated annually.



Adequacy of Attention to Environment

The success of any technology ultimately depends upon its acceptance for economic, environmental and social reasons as well as for energy production. To ensure the production of environmentally acceptable technologies, environmental concerns should permeate all phases of energy research, development, and demonstration. They must be a major consideration for those charged with overall planning and administration of ERDA programs. Although ERDA has an Assistant Administrator for Environment and Safety, the environment should also be a major concern of the other program offices -- fossil fuels, solar, geothermal, and conservation.

The Environmental Protection Agency -- which must develop regulatory standards for new technologies -- shares the responsibility for ensuring the environmental acceptability of new technologies. EPA's environmental research and standard-setting programs, therefore must be closely coordinated with ERDA's technology development programs.

To build environment into the RD&D planning and decisionmaking process, comprehensive environmental information should be generated for all aspects of the energy technology systems in the RD&D program, and the information should be fully applied in making decisions. This information should be used in selecting the most environmentally acceptable technologies from the entire range of possible RD&D options and within a particular set of options (for example, coal conversion technologies). To do this, all RD&D programs should demonstrate the following characteristics:



- o Environmental effects associated with developing energy technologies should be systematically assessed and environmental research addressed to priority problem areas. The technology and environmental research programs should provide the basis for setting environmental regulatory standards.
- o Technology RD&D should be scheduled to reflect availability of environmental research information; environmental research should be keyed to guiding hardware development; and facilities for development and demonstration should be designed to produce needed environmental data.
- o Decisionmaking for RD&D should incorporate procedures for ensuring that all necessary environmental information is available and that it is weighed in making commitments to technology development. Environmental assessments and environmental impact statements should be a major basis for these decisions.
- o A system of checks and balances should exist so that environmental information is developed when needed and that it is fully used as technologies proceed toward commercialization.

ERDA's National Plan recognizes that environmental protection and enhancement are concepts which "must be fully integrated into energy production and use." The National Plan makes a commitment to an environmental policy strategy which, while lacking detail, appears to include most of the characteristics set forth above. It also outlines the elements of an environmental planning system. These are important steps on ERDA's part toward adequately building environment into its technology programs.

This evaluation ends with the first quarter of 1976. As of that time, the environmental strategy had not been implemented nor had procedures been issued for the environmental planning system. Yet many technologies are proceeding toward the later stages of development. In our view, implementation is too slow.

Principal Findings

Until recent years, little attention was given to identifying the environmental problems associated with developing nonnuclear energy technologies. This situation has been changing gradually. Since 1974 the federal environmental research program has devoted much more effort to the environmental problems and uncertainties of these technologies. But a well-defined and coordinated federal program does not yet exist. In particular:

- o There is not an effective, systematic approach to identifying priority environmental problems and to establishing a research program specifically related to developing technologies.
- o Coal technologies now being developed contain many hazardous substances in their process streams. The presence of these substances is poorly understood, and there is too little information on health and ecological effects. Possible effects from the end use of synthetic fuels is receiving only limited attention.
- o Individual coal technology RD&D programs lack a coherent approach to environmental concerns. Research to characterize pollutants from developing coal technologies and to identify potential health and environmental problems is not adequate.
- o ERDA and EPA have not developed procedures for setting environmental and occupational health standards for new coal technologies. Overall interagency cooperation and research coordination need major improvement.

These are difficult problems which require immediate, high-level attention. ERDA has initiated a major environmental planning effort, the Balanced Program Plan, which could remedy some of these shortcomings. In addition, proposed Environmental Development Plans for each RD&D program area could provide the needed technology-focused approach to environmental assessment and research.

Scheduling Environmental Research - We have a number of concerns with the relationship between the status of environmental research and the schedules for development, demonstration, and commercialization of ERDA technologies:

- o Environmental research is not systematically linked to schedules for technology research, development, and demonstration, and no procedures have been instituted to ensure that environmental information is available when it is needed for key decisions. Procedures have been proposed to improve this situation.
- o The necessary environmental information for standard setting and other decisions on commercialization of coal-based synthetic fuels probably will not be available by the mid-1980's.
- o In the pivotal area of process characterization, research in the early and middle stages of development has been inadequate to identify potentially harmful substances associated with developing coal-based technologies. Recently initiated efforts could lead to a program to achieve this result. There is an equally critical timing problem with health effects research.
- o EPA's programs to establish environmental standards are tied to commercialization schedules only in the near term.

These inadequacies result in part from the fact that, at least for coal-based technologies, the federal environmental research effort is barely underway .



The proposed environmental planning efforts are designed to link environmental research with technology development. But these efforts are in the early stages, and with current schedules, significant effects on research timing are not likely to be felt before FY 1980. Given the complexity of some of the research, and given a sequence -- process characterization to health effects to control technology -- which under the best of conditions will take a number of years, additional efforts should be made to ensure that sufficient information will be available for projected commercialization of developing coal-based technologies.

Considering Environment in Decisions - In examining the present approach to decisionmaking within ERDA, we find progress in some areas, but a number of significant problems still exist:

- o The National Plan was developed with only superficial consideration of the environmental effects of its alternative planning futures and did not discuss the environmental consequences of the technologies proposed for priority attention. The review process for the National Plan is good, but environmental information is lacking.
- o ERDA has committed itself to using environmental impact statements as major decision documents. This commitment is highly desirable and should be backed by uniform guidelines and procedures directed explicitly at the problems of nonnuclear RD&D.
- o Some programs are progressing in developing impact statements. However, at the program level, commitments to demonstration of technologies have been made without sufficient consideration of environmental impacts.
- o Environmental considerations are not yet being adequately factored into individual project decisions. There has been no public or general federal agency review of program or project decisions through the NEPA process or by other means.
- o Procedures are evolving which could provide the basis for internal environmental checks on the planning and decisionmaking of the technology programs. They are not yet functioning, and decisions are being made with insufficient review.

We believe that well-defined procedures for preparation of environmental assessments and impact statements and for consideration of environmental information in decisions will result in more environmentally sound technologies.

