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WITHDRAWAL SHEET
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memo	Cabinet Council on Economic Affairs to RR re: Strategic Petroleum Reserve Financing (p.2, partial), 1p.	5/5/81	P5
2. memo	Glenn Schleede to Ed Harper re: Energy Organization, 2p.	2/14/81	P5

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]
- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-3 Release would violate a Federal statue [(b)(3) of the FOIA].
- F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
- F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

WITHDRAWAL SHEET
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- 3 -

THE WHITE HOUSE

WASHINGTON

File SPR

May 5, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: THE CABINET COUNCIL ON ECONOMIC AFFAIRS

SUBJECT: Strategic Petroleum Reserve Financing

At the April 24 Cabinet meeting you referred the issue of developing an administration position on financing the Strategic Petroleum Reserve to the Cabinet Council on Economic Affairs.

Background

Your fiscal year 1982 budget provided $3.8 billion for funding the Strategic Petroleum Reserve (SPR). The Senate Budget Resolution, however, provided only $900 million of on-budget funds and the Gramm-Latta (Reagan bipartisan) substitute provides no on-budget spending for the SPR.

These budget actions do not reflect a lack of congressional commitment to fill the reserve. On the contrary, they have prompted a series of proposals to provide alternative financing for the SPR.

It appears highly unlikely, given the congressional budget actions to date, that we can achieve full on-budget funding as you originally proposed. In recent weeks the Cabinet Council on Economic Affairs has examined numerous alternative funding proposals under consideration in the Congress.

Senior administration officials from the Departments of Treasury and Energy and the Office of Management and Budget are now scheduled to testify before the Senate Energy Committee this Friday on Senator McClure's alternative financing proposal.

The McClure bill has the following major provisions:

- It would authorize the SPR to draw funds from the Energy Security Reserve, which finances the Synthetic Fuels Corporation, on a loan basis.

- It would authorize direct funding of SPR oil acquisition from the sale of Naval Petroleum Reserve (Elk Hills) and federal royalty oil.

- It would authorize the SPR to hold state royalty oil, such as Alaskan oil.

- It would require the administration to develop an SPR

"oil bond" proposal for congressional review no later than September 30, 1981.

The Cabinet Council believes that the "oil bond" provisions of this bill must be modified to make it acceptable. Secretaries Regan and Edwards and Director Stockman met with Senators McClure and Warner last week. The Senators expressed a willingness to accept any modifications to their proposal to make it acceptable to the administration.

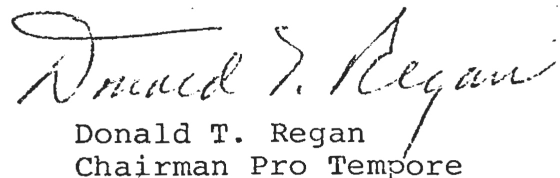
The Cabinet Council after extensive review agrees that the most appropriate form of any off-budget financing mechanism provide for issuing conventional interest-bearing debt obligations which would carry the full faith and credit of the United States Government (either directly or as guaranteed). The obligations would not be indexed to the price of oil. A more detailed description of this proposal is provided in the attached paper.

If the McClure Bill is modified in this way, it will permit a mechanism which can ensure adequate supplies of oil for filling the reserve.

Recommendation: The Cabinet Council unanimously recommends that you approve administration officials testifying in support of modifying the McClure Bill to provide for establishing an off-budget means of financing the Strategic Petroleum Reserve with conventional debt instruments.

Approve ____________ Disapprove ____________

Secretaries Watt and Edwards also concur in this recommendation.



Donald T. Regan
Chairman Pro Tempore

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Financing the Strategic Petroleum Reserve

The Treasury recommends that any legislation to provide an off-budget means of financing the Strategic Petroleum Reserve (SPR) provide for financing with conventional debt instruments. This was agreed to by the Cabinet Council on Economic Affairs.

The legislation should provide for:

<u>Borrowing entity</u>

--A new Strategic Petroleum Reserve Financing Fund (SPRFF) would be established in the Treasury and would be administered by the Secretary of the Treasury. The SPRFF would be authorized to issue securities to finance acquisition of oil for the SPR. The proceeds from the sale of SPRFF obligations would effectively be made available to the Department of Energy in the same way that appropriations are now made available to the Department under existing legislation to finance the SPR. Any proceeds from the sale of oil by the Department of Energy, if not used for the purchase of additional oil, would be required to be deposited in the SPRFF. The SPRFF securities would be conventional interest-bearing debt obligations which would carry the full faith and credit of the United States Government. They would <u>not</u> be indexed to the price of oil.

<u>Source of financing</u>

--Such SPRFF obligations could be sold in the open market to the public, to the Treasury, could be privately placed with sellers of oil, such as Alaska, or could be sold to any other authorized purchaser. Maintaining eligibility for Treasury financing provides flexibility for the Administration to obtain the fastest and least cost financing and is essential to assure the availability of funds on reasonable terms regardless of market conditions. Also, in the case of Treasury financing, and possibly Alaska, the obligations could take the form of discount securities, which would avoid the need for current interest payments.

Federal borrowing authority for principal and interest payments

--The SPRFF would be authorized to borrow from the Secretary of the Treasury as a current source of funds to make timely payment of principal or interest on its debt. Without such a source of funds, the SPRFF's obligations would be unsaleable in the marketplace because no cash flow to pay principal or interest is generated by holding oil; any sales of SPR oil would not be likely to come at times or in amounts sufficient to meet principal or interest payments on the SPRFF's debt.

Budget treatment

--The receipts and disbursements of the SPRFF would not affect the President's budget totals, since borrowings and repayments would be treated as debt transactions and since disbursements to the Department of Energy would be intragovernmental expenditures. The legislation would explicitly provide that the receipts and disbursements of the Secretary of Energy for the SPR would not be included in budget totals, effective October 1, 1981, along the lines of the statutory provisions creating other off-budget Federal entities, e.g., the Rural Electrification Administration and the United States Railway Association.

Rationale for Off-Budget Treatment

--Off-budget treatment can be rationalized for SPR financing through the SPRFF because of the frustration of national security objectives that could result from dependence upon the annual appropriations process to fill the SPR at appropriate rates and at (often temporary) advantageous market prices. Additionally, SPRFF financing will result in the acquisition of a non-depreciating commodity, rather than a current period expenditure for which a wasting (or no) asset is obtained.

Relationship of Financing Proposed to Sale of Federal Assets

--Although no sale of Federal assets to finance the purchase of SPR oil is embodied in the Treasury's proposed legislation, neither is it restricted. For example, it has been suggested that a "swap", in effect, of a Federal asset, such as gold, might be made for another asset, petroleum. While it is not now recommended that such an approach be taken, the proposed legislation does not preclude the flexibility to do so in the future.

