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THE WHITE HOUSE

WASHINGTON

energy
ACTION

December 13, 1976

MEMORANDUM FOR: JIM CANNON
FROM: *Glenn* GLENN SCHLEEDE
SUBJECT: ENERGY WHITE PAPER, TESTIMONY, AND
MESSAGE

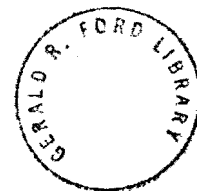
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This memorandum is to review the matter of Administration public statements on energy, in light of the plans which Secretary Richardson and Frank Zarb described to us last Thursday. Briefly, in light of their plans, you may want to:

- Review the situation with Jim Lynn.
- Inform the President in an information memo.
- Re-think the desirability and/or content of a Presidential energy statement.

ZARB/RICHARDSON PLANS

- At the meeting on Thursday, Jim Mitchell and I were informed that:
 - Richardson and Zarb are scheduled to testify before John Dingell on an overview of energy policy.
 - Zarb intends to have ready to release to the committee and the public, a lengthy "White Paper" on energy.
 - Richardson and Zarb plan on having a press conference on the White Paper.
- We were given an early draft of Richardson's and Zarb's testimony and the White Paper.

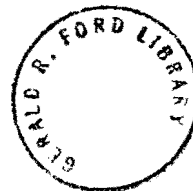


COMMENTS

- Copies of the testimony are attached at TAB A and TAB B. Briefly, the two statements give a cursory summary of the energy situation and suggest some new areas for action.
- Taken together, the two statements contain all the points that Frank Zarb had identified for a Presidential statement when we met in your office on December 3.
- The draft White Paper needs a lot of work to make it accurate. It is well over 100 pages in length, single-spaced. It is clearly a view of the energy world from the FEA vantage point.
- We first received the conclusions that FEA plans to include in the White Paper late Saturday. (Copy attached at TAB C.) These include a number of statements that are not now a part of Administration policy.
- FEA wants comments on the whole package by 3:00 PM today. I will talk with Jim Mitchell before responding.

ALTERNATIVES

- Alt. #1. Continue work on an energy statement. Largely ignore the Richardson/Zarb exercise except where there are major errors or it is clearly at variance with Administration policy (e.g., gasoline tax). Keep as much distance as possible between their statements and those of the President.
- Alt. #2. Continue working on the energy message and try to turn the White Paper and the testimony into Administration documents. This will require considerable work that may not be possible in the short time that Frank Zarb has allowed. If this is attempted, others in the Administration (e.g., Alan Greenspan) should be thoroughly involved. Time that OMB staff and I spend on the White Paper will mean less time available to work on a Presidential message.



Alt. #3. Drop the idea of an energy message except for the transmittal of the reorganization recommendations. Work to clean up the White Paper and the testimony.

NOTE: I just received a call from FEA indicating that they plan to begin final typing on the White Paper this afternoon.

Attachments



DRAFT

RICHARDSON TESTIMONY

Mr. Chairman, Members of the Subcommittee:

It is a pleasure to be here today to discuss with you one of the most critical issues facing the Nation today -- our energy situation and the choices available to us for improving it.

Three years ago, at this time, the United States was in the midst of coping with a major national crisis -- the Arab oil embargo. This six month interruption of our oil imports cost the U. S. economy \$10 to \$20 billion dollars in lost GNP and helped trigger a recession that we have only recently begun to turn around. As a result of quick and decisive measures taken by the government, private industry, and the general public, we were able to weather the direct effects of the embargo, but not without major inconveniences and adverse impacts on employment. The indirect effects of that event three years ago are still very much with us today in the form of higher costs of fuel, and related goods and services.



But however unpleasant it may be to recall these facts of the recent past, we must not forget the lessons we learned and must address the possibility of a future embargo. I am afraid that as a society, we have not yet addressed adequately the basic underlying issues which have created our energy problem. It is clear to me that we must, as a Nation, resolve these critical issues if we hope to stem our dependence on insecure sources of fuel.

I was not directly involved in the early stages of energy policy planning which began as a response to the embargo. I do not presume to be as knowledgeable about the details of the problem as perhaps many of you are. But through my long and varied experience in the Federal service, I have come to realize the enormous influence energy has on our economy, on our industrial capability and on our individual lifestyles -- it is clearly the life-blood of this Nation.

