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THE WHITE HOUSE

Fact Sheet on the
President's Import Reduction Program

HIGHLIGHTS

Actions which the Administration has taken since April 1977 have cut the nation's projected 1990 needs for imported oil by about 4 million barrels per day (MMB/D). The actions announced by the President today will save an additional 4.5 MMB/D by the end of the next decade, reducing estimated U.S. import requirements by half. The President stated that the United States will never again import more oil than it did in 1977. The President announced that import quotas for 1979 and 1980 will be set at levels below the ceilings agreed to at the Tokyo Summit.

An overall strategy for reducing imports is essential to secure the continuing economic strength and security of the United States. In developing this program, the Administration has examined all tools available to cut foreign oil dependence, including synthetic fuels, conservation, production of unconventional sources of oil and natural gas, direct use of coal, and solar energy. The program the President is announcing today draws on each of these sources to achieve our 1990 import reduction target.

The President's program would:

- create an Energy Security Corporation to direct the development of 2.5 MMB/D of oil substitutes from coal liquids and gases, oil shale, biomass, and unconventional gas by 1990.

- establish a three-member Energy Mobilization Board empowered to expedite permitting and construction of critical energy facilities.

- provide new incentives for development of heavy oil resources, unconventional gas, and oil shale.

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- require utilities to cut current oil consumption by 50%, saving 750,000 barrels of oil per day.

- establish a major new residential and commercial conservation program designed to save 500,000 barrels of oil per day by 1990.

- provide $2.4 billion annually in assistance to low-income families in the United States.

- provide a total of $16.5 billion over the coming decade for improvements in the nation's mass transportation system and in automobile fuel efficiency.

Combined with the initiatives announced in the President's April 5 energy address and the Solar Bank, the program the President is announcing today will permit the United States to cut its import requirements in half by 1990.

I. ESTIMATED IMPACT OF ADMINISTRATION INITIATIVES TO REDUCE 1990 OIL IMPORTS

	Savings (MMB/D)	
IMPORT SAVINGS FROM PRESIDENTIAL PROGRAMS		
o Estimated Import Savings from National Energy Act, including	2.5	
-- Natural Gas Policy Act		
-- Fuel Use Act		
-- Energy Tax Act		
-- Public Utilities Regulatory Policy Act		
-- National Energy Conservation Policy Act		
o Estimated Import Savings from April 5 Presidential program, including	1.5	
-- Phased Decontrol of Domestic Crude Oil		
-- June Solar Energy Message		
Total Estimated Savings from Actions to Date		4.00
o Estimated Import Savings* from July 16 Initiatives, including		
-- Synthetic Fuels and Unconventional Gas	2.50	
-- Heavy Oil	.50	
-- Utility Reduction	.75	
-- Residential Conservation	.50	
-- Mass Transit and Auto Efficiency	.25	
Total Estimated Savings from New Program		4.5
Total Estimated Savings from Past and Present Programs		8.50

*Some small portion of the projected savings from the July 16th initiatives would occur anyway if future oil prices are relatively high.

1990 IMPORT LEVEL

Projecting total oil demand and imports in 1990 in the absence of the President's broad-ranging policy initiatives is speculative. Under a continuation of the 1977 status quo, however, import levels in the range of 13 million barrels per day would not have been improbable.

Therefore, with successful implementation of import reduction programs of approximately 8.5 MBD, an estimate of imports in 1990 might range between 4 MMB/D and 5 MMB/D..

TABLE I

TOTAL PROGRAM OBLIGATIONS[1/]
1980-1990

	(Current $, Billions)
- Energy Security Corporation	88.0
- $3 Oil Shale Tax Credit	1.0
- 50¢/mfc. Tax credit for unconventional natural gas	1.0
- Heavy oil	-
- Utility Oil Use Reduction	5.0
- Residential/Commercial Conservation	2.0
- Transportation Efficiency	16.5
- Low-Income Assistance	24.0[2/]
- Solar Bank and tax credits	3.5[3/]
	$141.0
- Other April 5 programs	1.2
	$142.2

[1/] These initiatives will be funded solely out of the Energy Security Trust Fund, which will receive proceeds of the windfall profits tax. Actual funding for the ESTF will depend on the final shape of the windfall profits tax and the future direction of world oil prices. Estimates for the windfall profits tax receipts range from $146 billion up to $270 billion over the period 1980-1990, depending on oil price assumptions. Any additional funds generated from the tax will be available for additional energy expenditures or related actions. Any reduction in the receipts from the windfall profits tax will require reductions in these program levels. The President's Advisory Committee on Energy Security will make recommendations to the President on the use of any additional funds.