May 5, 1981

Document No. 0004945

File Syn fuels Corp

THE WHITE HOUSE

WASHINGTON

STAFFING MEMORANDUM

DATE: 3/20/81 ACTION/CONCURRENCE/COMMENT DUE BY: 3/27/81

SUBJECT: Letter from Cong. Toby Moffett re: Syn Fuels Compensation

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	JAMES	☐	☑
MEESE	☐	☐	MURPHY	☐	☐
BAKER	☐	☐	NOFZIGER	☐	☐
DEAVER	☐	☐	WEIDENBAUM	☐	☐
STOCKMAN	☐	☐	CANZERI	☐	☐
ALLEN	☐	☐	FULLER *(For Cabinet)*	☐	☐
ANDERSON	☐	☐	HICKEY	☐	☐
BRADY	☐	☐	HODSOLL	☐	☑
DOLE	☐	☐	MC COY	☐	☐
FIELDING	☑	☐	WILLIAMSON	☐	☐
FRIEDERSDORF	☐	☐	______	☐	☐
GARRICK	☐	☐	______	☐	☐
GERGEN	☐	☐	______	☐	☐
HARPER	☐	☑	______	☐	☐

Remarks:

Fred, please take the lead and draft appropriate response.

Thank you.

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

TOBY MOFFETT, CONN., CHAIRMAN
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BARNEY FRANK, MASS.

JOEL DECKARD, IND.
JOHN HILER, IND.
DAVID DREIER, CALIF.
JUDD GREGG, N.H.

MAJORITY—225-6427
MINORITY—225-2738

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

ENVIRONMENT, ENERGY, AND NATURAL RESOURCES
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-371-B-C
WASHINGTON, D.C. 20515

March 19, 1981

The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C.

Dear Mr. President:

On February 23, 1981, nine members of the Subcommittee on Environment, Energy and Natural Resources requested your review (Attachment A) of the total compensation packages of the officers of the Synthetic Fuels Corporation (SFC). We were extremely gratified by your response on February 25 when you specifically disapproved the "compensation, terms, benefits and conditions of employment" of the officers which had been transmitted to you for review on January 27, 1981, by former SFC Chairman John C. Sawhill.

Our request for review was based on the Subcommittee's investigation which revealed an attempt by the former chairman of the corporation to evade Congress' mandates that SFC officer compensation remain within the federal schedule "to the maximum extent possible," and that the President review compensation for officers and categories of employees which exceeded the federal schedule.

That evasion was attempted by two devices. First, salaries well above Level I ($69,630) of the Executive Schedule were promised to SFC officers before a compensation study was received and without the required effort to find qualified individuals willing to serve at lower compensation. Second, the former chairman agreed to pay certain individuals various forms of compensation which were not disclosed to either the board or the President when they reviewed the compensation levels. These included extended living expenses, long-term commuting expenses, extremely generous moving expenses, and one furnished apartment. It is clear that neither the board nor the President ever approved the actual compensation promised to the officers, and that their actions were flawed under the provisions of the Energy Security Act. As a result, your timely disapproval superseded any prior action.

We must report to you that the officers of the Synthetic Fuels Corporation regrettably have not abided by the clear intent of your letter to disapprove these total compensation arrangements.

According to a report (Attachment B) prepared for the Subcommittee by the corporation's acting inspector general, the corporation's officers responded to your order by asking Arnold & Porter for a legal opinion on the effect of that order. In that opinion (Attachment C), which has been distributed to the Subcommittee by the corporation, Arnold & Porter concluded that the President's authority under Section 117(b)(2) of the Energy Security Act extended only to a review of the cash salaries of the officers, and that those salaries, except for that of Leonard Axelrod (who was hired on January 23), had been approved by President Carter. The opinion did not address the issue raised by the Subcommittee at its February 19 hearing that the former chairman of the corporation used a series of other compensatory devices to increase the total compensation far beyond the amounts approved by either the board or the President.

Based on that opinion, six of the seven officers of the corporation receiving salaries in excess of Level I "voluntarily" agreed to roll back their salaries to $69,630, effective February 25, pending review by the new board. One officer refused to do so and continues to be paid at a rate of $140,000 annually. Further payment of the other forms of compensation provided for under the individual agreements with the officers has been held in abeyance pending review by the new board. The officers of the corporation maintain, however, their continued right to both their salaries and the other compensation and intend to raise their claims with the new board.

We view this position by the officers as contrary to the mandate of Congress and to the directive of the President. It lends credence to a belief, often expressed during the debates on the creation of this corporation, that it would be a publicly funded corporation over which the public had no control.

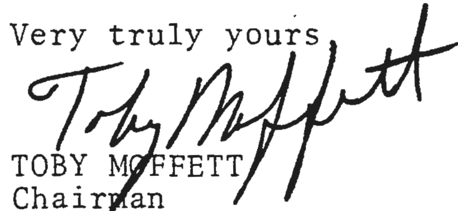
We are confident that you do not intend to countenance this move on the part of the officers of the Synthetic Fuels Corporation to retain the excessive compensation packages the former chairman illegally promised to them.

There is a joint congressional and Presidential mandate to limit compensation at the SFC. On behalf of the following members of the Subcommittee, Floyd Fithian; Mike Synar; Tom Lantos; Barney Frank; and Joel Deckard, ranking minority member, we urge you to make that joint mandate clear to the individuals you will soon nominate to serve on the board of the corporation. No one should be nominated to the board unless he or she has made a public commitment to establish SFC compensation in accordance with that joint mandate and to follow the procedures of the Energy Security Act.

The President
Page Three

Thank you again for your previous responsiveness on this issue and for your renewed attention.

Very truly yours,



TOBY MOFFETT
Chairman

ANDREWS, KURTH, CAMPBELL & JONES
ATTORNEYS
1747 PENNSYLVANIA AVENUE, N. W.
WASHINGTON, D. C. 20006
(202) 861-7400

2500 EXXON BUILDING
HOUSTON, TEXAS 77002
(713) 652-2500

CABLE ADDRESS
ANKUR

File DOE

March 11, 1981

Mr. F.S.M. Hodsoll
Deputy Assistant to the President
and Assistant to the Chief of Staff
The White House
Washington, D.C. 20500

Dear Frank:

I enclose a memorandum which some of us active in the energy regulatory area have prepared. I have sent a copy to Glenn Schleede and Jim Tozzi at OMB, both of whom have had long experience with the DOE petroleum regulatory program.

We have had some meetings at DOE (not with Secretary Edwards, and not with Tenney Johnson, who has not yet been confirmed) but with no progress. The career people in the regulatory program have an emotional commitment to the program and their interpretations of the regulations. We also have talked with a special assistant to Edwards (now responsible for budget and scheduled to be the head of policy planning) but he is a very cautious career bureaucrat from the nuclear side of DOE whose reputation is as a "survivor." It is unlikely that he has any commitment to the philosophy of the Reagan Administration.

I believe that a copy of the enclosed is being sent to Danny Boggs who is responsible for energy matters on Ed Meese's staff. You may want to alert Nofziger to this since there may soon be some adverse action to the stepped up enforcement activity. Illustrative of what is going on are the enclosed clippings from last night's Star (p.1 of the business section) and this morning's page one story in the Post.

Sincerely,

Michael F. Butler

Enclosures

P.S. See the attached article from tonight's Star.

M E M O R A N D U M

SUBJECT: Department of Energy Efforts to Block Presidential Budget Directives

The Department of Energy (DOE) is actively attempting to block President Reagan's efforts to cut its budget and its authority. Unless the White House, the Office of Management and Budget and the Secretary of Energy take prompt action, the President's efforts to cut the DOE bureaucracy and to end needless interference by that agency with private business will fail. This is a critical fight, a clear test of the President's desire and ability to reduce the size of government.