Needed Improvements

ERDA should accelerate its efforts to implement the components of proposed environmental planning systems. It should also make clear how the various components -- Environmental Development Plans, the Balanced Program Plan, and environmental impact statements -- will fit together into a coherent program. In the coming year ERDA and EPA should emphasize coordination of their programs. The following areas should receive particular attention:

Technology-Environment Relationship

- o The technology RD&D offices under oversight of the Office of Environment and Safety should establish a complete environmental program for each technology encompassing assessment, coordination with environmental research and standard-setting agencies, and monitoring and control at RD&D facilities.
- o A central coordinating point should be designated to review the plans for technology development and environmental research to ascertain difficulties in scheduling and to make sure schedules are adjusted accordingly.
- o ERDA must carefully reevaluate its schedules for all nonnuclear energy technologies -- near-, mid- and long-term -- to ensure availability of adequate environmental information for informed decisions on commercialization, environmental standards, control technologies, and other mitigating measures.
- o Providing environmental guidance to contractors in all technology development programs should receive immediate attention. It may be in the form of detailed regulations, manuals of practice which are incorporated into the contract, or contract specifications.

Process Characterization

- o All process characterization work should be systematically organized and coordinated to ensure the generation and sharing of necessary data.
- o Comprehensive programs for characterization of pollutants, (as well as definition of effects and development of control technology) should be in process for all pilot plants. They should not be downplayed until the demonstration stage on the grounds that only technical feasibility matters up until that point.

Standard Setting

- o EPA should propose standards for new technologies when there is adequate information to do so.
- o EPA should establish criteria for identification and control of classes of substances which may require regulation in the future.
- o ERDA and EPA should jointly develop environmental performance goals for proposed demonstration facilities to be used in evaluating contract proposals. Both agencies should monitor and characterize the process streams to provide the basis for regulatory decisions.

National Plan

- o The analysis underlying ERDA's National Plan should consider the environmental implications of program priorities in order to reflect the broad perspective that the Congress mandated.
- o Environmental issues should be specifically addressed in future revisions of the National Plan. ERDA should prepare a detailed environmental assessment of the National Plan and include it as part of its public review and comment.

NEPA Procedures

- o Implementation of proposed environmental impact statement procedures and environmental development plans should be greatly accelerated.
- o ERDA's procedures should carefully address the timing of environmental impact statements for all technology programs. Measures should be taken immediately to identify the program and project statements likely to be required, and preparation should begin as soon as possible to provide input into the decisions that will be made.

- o In the absence of comprehensive environmental information and detailed impact statements, ERDA should take great care not to make decisions which irrevocably commit to a course of action. There must be formal procedures for periodically reevaluating all significant commitments based on new information.

Health Effects Research

- o Additional attention should be given to rapid, inexpensive toxicological screening methods.
- o Efforts should be made to understand better the precise relationship between laboratory animal metabolism or cell cultures and human experience to allow quantitative estimates of health risks.
- o Better epidemiological studies and improved capability to isolate and identify past and present exposures to chemicals should be developed.

Research Coordination

- o A jointly constituted group should be established with responsibility for overall energy-environment research planning and establishment of program objectives and time tables. The entire federal energy-related environmental research program should be reexamined periodically to ensure coverage of the important issues associated with developing technologies.



Agri/els

Date: September 10, 1976

Time:

FOR ACTION:

cc (for information):

Frank Zarb
Jim Cannon

FROM THE STAFF SECRETARY

DUE: Date: Immediate Turnaround Pls. Time:

SUBJECT:

Recommended Telephone Call to
The Speaker and Representative Dick Bolling
re: H.R. 12112, the Synthetic Fuel Bills



ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

J. K. [Signature]
9/10/76
(4:30)

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor
For the President

5-21311

CLEARANCE SHEET

DATE: 9/10

JMC ACTION

Required by: IMMEDIATE

STAFF RESPONSIBILITY Schleede

SUBJECT: Recommended telephone call fm President Ford to
Speaker & Congressman Bolling

RECEIVED FROM: Connor

DATE RECEIVED: 9/10

STAFF COMMENTS:

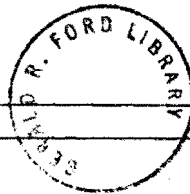
Schleede recommends approval.

QUERN/MOORE RECOMMENDATION:

APPROVE

REVIEW & COMMENT

DISCUSS



CANNON ACTION:

DATE:

Material Has Been:

Signed and forwarded

Changed and signed

Returned per conversation

Noted *per phone conversation*

(J to Cannon ofc)

JIM CANNON

Comment:

THE WHITE HOUSE
WASHINGTON

file
Energy

September 9, 1976

Jim:

Here is the document you asked for
from Glenn.

See Item #3, P. 1



THE WHITE HOUSE

WASHINGTON

September 9, 1976



MEMORANDUM FOR: JIM CANNON

FROM: GLENN SCHLEEDE

SUBJECT: RESPONSES TO COMMENTS ON LAST WEEK'S
BRIEFING REPORT

In response to your marginal notes on my weekly briefing report of September 1:

1. Director for NSF. Sending up the nomination of Atkinson is a viable option and it appears to have considerable support. However, I understand that the Vice President and Doug Bennett have discussed this matter over the last few days and concluded that: (a) the attempt to appoint Hans Mark to the job should be continued, (b) Hans has taken himself out of running until after the election, and (c) therefore, the only way of maintaining the option for Hans is to leave the job unfilled. You should be aware that there is considerable opposition in the scientific community to Hans, apparently based primarily on his past associations with Dr. Teller.
2. Space Shuttle - Roll Out Ceremony. NASA's arrangements permit about the fastest possible round trip to California (leave 3:30 pm on September 16 and return at 11:00 am on September 17). Can you afford to be away for this period? Attendance by senior White House staff would help show the President's interest in the space program which, of course, is so important in California. Dennis Barnes will be going. I have "signed up," but I may drop out due to the time involved. I will get you a list of others who plan to attend.
3. Uranium Enrichment - Mansfield. My sources indicate that neither Pastore nor Baker has urged Mansfield to move the bill -- despite their commitments to the President last week to do so. I also understand that calls from them to Mansfield are critical. I recommend a call from the Vice President to Mansfield. I also understand that Senators Allen

and Sparkman will be contacting Mansfield but that will not be a substitute for any of the above calls.

4. Uranium Enrichment - ERDA letters. A copy of the letter to Senator Glenn is attached. Others are still in preparation.
5. Nuclear Policy Study. A copy of Bob Fri's final decision paper -- 35 pages including tabs -- is being provided to you separately (it is classified). In addition to the decision paper, Bob has submitted a 36-page report accompanied by about 80 pages of tabs and 30 pages of agency comments in the form of memoranda to the President. I am now plowing through all these documents and attempting to haul them down to a logical decision paper.