Increasingly, this Nation and the community of developing world nations depend upon energy, particularly crude oil and the vast range of products refined and

manufactured from it, for the basic functioning and growth of our economies. Energy brings the world closer together through advanced transportation and communication networks; it builds our homes, schools and factories; it can improve the health and nutrition of people the world over; it commands our defense systems; and most importantly, it brings the prospect of a higher standard of living to all of us. Petroleum and its by-products have changed forever the products we utilize and consume in every facet of our lives. It is not idle chatter or narrow concerns that has raised the level of the energy debate -- we must ensure that this Nation has adequate, secure and reasonably priced energy supplies available, not just within the next ten years, but as a long-term commitment to enhance the prospect for continued peace and worldwide economic and social development.

We have made a start toward this goal -- a good start. It is unfortunate that it took an embargo to make us realize the seriousness of the energy situation. Nevertheless, the embargo taught us a lesson. As a result, we have taken great strides forward in defining the problem more accurately, in analyzing the prospects for and the roadblocks to solving it, in establishing a framework for debate, in assessing our choices rationally, and most importantly, in taking the first set of actions

to solve this dilemma.

I believe the Administration and the Congress are to be commended on the high degree of emphasis which has been afforded energy over the past two years. At times, the debate became loud and forceful; and at times, the direction we were moving in was unclear. But, on reflection, the debate has been beneficial.

We have enacted several key pieces of legislation that will have major impacts on conservation and preparing us for the effects of another embargo. Less progress has been made, however, in stimulating domestic resource development and resolving key environmental issues. Frank Zarb will discuss in more detail the progress we've made and the specific issues left unresolved to date.

I believe it is paramount for the government to agree upon a set of clear objectives and principles from which we can fashion and implement a comprehensive domestic energy program. While I believe the current Administration has tried to do this, I am concerned that the Congress, as a body, has yet to endorse an energy goal and to enact the legislation necessary to achieve this goal in a coordinated, comprehensive fashion.

It is imperative to remain aware of the fact that the United States cannot and should not attempt to achieve "energy independence" in an international vacuum or attempt to reach a goal of zero imports. This is an interdependent world. We will need some energy imports in the years ahead. Just as the export of food and capital goods is a necessity to our balance of trade, importing goods, including petroleum, from other nations "is good for business." What is not good for business, nor for national security, however, is an over-reliance on a few countries for a product that literally fuels our economy.

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The linking of economies throughout the world through trade has reinforced this mutual interdependence. Thus, the impact of petroleum supplies and prices on international economic stability within the next few years is of the greatest concern to industrialized and developing nations alike.



With this in mind, we have successfully established the International Energy Agency (IEA), providing a welcome and effective vehicle for energy cooperation among its nineteen member countries.

We have negotiated and placed in operational readiness an integrated emergency program in the IEA to enhance our ability to withstand the economic impact of a future embargo on consuming nations and we have successfully tested a program for managing the international allocation of oil during supply emergencies.

We have fostered a new cooperative dialogue between oil producers and consumers. It is through dialogues of this nature that we will form the basis for a long term solution of our respective problems. We must not take a "head in the sand" approach or dismiss any reasonable avenues for cooperation in this area.

Over time, consumer nation cooperation in conjunction with a strong U. S. energy program can eliminate our vulnerability to and dependence upon OPEC oil.

We cannot relax and pat ourselves on the back for the progress we've made domestically and internationally in addressing our energy situation, however, because we still have a long way to go. All of the programs enacted into law to date, when fully operational and without any other adverse developments, will only serve to keep oil imports relatively constant through 1985. That means that while we will have reduced our rate of energy growth, we will have done little to spur increased domestic resource development. Basic commitments and painful decisions in this area must be made by the 95th Congress.

Our situation today is, frankly, worse than it was three years ago. The share of U. S. oil imports from Arab countries is still increasing; from about 20 percent before the embargo to about 40 percent today. And the Organization of Petroleum Exporting Countries now provides 82 percent of our oil import needs -- compared with 70 percent just prior to the embargo. This trend will continue so long as these nations have the capacity to meet growing world petroleum demand.

This year's oil import levels are double those of 1970. This represents 43 percent of our daily petroleum consumption -- at an annual cost of almost 35 billion dollars.

We must not, therefore, be lulled into complacency. The programs enacted into law to date are a start, but tangible results will await effective implementation.

Legislation to increase the production and utilization of our own resources, even if enacted today, necessitates even longer lead times for implementation than our conservation and emergency measures. For example, the new facility lead time for nuclear electric plants is 8 to 9 years; coal and oil-fired electric plants, 5 to 7 years; and even production from new onshore oil fields takes from 1 to 3 years. Consequently, even if the new Congress takes the strong actions necessary to legislate policies and programs to increase domestic energy supply, the Nation will not see results for several years.

Even more disturbing is the fact that our ability
to sustain an energy independence posture in the
post-1985 decade may be doubtful. Current projections
show the U. S. oil and gas reserve base declining
in this period, and a transition will be needed to
a greater reliance on coal, nuclear power and
renewable resources, such as solar energy.