> The Economic Regulatory Administration of the Department of Energy has programs to force companies to convert to specific fuels. It has the authority to administer a gas rationing plan, and prior to decontrol it ran the oil price control program. With these and other regulations gone we can save several hundreds of millions of dollars over the next few years.

President Reagan, Address to the Congress, February 18, 1981.

Background

The DOE has two enforcement offices. The Economic Regulatory Administration (ERA) handles enforcement cases involving small refiners and independent producers, resellers and retail marketers. The Office of Special Counsel (OSC), a separate office, handles only the 34 largest refiners.

The central issue is the President's proposal to cut the DOE enforcement budget from $71 million in FY 1981 to $12 million in FY 1982. The funds will be used to enforce compliance with the petroleum pricing regulations terminated by the President on January 28. Some funding will be used for enforcement of certain price and allocation regulations that were terminated in 1976.

In the face of the clear Presidential directive, the DOE enforcement offices have embarked upon a concerted -- and so far successful -- campaign to present the White House and the Congress with a fait accompli: an increased valume of ongoing civil enforcement cases which will require more manpower and more funds. The offices have been successful, in large measure, because of lack of direction and attention of the top policy levels of the DOE.

The ERA is pursuing its objective in three ways:

First, by opening new enforcement audits. ERA may claim that it is simply activating ongoing audits, but careful review is likely to reveal that, in most cases, the auditors are looking at new issues and new companies.

Second, by bringing new enforcement actions. ERA plans, in the coming months, to issue a number of new NOPV's and PRO's;*/ these are early, but formal steps in the long enforcement process. These new actions could keep ERA lawyers and auditors busy for years to come.

---

*/ Notices of Probable Violation and Proposed Remedial Orders.

Third, by pursuing a harsh settlement policy. ERA adheres to a "settlement strategy," ostensibly designed to close out existing cases. However, examination of this strategy will reveal that the ERA is pursuing settlement terms for small, independent companies that are far harsher than the settlement terms already given to many major oil companies. (Indeed one would expect that since the program is now over, settlement terms would be easier, except for egregious cases, in order to close down the program promptly and avoid extended litigation.)

In addition, the press and certain members of Congress*/ have been attempting to convince the public that massive additional refunds can be returned to consumers, that new violations can be prosecuted, and that a large number of very promising cases can be successfully completed -- if the Congress will only vote additional funding and authority for the enforcement programs of the DOE.

The added funds will not result in massive returns to the Government; on the contrary, they will create massive litigation. The cases involve a wide range of complex and confusing price and allocation regulations. Because these regulations were and are

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*/ E.g., The Washington Post, Trims in Budget Contain a Break for 34 Oil Firms," March 6, 1981, p. A9; Inside D.O.E., "Reagan Budget Forecloses Billions in Recoverable Overcharges by Big Oil," March 6, 1981, p. 3; Statement by Paul L. Bloom, former Special Counsel for Compliance, before the Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations, February 23, 1981.

subject to a variety of reasonable interpretations, because the DOE has been constantly revising and reinterpreting their meaning (often retroactively) and because the courts have ruled against the DOE in a number of recent cases, the Federal Government will become increasingly involved in protracted and expensive litigation with private parties.

Recommendations

Prompt action must be taken by the White House and the OMB. Such action is needed because of lack of staff and attention at the top levels of the DOE.

Two steps are essential:

1. An immediate 3-month freeze should be placed on enforcement actions -- both new audits and the issuance of formal enforcement orders (NOPV's and PRO's) involving civil matters. During such freeze, the agency could negotiate and enter into consent orders for settlement of cases, and to issue Remedial Orders in cases that are further along in the enforcement process.

2. During the 3-month freeze, the Secretary of Energy should conduct a full review of the enforcement process at both the Economic Regulatory Administration and the Office of Special Counsel. The review would permit the new officials of the Department (Deputy Secretary, Under Secretary, General Counsel, etc.) to examine enforcement activities and establish policies and

procedures for encouraging settlement of old cases and phasing out all ERA activities in accordance with the President's schedule.

Note: The ERA's friends in Congress will be continuing their attack on the President's proposed budget cuts at a March 12 hearing before the Oversight Subcommittee of the House Committee on Energy and Commerce.

Grand Jury Investigation of Major Oil Companies Urged

OIL, From A1

system as legal and efficient practices that save money for consumers.

The investigators' conclusion in the case against the major oil companies has surfaced at a time when President Reagan's budget cutters propose to reduce the Energy Department's investigative effort by 80 percent. Also, if the case is eventually referred to Justice Department prosecutors, it will be greeted by a law enforcement philosophy that Attorney General William French Smith has said will place greater emphasis on violent-crime investigations than so-called white-collar investigations.

In addition, the departing Carter administration special counsel, Paul L. Bloom, has criticized the investigative methods used in the pipeline inquiry. Bloom was in charge of auditing the pricing practices of the 35 major oil companies but did not direct the pipeline investigation.

"There are people who are no friends of the major oil companies who have told them [the DOE criminal investigators] that this is a sloppy, emotional way to go after the majors who have some of the best lawyers in the country on their side," Bloom said in an interview. He said his objections were based on the investigators' failure to perform some auditing steps he believes are crucial to make a criminal case.

A 27-page document summarizing the Energy Department's case, however, concludes that consumers might have been paying an additional $500 million a year for gasoline and other petroleum products as a result of the practices on a single pipeline.

For a single month in 1978, transactions that involved Mobil Oil Corp. raised the price of crude oil $44 million, according to the investigation. During the same month, American Petrofina transactions added $1.7 million to the cost of its crude and Tesoro Petroleum Co. transactions added $2.4 million, the investigators said.

The call for a grand jury probe has been in draft form since last fall awaiting formal referral to the Justice Department. The draft is addressed to John Keeney, acting head of the criminal division and a career Justice Department employe.

Senior career Energy Department officials, who supervise the investigators, are said to be holding up the referral on the basis that more interviews need to be conducted with oil company officials and more documentation obtained before a referral should be made.

At hearings today before a House Energy and Commerce subcommittee, Rep. Albert Gore Jr. (D-Tenn.) will seek an explanation of why Energy Department officials continue to hold up the referral to the Justice Department. "In my opinion, the lawyers have enough to proceed against the companies and individuals involved," Gore said.

Oil company executives from virtually every major firm, many of them interviewed more than a year ago by Washington Post reporters looking into allegations of fraud on the pipeline system, have vigorously denied any improper conduct.

"There is no rational incentive for most major refiners to participate in any illegal . . . scheme or even to deal with a disreputable reseller," Mel Pine, public relations coordinator for Mobil, said in a late 1979 statement. Yesterday, a Mobil spokesman said the company would have no additional comment before today's hearing.

In hundreds of pages of summary documents Energy Department auditors and investigators say they found a pattern of trading in crude oil that they believe to be part of a criminal conspiracy to reclassify inexpensive "old" oil as highly priced foreign oil for the financial benefit of major refiners and hundreds of small trading firms that have grown up in recent years to serve them.

Investigators found that despite the growth of this new trading industry, "the oil continues to be delivered according to patterns established by the major oil companies prior to regulation," one document asserts.