Attachments





UNITED STATES
 ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
 WASHINGTON, D.C. 20545

SEP 3 1976

Honorable John Glenn
 United States Senate

Dear Senator Glenn:

The following are responses to the questions posed in your letter of August 16:

1.Q. "What is your estimate of the amount of domestic and foreign nuclear capacity, based on plants now under construction or on order, that will be on line by 1985 and 1990?"

Response

A. Domestic Nuclear Power Plant Capacity

The following tabulation represents our best estimate for nuclear power plant capacity in the U.S. in the years 1985 and 1990:

<u>Domestic Nuclear Power Plant Capacity</u> (Gigawatts Electric)		
	<u>1985</u>	<u>1990</u>
Plants on line, under construction or on order	145-165	200-210
Plants projected		50- 80
Total projected domestic nuclear capacity	<u>145-165</u>	<u>250-290</u>

Utilities are now having difficulty in making firm decisions to build additional nuclear power plants because final commitments have not yet been made to build the uranium enrichment facilities needed to provide fuel for these additional plants. In many cases, utilities now have the economic incentive to choose nuclear power over other feasible alternative sources of electricity supply. The lack of firm commitments to build new uranium enrichment plants is preventing decisions to order nuclear power plants that could capitalize on these economic advantages.



B. Foreign Nuclear Power Plant Capacity

The following is our best estimate of foreign nuclear power plant capacity:

	<u>1985</u>	<u>1990</u>
Projected foreign nuclear capacity, (excluding Eastern bloc countries), gigawatts electric	230-325	425-620

In our judgment, the lower part of the ranges cited now appears the more realistic.

In the past the U.S. has supplied virtually all the worldwide demand for enrichment services for nuclear power plants outside the eastern bloc countries. We believe the U.S. could and should continue to be a major supplier of enrichment services to the world. The U.S. should be able to compete effectively for this worldwide market due to our years of experience as a reliable supplier of enrichment services and our clear lead in enrichment technologies.

C. Uranium Enrichment Capacity Situation

Existing uranium enrichment capacity was fully committed by mid-1974 for the lifetime of existing ERDA enrichment plants (including the planned capacity expansion now underway). The add-on enrichment plant at Portsmouth, Ohio will be used to fulfill existing ERDA contracts in the most economically efficient manner and to conserve uranium resources. New nuclear power plants scheduled to come on line starting in the mid-1980's must obtain uranium enrichment services from enrichment plants which are not now in existence. These services will have to be provided through long-term contracts served by new enrichment plants. Private firms wishing to build these uranium enrichment facilities will not make firm commitments to construct or own commercial plants unless they have sufficient firm orders from new customers to assure project viability. Thus commitments to new enrichment facilities will follow real customer demands and there need not be concern about "over capacity" of enrichment services as a consequence of the passage of the Nuclear Fuel Assurance Act. Our best estimate is that we will have a significant shortfall of assured enrichment services in the 1980's



to meet new domestic and U.S. supplied foreign needs if we do not have a diffusion project. Further, we believe that the proposed private diffusion project and all three proposed centrifuge projects can proceed in accordance with anticipated schedules on the basis of present demand forecasts if about one-third of the projected new foreign market is obtained. On this basis, still additional domestic capacity would be required no later than about 1990.

D. Effect on Proliferation

Foreign nuclear power growth is not dependent upon the availability of new U.S. enriching capacity and will proceed whether or not we build new plants. Several foreign enrichment projects already have been committed; others are in the planning stages. Potential foreign suppliers will be discouraged from proceeding if the way is clear for expansion of enrichment capacity in the U.S. and the U.S. can assume its role as a reliable and competitive supplier. This will permit the United States to maintain greater influence in its objective of strengthening safeguards worldwide against nuclear proliferation.

2.Q. "What will ERDA policy be in the event that its customers have insufficient capacity to use all of the enriched uranium they have contracted for?

--Will there be another "open season," when all customers will be allowed to renegotiate contracts without penalty?

--Will there be a "variable tails assay option," so that contracted SWUs may be used to reduce the tails assay?"

Response

ERDA uranium enrichment contracts with utility customers are of the take or pay variety often used by utilities in long-term fuel contracts. In theory, utilities have to take delivery of enrichment services even if these services are not needed. In practice, however, the utilities would attempt to dispose of these valuable assets to other licensees who may have, or project, an enrichment shortage. The open season of a year

ago was designed to provide a useful addition to the ERDA stockpile. It also served the added purpose of providing utilities relief from their firm contractual commitments for enrichment services from ERDA in view of the unforeseen and unique situation of lower energy growth in 1974 and 1975. As noted above, it is desirable that adjustments in actual utility need for enriched uranium be accommodated without involving the Government. We do not foresee a repetition of the unique circumstances which prompted last year's "open season". Therefore, while we do not see the need at this time for another "open season" we do intend to watch the industry carefully to remain alert to any changes in circumstances. It should be noted that after the very low growth rates for electricity consumption in 1974 and 1975, these rates now appear to be increasing significantly, e.g., for the first 32 weeks of 1976 the electricity growth rates was 5.2% (compared to essentially zero in 1974 and about 2% in 1975).

ERDA has stated that it will offer the "variable tails assay option" to its customers. Under such an approach a customer might deliver less uranium feed material and receive less enriched product for the same number of SWUs specified in his contract with ERDA. ERDA plants would, therefore, effectively operate at a somewhat lower tails assay. This option likely would be acceptable to a customer only if any fuel deficit that he might incur through exercise of the option could be satisfied from a supplementary source.

3.Q. "How does ERDA determine the optimal stockpile level?

--What percentage of the stockpile is desired for different purposes (such as core loading)?

--How much does it cost to keep this stockpile both in terms of SWU and kilograms of enriched uranium?"

Response

The Government stockpile of enriched uranium will be used to assure that ERDA can fully meet Government needs, meet its present contractual commitments and provide backup assistance for the needed new domestic enrichment plants by providing assurance to new customers that commitments can be met during the early phases of new enrichment plant projects.