...ability - it technology can be developed to

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league.*

The issues I have raised today are vital to our
future. Some have argued that reducing imports
is a desirable goal; others contend that it may
not be worth the costs and sacrifices it imposes.
The energy goals cannot be set independently of
economic and environmental goals. I believe it
is time for a re-assessment in all these areas and
I suggest that consideration be given to national or
regional energy forums to discuss and debate the
issues. I also urge the Congress to demonstrate its
commitment to the goal, perhaps by enacting a Joint
Resolution on the energy objectives for this country.

17.
17.

To assure that we can meet the threat of another
supply interruption, I believe that a government-wide
embargo management strategy should be prepared. Such
a strategy would fully integrate energy management
options with monetary, fiscal and other policies
that would be affected by a supply interruption

or steep price increase.

In addition, among the most effective measures to reduce demand during a supply interruption would be the imposition of emergency taxes or fees on petroleum products. Such authority is not vested with the President now. I recommend that the Congress consider an amendment to the Energy Conservation and Production Act allowing for a less complex emergency system by removing prohibitions on taxes, fees, tariffs, and other price-related mechanisms for emergency use.

I have discussed so far, and Frank Zarb will do so in greater detail, the many actions that must be taken by the government to provide the guidance and leadership necessary to reduce our vulnerability. These, in themselves, represent an aggressive, committed and far-reaching endeavor. The final ingredient, however, is the process for establishing and implementing a national energy program.

In my position as Chairman of the President's Energy Resources Council, I have witnessed both organized and imaginative management of energy policy and programs, as well as inefficiencies and overlapping

responsibilities in the handling of energy issues by the Executive and Legislative Branches of the government.

I have been very pleased with the effectiveness of the ERC in coordinating energy policy and programs for President Ford, but the ERC cannot counterbalance the inefficiencies inherent in the present Federal energy organizational structure. As you know, the President, early this year, directed the ERC to undertake a thorough and comprehensive review of the Federal energy organizational structure and report to him on proposed changes. This review is about to be completed.

There are a wide variety of alternative approaches that can be considered including a Department of Energy and Natural Resources, a Department of Energy, a smaller Energy Agency composed solely of FEA and ERDA, and retaining the present system. Each of these, of course, approaches the organization, direction, and span of control differently. I urge both the new Administration and the Congress to review this plan and the President's recommendations very carefully and to take appropriate action.

Unfortunately, the Congress has also suffered from a similar dispersion of authorities in attempting to address the Nation's energy problems. There are over 100 Committees and Subcommittees of the Congress involved in energy-related activities. I would urge that while you consider reorganization of the Executive Branch, you also consider the Congressional structure and assess alternatives seriously in this area.

I would like now to turn the program over to Frank Zarb for a more detailed assessment of energy policy issues. Their importance cannot be diminished, their timely resolution cannot be overstressed. As you yourself have stated, Mr. Chairman:

"The way in which these issues are resolved directly or by default, will have powerful and permanent effects on national priorities and social goals, and upon the choices which we leave to our descendants."

I hope our legacy will be that we made a good start and built the foundation for a permanent and comprehensive national energy policy.

TAB B

DRAFT

ZARB TESTIMONY

Chairman Dingell and Members of this Sub-Committee:

I am particularly pleased to appear here today to discuss the state of our nation's energy policy.

As I reflect upon the past few years, I am proud of what has been achieved, although weary from the effort and disappointed in some areas. I welcome this opportunity to summarize my views on the big issues that remain.

Many people would find it hard to understand my statement that I am proud of our achievements. They hear talk of higher prices, higher imports, and no energy policy. Yet, while it is true that our dependence is worse today than before the embargo, we have enacted significant legislation that will be the foundation of an energy policy in years to come.

Current Energy Situation

Let me briefly summarize the current situation:

- Oil production continues to decline, but at a slower rate than previously and there are positive signs. Drilling activity is at a 14-year high and Alaskan production should begin to flow within a year.

- While the production trends are encouraging, demand has increased this year along with the economic recovery. Thus, petroleum imports will be higher than ever before--averaging about seven million barrels per day this year. We will spend about \$34 billion for foreign oil in 1976.
- Natural gas production is also declining and shortages are growing in certain parts of the country. If the cold weather we are experiencing now continues throughout the winter, there could be adverse economic impacts in some areas.
- Coal production is increasing and will approach 670 million tons in 1976--a record year.
- Nuclear power expansion has slowed as a result of public concerns and private sector difficulties in building new plants, but we now have over 60 plants operational.
- There are encouraging signs for solar energy and some emerging technologies, but there is a long way to go before these sources contribute significantly to our energy supply.