In other words, the documents assert that domestic oil continues to flow in pipelines from wells in the South and Southwest straight to refineries owned by major refiners. But instead of keeping control of the crude from its point of origin to the refinery, the major companies have increasingly sold off this cheap domestic crude to small trading firms, who trade, buy and sell the oil back and forth as it moves toward the refinery. In most instances, the oil is sold back to the major refiner at the end of the line.

By this time, according to the investigators, the price has increased dramatically and the onetime "old" oil selling for less than $6 a barrel approaches the level of costly foreign oil.

"There appears to be a high degree of probability that a considerable number, if not all, of these transactions were prearranged or in some fashion orchestrated . . . ," said an accompanying DOE report.

Trading Practices Questioned

Probe of Oil Firms Urged

By Patrick E. Tyler
Washington Post Staff Writer

Energy Department investigators have recommended that crude oil trading practices of some of the largest oil companies be investigated by a grand jury for possible criminal prosecution.

But the case, which represents the first official allegation that the largest oil companies have recently been engaged in criminal conduct, faces major obstacles in the form of budget cutbacks in the Reagan administration and criticism from an outgoing special counsel in the department.

The call for a grand jury comes from a team of professional field investigators in the Houston office of the Energy Department. It follows a two-year investigation of alleged fraudulent practices on the nation's vast system of crude oil pipelines, where an entire industry of crude oil middleman companies sprang up during the decade of oil price regulation.

The results of the investigation call into question hundreds of transactions in which large quantities of West Texas and other domestic crudes have been sold to middlemen and then repurchased by the major refiners. The major oil companies, including Exxon, Mobil, Shell, Gulf, Arco, Tenneco and American Petrofina, reaped various benefits from these transactions under the complex federal regulations.

All of the companies have denied any suggestion of wrongdoing and defended the transactions in the pipeline

See OIL, A8, Col. 1

DOE Debates Enforcement

By Sheilah Kast

Washington Star Staff Writer

An early draft of the Department of Energy's explanation for cutting four-fifths of the budget for prosecuting price violations by major oil companies said the cut would let $7 billion in past pricing violations go unchecked.

But all references to allowing violations to go unprosecuted were deleted from the budget memorandum last week, at the urging of a DOE consultant who is likely to become its general counsel, according to documents obtained by the House Government Operations environment and energy subcommittee.

In a memo to his boss, the acting head of the office of special counsel, Avrom Landesman, said he was amend-

See DOE, F-2

DOE Debates Stand On Enforcement

Continued From F-1

ing his description of the impact of the budget cuts in order to "satisfy the concern expressed by Tenney Johnson during our meeting with him on March 3."

R. Tenney Johnson is the Washington lawyer whom the White House has said it will nominate to be DOE general counsel. In the meantime, he is serving as a consultant.

Johnson, who could not be reached last night for comment, was scheduled to testify today before the energy subcommittee about his role in the decision to cut funds for the special counsel's office.

At an hearing two weeks ago, subcommittee Chairman Toby Moffett, D-Conn., argued the proposed cuts would "amount to a declaration of amnesty for the oil companies."

The office of special counsel, set up three years ago to enforce price rules against the 34 largest refiners, has identified $10.2 billion in violations and recovered $2.8 billion in remedies.

The original "black book" of budget cuts suggested by Office of Management and Budget Director David A. Stockman suggested cutting DOE's compliance budget from its current level of $71 million to $12 million next year. The black book said those cuts would be "based on a compliance strategy to settle most remaining cases as fast and efficiently as possible."

The budget unveiled yesterday by DOE contained the same figures, but now department officials are saying that any cases which have not been settled or prosecuted by the end of fiscal year 1982 will be pursued by other offices in DOE or by the Justice Department.

"We do not intend to have any amnesty for any violators," acting Undersecretary Raymond G. Romatowski volunteered at yesterday's briefing on the DOE budget.

Landesman's original written explanation said the budget cuts would allow no new cases to be brought against the major oil companies, but Romatowski disputed that.

House Unit Seeks Subpoena Of Likely DOE Nominee

By Sheilah Kast
Washington Star Staff Writer

Escalating the controversy over cutting the Department of Energy's budget for enforcement, a House subcommittee has voted to subpoena DOE's prospective general counsel to get him to explain his role in setting the new administration's policy.

The House Government Operations subcommittee on energy voted 6-2 on party lines for the subpoena yesterday after R. Tenney Johnson, the lawyer named by the White House as the likely nominee to be DOE general counsel, failed to testify.

Subcommittee staff members said Energy Secretary James B. Edwards telephoned subcommittee Chairman Toby Moffett, D-Conn., shortly before yesterday's hearing to plead it would be improper for Johnson to testify at a House hearing before he has been confirmed by the Senate.

Until his nomination is sent to the Senate, Johnson is serving as a $192-a-day special consultant to Edwards.

Other department officials testified that Johnson has been involved in meetings about how much to cut and how to implement cuts in the budget for the Office of Special Counsel, set up three years ago to prosecute pricing violations by the 35 largest refiners.

Moffett said the subcommittee wants to ask Johnson whether these and other actions violate Office of Management and Budget regulations barring consultants from performing work "of a policy, decision-making or managerial nature."

The subpoena, which calls for Johnson to appear before the subcommittee during the coming week, may be issued after it is signed by the chairman of the full committee, Rep. Jack Brooks, D-Texas.

The Reagan administration intends to cut the special counsel's budget for fiscal 1982 to $6.4 million, about one-seventh of the $44 million originally proposed.

Acting Special Counsel Avrom Landesman said the prospect of such deep cuts already has prompted some oil companies to stop negotiating settlements of alleged overcharges.

Five weeks ago Barton R. House, acting head of the Economic Regulatory Administration – the part of DOE which includes the special counsel's office – contended in a memorandum to Edwards that cutting below $44 million "will cause so much turmoil and chaos that a substantial portion of the $15 billion in identified (pricing) violations will not be resolved : . . .

"A more drastic budget cut than the one proposed will cause the industry to opt for waiting us out rather than settling by consent order."

Testifying yesterday, House said he personally still supports the higher funding level and has tried to persuade OMB to approve it.

If DOE is abolished in the meantime, the job would be transferred to the Justice Department, House said.

MICHAEL F. BUTLER

3/13/81

Dear Frank:

I enclose a clipping from the Wall Street Journal of Thursday, March 12, 1981. More guerrilla warfare.

[signature]

THE WALL STREET JOURNAL,
Thursday, March 12, 1981

Energy Agency's Oil Overcharge Cases Could Be Jeopardized by Budget Cutbacks

By RICH JAROSLOVSKY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Reagan administration's budget-cut proposals make the future uncertain for the Energy Department's much-publicized cases alleging overcharges by oil companies.

In releasing the agency's proposed budget earlier this week, department spokesmen insisted that cuts sought by the administration wouldn't jeopardize pending cases or effectively result in an "amnesty" for possible past violations of the petroleum price-control system. However, department enforcers have told their superiors that the proposed budget doesn't include enough money to pursue some $7 billion in allegations made by the Carter administration against the nation's 35 largest refiners.

The issue seems to go well beyond a typical scrap between budget-cutters and the bureaucracy. Even compared with President Reagan's spending slashes in other programs, the proposed energy enforcement cuts are severe. In his plan disclosed earlier this week, the President called for lopping the department's compliance budget by more than 80%, from $70.9 million in the current fiscal year to $11.9 million in the fiscal year starting Oct. 1.