Defining an "optimal" stockpile level is extremely complex. It requires a management judgment which balances the probabilities of unexpected

needs, the consequences of not being able to meet those needs and the costs of carrying the stockpile as "insurance" to protect against them. We now base our consideration of the size of the desired enrichment stockpile on the following factors 1) product inventory for routine operation of our plants (about 3 months production, equal to about 7 million SWUs after the CIP-CUP expansion program has been completed); 2) the possibility that production expected from the CIP-CUP expansion program might be delayed; 3) the possibility of natural disaster to production or power supply facilities (power supply to Portsmouth from the Clifty Creek station was interrupted by a tornado in 1974); 4) possibility of diversion of planned power from our plants (some of the contracted power is "unfirm" power; in 1970 it was even necessary to divert firm power to the northeast during the "brown-out" emergency); 5) maintaining capacity needed to "backup" new United States enriching capacity (approximately the equivalent of a year's production for a gaseous diffusion plant, and somewhat more for centrifuge plants, probably should be available to protect against the contingency of delay in achieving routine new plant operation).

It is not yet practicable to "allot", in effect, portions of a stockpile to particular specified purposes. However, to the extent that particular events which the stockpile is designed to protect against (e.g. delay in scheduled new capacity) do not materialize, some portion of the stockpile could then be sold. We should have much of this information in the mid-1980's. However, even if none of the stockpile had been used to meet contingencies by the mid-1980's, the available amount would still represent less than one year's production from domestic enrichment plants.

ERDA now has a stockpile of 4700 metric tons of 3.2% enriched product (about 18 million SWUs at 0.3 tails). We are now currently reevaluating our long-range gaseous diffusion plant operating plans which will establish ERDA's future stockpile objectives. For the purpose of addressing the question of the costs associated with keeping a stockpile, we have made the assumption that a stockpile of 6600 metric tons of 3.2% enriched uranium (about 25 million SWUs at 0.3 tails assay) could be available in the future.

The annual carrying charge associated with maintaining such a stockpile is estimated to be about \$140 million (in 1976 dollars). This includes a separative work component of the inventory which has an estimated annual carrying charge of slightly over \$60 million (in 1976 dollars).



This carrying charge, which is borne by the customers, was calculated assuming a 6.5% carrying charge rate as the average cost of money to the Government. Maintaining a stockpile is relatively cheap insurance to customers when the costs associated with a reactor not operating due to lack of enriched uranium fuel are considered. For example, a 1000 MWe nuclear power reactor loses revenues of about \$120 million per year (at 20 mills per Kwh) if it does not operate. The ERDA enrichment plants are under contract to supply the equivalent of about 325 such reactors; a single new 9 million SWU enriching plant may support 75-85 such reactors.

4.Q. "What is the optimal tails assay in your view?

--How is the figure arrived at?

--How much does it cost to enrich tails as compared to the cost of enriching natural uranium?"

Response

An economic "optimum" tails assay is the tails assay which results in the minimum cost of enriched uranium product and is a function of the cost of 1) enriching services and 2) uranium feed. Both of these costs change with time. Therefore, the optimum tails assay is also time dependent. The optimum tails assay to the customer would be a composite determined over the period of the customer's contract with an enricher, i.e., based upon future feed costs and future enriching service costs over that period. The optimum tails assay as a function of separative work and feed costs is illustrated in the enclosed chart. It is our judgment that the average optimum long term tails assay for ERDA's enrichment plants will probably be in the range of 0.20 to 0.25% U-235 for most customers. It should be noted, however, that each individual utility could have a unique "optimum tails assay" that might or might not fall within this range due to various circumstances. For example, feed costs could differ since utilities have contracted for feed at a multitude of prices.

The use of tails material instead of normal uranium as feed for a gaseous diffusion plant would require the expenditure of more separative work units (SWU) to produce a given quantity of enriched product. For example, if a plant is operating at a tails assay of 0.25% U-235 and producing enriched product at an assay of 3.2% U-235, it requires approximately



twice as many SWUs to produce a kilogram of product if 0.30% U-235 material is used as feed instead of normal uranium feed containing 0.71% U-235. Thus, recycling tails does result in the consumption of more separative work. ERDA is currently recycling relatively small amounts of 0.30% U-235 tails inventory to supplement the availability of our limited normal uranium feed material. The operating costs associated with using this 0.30% U-235 material are minimal, consisting mainly of material handling costs. The feeding of our inventory of this material should be completed in about 3 years.

5.Q. "How do you interpret Congressman Anderson's floor amendment to H.R. 8401?

--Precisely how and when will technology be guaranteed?

--How does the amendment affect gas centrifuge as compared to gaseous diffusion?

Response

It is assumed that you are referring to the following amendment -
"Provided, however, that the guarantees under any such cooperative arrangement which would subject the Government to any future contingent liabilities for which the Government would not be fully reimbursed shall be limited to the assurance that the Government-furnished technology and equipment will work as promised by the Government over a mutually-agreed-to and reasonable period of initial commercial operation. Consistent with the foregoing, such cooperative arrangements may include inter alia, in ..."

We understand that this amendment was intended to remove some ambiguities concerning the scope of H.R. 8401 arising out of the legislative history concerning the Bill. For example, we understand that the phrase "mutually-agreed to and reasonable period of initial commercial operation" was intended to reflect the possible need for technology guarantees to extend for periods greater than a year after operation of an enrichment project, which might be necessary for the gas centrifuge.

The scope of and duration of guarantees of technology are currently under discussion with each of the four prospective private uranium enrichment firms. Until the NFAA is enacted and negotiations are concluded with these firms, we are unable to respond further to your questions

concerning this matter. However, the specific terms of these guarantees would be spelled out in each contract, which cannot be entered into without specific approval of the Congress.

The Bill as amended and as passed by the House does not distinguish between the different processes for uranium enrichment. Instead, it provides a framework which could accommodate arrangements covering either gas centrifuge or gaseous diffusion projects. We expect, however, that the scope and duration of guarantees of technology will differ between centrifuge and diffusion (the centrifuge requiring more) but that both processes can be accommodated under the amendment.