[2/] This would be the cost of the Low-Income Assistance program if it were extended for 10 years.

[3/] This would be the cost of the solar programs if the Solar Bank is funded for ten years.

II. IMPORT QUOTAS AND TARGETS

The President announced that import quotas will be established to hold net U.S. oil imports for 1979 and 1980 below the ceiling of 8.5 MMB/D agreed to at the Tokyo Summit last June. For 1979 the quota level will be set to limit net U.S. imports to 8.2 MMB/D, 300,000 B/D below the level of the Tokyo ceiling. The import quota for 1980 will also be below the Tokyo ceiling, but the precise level will be determined later.

The quotas are to be set under the authority of Section 232 (b) of the Trade Expansion Act of 1953, which permits the President, upon a finding of the Secretary of Treasury, to limit any imports which threaten national security. On March 14, 1979, the Secretary of the Treasury made a finding that current levels of imports do constitute such a threat. The President may act to set these quotas without further legal or procedural requirements.

The President has directed the Secretaries of Energy and Treasury to report back to him expeditiously with recommendations on mechanisms for enforcement of these quotas.

The President further announced his intent to continue to use his quota authority to ensure that import targets for the years beyond 1980 are met. These targets will be established on a year-by-year basis.

III. THE ENERGY SECURITY CORPORATION

Structure and Organization

The President is asking Congress to enact legislation creating an independent Energy Security Corporation which will make investments in the production of synthetic fuels, both liquids and gases, from coal, biomass, peat, and oil shale, and in the development of our enormous reserves of unconventional natural gas.

The Corporation will be an independent, government-sponsored enterprise with a Congressional charter. It will be located outside the Executive Branch, independent of any governmental agency. The Corporation will be managed by a 7-person Board of Directors. A Chairman and three other outside directors will be appointed by the President and confirmed by the Senate. In addition, the Secretaries of Energy and Treasury and one other Department will sit on the Board.

The officers and staff of the Corporation will be exempt from Civil Service rules, and the Corporation itself will be exempt from a number of rules which normally apply to government agencies.

The Corporation will have a 12-year charter which will be sufficient to enable it to meet its 1990 production goal. At the end of its life, its charter could be extended; otherwise its liabilities and assets will be assumed by the Treasury.

The Corporation's Mandate

The Energy Security Corporation will direct the investment of $88 billion to produce 2.5 million barrels per day of substitutes for imported oil by 1990. Funds for the Corporation will come out of the receipts from the President's proposed windfall profits tax. The Corporation's exclusive objective will be the development of domestic production capacity; it will not engage in research and development activities.

The Corporation will be authorized to invest in or develop directly, production capacity from coal liquids, coal gases, peat, biomass, shale oil, and unconventional natural gas.

The Corporation will determine the mix of the sources and technologies which will be used to meet its 2.5 million barrels per day mandate. The following table, however, shows an illustrative division of sources for meeting the 1990 target:

o	coal liquids, coal gases;	1.0 to 1.5 MMB/D
o	oil shale;	.4 MMB/D
o	biomass; and	.1 MMB/D
o	unconventional gas	.5 to 1.0 MMB/D

Financing Tools

The Corporation will have a wide range of financing devices available to it to maximize its leverage within the private sector. These include: price guarantees, federal purchase agreements, direct loans, loan guarantees, and a limited number of government-owned and operated (GOGO) or government-owned, company-operated (GOCO) plants. The Energy Security Corporation will not have authority to participate in joint ventures or other forms of equity ownership, and its use of the budget authority granted to it will be on a one-time basis.