In unveiling the proposed department budget, Ray Romatowski, Acting Undersecretary, told reporters the cuts were made possible by President Reagan's recent removal of remaining petroleum price controls, which the office said sharply reduced the need for department lawyers and auditors. The cases filed by the Carter administration still would be pursued vigorously, he said.

But Avrom Landesman, who as Acting Special Counsel for compliance is currently in charge of the major overcharge cases, said in budget documents prepared for submission to Congress that existing cases in fact will be hurt significantly.

Of the $10.2 billion of allegations currently pending in various department proceedings and court suits, Mr. Landesman said, "the proposed budget doesn't provide resources to remedy" any more than about $3 billion.

A substantial portion of the government's pending charges represent allegedly inflated "banks," price increases the companies claimed were allowed under the price-control system but deferred because of market conditions. With petroleum decontrol, the disputes over banks have become much less important. But enforcement officials claim the department could still recover some $2 billion or more in cash refunds to customers and the government if it pursues the pending cases.

In his budget statement, Mr. Landesman asserted that under the Reagan proposals, "new enforcement actions won't be initiated even when substantial violations have been discovered." Among other things, the department has never brought charges stemming from its inquiry of possible violations that occurred in the wake of the 1979 oil shortage, a period when price controls on crude oil and gasoline were still in effect.

While department officials confirm that Mr. Landesman wrote the estimates of the budget-cut impacts, the documents weren't submitted to Congress. Instead, officials said, they were rewritten at the request of Reagan administration appointees in the department to remove those passages from the department's budget narrative.

Opposition to the proposed enforcement cuts already is brewing in Congress, especially among House Democrats. Several weeks ago, Energy and Commerce Committee Chairman John Dingell (D., Mich.) warned the administration in a letter against sharply cutting the enforcement program. And yesterday, Toby Moffett (D., Conn.), who chairs a government operations subcommittee, held a hearing to lambaste the administration's proposal.

At that hearing, Barton House, acting head of the department's Energy Regulatory Administration, said that at least one major oil refiner recently pulled out of a settlement with the government, possibly because of uncertainty over the Reagan administration's aims. The administration says it wants to settle all the pending cases by the end of September 1982, but enforcement officials fear that under such a timetable many companies will opt to wait out the agency in hopes of a more favorable settlement.

Mr. House also acknowledged he initially had supported a larger budget for the department's compliance operations but that his recommendations were turned down by the Office of Management and Budget. He said he has since come around to supporting the Reagan administration plan, saying "there is no question" but that the administration will continue to pursue the cases.

Congress of the United States
Committee on Government Operations
House of Representatives

February 23, 1981

The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D. C.

Dear Mr. President:

On behalf of Floyd J. Fithian (D-Ind.), Mike Synar (D-Okla.), Tom Lantos (D-Calif.), Barney Frank (D-Mass.), Ranking Minority Member Joel Deckard (R-Ind.), John Hiler (R-Ind.), David Dreier (R-Calif.), and Judd Gregg (R-N.H.), Members of the Subcommittee on Environment, Energy, and Natural Resources, I have been instructed to bring to your attention the levels of compensation proposed for the top officials of the Synthetic Fuels Corporation by former SFC Chairman John Sawhill during the previous administration.

Under Section 117(b) of the Energy Security Act, any compensation that exceeds Level I ($69,630) of the Executive Pay Schedule under Section 5312 of Title 5 of the United States Code must be approved by the Board of Directors of the Corporation and sent to the President for a 30-day review. The compensation proposed by the Board will go into effect if the President does not disapprove through an official notice to the Board of the Corporation. Compensation is defined in Section 171(a) of the Act to include pension plans, health benefits, incentive compensation plans, paid vacation, sick leave and other fringe benefits.

On January 27, 1981, John Sawhill, former Chairman of the Board of the Corporation, sent to you a memorandum informing you of the cash compensation and some of the other fringe benefits of these top officials (ATTACHMENT A). These benefits included living and commuting expenses for six months for some officials, and for an indefinite period for one; a retirement plan that vests at 100 percent after four years of employment without any contribution by the employee; extensive relocation expenses, including mortgage differential rate payments, unpaid school fees, etc.; and employment "agreements." (Although no written employment contracts exist, John J. McAtee, Jr., General Counsel of the Corporation, indicated in an appearance before the Subcommittee on February 19 that he considered any dismissal of the already hired officers as a breach of contract that could result in damages of up to $280,000.)

Although the Subcommittee's investigation has raised serious questions about whether the Board of Directors ever approved the total compensation package before its transmittal to you or was even aware of the commitments made by the Chairman at the time of hiring, we more importantly want to bring to your attention the fact that these compensation packages will go into effect on February 26, 1981, if you do not take action to disapprove them. (The new Board, of course, has the option of dismissing those officials and hiring new ones at lower compensation. Moreover, the President alone must set the compensation of the new chairman.)

As Members of Congress, we are confident that Congress never intended compensation packages of this magnitude. The conference report accompanying the Energy Security Act stated that, "to the maximum extent possible," the levels of compensation should be held within the existing federal schedule (ATTACHMENT B). On the issue of employment guarantees, it is also clear that Congress did not provide for them. The original legislation for the Synthetic Fuels Corporation (S. 1377) contained no controls on the levels of compensation that top officials of the Corporation could receive and provided for employment agreements of up to five years. However, those provisions were deleted in subsequent rewrites of the law and replaced by the specific restraints already mentioned.

It is clear that the Corporation made no attempt to stay within the federal schedule. On October 20, 1980, Mr. Sawhill contracted for a $47,000 compensation study (although at the time the Board had not delegated to him the authority to make contracts). On October 27, Mr. Sawhill met with representatives from Towers, Perrin, Forster & Crosby, the consulting firm he chose to do the study, to design a "conceptual approach" to the study. Mr. Sawhill set the following "cash compensation program objective" for the study (ATTACHMENT C):

1. Base salaries

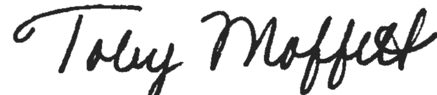
   a. Executive positions (functional heads plus Chairman): generally below competitive private sector rates but higher than Federal and not-for-profit salaries. (emphasis added)

The comparative, private-sector companies chosen were those with assets of $3 to $6 billion (basically the Fortune 100) (ATTACHMENT D), although the Corporation itself was limited by statute to 300 professional employees.

On the same day (October 27), before the consulting firm had even begun its work, the Board of Directors approved a salary of $175,000 for the Chairman, and $95,000 for a vice president of administration. Not surprisingly, the interim report received by the Corporation on November 17 approved those amounts. Subsequent cash salaries followed the pattern set at the October meeting.

You have called upon all the citizens of the country to make sacrifices. You have called upon the top officials of your Administration and the Members of Congress to sacrifice by refusing to support a pay raise for them. We believe that it would set an unfortunate example for the American public to allow these compensation packages to go into effect without a review of their merit. We are, however, confident that you and your staff will give this issue the attention that it deserves.