Sincerely,

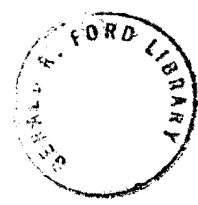
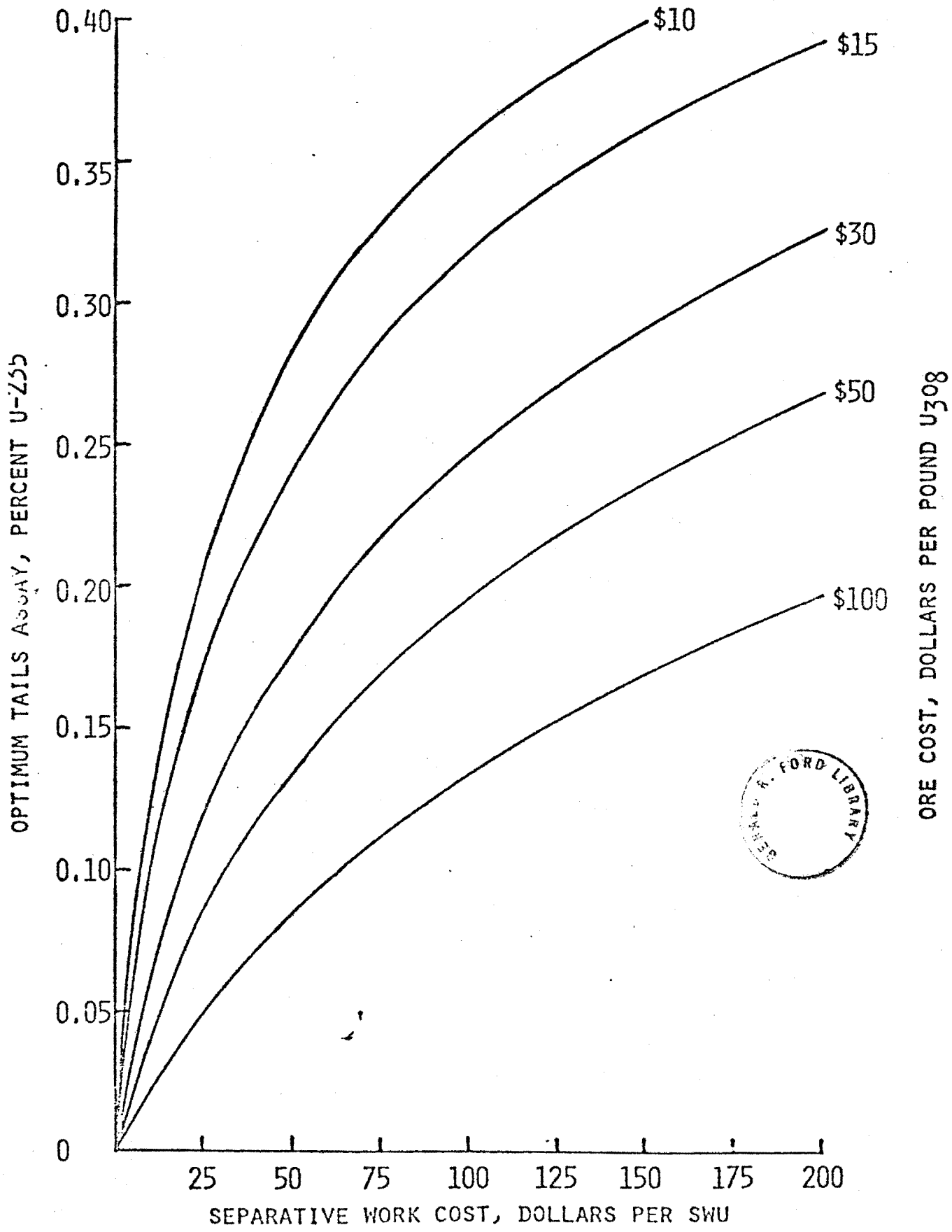
RS/ Fri

Robert C. Seamans, Jr.
Administrator

Enclosure:
As stated



OPTIMUM TAILS ASSAY



THE WHITE HOUSE

WASHINGTON

September 1, 1976

MEMORANDUM FOR:

JIM CANNON

FROM:

Glenn
GLENN SCHLEEDE

SUBJECT:

WEEKLY BRIEFING -- ENERGY,
SCIENCE AND TECHNOLOGY

I. Science and Technology

✓ A. Office of Science and Technology Policy. Guy Stever is moving ahead with the organization and staffing of the Office, but he has not made final decisions on organization.

✓ B. President's Committee on Science and Technology. Doug Bennett is moving ahead with recommendations for 13 members of the Committee. He expects the memo to the President to go next week.

*Glenn -
Why don't
we do it
for reasons?*

Director for NSF. Senator Kennedy has let it be known that he would push through confirmation of Dick Atkinson (currently the deputy) this session if the President were to send up the nomination. He would not push through anyone else.

D. National Science Board. Appointment of 7 new members should be announced late this week or early next.

E. National Medal of Science. We are hoping to get a tentative date for the awards ceremony within the next few days. It probably will be in late September.

*Glenn -
Should
I go?*

F. Space Shuttle. The "roll out" of the first orbiter is scheduled to occur September 17 in Palmdale, California. This should draw considerable attention since it is symbolic of a return of manned space flight activity.



G. Earthquakes. House Science and Technology bill was referred to the House Interior Committee until September 8. Max Friedersdorf does not agree with our opposition to the bill. Separate memo will be forwarded on this subject. ✓

H. Fletcher Meeting with the President. We are still awaiting a favorable response to our proposal that the President meet with Dr. Fletcher concerning the space program, as Dr. Fletcher has requested.

II. Energy

A. Uranium Enrichment

-- Legislation.

◦ The President's letter to Senator Mansfield has been delivered by Bill Kendall. Senator Mansfield indicated that he would see what he could do but would not make any promises.

*Glenn -
can we
approve
would VP
to win help
Mansfield
talk*

◦ Senator Glenn seems to have lost some of his enthusiasm for his amendment which is identical to the Bingham amendment in the House.

good

-- Letters in support of legislation. Letters are in preparation in ERDA: (a) to Senator Pastore countering the "glut in capacity" argument, and (b) to Senator Glenn answering a series of questions that he has posed.

-- Budget Committee Action. The House Budget Committee has voted to count the entire contingent liability associated with contracts pursuant to NFAA as "budget authority" for purposes of the budget resolution. The Committee further cut the \$8 billion request back to \$4 billion. On the Senate side, the Administration position that none of the contingent liability should be counted as budget authority has been accepted. We will have to watch this closely in conference. ✓

*Glenn
way I
see these?*



*Blow in
act in
of copy
pls.*

B. Nuclear Policy Study. Bob Fri is shooting for a completed decision paper by this weekend. I reviewed a draft issue paper earlier today and I have doubts as to whether it will be in shape by this weekend.