Budget authority for the Energy Security Corporation will be provided at the time it is created. Direct funding will be provided for operating expenses, and $83 billion in budget authority will be provided for direct obligations and debt guarantees. The Energy Security Corporation will receive the proceeds from the sale of small denomination Energy Bonds which will be sold by the Treasury and which will bear the same interest rate as U.S. Savings Bonds. Up to $5 billion of Energy Bond sales will be authorized to support the Corporation's activities.

IV. THE ENERGY MOBILIZATION BOARD

The Administration has already acted under existing authority to reduce delays in the permitting of critical energy facilities. These actions already taken include:

o Procedures for setting decision schedules for critical energy facilities were established in April 1979 under the direction of the Office of Management and Budget.

o Regulations reforming and streamlining requirements of the National Environmental Policy Act (NEPA) were issued by the Council on Environmental Quality in November 1978.

o A Cabinet-level Energy Coordinating Committee chaired by the Secretary of Energy was established by Executive Order in September 1978.

In order to meet the 1990 targets for oil import reduction, however, substantial additional authority is needed to accelerate the development of the domestic energy production capacity. The President will submit legislation to Congress to create an Energy Mobilization Board (EMB). The EMB will have three members and will be located within the Executive Office of the President. EMB members will serve at the pleasure of the President and will be confirmed by the Senate.

The Board will be authorized to designate certain non-nuclear facilities as critical to achieving the nation's import reduction goals and to establish binding schedules for federal, state, and local decision-making with respect to those projects. Judicial review of EMB decisions will take place in the Court of Appeals for the Circuit in which the facility is located on an expedited basis.

If a federal, state or local agency fails to act within the specified time frame, the Board will be empowered to make the decision in place of the agency, applying the appropriate federal, state or local law. The Board also will have the authority to waive procedural requirements of federal, state, or local laws in order to expedite the development and construction of a critical energy facility. To avoid delays once construction has begun, the Board could also waive the application of new substantive or procedural requirements of law which come into effect after the construction of a project has commenced. These waivers would be granted on a case by case basis. Any EMB exercise of its waiver authority would be subject to Presidential veto.

V. HEAVY OIL

The United States has an estimated reserve of over 10 billion barrels of heavy oil, a highly viscous, almost tar-like crude which must be heated to be produced. Much of this reserve is in California. Heavy oils are more expensive than conventional crude oil sources both to produce and to refine, though a range of good quality refined products can be produced from this source.

The President is directing the Department of Energy to decontrol heavy oil immediately. Heavy oil also would be exempt from the Windfall Profits Tax, thus allowing it to receive the full world oil price. In addition to this price incentive, the Department of Energy will take steps to assure that natural gas will be available for the production of heavy oil within current environmental constraints.

With these actions it is estimated that 500,000 B/D can be produced from this source by 1990. This initiative will have relatively little budget impact, since little heavy oil would be produced if this source were covered by the Windfall Profits Tax. While the costs of producing heavy oil varies depending on site-specific reservoir features and recovery techniques used, the Administration estimates significant recovery at or just above the current world oil price. Heavy oil production is not included within the scope of the corporation, since it is basically an extension of existing oil production technology, since the location of reserves is relatively well defined, and since decontrol and the tax exemption are sufficient incentives for its production.

VI. UNCONVENTIONAL GAS INITIATIVES

Recognizing the extremely large potential gas resources in the U.S. that exist in unconventional formations, such as tight sands, devonian shale, geo-pressurized methane and coal seams, the President has proposed the following initiatives, in addition to activities which the Energy Security Corporation can take, which will significantly accelerate large scale production of these reserves:

o The President, through the Department of Energy will seek action from the Federal Energy Regulatory Commission (FERC) to establish a special incentive price for natural gas from tight sands comparable to the deregulated oil price. Although the Natural Gas Policy Act deregulated other sources of unconventional gas, tight sands were not included.

o Should the FERC fail to act on this request, the Administration will seek an amendment to the Natural Gas Policy Act to deregulate such gas.

o In order to accelerate more rapidly the production of these resources, a $0.50/mcf tax credit is proposed for all unconventional gas production. The tax credit will phase out at a world oil price equivalent of $28 per barrel.

o The Energy Security Corporation is authorized to provide assistance for development of unconventional gas reserves if it determines that additional incentives are needed to meet 1990 targets. Unconventional gas producers receiving assistance from the Corporation would not, however, be eligible for the 50¢/mcf tax credit.