Sincerely,



TOBY MOFFETT
Chairman
Environment, Energy, and
Natural Resources Subcommittee

TM:ehg

96TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
No. 96-1104

ENERGY SECURITY ACT

JUNE 19, 1980.—Ordered to be printed

Mr. MOORHEAD of Pennsylvania, from the committee of the conference, submitted the following

CONFERENCE REPORT

[To accompany S. 932]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the amendments of the House to the bill (S. 932) to extend the Defense Production Act of 1950, as amended, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate to the amendment of the House to the text of the bill and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

That this Act may be cited as the "Energy Security Act".

TITLE I—SYNTHETIC FUEL

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Sec. 100. Findings and purpose.

Part A—Development of Synthetic Fuel Under the Defense Production Act of 1950

Sec. 101. Short title.
Sec. 102. Declaration of policy.
Sec. 103. Restriction on rationing.
Sec. 104. Expansion of productive capacity and supply.
Sec. 105. General provisions.
Sec. 106. Reports.
Sec. 107. Effective date.

ATTACHMENT B

intended to make 5 U.S.C. 552b applicable to the Corporation. However, in patterning the grounds for the closing of meetings after those provided by that statute, the Conferees do intend that the body of law developed in litigation construing the exemptions provided in subsection (c) of Section 552b of Title 5 serve as precedent for construing the exemptive provisions of subsection 116(f).

Officers and Employees (Sec. 117)

The Chairman of the Board of Directors shall be the Chief Executive Officer of the Corporation responsible for its management and direction (Section 117(a)).

The Board of Directors shall establish the offices and appoint the officers of the Corporation, including a General Counsel and Treasurer, and define their duties (Sec. 117(b)(1)).

The compensation of the officers and categories of employees shall be established by the Board of Directors taking into consideration the Executive Schedule prescribed by subchapter II and the General Schedule prescribed by subchapter III of Chapter 53 of Title 5, United States Code. The Board may establish a compensation level for such officers or categories of employees' positions at a higher level than such schedule if not disapproved by the President within 30 days of such a recommendation by the Board of Directors to him (Sec. 117(b)(2)).

The Conferees intend that, to the maximum extent practicable, the rates of compensation of the Corporation's officers and employees will be fixed within the range of compensation in effect for Federal officers and employees under the Executive Schedule and General Schedule prescribed by subchapters II and III of chapter 53 of Title 5 of the United States Code. The Conferees recognize that such rates of compensation may prove inadequate to attract and retain the qualified, experienced professional personnel needed to carry on the business of the Corporation. The Conferees intend that the Board of Directors will identify officer positions and categories of employees for which higher levels of compensation are necessary; that the Board of Directors will recommend such higher levels to the President; and that such compensation be payable by the Corporation unless the Board's recommendation is disapproved by the President within thirty days after it is transmitted to him.

The Chairman of the Board shall, without regard to political factors, appoint, promote and may discharge all employees of the Corporation (Sec. 117(d) and (e)). Compensation of such employees shall be set by the Board of Directors (Sec. 117(b)(2)). The compensation of categories of employees of the Corporation shall be comparable to the General Schedule prescribed by subchapter III of chapter 53 of Title 5, United States Code, unless the Board of Directors recommends to the President a higher compensation level for a category of employees and such recommendation is not disapproved by him within 30 days.

The Corporation is restricted to not employing more than 300 full-time professional employees at any one time. However, such limitation does not apply to Corporation construction projects (GOCO's) pursuant to subtitle E.

U.S. SYNTHETIC FUELS CORPORATION

Total Compensation System
Design Study

Interim Report

~~Confidential~~
November 11, 1980

CCDS 6/28/99

ATTACHMENT C

TPF&C TOWERS, PERRIN, FORSTER & CROSBY

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I. INTRODUCTION

A. Background

1. Retained October 20, 1980

2. Reviewed study objectives and scope with Chairman on October 21; discussed key issues:

    - Organizational structure
    - Recruitment objectives
    - Total compensation design
    - Direct pay goals
    - Employee benefit practices
    - Relocation allowances
    - Competitor organizations
    - Required study documentation

3. Analyzed legislative requirements for Synthetic Fuels Corporation

4. Developed a conceptual approach to system design and reviewed with the Chairman on October 27

5. Collected principal features of total compensation systems in quasi-governmental and private sector organizations, including a special confidential survey of ten organizations:

    - Communications Satellite Corporation
    - Consolidated Rail Corporation
    - Corporation for Public Broadcasting
    - Federal Home Loan Mortgage Corporation

- o Federal National Mortgage Association
- o National Corporation for Housing Partnerships
- o National Railroad Passenger Corporation
- o Student Loan Marketing Association
- o U.S. Postal Service
- o U.S. Railway Association

6. Developed preliminary marketplace pay (salary, bonus and total cash compensation) rates for selected senior executive positions

7. Developed a recommended employee benefit program

8. Prepared this interim written report summarizing our conclusions and preliminary recommendations

B. Overall System Objectives

1. To assure competitive total compensation system

   a. May vary by different employee groups, e.g., executive, professional, support

   b. Pay levels generally competitive with private sector (with possible exception of senior executives)

   c. Benefit program to meet basic employee needs and provide highly desirable additional elements

2. To enable attraction of key staff

   a. Combination of total compensation system

   b. "Public Service" orientation, and

   c. Challenge of a new industry

3. To encourage employee retention for minimum of 3 to 5 years

4. To provide motivation for employees to perform in outstanding manner

5. To be sensitive to quasi-governmental charter

6. To be internally equitable

C. <u>Cash Compensation Program Objectives</u>

1. Base salaries

   a. Executive positions (functional heads plus Chairman): generally below competitive private sector rates but higher than Federal and not-for-profit salary levels; will still enable the Corporation to attract outstanding executives from the private industry

   b. Professional/technical positions: average or competitive salary levels

   c. Administrative/support staff positions: salary levels competitive with Washington business and government community

2. Additional pay opportunities

   a. Special discretionary awards program

(Note: Chairman considered and rejected performance incentive bonuses for executive positions; also providing salary levels competitive to private sector and senior executive service total pay, i.e., salary plus bonus. These were rejected because of difficulties in administering an equitable bonus system and establishing quantifiable goals; likewise establishing salary levels comparable to industry's total pay level would be too costly and inappropriate for the Corporation.)

United States Synthetic Fuels Corporation

1200 New Hampshire Avenue, N.W. Washington, D.C. 20586 Tel: (202) 653-4400

January 27, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: John C. Sawhill
Chairman of the Board

SUBJECT: Appointment of Senior Corporate Officers

On January 23, 1981, the Board of Directors of the United States Synthetic Fuels Corporation approved the appointment of Leonard C. Axelrod, a senior executive with the M. W. Kellogg Company, as Vice President - Technology and Engineering. This appointment by the Board completes the senior staffing of the Corporation which I initiated in October 1980.

Transmitted herewith is a list of such appointments by the Board including dates of appointments, levels of compensation and terms of individual contracts with the Corporation. I am proud of the management team we have assembled. Their creditials demonstrate that we have been successful in our commitment to recruit senior Corporate officers from the highest levels of the private sector. I think that you and the Nation can proceed with the confidence that this team can effectively implement the policies of your Administration and the Congress in assisting the creation by the private sector of a commercially viable synthetic fuels industry in this country.

I have contacted the Secretary of Energy and other senior members of your Administration to assure that activities of the Corporation are closely coordinated with the policies of relevant Federal agencies. The Corporation is committed to establishing and maintaining a close working relationship with the Administration since we believe that it is essential to achieve the Corporation's mission in the context of national energy policy.