C. Energy Conservation and Rationing Plans.

-- This item is due to come up on the ERC agenda tomorrow morning. OMB has problems with the rationing plan and are seeking some changes. John Hill has indicated that he will agree not to send up two of the plans (lighting and weekend gasoline sales) if they can get clearance on the other three.

John Hill is not the boss -

-- You have received over 200 letters from the hotel industry opposing the FEA contingency plan which would restrict weekend fuel sales. We are developing a draft response which we will forward for your approval.

D. Natural Gas Legislation. FEA is preparing draft legislation that would provide some emergency authority for use in the event of a severe shortage this winter. This approach was approved by the ERC last week. (Dick Dunham concurs.)

E. State Nuclear Moratoria. Six more states will have nuclear initiatives on their ballots in November: Washington, Oregon, Colorado, Ohio, Montana, and probably Arizona (though the petitions will be challenged).

cc: Art Quern

Attachment

Kin's note on W. coast trip schedule

CLEARANCE SHEET

Pending

DATE: 9/11

JMC ACTION
Required by: 9/14

STAFF RESPONSIBILITY A.Q

SUBJECT: RUSS PETERSON LETTER

RECEIVED FROM: _____ DATE RECEIVED: 9/8

STAFF COMMENTS:

QUERN MOORE RECOMMENDATION:

- _____ APPROVE
- _____ REVIEW & COMMENT
- DISCUSS

We need to talk about this to OMB & then schedule a meeting with HUMPHREYS
AKO

CANNON ACTION: _____ DATE: _____

Material Has Been:

- _____ Signed and forwarded
- _____ Changed and signed
- _____ Returned per conversation
- _____ Noted



JIM CANNON

Comment:

**EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY**

722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

September 8, 1976



Dear Jim:

Attached is a copy of the memorandum from Jim Mitchell that you requested.

I understand that you plan to personally study the revised summary of our report on non-nuclear energy R&D which I previously submitted. This is the latest in a series of editorial revisions which we have made in order to satisfy the concerns of the many people in the Executive agencies who have reviewed our draft. Wherever our draft required clarification or revision because of improved understanding on our part, we have made such revisions. However, when an agency requested that we change our basic convictions that there was room for improvement in the Federal energy R&D program from an environmental and conservation standpoint, we have refused to do so. It appears to us that OMB and Glenn Schleede want us to say that there is no room for improvement in the Federal Government's program. I am sure that Congress did not have in mind, when they gave us our assignment, that we should just bless whatever the Administration had previously decided to do. Nor do we have any intention to do so.

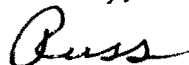
When the Non-Nuclear Energy Research and Development Act of 1974 was passed by Congress and signed into law by President Ford, it was clear that the confrontation that we are now experiencing was certain to occur. The statute directed CEQ to make this report, not OMB or the Domestic Council. At this juncture, we have garnered all the help and advice we need from other Federal agencies on this report. Such advice has undoubtedly contributed to improving the report.

Some agency almost certain other than CEQ leaked a copy of our early draft to Jack Anderson. He has already had two columns exaggerating our criticism of the energy program and forecasting that the Administration will not let that report see the light of day. At a recent hearing on the NNERD program, we testified - after OMB clearance - that we would be making our report to Congress this Fall. Incidentally, the two Democratic senators present at the hearing both had copies of our draft report in front of them.

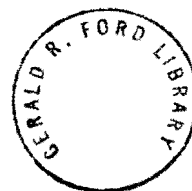
I recommend that the President plan a speech or press release emphasizing the need for an all-out conservation effort in our country and release it at the same time that he receives our final report. He could thank CEQ for the report which they prepared under the law he signed December 1974 and report that he is asking his energy agencies to carefully review our recommendations and reflect such review in their future plans for energy R&D.

I am anxious, Jim, to discuss this with you at your earliest convenience so we can go to press in the next few days.

Sincerely,



Russell W. Peterson
Chairman



Mr. James Cannon
Assistant to the President
for Domestic Affairs
The White House
Washington, D. C. 20500

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

August 30, 1976

MEMORANDUM FOR RUSS PETERSON, CEQ

FROM:

JIM MITCHELL

Subject:

CEQ report evaluating ERDA's Environmental
and Conservation Programs

As you know, OMB and Domestic Council representatives have been reviewing the subject CEQ report--working with Steve Jellinek and others of your staff.

Although considerable OMB staff time has been devoted to suggested changes in the proposed CEQ report--a number of which have been incorporated in successive drafts--there are still fundamental problems that go beyond editing and which are of a fundamental policy nature, particularly in the conservation section of the report.

These fundamental policy problems arise because the report tends, by its tone and emphasis, to call for an expanded Federal role in conservation R&D that is inconsistent with:

- the Administration's policy on Federal vs. private role;
- the President's 1977 budget decision which reflects the above policy; and
- the ERDA "National Plan" which was modified to reflect more carefully the Administration's position, particularly on the premise of the private role and responsibility in conservation and conservation R&D.

It will, therefore, provide the basis for further criticism of the President for not requesting more funds for energy conservation and, particularly will inhibit his ability to consider the possible deferral of some or all of the additional funds added by Congress.

There is one other section of the report, namely, the chapter dealing with fossil energy R&D that gives us a problem. The report takes the position that fossil energy R&D should be slowed down until more work is done on environmental impact by the Environmental Division of ERDA. This suggests that the President's budget is too high in the fossil energy area and, therefore, undermines the Administration's program. Our view is that analysis of the environmental impact of fossil energy technologies is important, but that such work should be undertaken by both the Environmental Division of ERDA and the technology program people involved and, furthermore, that present deficiencies in dealing with environmental concerns are not serious enough to warrant slowing down the program.

I want to add my strong support of the views that have been expressed by my colleagues in OMB and urge that you undertake an extensive rewrite that will be more in keeping with a realistic assessment of the Federal responsibility, particularly in conservation R&D as expressed by this Administration.

THE WHITE HOUSE

WASHINGTON

September 14, 1976



MEMORANDUM TO: DICK CHENEY
FROM: JIM CANNON *J Cannon*
SUBJECT: CEQ vs. (OMB and The Domestic Council

We have an internal dispute, with Russ Peterson opposed to Jim Mitchell and Glenn Schleede.

