

**4/11/79 [2]**

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THE WHITE HOUSE  
WASHINGTON  
11 April 79

Bob Lipshutz  
Jack Watson  
Jim McIntyre

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
your information.

Rick Hutcheson

The signed original has  
been given to Bob Linder  
for handling.

Bob Linder

1506



THE WHITE HOUSE

WASHINGTON

April 11, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ *BL*

RE: Executive Order Establishing The  
President's Commission on the Accident  
at Three Mile Island

---

Attached is the Executive Order establishing the Commission on the Accident at Three Mile Island. You have previously seen the language describing the Commission's functions.

The Order contemplates that funding will be provided by DOE and HEW, both of which agreed to furnish funds.

Justice and OMB have approved this Order, and we recommend that you sign it.

Approve

Disapprove

*[Handwritten mark]*

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EXECUTIVE ORDER  
- - - - -

PRESIDENT'S COMMISSION ON THE ACCIDENT AT  
THREE MILE ISLAND

By the authority vested in me as President by the Constitution of the United States of America, and in order to provide, in accordance with the provisions of the Federal Advisory Committee Act (5 U.S.C. App. 1), an independent forum to investigate and explain the recent accident at the nuclear power facility at Three Mile Island in Pennsylvania, it is hereby ordered as follows:

1-1. Establishment.

1-101. There is established the President's Commission on the Accident at Three Mile Island.

1-102. The membership of the Commission shall be composed of not more than twelve persons appointed by the President from among citizens who are not full time officers or employees within the Executive Branch. The President shall designate a Chairman from among the members of the Commission.

1-2. Functions.

1-201. The Commission shall conduct a comprehensive study and investigation of the recent accident involving the nuclear power facility on Three Mile Island in Pennsylvania. The study and investigation shall include:

- (a) a technical assessment of the events and their causes;
- (b) an analysis of the role of the managing utility;
- (c) an assessment of the emergency preparedness and response of the Nuclear Regulatory Commission and other Federal, state and local authorities;

(d) an evaluation of the Nuclear Regulatory Commission's licensing, inspection, operation and enforcement procedures as applied to this facility;

(e) an assessment of how the public's right to information concerning the events at Three Mile Island was served and of the steps which should be taken during similar emergencies to provide the public with accurate, comprehensible and timely information; and

(f) appropriate recommendations based upon the Commission's findings.

1-202. The Commission shall prepare and transmit to the President and to the Secretaries of Energy and Health, Education and Welfare a final report of its findings and recommendations.

1-3. Administration.

1-301. The Chairman of the Commission is authorized to appoint and fix the compensation of a staff of such persons as may be necessary to discharge the Commission's responsibilities, subject to the applicable provisions of the Federal Advisory Committee Act and Title 5 of the United States Code.

1-302. To the extent authorized by law and requested by the Chairman of the Commission, the General Services Administration shall provide the Commission with necessary administrative services, facilities, and support on a reimbursable basis.

1-303. The Department of Energy and the Department of Health, Education and Welfare shall, to the extent permitted by law and subject to the availability of funds, provide the Commission with such facilities, support, funds and services, including staff, as may be necessary for the effective performance of the Commission's functions.

1-304. The Commission may request any Executive agency to furnish such information, advice or assistance as it deems necessary to carry out its functions. Each such agency is directed, to the extent permitted by law, to furnish such information, advice or assistance upon request by the Chairman of the Commission.

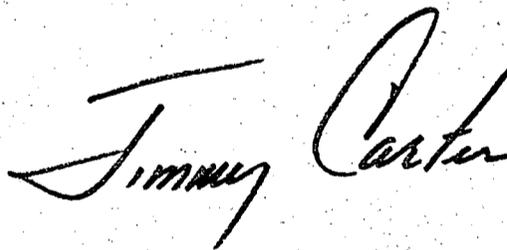
1-305. Each member of the Commission may receive compensation at the maximum rate now or hereafter prescribed by law for each day such member is engaged in the work of the Commission. Each member may also receive travel expenses, including per diem in lieu of subsistence (5 U.S.C. 5702 and 5703).

1-306. The functions of the President under the Federal Advisory Committee Act which are applicable to the Commission, except that of reporting annually to the Congress, shall be performed by the Administrator of General Services.

1-4. Final Report and Termination.