I would be pleased to meet with you or appropriate members of your staff to update you on the status of our efforts.

ATTACHMENT A

UNITED STATES SYNTHETIC FUELS CORPORATION
SENIOR OFFICERS

Name and Position	Date of Appointment	Compensation	Prior Affiliations	Education
John J. McAtee, Jr. Senior Vice President and General Counsel	11/17/80	$150,000	Partner, Davis Polk & Wardwell (Wall Street law firm). Specialist in corporate finance.	Princeton, A.B. Yale Law School, J.D.
Robert T. Blakely Vice President-Finance	12/22/80	150,000	Managing Director, Morgan Stanley, Inc. (Wall Street investment bank). Specialist in project financing.	Cornell, A.B. Massachusetts Institute of Technology, Ph.D.
A. Cheves Haskell, Jr. Vice President-Planning	11/17/80	140,000	Director of Policy Development, IBM Corporation.	Dartmouth College, A.B.
Leonard C. Axelrod Vice President-Technology and Engineering	1/23/81	120,000	Senior Vice President, Research and Development, The M. W. Kellogg Company (leading construction and engineering firm). Expert in synthetic fuel technology.	University of California, Berkeley, B.S.
Robert Harris Vice President-Administration and Treasurer	11/17/80	95,000	Executive Vice President and General Manager, The Urban Institute (not-for-profit policy research organization).	Columbia College, A.B. Columbia Univ., M. Phil.
William F. Rhatican Vice President-Government Affairs and Public Information	12/22/80	80,000	Formerly President, Rhatican Associates, Inc. (public relations firm) Special assistant to President Ford, press secretary to William Simon and Rogers Morton	Seton Hall Univ., B.S.

United States
Synthetic Fuels Corporation

January 19, 1981

MEMORANDUM FOR THE BOARD OF DIRECTORS

FROM: John C. Sawhill

SUBJECT: Employment agreements with certain corporate officers.

Confirming our earlier conversation, I have set forth on the attached pages a brief description of the commitments made to John J. McAtee, Jr., Senior Vice President and General Counsel, Robert Blakely, Vice President-Finance, A. Cheves Haskell, Jr., Vice President-Planning, Robert Harris, Vice President-Administration and Neil A. Eisner, Assistant Vice President in consideration of their leaving their previous employers or organizations to become officers of the United States Synthetic Fuels Corporation. Also enclosed is a brief description of the commitments to Mr. Axelrod in the event that you appoint him Vice President-Technology and Engineering.

John J. McAtee, Jr.

Mr. McAtee agreed to become Senior Vice President and General Counsel of the Corporation on the following conditions:

1) Mr. McAtee will be employed as Senior Vice President and General Counsel for a minimum period of two years at an annual salary of not less than $150,000;

2) Mr. McAtee will be the second highest ranking officer of the Corporation, will be Chairman of the Management Committee and will be designated as the Vice President who would act as Chairman of the Board in the absence or disability of the Chairman of the Board;

3) The Corporation will provide Mr. McAtee with a two bedroom furnished apartment within the vicinity of the Corporation's headquarters which apartment, at the discretion of Mr. McAtee, can be used for other business purposes of the Corporation; and

4) The Corporation will reimburse Mr. McAtee for his commuting expenses between Washington, D.C. and Greenwich, Connecticut and for his moving expenses in accordance with customary industry standards.

Robert Blakely

Mr. Blakely agreed to become Vice President-Finance of the Corporation on the following conditions:

1) Mr. Blakely will be employed as Vice President for a minimum period of two years at an annual salary of not less than $150,000; and

2) The Corporation will reimburse Mr. Blakely for his commuting expenses between Washington, D.C. and New York City, for his living expenses in Washington, D.C. until June 30, 1981 and for his moving expenses, in accordance with customary industry standards.

A. Cheves Haskell, Jr.

Mr. Haskell agreed to become Vice President-Planning of the Corporation on the following conditions:

1) Mr. Haskell will be employed as Vice President-Planning, reporting to the Chairman and Chief Executive Officer of the Corporation, for a minimum period of two years at an annual salary of not less than $140,000 beginning December 1, 1980;

2) Mr. Haskell will receive notice of termination of his employment by the Corporation not less than six months prior to the date of such termination;

3) The Corporation will reimburse Mr. Haskell for his pre-moving living expenses and moving expenses in accordance with customary industry standards and will assist Mr. Haskell in obtaining home financing.

Robert Harris

Mr. Harris agreed to become Vice President-Administration of the Corporation on the following conditions:

1) Mr. Harris will be employed as Vice President-Administration for a minimum period of two years at an annual salary of not less than $95,000 beginning December 1, 1980.

Neil A. Eisner

Mr. Eisner agreed to become an Assistant Vice President of the Corporation on the following conditions:

1) Mr. Eisner will be employed as an Assistant Vice President or higher grade for a minimum period of one year at an annual salary of not less than $100,000 payable in equal monthly installments;

2) If Mr. Eisner's employment is terminated by the Corportion prior to one full year's employment, the Corporation will pay Mr. Eisner a termination compensation, in addition to accrued salary to the date of termination, of $50,000 if such termination occurs prior to the end of six months' employment and $25,000 if such termination occurs after six months' employement and prior to the end of twelve months' employment; and

3) The Corporation will reimburse Mr. Eisner for his weekly commuting expenses between Washington, D.C. and Greenwich, Connecticut and for his living expenses in Washington, D.C. until June 15, 1981 and for his moving expenses, in accordance with customary industry standards.

Len Axelrod

Mr. Axelrod has agreed to become Vice President-Technology and Engineering for the Corporation on the following conditions:

1) Mr. Axelrod will be employed as the Vice President-Technology for the minimum period of two years at an annual salary of not less than $120,000; and

2) The Corporation will reimburse Mr. Axelrod for his moving expenses in accordance with customary industry standards and for his moving expenses away from Washington in the event that his employment is terminated prior to the end of two years.

7 year term
- late September, recess appointed
- not confirmed by Senate.

January
Civiletti: recess appointment OK

1. Compensation includes benefits as well as cash

2. 11/4 Salary for VP Admin & Board Member, Chairman of the Board
memo to President

Bd acted 11/17

11/10

11/28 Sawhill to Carter
- VP/GC, VP-planning
- propose for others
VP-Tech Affairs

Sc Attee
Harris
Haskel

Memo from GC recommending disapproval.

Bd approved cash but not

2. 12/12 Asst VP not approved by Board (Eisner)
told Eisner OK. no bd action

cash compensation did not include benefits

12/19 Memo from Sawhill on Kleatucin
Blakely

bd will

12/22 Board met on this

1/23 Bd met & hired Axelrod.

1/27

Chairman can delegate power to O &

U.S. SYNTHETIC FUELS CORPORATION

CASH COMPENSATION SYSTEM

Preliminary Recommendations

~~CONFIDENTIAL~~

DECLASSIFIED
AUTHORITY... REMARKING
E.O. 12958, Sec. 1.3(a)
By NARA ADB Date 6/28/99

December 17, 1980

ATTACHMENT D

Exhibit D

U. S. SYNTHETIC FUELS CORPORATION

Marketplace Survey Sources

1) TPF&C's Compensation Data Bank — Industrial companies with sales between $3 to $6 billion except sales over $6 billion for top finance position and sales less than $500 million for top administrative position; banks and financial institutions with assets over $10 billion.