Section 11 of the Non-Nuclear Energy Research and Development Act requires CEQ to perform an independent assessment of the adequacy of attention to environment and conservation in Federal Energy Research, Development and Demonstration. The Act does not set a specific time requirement for submitting this assessment. CEQ's report of this assessment, which is required to be submitted to the President, the Congress and the ERDA Administrator, has been in preparation for over a year and is ready for publication.

Jim Mitchell of OMB and Glenn Schleede of The Domestic Council feel that the report, in its criticism of ERDA's energy conservation program, is contrary to Administration policy and will be used by certain groups to support attacks upon the Administration.

Russ Peterson argues that the report does not violate Administration policy, and in any event, he has done all he feels he can do to meet any substantive objections that Schleede and Mitchell have put forth.

The content of the draft report is already widely known as Press reports have surfaced indicating the basic thrust and suggesting Administration pressure to squelch it.

We have three alternatives:

- A. Take no further action, thus allowing CEQ to publish the report without further revision. This would eliminate any charge of "high-handed White House pressure."

- B. Direct Peterson to rewrite the report in such a way as to accomodate the objections.

This option may result in a confrontation with Peterson that cannot be resolved, and could create a public backlash, if he so desired. His resignation is effective September 30.

- C. Continue to negotiate the differences.

The same problem exists as in option B. Peterson feels he has done all he can do, and there may be no further "give" in his position.

Recommendation:

I recommend that we allow the report to be published without further revision. There is merit in the Mitchell--Schleede objections, but the down-side risk of further efforts to rewrite the report is greater than the possibility of the report being used effectively as a basis of attack on Administration policy.

Approve A _____
 B _____
 C _____



CLEARANCE SHEET

DATE: 9/13/76

JMC ACTION

Required by: _____

STAFF RESPONSIBILITY Humphreys

SUBJECT: In effort to resolve the CEQ/ERDA controversy

over CEQ's assessment of the adequacy of attention

to environment & conservation in Federal energy RD&D.

RECEIVED FROM: _____ DATE RECEIVED: 9/13/76

STAFF COMMENTS:

QUEERN MOORE RECOMMENDATION:

APPROVE

REVIEW & COMMENT

DISCUSS

This gives a quick presentation but adequate
JTC

CANNON ACTION:

DATE:

Material Has Been:

Signed and forwarded

Changed and signed

Returned per conversation

Noted



[Signature]
JIM CANNON

Comment:

noted that returned 9/14 for corrections

0-3-1

CLEARANCE SHEET

- Emergency

DATE: 9/13/76

JMC ACTION
Required by: Immediate

STAFF RESPONSIBILITY Schleede

SUBJECT: Deregulation of Naptha-Based Jet Fuel

RECEIVED FROM: Frank Zarb

DATE RECEIVED: 9/11/76

STAFF COMMENTS:

Schleede recommends concurrence with FEA proposal to send up the deregulation proposal immediately. It must go by 15th to become effective this year (assuming Congress closes up on Oct 2nd). Congress has 15 legislative days to disapprove. The DOD arguments are reasonably good but

QUEEN/MOORE RECOMMENDATION: should not override the commitment to deregulate.

- APPROVE
- REVIEW & COMMENT
- DISCUSS

Jim agree. We can't deregulate for homeowners & then duck when it comes to something which affects us (DOD). I recommend concurrence

CANNON ACTION:

DATE: 9/1

Material Has Been:

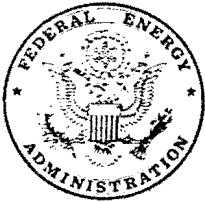
- Signed and forwarded
- Changed and signed
- Returned per conversation
- Noted



JIM CANNON

Comment:

Schleede called in 9/13
Concur with FEA
[Signature]



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: DEREGULATION OF NAPHTHA-BASED JET FUEL



BACKGROUND

Pursuant to your direction when you signed the Energy Policy and Conservation Act (EPCA) last December, the Federal Energy Administration (FEA) initiated the process of removing from price and allocation controls as many petroleum products as possible. Since then Congress has approved conversion of price and allocation controls to standby status for petroleum products accounting for 40 percent of the yield from a barrel of crude oil. These include residual fuel oils, middle distillates (heating oils and diesel fuels), lubricants, greases, and a number of intermediate products. The sequence of decontrol has been determined by the supply and demand conditions for products, the requirement to hold public hearings and the necessity to avoid having more than one decontrol proposal at a time before the Congress.

Based on these considerations the next product FEA proposes to submit for exemption is naphtha-based jet fuel. This is military grade jet fuel (JP-4), and accounts for approximately 2 percent of total U.S. refinery production. The Defense Department consumes 98 percent of such fuel and small refiners account for nearly 40 percent of its total production.

The Department of Defense has objected to submitting the naphtha jet fuel (JP-4) proposal for exemption at this time for reasons outlined in this paper.

FEA has completed its study, held public hearings with full knowledge of DOD's opposition, and made the findings required by the Act: adequate supply exists and minimal price impacts will be experienced in the event of decontrol. FEA proposes to transmit this action to Congress for consideration on September 15, 1976. This is the last day that will allow the required time for congressional consideration prior to adjournment.

The remaining major fuels not yet decontrolled are kerosene-based jet fuel, used primarily by commercial airlines, and gasoline. Studies of these fuels are underway and they are scheduled to be proposed for exemption early in the next session of Congress, or later this year should Congress reconvene after the elections.



DOD POSITION

The proposed unilateral decontrol of military JP-4 jet fuel suffers from the following disadvantages:

- o A price disparity will be created between decontrolled military jet fuel and commercial jet fuel which will remain under price control. When, following the Arab boycott a similar disparity occurred, there was a congressional investigation and both DOD and FEA were severely criticized and accused of wasting millions of dollars in excessive jet fuel costs.
- o Small refiners, the intended principal beneficiaries of JP-4 decontrol, cannot in fact obtain price benefits until their current contracts expire. A few of those contracts will expire by March 31, 1977, but most (61 percent of the contracts, accounting for 60 percent of total supply) run through September 30, 1977.
- o Of six refiners holding JP-4 contracts with clauses that permit termination of renegotiation upon decontrol, only one is small. The others that can gain immediate price relief from decontrol are all large firms (Union, Getty, Cities Service, Sun, and Continental). Another

2

large firm (Exxon) stands to gain early benefit from decontrol to a lesser degree. At least part of the contracts held by most large refiners will expire by mid-FY 77.