Energy Outlook

It is clear that the United States has the capability to make itself "embargo-proof" in the future. To keep our dependence upon foreign oil manageable, we will need an aggressive program to increase domestic supply, reduce the rate of growth of demand, provide standby authorities for use in the event of another embargo, and develop new technologies. In particular, we will have to:

- ° Increase coal production from current levels of about 670 million tons annually to over one billion tons per year by the mid-1980's.
- ° Expand oil production in frontier areas of Alaska and the Outer Continental Shelf (OCS), as well as encourage enhanced recovery from existing fields to replace declining supply.
- ° Increase the share of nuclear energy in the generation of electric power from about 9 percent to over 20 percent in the next ten years.
- ° Develop supplemental sources of oil and gas such as coal gasification and liquefaction and shale oil to meet shortages of liquid and gaseous fuels.

- Expand dramatically the use of renewable resources, such as solar energy.
- Build a strategic petroleum reserve of at least 500 million barrels.
- Reduce the rate of growth of energy demand to about 2.5 percent annually.

Legislative Scorecard

This is a tall order and as Secretary Richardson has pointed out, we have made substantial progress in conservation and standby measures, but much less in providing for new supply. There are many reasons why our progress has come in these areas and not in supply incentives:

- Conservation has been a popular issue, because it is generally cost-effective, saves money, is relatively easy to effectuate, and protects the environment.
 - Standby measures make common sense if the nation is to prepare itself for another cutoff of supply.
 - Most resource development issues involve large-scale change for local communities, often with environmental effects, and public distrust of the energy industry and government is high.
 - Among the key measures to incentivize new production are those which involve raising the price of oil or natural gas. These price questions arose at a bad time--during a recession and soon after large increases in the world price had occurred--and, as a result, were not received favorably.
-

As I indicated earlier, I do believe that progress has been made. Seven of the thirteen original titles of the President's Energy Independence Act are now law in largely the same form as originally proposed. The following major bills have been enacted:

- Energy Reorganization Act
- Energy Policy and Conservation Act (EPCA)
- Naval Petroleum Reserves Production Act
- Energy Conservation and Production Act (ECPA)
- Alaskan Natural Gas Transportation Act

As a result of these laws, the Federal Government now has the authority and has begun to:

In Domestic Supply

- Exempt the first sale of domestic stripper well crude oil from price controls.
- Implement the 40 month crude oil decontrol plan, under which domestic crude prices are allowed to escalate by no more than 10 percent annually to provide production incentives.
- Provide added pricing flexibility to tertiary recovery and California heavy gravity crude.
- Develop at the maximum efficient rate the three Naval Petroleum Reserves in the Lower-48 States; continue exploration of NPR-4 in Alaska, leading to its eventual development.



- Implement an expedited selection process for a transportation route to deliver Alaskan natural gas to the lower-48 States.
- Dismantle as much of the current crude product regulatory system as feasible.

In Conservation

- Direct a \$2 billion obligation guarantee program for conservation investments by industry, small business, and non-profit institutions.
- Provide conservation grants to States to assist in the development and implementation of energy conservation programs.
- Implement appliance energy efficiency labeling.
- Set mandatory automobile efficiency standards for 1980 and 1985.
- Establish industrial energy conservation targets for the ten leading energy consuming industries, and mandating reporting of progress.
- Develop thermal efficiency standards for all new residential and commercial buildings, subject to Congressional approval of sanctions.
- Implement a three year, \$200 million weatherization grant program for the

insulation of homes of low-income, elderly, and handicapped persons.

- Establish a demonstration program to test various mechanisms for encouraging energy conservation improvements or use of renewable resources, such as solar heating or cooling, in existing residential buildings.
- Provide grants to States for testing innovative utility rate structure designs to achieve a higher degree of conservation.

Standby

- Build a strategic petroleum reserve of at least 150 million barrels of petroleum by 1978 and up to a billion barrels by 1982.
- Establish standby measures to deal with severe energy emergencies that may arise in the future.
- Develop cooperative contingency and planning programs with the International Energy Agency (IEA).

This list is long, because the accomplishments are varied. Yet we should not be lulled into complacency. Much more

remains to be done if we hope to maintain our international leadership role and domestic security. I believe the new Administration and Congress must address the issues squarely and move forward quickly.

I have today submitted to the Sub-Committee a detailed paper describing the major energy achievements, failures, and issues facing this country. I recommend that you review its contents thoroughly, for it is an attempt to present the issues clearly and objectively.

In the remaining time today, I would like to address some of the key areas where progress is possible.