Production resulting from these incentives is estimated at 1 tcf to 2 tcf, or .5 to 1 MMB/D oil equivalent.

The major sources of unconventional gas are:

- Tight or low permeability gas basins in the Rocky Mountains region.
- Devonian shales of the Appalachian Basin.
- Methane from coal seams.
- Methane from geopressurized aquifers in the Gulf of Mexico.

The technology involved in the recovery of gas from tight sands and Devonian shale expands natural fractures in the gas holding formations. Methods of recovery include explosive and hydraulic fracturing and the drilling of deviated wells. Even now these sources make a significant contribution to domestic production (which totals about 20 TCF) of about 1 TCF per year. Although production efforts appear to be accelerating, particularly in the Western tight gas sands basins, uncertainty about deregulation of tight gas production and the inability of certain potential users to enter into long term gas supply contracts constrain expanded exploration and production. In general, development of these reserves was discouraged by natural gas pricing policies in effect prior to the enactment of the Natural Gas Policy Act.

Although estimates of the potential production of geopressurized methane from the Gulf of Mexico varies, most experts agree that at least 150 to 220 trillion cubic feet (TCF) of additional gas could be recovered from these sources at costs between $15 to $30 per barrel of oil equivalent. The recoverable resource could prove to be much larger. The technology for producing this gas requires further development.

VII. REDUCTION OF OIL USE IN UTILITY BOILERS

The nation's utilities currently consume 1.5 MMB/D of oil in their boilers for generation of electric power. The President is proposing legislation to Congress which would require utilities to reduce current usage by 50% by 1990. Incentives in the form of grants and/or loan guarantees would be provided to encourage utilities to invest in new non-oil fired generators, thereby retiring existing oil-fired plants earlier than would otherwise occur. This initiative covers oil burning plants which are capable of burning coal as well as those which are not.

Under this program, utility oil consumption targets will be set for 1990 at half of existing usage -- 750,000 barrels per day. "Tickets", or rights to burn oil, will be distributed to utilities. No utility may use oil in excess of the amount of "tickets" which it holds. These tickets may be traded between utilities according to their varying abilities to substitute other fuels. These transferable rights to burn oil will permit the utilities themselves to determine where to make replacements for current oil fired capacity. For example, utilities in areas where environmental constraints or long coal hauls make replacement capacity uneconomic, would be permitted to buy tickets from other regions where lower costs would be incurred in switching away from coal. It is expected that these tickets will have a maximum value to any utility company equivalent to the cost of conversion or replacement of oil-fired capacity versus continued use of oil.

Grants and loan guarantees of $5 billion over the period 1980-1990 will be made available to assist in financing this switch away from oil to sources such as coal, nuclear, or where possible, solar and conservation. 750,000 barrels per day will be saved under this program.

VIII. RESIDENTIAL/COMMERCIAL CONSERVATION AND CONVERSION

In 1978 the residential/commercial sector accounted for 37 percent of total U.S. energy demand, of which about one-half was consumed as oil and natural gas. Direct oil use in residential and commercial buildings, primarily for space and hot water heating, was over 3 MMB/D, and the gas use was the equivalent of an additional 3.3 MMB/D. Substantial opportunities for saving imported oil at relatively low cost can be realized through accelerated conservation investments.

The President's program relies on two complementary approaches to this sector: the retrofit installation of conservation measures in existing buildings and the conversion of oil heated space to natural gas where feasible. The program is designed to overcome the major barrier to retrofit building conservation by providing effective long-term financing of conservation measures through electric and gas utilities, and government-subsidized loans for oil heated homes and buildings. The oil import reduction target for this program is estimated at 3.6% of the total energy consumption of the existing building stock, or 500,000 B/D of oil.