1-401. The final report required by Section 1-202 of this Order shall be transmitted not later than six months from the date of the Commission's first meeting.

1-402. The Commission shall terminate two months after the transmittal of its final report.

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in dark ink and is positioned in the lower right quadrant of the page.

THE WHITE HOUSE

THE WHITE HOUSE  
WASHINGTON

11 Apr 79

Jack Watson

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and is forwarded to you for  
appropriate handling.

Rick Hutcheson

Hamilton Jordan  
Arnie Miller



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<input type="checkbox"/>	WISE
<input type="checkbox"/>	VOORDE

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THE WHITE HOUSE

WASHINGTON

April 10, 1979

*Jack*  
*Add someone from*  
*press, (such as*  
*Patterson, Dean of*  
*Columbia Journalism*  
*school, etc)* J

MEMORANDUM FOR THE PRESIDENT

FROM:

JACK WATSON *Jack*  
GENE EIDENBERG *Gene*

SUBJECT:

Three Mile Island Presidential Commission

The Working Group considering nominees for Commission membership has a slate of nominees for your consideration. The Working Group, chaired by Gene, included Frank Press', Zbig's, Arnie's, and Lipshutz' offices as well as CEQ and OMB. In addition, Gene and I consulted with Griffin Bell, Joe Califano, Jim Schlesinger, and Doug Costle.

The Working Group tried to stay within your guidance of appointing a Commission of 7 - 9 members. However, I am strongly recommending an 11 member body. I believe there will be more public interest in this Commission than in any Presidential Commission since the Warren Commission. Within limits, it is far more important to have a proper range of skills and perspectives represented on it than it is to limit the size of the Commission to an arbitrary number.

Before listing particular names the following background information may be helpful:

- While avoiding people with extreme views on the general question of the desirability of nuclear energy, it became apparent that it is very hard to find people with technical qualifications who are not viewed as either proponents or skeptics on the question of making reactors safe. Therefore, the Working Group recommends that two people be selected from the nuclear engineering and science community;

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- It is also important, in our view, that public health, environmental and general scientific expertise be reflected in the Commission's composition;
- Both business and labor have deep interest and concern with issues raised by the Three Mile Island accident. We believe it will be particularly useful to have someone with large systems management experience in a high technology area;
- We believe it is important to represent state government in the Commission's work;
- We have also judged it important to have both a citizen from the Harrisburg area and minority representation on the Commission.
- Finally, someone with legal and national governmental experience would add an important dimension to the Commission.

We recommend the following (all have agreed to serve, if asked):

NUCLEAR ENGINEERING AND SCIENCE - both to be appointed.

- ① Thomas Pigford *ok* Nuclear Engineer, University of California-Berkeley. Highly regarded for his technical expertise, he is viewed as 'pro' nuclear.
- ② Theodore Taylor *ok* Prominent atomic physicist currently living in Maryland. His most recent institutional affiliation was with the Center for Environmental Studies at Princeton. He is viewed as a skeptic on reactor safety questions, but is not viewed as anti-nuclear. Long time with Los Alamos Laboratory designing nuclear weapons. For past decade has been working on non-proliferation questions and nuclear safety issues. Is a "concerned scientist."

MEDICINE

③

Paul Marks

*ok*

Vice President for Health Sciences at Columbia University in New York. Very highly regarded with broad concerns and interest in public health questions. Medical specialty is hematology with focus on effects of radiation on blood. Has served on numerous boards and commissions. Member of Institute of Medicine and National Academy of Science.

STATE GOVERNMENT - One Governor to be selected.

Harry Hughes

Maryland. Willing to do this if it will be helpful to you. Former state legislator, and State Secretary of Transportation before election to the governorship. He is a lawyer.

④

Bruce Babbitt

*ok*

Arizona. Has expressed deep interest in serving on this Commission, if asked. Bruce is a thoughtful man with an M.A. in Physics and a Law degree from Harvard.

You cannot make a mistake with either Governor Babbitt or Hughes. We recommend Hughes simply because we believe there is greater political benefit to you in selecting the Governor of a major industrial state over a Western rural state.

Governor Hughes \_\_\_\_\_

Governor Babbitt \_\_\_\_\_ *✓*

*J*

BUSINESS

5

Patrick Eugene Haggerty *ok* Recently retired Chairman of Texas Instruments. Undergraduate degree in electrical engineering and has a law degree. Obvious experience in high technology industry and major systems management. Is an identified Republican.