Natural Gas

Federal regulatory policy towards natural gas is one of the most crucial issues facing the nation today. Natural gas is consumed by over 40 million residences, over 3 million commercial establishments, and almost 200,000 industrial users. If new natural gas prices remain regulated, market distortions will persist and shortages in the interstate market will continue to grow. Federal price regulation has not been in the best interest of the nation and I urge the Congress to deregulate new gas prices.

With curtailments still on the rise, I also suggest enactment of the emergency legislation proposed twice by the Administration to alleviate short-term problems. Once the pricing and emergency legislation are enacted, the Congress should address the entire regulatory structure of the Federal Power Commission and its enabling legislation.

Crude Oil Regulation

The crude oil pricing debate occupied much of our time during 1975 and again this year. The composite price formula in the EPCA has proven difficult to administer and changes should be considered. The new Administration and the Congress should take a careful look at phasing out price controls gradually but without use of composite prices.

It is also important to remove any Federal regulations that prove unnecessary. FEA and the Congress have recognized that product decontrol is sensible with respect to residual fuel oil, middle distillates, and other fuels; regulations on gasoline and other remaining controlled products should be reviewed carefully and similarly removed if criteria in the law are satisfied.

Energy Taxes

The debate over energy taxes last year attracted considerable attention. The Administration proposed an excise tax on domestic petroleum along with increased import fees, while Congress considered a gasoline tax and other measures. After starting with gasoline tax proposals of over 30 cents per gallon, the House failed to pass even a 3 cent gasoline tax. This experience with energy taxes points out the difficulty in raising energy prices to effect demand reductions, but I believe that the desirability of such taxes (either in the form of Btu taxes or on specific fuels, such as gasoline or natural gas) should be explored again by the Congress.

Conservation

The achievements in energy conservation have resulted in a number of exciting new programs that must now be implemented. The funding, staffing, design, and operation of these programs will be critical to our future. Most of the tough regulatory approaches to conservation have been enacted or were rejected for good reasons. Nevertheless, our work is not completed and there are still some measures to be considered.

Once, again, I urge the Congress to enact a tax credit for residential insulation. This bill, which can save over 100,000 barrels per day, has twice been deleted in Conference Committees. I also remain convinced that the thermal efficiency standards proposed by the Administration

should have been passed with tougher sanctions than agreed to by the Congress. The buildings sector provides great opportunities for savings, which should not be lost because of interest group pressure.

Further I recommend that the ERC establish a task force on energy conservation to deal with implementation of these existing programs and preparation of a thorough analytical report to Congress as required by the ECPA.

While there are other conservation regulations in the buildings, industry, and transportation sectors that should be considered, most would have little effect. The key measure to induce conservation, especially in the near-term, would be the pricing of energy at its market value. Only when artificial controls are removed from energy prices can the marketplace receive the proper signals.

Energy Development

Irrespective of the progress we make in reducing the rate of growth of energy demand, the Nation's use of energy will continue to expand. We will need large-scale increases in coal production, nuclear power, and use of renewable resources, and will have to reverse the declines in domestic oil and gas production. We have made mistakes, but hopefully have learned from our errors.

The role of State and local governments and interest groups cannot be underestimated. The Federal government must work in harmony with these entities before, not after, final resource development decisions are made. National interests

do not always coincide with local interests, but widespread Federal overrides are doomed to failure. I propose that the new Administration assess more thoroughly ways to involve local interests in Federal decision-making.

The balance between energy, economic, and environmental objectives is delicate, but must be maintained. Careful planning can avoid most of the impacts of energy projects sometimes feared by local residents. The Congress should enact legislation to provide impact assistance funds for inland areas (such as potential coal producing states), just as it has done for coastal states.

In addition, the uncertainties facing investors must be overcome. These include policy uncertainties with respect to environmental standards (such as Clean Air Act and surface mining) and price controls, as well as geologic uncertainties (such as frontier OCS reserves and leasing schedules). The Congress has an obligation to reduce these uncertainties and provide a stable investment climate.

Utilities

One of the key resource development questions relates to the building of new powerplants. In the last few years, utilities experienced a dramatic change in their profitability, financing capacities, growth estimates, and public acceptance. The United States needs new coal-fired and nuclear capacity if it is to avoid power shortages or greater reliance on oil- or gas-fired power. Assistance to utilities, especially in the face of higher rates already in effect, has not been

popular, and most of the Administration's initiatives have not been successful.

I urge Congress to review the utility situation carefully and to consider legislation to improve the siting process (without encumbering it with added Federal bureaucracy); to consider new approaches (such as S. 1777) to the coal conversion process; but to weigh the results of FEA's utility rate structure studies before pressing ahead with new legislation.