Savings at this level represent about 20% of the potential savings achievable by the retrofit installation of conservation measures in buildings. Strong public participation in this program can substantially increase the level of saving achieved.

The legislation the President will propose has <u>three</u> components:

o It builds upon the energy audit programs which the National Energy Act requires utilities to provide to all residential customers. It will extend this audit requirement to commercial buildings.

o Electric and gas utilities will be required to offer long-term financing to their residential and commercial customers for conservation improvements. These loans would be included in the utility rate bases, just as investments for new generating capacity would be, and

the principal would be repaid when the house or building is sold. The requirement to offer loans to customers would apply only to buildings heated or cooled by gas or electricity; gas utilities could offer similar loans to oil-heated homes to convert to natural gas, though they will not be required to do so.

An amendment would be sought to the National Energy Conservation Policy Act to provide an interest subsidy for loans to the owners of oil-heated residential or commercial buildings to install conservation measures or to convert to natural gas. $2.0 billion is provided for this program over 10 years.

Improving the energy efficiency of buildings is the cheapest means of reducing oil imports, with an average cost of savings estimated to be below $10 B/D. This program will remove the major remaining barrier to building conservation by reducing immediate costs through long-term utility financing or loans. All utility customers will share in the benefits of energy conservation through the savings achieved by avoiding purchase of expensive new energy supplies or power generating capacity.

IX. LOW INCOME ASSISTANCE

Americans living in poverty will bear the heaviest burdens from higher energy prices and tighter supplies, and they will be least able to bear those burdens. Our nation's energy goals must not be pursued without addressing these pressing human needs. The President will ask the Congress to enact a program of Low Income Energy Assistance which when fully effective will use $2.4 billion annually from the Energy Security Trust Fund. A portion of this will be available on a matching grant basis to encourage and assist States in sharing the fiscal burden of meeting these needs of the poor.

Funds will be available for various purposes, with the great bulk to be used for cash assistance to needy households. The limited programs of energy-related crisis intervention and emergency assistance operated through the Community Services Administration will be strengthened.

The Administration will work with the Congress in an effort to assure that substantial funds are available for Low Income Assistance this winter.

X. TRANSPORTATION EFFICIENCY

Over the period 1980 to 1990, the President is proposing expenditures of $16.5 billion for improvements in the nation's mass transportation systems and in automobile fuel efficiency. Over $10 billion will be invested in existing mass transit systems to buy new buses and to upgrade existing subway facilities. It is estimated that this level of investment will produce savings of 250,000 barrels per day of oil savings by 1990. The President has directed Secretary Adams to develop expeditiously specific proposals for achieving this goal in the mass transit and auto efficiency areas.

XI. PRESIDENTIAL ADVISORY COMMITTEE ON ENERGY SECURITY

The President will establish an Advisory Committee on Energy Security which will report to him and to the Secretary of Energy on future directions for energy policy. The Advisory Committee will have eleven members drawn from outside the government. It will be chartered to give broad-ranging recommendations and advice on energy and related economic matters.

XII. DESCRIPTION OF SPECIFIC COAL, SYNTHETIC, BIOMASS, AND OIL SHALE RESOURCES AND TECHNOLOGIES TO BE INCLUDED IN THE ENERGY SECURITY CORPORATION

The sections below describe the nature of the resources or technologies which are proposed for Energy Security Corporation investments. The Corporation will be responsible for making individual decisions on the appropriate incentives, and production targets for each of these categories.

A. Coal Liquids

U.S. coal reserves are the largest in the world and can supply a significant portion of U.S. liquid fuel needs far into the future if modern technologies for the production of synthetic fuels are successfully commercialized.

Processes for producing coal-derived liquid fuels may be classified into two broad approaches -- indirect and direct processes.

- In the case of the indirect liquefaction process, coal is first gasified to produce a synthesis gas (carbon monoxide and hydrogen) which in turn is catalytically converted in one or more steps to liquid fuels. Several commercially available technologies for converting synthesis gas to liquids are available. The Fischer-Tropsch process, currently in commercial use in South Africa, is capable of producing a wide range of liquid products including gasoline and diesel fuels. Methanol also can be produced from coal synthesis gas using a number of commercially licensed technologies. Methanol can be used as a gasoline blend and as a turbine fuel. In addition, a process for producing high octane gasoline directly from methanol is in advanced stages of development.