LABOR - One to be selected.

6

Lloyd McBride *ok* President of the United Steel Workers. The Steel Workers have a long record in advocating worker and occupational safety which is the central labor interest in this Commission's work.

Robert Georgine

President of the Building and Construction Trades of the AFL-CIO. The Building and Construction Trades represent the workers who are principally involved in building reactors. They also represent workers who help operate them. Landon feels strongly that Georgine should be appointed. He has been a friend on major issues.

There are serious risks in appointing Georgine. The environmentalists will react strongly to having a union represented that has taken the strongest, and most consistent, position advocating expansion of nuclear energy, i.e., Georgine and his union strongly support the Clinch River Breeder Reactor program. In addition, his union has been visibly involved in financing campaigns to fight state moratoria on building reactors. We recommend Lloyd McBride whom Landon finds acceptable as a second choice.

Lloyd McBride \_\_\_\_\_ ✓

Robert Georgine \_\_\_\_\_

LEGAL/GOVERNMENTAL

Harry McPherson

(7)

Former Assistant Secretary of State for Cultural Affairs and Counsel to President Johnson. McPherson is currently in the private practice of law in D.C. He is highly respected on the Hill and his presence on the Commission would, we think, be reassuring to many members of Congress. McPherson is the kind of person with whom we could talk informally as the Commission's work proceeds.

ENVIRONMENTAL

Russell Peterson

(8)

Former Republican Governor of Delaware. Chairman of President Ford's Council on Environmental Quality and currently serving as President of the Audubon Society. Trained as a chemist and employed by DuPont earlier in his career.

GENERAL/SCIENTIFIC

John Kemeny

(9)

President of Dartmouth College, distinguished mathematician and philosopher. Kemeny was a student of Einstein's and served at Los Alamos as a mathematician earlier in his career. He is a naturalized citizen, born in Hungary, and devoted to the United States.

Cora Marrett

Professor of Sociology at the University of Wisconsin. Dr. Marrett, a black scholar recommended by the American Association for the Advancement of Science. She currently serves on the Naval Research Advisory Committee and gets high marks for her contribution on a committee concerned with a technological research agenda.

AREA RESIDENT

Ann Trunk

*dr*

Resident of Middletown, Pa. A 44 year old housewife, married to a mechanical engineer on the faculty of Pennsylvania State University in Harrisburg. Mrs. Trunk has six children and hers was one of two families to stay on her block during the crisis. She is non-partisan in her politics, but active in community affairs.

(10)

CHAIRMAN

We recommend John Kemeny to serve as chairman of the Commission. He is a man of impeccable scientific credentials. He fully understands the magnitude of the assignment he would be undertaking. He has no public record on the nuclear energy debate, but privately reports that he hopes there is a role for nuclear energy in the future. His brilliance, sincerity and loyalty to the United States will illuminate his service as chairman of this Commission. We believe he will project precisely the kind of image you will want, and need, in this sensitive and important role.

(11)

Approve Kemeny as Chairman  *J*

Disapprove Kemeny as Chairman

CONCLUSION

You may wish to appoint Archibald Cox to the Commission. He would be a worthy choice, and our checks indicate that he is not identified with any strong public position (pro or con) on nuclear energy. However, if you decide to appoint Mr. Cox, we believe he should be substituted for one of the other nominees, and we do not recommend that action.

Finally, Bob Lipshutz is having the FBI do a file check on these nominees. If there are any problems with any of them, we will have substitutes to suggest in the morning.

THE WHITE HOUSE  
WASHINGTON

4/11/79

Stu Eizenstat

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
your information.

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

April 9, 1979

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MEMORANDUM FOR: THE PRESIDENT  
FROM: STU EIZENSTAT *Stu*  
CHRISTOPHER EDLEY  
SUBJECT: Energy and the Poor -- Memorandum  
From Graciela Olivarez

Director Olivarez has forwarded an ambitious \$3.2 billion proposal to assist low income and elderly persons in meeting their household energy needs. An assessment of needs was done by the Department of Energy's Fuel Oil Marketing Advisory Committee; detailed staff work continues at CSA and DOE.

In brief, the plan would:

- include all families below 125% of the poverty line;
- offer some aid when household fuel costs exceed 10% of income, and total relief from costs over 30% of income;
- operate through a vendor line of credit system generally, with a special system for tenants who pay no direct fuel bills.