Nuclear Energy

A key part of the utility problem is the growth of nuclear energy. The United States will need to increase nuclear power's role in its economy or see oil imports grow even more in the future. Many nuclear plants have been cancelled or delayed because of financing, siting, or load growth difficulties. There has been greater public concern over the safety of such plants, yet referenda in seven States this year and a recent public opinion survey showed considerable public support for nuclear power.

This Administration has proposed a comprehensive and innovative set of programs to expand nuclear development with careful consideration of safety. Bills to improve the licensing process, transfer enrichment facilities to the private sector, and others failed to receive positive Congressional action. The President increased safety and waste management budgets dramatically, and proposed, in October, a detailed policy on proliferation and safeguards. The measures he

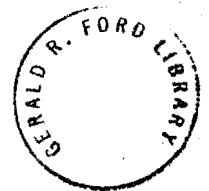
announced could go a long way to establishing a safe and reliable international nuclear program and should be acted upon favorably by the new Administration and Congress.

Financing

While I would hope and expect that most new energy projects could be developed and financed privately, there may be a need for Federal financial assistance in some areas. The Congress has already enacted several programs to provide financial support for coal, geothermal power, conservation, and coastal zone development. Nevertheless, the establishment of a viable commercialization program for synthetic fuels, the need for impact assistance to cope with inland resource development, and other financial assistance measures should be re-assessed to assure that first and second generation plants are built. More Federal money should not be the answer to all problems, but could be important in some selected cases.

R&D Priorities

I am not an expert in research and development problems and thus cannot speak authoritatively on various technologies. I can, however, talk about priorities. It is my belief that the R&D funds authorized readily today by government will someday begin to wane. We should therefore set our energy R&D priorities carefully. We must look first towards those technologies with the greatest likelihood of being significant contributors and economic in this century. We must also be prepared for failure and have contingency plans



available in case some of our research efforts do not pay off.

Conclusion

I would like to conclude by saying that I am optimistic about America's future. I have lived with the difficulties of developing and implementing controversial policies, and have seen how easily the process can be frustrated. Yet, the political system can work and has shown its resiliency repeatedly. This country has the know-how, and, if it has the will, can free itself from the economic and political blackmail of a few countries. I intend to continue to be a voice in seeing that we make that commitment.

Secretary Richardson and I would be happy to answer your questions at this time.

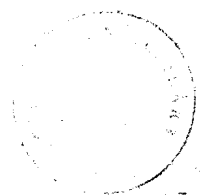
TAB C

Natural Gas

Glen
First draft of
conclusions section
for White Paper (Appendix
Recommendations).
Need comments by
3 PM Monday.
Glen

Conclusions

- Natural gas pricing and regulation may be the most crucial energy legislative issues facing the Congress. If the decline in domestic gas production is not reversed, shortages will grow and there will be adverse economic and social impacts. To improve our natural gas picture, several key actions are needed:
 - Congress, as a high priority, should enact legislation to deregulate the price of new natural gas either immediately or phased-in over a few years. 1 change
 - Congress should adopt the emergency legislation proposed by this Administration to mitigate the short-term curtailments problem.
 - The new Administration and the Congress should review the issues and possible initiatives associated with "conservation gas;" pricing of supplemental gas; and siting of LNG import projects. >
 - The new Administration and the Congress should expedite consideration of Alaskan natural gas transportation systems.



Crude Oil

Conclusions

- There will continue to be serious issues associated with the petroleum regulatory system. While resolution of most of these issues should await completion of the appropriate regulatory proceedings, it is clear that there is a need to remove any regulations that are not necessary (such as controls over gasoline). Further, the composite pricing system for crude oil has proved to be complex to administer; thus, it is recommended that Congress adopt a simpler system that would phase-out crude price controls gradually, but without use of composite prices.

Energy Taxes

*u. Profit reservation do
regulation*

Conclusions

- The debate over energy taxes should be reopened. Taxes can be an effective way to cut consumption or modify investment behavior. Ideally, the best way to provide the correct market signals would be to remove artificial price controls. However, since controls are now in effect, the Congress should review the need for broad (e.g., BTU) or specific (e.g., gasoline or natural gas) energy taxes. In addition, investment incentives for business (e.g., tax credit for purchase of coal-fired equipment) or homeowners (e.g., insulation tax credit) should be adopted.

*7
Chase*

Fuels Policy

Conclusions

- On the surface, it may seem attractive to manipulate the use of various fuels in order to derive the greatest end-use efficiencies and to minimize environmental impacts. Further, given the current regulatory environment, the appropriate market signals are not being communicated. The Federal Government should continue to pursue opportunities to reduce the use of oil and gas in power plants and major industrial facilities in order to expand the use of coal. A concept like that in S.1777 (with modifications) should be adopted. 1?