- In the case of the direct liquefaction processes, coal is suspended in a solvent and reacted with hydrogen under high temperatures and pressures to produce a range of liquid products. Several direct liquefaction processes have been developed with federal assistance and soon will be demonstrated on a near commercial scale.

Estimates of the costs of producing synthetic fuels from coal vary from $27 to $45 per barrel depending on the plant's products, i.e., liquid or gas, and its location. A $38 per barrel average has been used for the purposes of budget estimates for the corporation, although it is hoped that costs will be lower.

B. Coal Gasification

The production of a fuel gas from coal was a commonly accepted technology earlier in this century before large amounts of natural gas were available to consumers. In fact some countries still produce significant amounts of gas from coal for use in chemical processes.

Although there are many different kinds of gasifiers, most commercially available designs work best with non-caking coals such as those found in the West. Newer designs which work efficiently on eastern coals are ready for commercial demonstration.

A number of commercial coal gasification plants have been designed and are ready for construction by the private sector. Regulatory uncertainties and financing constraints are preventing immediate commercialization. The EMB and the Energy Security Corporation can help alleviate some of these barriers.

C. Shale Oil

The Nation's oil shale deposits, located principally under a 16,500 square mile area of adjoining portions of Colorado, Utah and Wyoming, represent one of the largest potential energy sources in the U.S. Estimated to contain more oil than Saudi Arabia -- between 400 to 700 billion barrels of recoverable oil -- these reserves have long been viewed as a potential source for crude oil substitutes. Production of shale liquids will probably be less costly than coal liquids, with an estimated cost of $25 to $35 per barrel.

Two different techniques for producing shale oil are currently being developed. One requires mining with surface retorting*; the other so-called "in situ" process requires retorting -- or heating -- crushed shale rock underground. Four major shale oil projects in the western U.S. are currently in various stages of planning or development. Oil shale production will require investments of over $1.0 billion per plant. None of these oil shale technologies have been demonstrated at scales near commercial levels, and some federal assistance to these projects is necessary. However, the expected costs of oil shale, $25 to $35 per barrel, indicate that it will be the first synthetic fuel to compete economically with imported oil.

In addition to including oil shale within the mandate of the Energy Security Corporation, the President has proposed a $3/bbl tax credit to producers for each barrel of shale oil produced. This credit, first announced by the President in his April 5 energy message, would start to phase out when oil prices reach $22/bbl and would terminate at $28/bbl. It is expected that many companies need only the encouragement provided by this tax credit to begin the construction and operation of major oil shale production facilities. Oil shale projects receiving any assistance from the Corporation would not be eligible for the oil shale tax credit.

D. Biomass

Commercial production of alcohol fuels -- ethanol and methanol -- from agricultural crops, residues, food and wood processing wastes via fermentation and other processes can make a contribution to our energy needs. Blended with gasoline to produce gasohol, ethanol can supplement U.S. oil supplies as a motor fuel extender and octane improver. Production of ethanol is currently relatively expensive when compared to petroleum on a comparable Btu basis. However, the octane boosting qualities allow subsidized gasohol to compete with unleaded

*Retorting is the process whereby the shale rock containing the shale oil is heated to over 900°F in order to produce the "kerogen", a precursor to the final useable shale product.

premium gasoline. Permanent elimination of the 4¢ federal gasoline tax on gasohol -- a subsidy equivalent to $16.80 per barrel -- will help gasohol compete with unleaded regular grades. Improved techniques are expected to lead to significant cost savings and allow a wider range of waste materials to be used.

Production of methanol from biomass is achieved in a two-step process in which "synthesis gas" is first produced and then catalytically converted to methanol by commercially available processes. It is expected that wood will be the principal biomass feedstock because of its availability and relatively low cost. Other biomass feedstocks such as crop residues and municipal solid waste can also be used but at higher costs.