With OMB, we have launched an interagency process to frame specific recommendations to you concerning the low income assistance component of the energy package. That working group, which includes CSA, is using a \$750 million planning guideline, based on an estimate of the expenditure necessary to alleviate the incremental costs associated with this particular decontrol action. The CSA program is a broader response to high energy costs.

Rather than aggressively pursue a costly major new income maintenance program at a time when budget pressures are so severe, we recommend that CSA continue to play a role in interagency deliberations. It may also be appropriate to give a special look at CSA's energy-related program during the spring budget preview.

Community SERVICES Administration WASHINGTON, D.C. 20506



C

4 APR 1979

MEMORANDUM FOR THE PRESIDENT

The decision you are facing concerning deregulation of oil prices, restriction of energy consumption and the effects of price increases announced by OPEC are difficult and unpleasant. As you know, I am most concerned about poor households which cannot afford essential energy. Many of the poor and elderly on fixed incomes will not be helped by rebate proposals. Increases in existing income transfer programs will not reach most of those in need. A comprehensive and balanced new energy policy requires that the special needs of the poor and elderly be recognized and addressed.

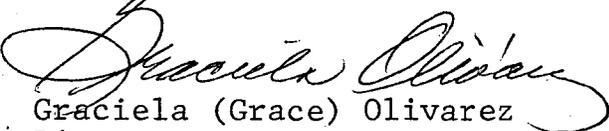
As I indicated in my February 5, 1979, memorandum to you, CSA has been working with the Department of Energy in the development of options for energy subsidy based on income indexing which we feel could provide needed assistance without creating a disincentive for energy conservation. Such a program would require poor households to pay part of their energy costs, while assuring that the cost of essential energy usage would not exceed a realistic percentage of household income. Usage would be based on a "norm" that reflected a non-wasteful lifestyle, and the level of assistance would equal the cost of such usage less a percentage of income. In this way, actual usage, if less than the norm, would mean savings for the household rather than a reduction in assistance. Such a program would create a genuine incentive for conservation, while at the same time providing assistance necessary to meet essential energy needs.

The program option which CSA and DOE have been preparing can be an attractive element of any new energy policy. It would require only a few modifications to become a comprehensive, efficient and humane response to the essential energy needs of the poor and elderly and it would have the added plus of promoting energy conservation. The additional criteria which must be met by an income indexing energy subsidy program include:

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- a program should make use of existing social program networks for outreach, certification of eligibility, and monitoring, and should use to the fullest advantage the existing networks of energy supply and distribution as the providers of assistance. In this way the need for new and expensive bureaucratic structures will be minimized, and the financial transaction will be in the hands of energy providers who have a strong incentive to make sure the program runs efficiently.
- the assistance must be provided through a reduction in the household bill at the time the household is required to pay for fuel or utility service. The poor do not have the resources to pay high energy prices in anticipation of a rebate.
- a program must also make the opportunity for conservation available to the poor, who otherwise cannot afford to take the measures needed to reduce consumption. There needs to be a comprehensive program of subsidy combined with home energy audits, conservation education, weatherization, advocacy, and development of low-cost alternative energy technologies. Otherwise the needs of the poor and the growing population of elderly in the face of rising energy costs will be an increasing, intolerable burden on federal resources. Also, CSA should continue to operate a Crisis Intervention Program at the reduced level you have proposed for F.Y. '80.
- a program must deal with the special problems of renters. A workable program must be developed that will assure that low income tenants receive needed income and conservation assistance and that landlords will improve the energy efficiency of their properties.

I have ~~attached~~ a copy of the program option which has been developed. I am prepared to assist you and will commit the resources of this Agency in assisting you to resolve this difficult problem.

  
Graciela (Grace) Olivarez  
Director

ID 791416

THE WHITE HOUSE

WASHINGTON

DATE: 06 APR 79

FOR ACTION: STU EIZENSTAT

*attached*

FRANK MOORE (LES FRANCIS)

*MC*

JIM MCINTYRE

*attached*

CHARLES SCHULTZE - recommends that I not go to the President until it is more fully developed

ALFRED KAHN

*OK*

INFO ONLY: THE VICE PRESIDENT

SUBJECT: OLIVAREZ MEMO RE ENERGY NEEDS FOR THE POOR AND ELDERLY

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM MONDAY 09 APR 79 +

+++++

ACTION REQUESTED:

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

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SECRET  
EYES ONLY

*just cover memo -  
don't stall  
attachment*

THE WHITE HOUSE  
WASHINGTON

4/11/79

Mr. President:

Comments from OMB and CEA on the CSA proposal will be included in the interagency package, to be forwarded to you in the next several weeks.