- o There will be unprogrammed DOD FY 77 expenditures of \$20 million.

The foregoing considerations indicate that the proposed expedited unilateral decontrol of military JP-4 jet fuel will serve no useful purpose and is contrary to the best interests of the government. It will increase military fuel costs. It will provide only limited price relief for a few small refiners until FY 78. It will benefit large refiners, some immediately and most by mid-FY 77. It will expose DOD to higher jet fuel prices while continuing to protect commercial airlines. In summary it conveys an impression of government collaboration with big oil - an impression which is not in the interests of either government or industry.

DOD recommends that the action to decontrol JP-4 at this time be terminated. DOD's primary recommendation is that JP-4 should be decontrolled at the end of FY 77, when all current contracts will have expired. An alternative proposal by DOD is that the recommendation for the decontrol of JP-4 be forwarded to Congress in conjunction with either or both the proposals for the decontrol of kerosene jet fuel and motor gasoline.

FEA POSITION

- o FEA's findings and views required by EPCA and supported unanimously in testimony at public hearings held on September 3, 1976, indicate adequate supplies and minimal price impacts resulting from decontrol. Specifically, FEA expects price increases of no more than 1 cent a gallon on the average, with a maximum upper limit of 2 cents per gallon. Since DOD buys 98 percent of all domestic JP-4 production, FEA believes that through its contractual commitments DOD can maintain an appropriate price relationship between JP-4 and commercial jet fuel, which will remain under price controls.



- o The extent to which large refiners benefit and small refiners do not will be a function of existing contractual relationships between DOD and its suppliers. Thus, any budgetary impact will be minimized. In any event, refiners, both large and small, testified unanimously at the public hearings in favor of decontrol. Decontrol now will encourage investment in small and independent refineries, even though the benefits for some refiners may be postponed until their existing contracts expire.
- o Failing to decontrol JP-4 despite the findings and public testimony conveys an impression that the government is willing to risk higher prices for other consumers but is not willing itself to face the implications of decontrol. This will weaken our argument for decontrolling kerosene jet fuel and gasoline.
- o Deferring decontrol of JP-4 until the end of FY 77 would cause this to be the last of the products to be decontrolled. Thus, direct cost increases would be borne by the airlines and motorists from the decontrol of kerosene jet fuel and motor gasoline before the Federal government accepted the cost increase of decontrolling JP-4.
- o Coupling the proposal for the decontrol of JP-4 with either or both motor gasoline or kerosene jet fuel would increase the complexity and uncertainty of obtaining congressional approval for the decontrol of any of these products. FEA's strategy of sequential decontrol has proven effective to date, at least in part, by minimizing the constituencies opposed to any one action.
- o DOD's recommendation to terminate or delay the JP-4 decontrol action at this time would create uncertainty as to the Administration's commitment to decontrol and minimize governmental interference in private industry.



AGENCY COORDINATION

PRESIDENTIAL DECISION

_____ Send decontrol proposal as scheduled.

_____ Do not send decontrol proposal at this time.



THE WHITE HOUSE
WASHINGTON

*file
Energy*

September 13, 1976

MEMORANDUM FOR: GLEN SCHLEEDE
THRU: MAX FRIEDERSDORF *M.B.*
FROM: BOB WOLTHUIS *RKW*
SUBJECT: Syn Fuels Legislation

The House Rules Committee is scheduled to take up the Syn Fuel bill on Wednesday. Our assessment is that it will be reported and then go to the floor on Thursday and Friday. To prepare for this debate it would be most helpful to have a new Presidential letter strongly endorsing the legislation. It should be addressed to Chairman Teague and outline the President's support.

~~If possible we would like to have this letter by close of business Wednesday evening.~~



*JMC -
Noted!
Glenn -
OK*

FYI

Energy -
Synthetic Fuels

THE WHITE HOUSE
WASHINGTON

RECOMMENDED TELEPHONE CALL

TO: The Speaker and Representative Dick Bolling (D-MO)

DATE: Before Wednesday, September 15, 1976

RECOMMENDED

BY: Max L. Friedersdorf *MLF*

PURPOSE: To urge the Speaker and Representative Bolling to support a rule for H.R. 12112, the Synthetic Fuels bill.

BACKGROUND:

The House Rules Committee postponed action yesterday until next Wednesday on the Synthetic Fuels bill. Chairman Olin "Tiger" Teague has requested the President call the Speaker and Representative Bolling to urge their support for a rule.

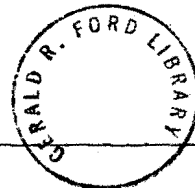
Our vote count on the Rules Committee yesterday showed:

<u>YES</u>	<u>NO</u>	<u>UNDECIDED</u>	<u>OUT OF TOWN</u>
Delaney	Madden	Bolling	Sisk
Young (Tex)	Young (GA)	Long (LA)	Matsunaga
Pepper		Moakley	Murphy
Quillen			
Anderson			
Latta			
Lott			
Clawson			

SUGGESTED TALKING POINTS: See TAB A

DATE SUBMITTED: September 9, 1976

ACTION: _____



02-18

1. As you know, the Rules Committee did not complete action yesterday on the Synthetic Fuels bill, H.R. 12112. We need House passage as soon as possible of the compromise bill that Tiger Teague has put forward on behalf of his committee, Ways and Means, and Banking and Currency.
2. We must develop the capability to tap our vast resources of coal and oil shale in a way that is economic and environmentally acceptable. We need to have a synthetic fuels industry in place in the early 1990's to fulfill a significant part of our energy needs:
 - In 1972, we were importing 29% of our oil. Today we are importing over 40%.
 - Domestic production of oil and natural gas are continuing to decline.
 - We will still need a major contribution from synthetic fuels even with (a) increased energy conservation, (b) deregulation and decontrol of oil and natural gas, and (c) increased use of nuclear energy.
 - Newer energy sources such as the breeder, fusion, solar and geothermal cannot possibly make a major contribution in time.
3. The action that is needed now is the commercial scale demonstration of synthetic fuels technology. Industry will not proceed on its own because of the risks, high costs, and regulatory uncertainties. Loan guarantees will provide the limited sharing of risks needed by industry to proceed.
4. More delay by the Congress will mean greater reliance on imports in the 1990's, greater vulnerability to disruption from any future embargo, and increased out flow of dollars and jobs.