Producing alcohol fuels can help improve the environment by converting waste materials to useful products.

XIII. OTHER MEASURES

A. The Alaska Natural Gas Pipeline

Alaskan natural gas has the capability of replacing 425,000 barrels per day of oil that the U.S. would otherwise require by 1985, and larger amounts beyond that. In August 1977 the President approved construction of a pipeline from the Alaska North Slope to the midwest and the west with the condition that it be privately financed. Participation from the producers of that natural gas in the form of debt guarantees against cost overruns is required to make private financing possible. To date, however, these oil companies have been unwilling to do their share to make progress on this pipeline possible. The President has directed the Secretary of Energy to urge the heads of these companies to proceed with the financial assistance needed to build the pipeline.

B. Standby gasoline rationing

This country must be fully prepared to withstand substantial supply interruptions. The President has asked the Congress to join with him, on a priority basis, to ensure that he has the authority to develop a standby rationing plan which will enable us to manage an emergency fairly.

C. State conservation plans and targets

The President is urging Congress to enact legislation which will permit him to set state-by-state targets for conservation of gasoline and other fuels. Each state will then develop and implement a plan to meet that target. If a state fails to reach its assigned conservation goal, the federal government will be permitted to impose a plan for that State. This authority is needed to assure that we can deal with a continuation of the current shortfall and any future supply interruptions.

D. Solar Bank

In his Message to the Congress on Solar Energy on June 28, 1979, the President proposed the creation of a Solar Bank to encourage the use of solar energy by means of subsidized loans, and thereby lessen the Nation's dependence on foreign oil.

Legislation to establish the Solar Bank which will be transmitted to the Congress shortly, will provide for the following essential elements:

- It would be authorized to provide interest subsidies for home improvement loans and mortgages to finance the purchase and installation of approved solar energy systems. The Bank would pay upfront subsidies to banks and other lending institutions which would in turn permit them to make home improvement and mortgage loans for solar investments at interest rates below the prevailing market rate.

- Solar energy systems would be defined to mean any equipment which uses either active or passive solar design and construction technologies, for example, solar hot water heating, solar heating and cooling, passive solar design, or some combination of these. The Secretary of Housing and Urban Development in consultation with the Secretary of Energy would define the specifications for these systems.

- The interest subsidy would be provided only for that part of the home improvement or mortgage loan which directly finances the solar investment. The interest rate subsidy would be calculated to compensate the lender for the difference in yield between the subsidized loan and a similar loan made at the prevailing market rate.

- The interest subsidy would be set from time to time by the Board of Directors of the Bank (composed of the Secretaries of HUD, DOE, and Treasury) at the level which will best serve the purposes of accelerating the use of solar energy systems in residential and commercial buildings.

- The availability of the subsidy would be conditioned on an appropriate warranty against defects.

- o A commensurate portion of the subsidy would be recovered by the Solar Bank whenever a solar loan goes into default.

- o The following ceilings would be set on the size of the loan or portion of the loan which would be subsidized: $10,000 for a single-family residence; $5,000 for each unit in a multi-family residence (not to exceed $500,000 per loan); and $200,000 for a commercial structure.

- o The Bank would be funded at $150 million per year. It would be financed with monies to be provided from the Energy Security Trust Fund.

Depending on the level of subsidy and the allocation of the Solar Bank's resources among home mortgages, home improvement loans and loans for commercial structures, the Bank could assist well over 150,000 solar installations per year at this funding level.

E. Solar Energy Tax Credits

In addition to the Solar Bank, the President also has proposed major new tax credit initiatives for solar energy. These credits will cover residential, commercial, agricultural, and industrial sectors, and include active and passive solar systems, process heat, wood stoves, as well as exemptions from federal taxes on gasohol. These proposals will provide a significant stimulus for the use of solar energy and at the same time contribute to our goals of reducing the amount of oil used for heating and transportation. Legislation will soon be submitted to the Congress which will provide for:

- o Tax Credits for Residential and Commercial Passive Solar Construction

  Builders of new passive solar multi-family and commercial buildings will be provided with a tax credit of $20 per million Btu estimated design savings per annum for a thermal performance at a specified level above the Building Energy Performance Standard baseline established pursuant to the Energy Conservation and Production Act (P.L. 94-385). The maximum amount of this tax credit is $10,000 per building. This tax credit will be financed from revenues from the Energy Security Trust Fund.