2) American Management Association, Executive Compensation Service, Top Management Report — Large industrial companies with average sales of approximately $4 billion and large banks with average assets of approximately $10 billion.

3) Confidential surveys and client reports covering investment banking, professional services and other selected industries.

November 11, 1980

White House Press Background on the President's Disapproval of Compensation Packages for Senior Officers of U.S. Synthetic Fuels Corporation

- The President yesterday strongly disapproved compensation packages for senior officers of the Synthetic Fuels Corporation which had been referred to him in a January 27 memorandum from John Sawhill (then Chairman of the Board).

- The President does not believe it is appropriate to allow these compensation packages to become effective. This is consistent with his view that we should not now move forward with raising the cap on federal salaries.

- The President's views have been communicated to the Acting Chairman of the Board (John McAtee) of the Synthetic Fuels Corporation.

- IF ASKED: Counsel to the President Fred Fielding is reviewing any legal questions.

THE WHITE HOUSE

WASHINGTON

February 23, 1981

File
Synfuels Corp.

MEMORANDUM FOR: JAMES A. BAKER III

FROM: KATE MOORE

RE: Funding of Synfuels

According to OMB sources, the so-called "eighty billion dollars" for Synfuel Corp. was never really available.

The Carter Administration had requested $88 billion from Congress, but Congress initially appropriated only $17.2 billion, to be allocated for the first phase of Synfuels, i.e. development of "first-of-a-kind" technology.

Synfuels must then report to Congress on its first phase of development before COngress will appropriate the additional funds totalling $88 billion. Note that this report is not due until 1984, when the first phase of development is completed.

This administration has not changed the funds available for Synfuels.

Should you need additional information, please let me know.

Source: Fred Khedouri, Associate Director, Natural Resources, Energy, and Science, OMB

Gary Bennethum, OMB Budget Examiner

FH

POINT PAPER ON SYNTHETIC FUELS
FOR GOVERNOR ALEXANDER

Overview

The long-term health of the economy depends upon greater domestic energy supplies. Demonstration as soon as possible of our ability to produce synthetic fuel is one important weapon. The benefit to our country can be measured not only in the fuel actually produced in the short term but also in developing our engineering capacity, and in proving to OPEC our will and ability to use our domestic resources -- including coal and oil shale -- to reduce our dependence on foreign oil.

Once we have produced commercial quantities of gasoline, we will in effect place a ceiling on the price that OPEC may charge for oil. The question is how this can be done sensibly, without waste, at a time when we must also make substantial budget reductions.

Government Grants

The first answer to the question is to cut government grants, which rely too heavily on the government's engineering judgments and too little on private risk taking and private engineering judgment.

Arguably, all such grants could be eliminated. At the very least the grant program should be cut back to those where grantees are sharing 50% or more of the costs.

Loan Guarantee Program

What must continue is a program to provide loan guarantees over the next four years to assist private sponsors to raise the capital necessary to build 6-8 first of a kind plants. Because the technology has not been demonstrated on a commercial scale in the U.S., banks cannot loan money without significant guarantees. The Synthetic Fuels Corporation must insist, however, that at least 25% of the financing be private capital at risk. Sponsors will make sensible engineering and cost judgments because they will face major losses if the plants fail.

No direct government funds are required. If the plants produce as planned, the loan guarantees will have no budget impact.

Oil Supply Disruption

The loan guarantee program has widespread bipartisan support in the Congress and the country. With proper leadership, the Synthetic Fuels Corporation is a flexible instrument (like a private investment bank) for making loan guarantees while relying on private initiative. If this program is eliminated and there is another major oil supply disruption, the Administration will be faced with proposing a substantially similar program after having scrapped the consensus program created by Congress.

Tennessee Synfuels Associates

There is a good example in Tennessee of the kind of project that loan guarantees would make possible. The $1.5 billion plant would be sponsored by Koppers and Cities Service, and would be built on land sold by DOE as part of a program to give Oak Ridge, Tennessee, a tax base to wean it from the federal government. The sponsors would have $300-400 million at actual risk.

The first module would produce 10,000 barrels per day of unleaded gasoline from abundant local supplies of coal by the end of 1985. Coal use will otherwise drop, causing greater unemployment, because TVA is converting to nuclear power. The project will mean jobs for thousands of coal miners, construction workers and plant personnel.

The sponsors expect to expand the plant later to 50,000 barrels per day without government assistance. The plant will succeed or fail only if its product can compete in the world market. The government loan guarantee will not save a poorly conceived plant. The successful construction of this plant will effectively put a ceiling on OPEC's price of oil.

Support

The project has the active support of the Tennessee Legislature, the Mayor of Oak Ridge, and DOE Oak Ridge Operations.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 14, 1981

MEMORANDUM FOR: Ed Harper

FROM: Glenn Schleede

SUBJECT: Energy Organization

I have just gotten around to reading Bill Dinsmore's January 29, 1981, memo on energy organization. I suspect more thinking has been done since that time, but, in any case, I want to register fundamental opposition to the approach suggested in that memo.

The approach, in blunt terms, represents a continuation of the cart-before-the-horse approach that has characterized Government reorganization efforts for the past 4, and perhaps 10, years. More specifically, the approach involves attempts to make decisions on organization before decisions are made on policy and programs. (The creation of DOE is a good example of the result.) What typically happens is that organizational arrangements are attempted by people who do not understand:

- The substantive problems to be addressed.
- The desirable distribution of responsibilities among various sectors of the economy -- which is often a matter of political philosophy.
- Desirable policies and programs, including changes in existing policies and programs.
- Configurations of people needed to achieve desirable results.

The result is the worst kind of box shuffling, with a DOE kind of result.

At the earliest possible time, I will try to provide more thoughts on this subject, but, for now, I strongly recommend that any thoughts about reorganization be allowed to proceed only if approached in the following sequence:

Step 1: Identify the problem(s) that the agency(ies) are trying to address. These statements of problems should be in national, not federal, terms; i.e., what problem(s) face the United States in the area being focused upon?

<u>Step 2</u>: Identify the actions that need to be taken to address these problems.

<u>Step 3</u>: Identify the most desirable distribution of responsibilities among sectors of the economy for these actions; i.e., Federal, state, local, private industry, etc. Political philosophy should be injected at this time!

<u>Step 4</u>: Identify existing Government programs and policies that have an effect, positively or negatively, on the nation's ability to solve the problems.

<u>Step 5</u>: Identify current organizational locations for those existing policies and programs.

<u>Step 6</u>: Identify desirable changes, including:

a. Changes in Federal Government policy.

b. Changes in programs, including discontinuing those programs.

Only after the above steps are done <u>in writing</u> should the "box shuffling" begin (including identifying pros and cons of various shuffles).

If this approach is not taken, I predict we will have more DOE's.

We should also begin now in recognizing that <u>reorganization</u> is <u>not</u> a good way of achieving most of the objectives sought by this Administration.

Furthermore, reorganizations -- involving reorganization plans or legislation -- require expenditures of OMB and, particularly, the Director's time, and of Administration political capital that should be devoted to achieving policy and program changes.

cc: Frederick Khedouri
Bill Dinsmore