- However, the Federal Government must also be careful to avoid massive intervention in the energy marketplace. The regulatory structure that would arise from a comprehensive fuels management policy would be virtually unadministrable, costly, and probably inequitable. Indeed, a much more desirable approach would be to remove price controls and allow the marketplace to allocate fuels.

Energy Conservation

(A.G.) indicative with individual Recorders; distributed market signals; but make decisions; unnecessary

Conclusions

- The United States' energy policy must include both a strong conservation effort and an aggressive program to develop domestic supply. The legislative achievements in energy conservation over the past two years will result in significant reductions in demand and improved efficiencies. Yet, with the exception of conservation induced by higher prices and some limited regulatory measures, there is little that can be done to reduce demand in the next few years. The benefits of all conservation measures should be weighed against the cost of ~~implication~~ implementation and regulatory burdens they impose. The following actions should occur:

RB
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- Congress should enact the Administration's proposed tax credit for insulation.
- The Congress and Executive Branch should monitor closely the implementation of existing programs, especially the thermal efficiency standards for new buildings. Tough sanctions are needed to make the buildings program work.
- The ERC should form a task force on energy conservation to deal with implementation of existing programs and to prepare a thorough analytical report to Congress as required by the ECPA.

Tell Elliott

Energy Development

Conclusions

- The United States will have to continue expansion of domestic energy development in order to preserve its economic and national security. But such development will not take place unless the Federal Government takes the appropriate steps to ensure that environmental standards are met, and that State and local interest groups are involved in the decision-making process. Further, the following actions are proposed:
 - The Congress should enact legislation to provide impact assistance for inland Federal energy resource development.
 - The Congress should review the entire regulatory process involved in siting new energy facilities and propose methods to improve the process where feasible.
 - The Congress should attempt to reduce uncertainty concerning the ground-rules for environmental standards and development on Federal lands.

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Electric Utility Regulatory Reform

Conclusions

new? quality expanded? what?

- Electricity consumption is expected to continue to grow at about twice the rate of energy demand. If coal and nuclear electric generation capacity is not started now, it is possible that power shortages would result after 1980 and utilities would turn to oil and gas as a source of power. To reduce the possibility of such a result, the following actions are needed:

- The Congress should broaden, *how?* through amendment and extension, FEA's existing coal conversion authorities.
- The Congress should consider additional investment tax credits for utilities to encourage greater use of coal and nuclear power in the generation of electricity.
- { However } any Congressional action on electric utility rate reform should await completion of the FEA report to Congress mandated under the ECPA.

Nuclear Energy

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Conclusions

- The use of nuclear power must continue to expand. Nuclear energy has demonstrated that it is safe, economic, and has little environmental impact. Yet public concern over its safety and reliability exists and must be considered. Major decisions will have to be made regarding the role of nuclear power and the extent and nature of reprocessing, enrichment, waste disposal, proliferation, and funding of the breeder reactor. In addition, the Federal agencies and the Congress should adopt the measures recommended by the President in October to evaluate reprocessing and reduce proliferation.

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Energy Financing

Conclusions

- The energy industry will have to make substantial capital investments in the next 10-15 years. Some sectors, such as the oil industry, should have sufficient capital as long as unfavorable regulatory actions are not taken. Other sectors, such as electric utilities and synthetic fuels, may need some form of Federal financial assistance. As a central element of our policy, maximum reliance should be placed on private sector financing of energy projects. Many of the barriers to private financing are a result of government regulation. However, Federal financial assistance may be needed for projects which will contribute significantly to energy independence, but would not be undertaken in a timely fashion without such assistance.

 - The new Administration and the Congress should review the entire financing issue, but should assure that those first generation plants that are needed, can be built.
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R&D Priorities

Conclusions

- Since energy research and development funding cannot continue to expand at its current rate, it will be necessary to make difficult choices about priorities. The Federal Government should support most heavily those technologies that have the greatest likelihood of being able to contribute significantly by the end of the century and of being economic.

Permut

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Energy Independence and Economic Interdependence

Conclusions

- Energy will remain a critical factor in world economic and political affairs. The issues of supply security; oil prices; consumer nation cooperation; producer-consumer relations; long-run transition from oil and gas to coal, nuclear, and renewable resources; and the value of and approach to energy independence should be reassessed continually. The following are suggested courses of action.

- Continue producer-consumer dialogue;
- Involve Congress in setting reduced dependency objectives, perhaps through a Joint Resolution;
- Encourage incremental oil and gas production throughout the world and pursue creation of an International Energy Institute; and
- Initiate a national and regional debate on our energy goals.