A tax credit is proposed to be provided to builders of new passive solar residences. Builders would be allowed a tax credit of 20 percent of the cost of solar energy equipment for each unit (up to four residential units per building) in qualifying designs, up to a maximum tax credit of $2,000 per unit. Starting in 1983, eligibility for the residential tax credit will be provided to builders who exceed the Federal Building Energy Performance Standards by more than 50%.

Tax credits for both residential and commercial buildings will be effective through December 31, 1985.

o Tax Credits for Solar Process Heat

An additional tax credit of 15% (for a total of 25%) is proposed to be provided from the Energy Security Trust Fund on the cost of solar thermal energy equipment to produce process heat in agricultural and industrial applications. The credit would be allowed for the installed cost of eligible equipment. The credit is to be effective through December 31, 1989.

o Tax Credits for Wood Stoves

A new 15% tax credit has been proposed for the purchase and installation of airtight woodburning stoves in principal residences. This credit will permit greater use of our wood resources for home heating, and should permit consumers to save significantly on their heating bills.

o Tax Exemption for Gasohol

A permanent exemption for gasoline/alcohol mixtures from the current 4¢ federal gasoline excise tax to encourage the use of gasohol has been proposed. Gasohol provides a useful supplement for fueling our existing automobile fleet and can help in reducing our needs for imported crude oil.

XIV. CURRENT PETROLEUM SUPPLY PICTURE

Increased crude oil imports in the past month, and projections for further increases in July and August, have resulted in an improved oil supply picture. Gross crude oil imports have averaged nearly 6.4 million barrels per day during the past 5 weeks, confirming the Administration's judgment that imports had reached a low in the month of May at levels below 6 million barrels per day. Projections for the remainder of July and August indicate that the level of gross crude oil imports will remain at about 6.5 million barrels per day. (Product imports which are included within the quota, are estimated at 1.9 MMB/D.) This projected level of gross crude and product imports will permit the U.S. to meet the import quota the President has set. The improved supply picture has resulted in an increase in refinery processing of crude oil by over 1 million barrels per day since the end of may (14.2 to 15.4 million barrels per day). Production of gasoline, diesel fuel, and home heating oil has in turn increased.

Distillate stocks for home heating next winter have grown by more than 27 million barrels since the end of May, and stocks have increased at a rate of almost 1 million barrels per day in the past 2 weeks. That rate is adequate to meet the target of 240 million barrels in storage in October. Stocks at 240 million barrels will assure that adequate home heating oil supplies are available next winter, even if the weather is colder than normal.

XV. WINDFALL PROFITS TAX AND THE USE OF THE ENERGY SECURITY TRUST FUND

The President's April 5 energy message outlined his plans for the phased decontrol of oil prices and the proposal of a windfall profits tax that would prevent excessive new revenues from flowing to oil producers as a result of the decontrol of prices. The message also proposed the creation of the Energy Security Trust Fund into which the receipts from the windfall profits tax would be deposited, as would the first three years of oil producers income tax increases that result from decontrol. This fund would be used for 1) helping low-income families cope with increased energy costs; 2) new mass transit initiatives; and 3) new energy related investments.

It is critical that the Congress enact the proposed windfall profits tax and the Energy Security Trust Fund in order to prevent the flow of excess revenues to oil producers and to provide the source of funds needed to vigorously address the broad range of this nation's energy problems.

The oil reduction initiatives announced by the President today are the energy-related investments first proposed on April 5. They cannot be carried out without the funds provided by the windfall profits tax and contained in the Energy Security Trust Fund.

The Energy Security Trust Fund will be the sole source of funds for all the expenditures proposed in the President's announcement. To the extent that the windfall profits tax fails to provide adequate revenues, downward adjustments to programs will have to be made. Otherwise, new burdens will be placed on what likely will be a strained base federal budget.

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