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Simplistic!

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Multinational Oil Companies

Conclusions

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- 6 →
- The multinational oil companies will remain an important force in domestic and international energy affairs. Rather than act hastily to break up these firms, the Congress should consider carefully the impacts of both vertical and horizontal divestiture. Neither form of divestiture should be supported unless it would increase domestic production, improve the reliability of supply, and reduce prices. With the nation facing a crucial energy period, this is not the time to disrupt the existing system so dramatically. However, there may be a need for some change in the government/industry relationship and possible changes should be explored.
- 13

Like what?

Standby Measures

Conclusions

- The United States must be prepared to deal with any future interruption of oil supply. We have already made considerable progress in legislating and beginning implementation of a strategic petroleum reserve. In addition to the SPR, we will need standby allocation, demand restraints, and rationing measures. It would be desirable to simplify standby plans and Congress should consider amending the EPCA to allow imposition of fees, tariffs, taxes, etc., during an emergency. Further, the Federal government should prepare a government-wide embargo management strategy, fully integrating energy management options with monetary, fiscal, and other policies.

Federal Energy Organization

Conclusions

- There are very good reasons to consider reorganizing the energy functions of the Federal government. In both the Executive and Legislative Branches, there is a need for consolidation to eliminate fragmented responsibilities. The basic issues that need to be addressed in an Executive Branch reorganization include the degree of separation of natural resources management and economic regulation from broad energy conservation, research, development, and policy functions. However, reorganization only makes the process of government easier; it will not produce more oil and should not be viewed as an answer to our energy problem.



Energy

THE WHITE HOUSE

WASHINGTON

December 17, 1976

MEMORANDUM FOR: JIM CANNON
FROM: *Glen* GLENN SCHLEEDE
SUBJECT: Energy Organization

I recommend that you sign the attached memorandum to the President that comments on the Richardson-Lynn energy organization options paper.

I believe the proposed memorandum from you to the President is consistent with our conversation earlier today.



THE WHITE HOUSE
WASHINGTON

December 20 '76

TO: JIM CANNON

FROM: RUSS ROURKE *RWR*

After checking with Walter Mote, I have learned that what he actually meant was the "Solar Study", which had been hung up at ERDA for awhile.

Hope this information helps.

File
handled verbally
12/21 AM

Energy

THE WHITE HOUSE

WASHINGTON

December 17, 1976

976 DEC 20 PM 4 22

MEMORANDUM FOR JACK MARSH

FROM: JIM CANNON *Jm*

SUBJECT: Call from Walter Mote on "Silver Study"

No one on the Domestic Council or EPB has ever heard of the "Silver Study".

Would you want to ask Russ Rourke to telephone Mote and get more details. For a number of reasons it would be best if I did not telephone Mote.



R - call Mote for more info

Quern

THE WHITE HOUSE
WASHINGTON

December 29, 1976

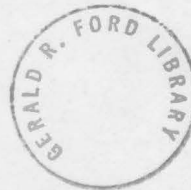
MEMORANDUM FOR: JACK MARSH
FROM: ART QUERN *Art Quern*
SUBJECT: News Report Regarding ERDA Submission
for the State of the Union

This morning's Jack Anderson column reported on material submitted by Bob Seamans regarding ERDA's accomplishments for possible inclusion in the State of the Union message.

ERDA's material was requested, along with material from all member agencies of the Domestic Council, as background for developing a draft State of the Union to be conveyed to Bob Hartmann. ERDA, as with every agency, attempted to put the best possible light on its accomplishments over the last two years.

We reviewed ERDA's submission, and indeed every submission, most carefully. The draft SOTU which was conveyed to Bob Hartmann reflected in our judgment the best and most factually accurate presentation of the various agency accomplishments.

With specific regard to ERDA's material, I believe that the draft SOTU most effectively screens out any material which might have raised a question.



THE WHITE HOUSE
WASHINGTON

December 29

Chris:

This is the article.

Mr. Marsh would like to
dex a report to Vail
ASAP.

Thanks.

Donna

Washington Post

Wednesday, December 29, 1976

Jack Anderson and Les Whitten

Ford Gets Misleading Energy Data

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

ACTION
IMMEDIATE

THE WHITE HOUSE
WASHINGTON

January 4, 1977

Geo
Thanks
out

MEMORANDUM TO: JIM CANNON
FROM: GEORGE W. HUMPHREYS
SUBJECT: Russ Train's Meeting With
The President

The attached briefing paper is for your signature.

You will note I included a talking point and Russ' letter on Oil Spill Task Force. You may want to drop all that out.

The meeting is simply to say good-bye, I am told, and Russ says he is not looking for a substantive conversation.