Rick



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

APR 10 1979

MEMORANDUM FOR: RICK HUTCHESON  
FROM: John P. White   
SUBJECT: Energy Needs for the Poor and Elderly

A working group including CSA (with Treasury, DOE, HEW, Agriculture, DPS and OMB) is developing within the next two weeks the proposal to back up the President's statement on oil decontrol relief for the poor. Therefore the Olivarez memo, in my opinion, should not go separately.

THE WHITE HOUSE

WASHINGTON

April 9, 1979

MEMORANDUM FOR: RICK HUTCHESON  
FROM: STU EIZENSTAT *Stu*  
CHRISTOPHER EDLEY  
BILL SPRING  
SUBJECT: Olivarez Memorandum on Energy and  
the Poor

We think the CSA cover memorandum should go in for two reasons.

First, an earlier memorandum from Graciela on energy was not submitted, and she may become concerned that her access is overly restricted.

Second, her memorandum poses a basic question as to whether the income assistance provisions in the energy package should be on a grand scale or on the more modest level which we are pursuing in an interagency task force. If we wait to submit the expensive CSA think-piece along with more detailed modest proposals, it will do a disservice to Graciela's strong interest in raising the question of broad relief at an early stage in the process.

Low-Income Energy Assistance:  
A Profile of Need and Policy Options

A Working Paper  
of the Fuel Oil Marketing Advisory Committee of  
the U.S. Department of Energy

**DRAFT**

March 19, 1979

MEMORANDUM FOR HAZEL ROLLINS  
DEPUTY ADMINISTRATOR  
ECONOMIC REGULATORY ADMINISTRATION

FROM: ANTHONY MAGGIORE, JR.   
CHAIRMAN, SUBCOMMITTEE ON ENERGY  
ASSISTANCE PROGRAM  
FUEL OIL MARKETING ADVISORY COMMITTEE  
DEPARTMENT OF ENERGY

SUBJECT: LOW-INCOME ENERGY ASSISTANCE

Attached for your review is a draft of the Fuel Oil Marketing Advisory Committee paper "Low-Income Energy Assistance: A Profile of Need and Policy Options." The Committee has often expressed its concern regarding the increasing inability of the poor and disadvantaged of our country to pay for their fuel bills. That concern has translated itself into the workings of a special Subcommittee which produced this paper.

It is important to stress that this working paper is draft in nature, and that the Committee will continue to develop and refine this document. However, even at this early stage in its development, we wanted to share a copy with you. Your review and any recommendations that you may have will be greatly appreciated.

Attachment

**DRAFT**

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Charts, Graphs, and Appendices follow the conclusion of the text.

**DRAFT**

EXECUTIVE SUMMARY

This document represents the efforts of the Fuel Oil Marketing Advisory Committee (FOMAC) of the Department of Energy (DOE) to recommend a program design to deal with the problems of low-income and elderly persons in obtaining and purchasing essential home energy supplies.

During the past heating season, this Committee, composed of consumers, refiners, wholesalers, retailers, and state government representatives became increasingly aware of the problems confronting low-income and elderly persons in obtaining necessary household energy. A subcommittee was appointed by the Chairman of the FOMAC to develop a needs assessment and a program design tailored to meet identified needs. The full Committee reviewed the work of the subcommittee and agreed that the following draft represented a valid approach to the problems of low-income persons and would be presented to the Department of Energy for consideration.

The assessment of need among low-income families for energy assistance addresses three broad topics:

- The impact, in dollar terms, of the rising cost of home energy since 1972 on low-income families.
- The existence of a mandate for a program to redress the harm caused the poor by the cost increase.

- The specific economic factors in the marketplace that make energy cost burdens particularly onerous for the poor.

Overall, the Needs Assessment document finds that:

- At current U.S. energy price levels, the average low-income household spends approximately 30 percent of its annual income on energy.
- In 1978 alone, rising energy costs in the U.S. caused low-income households to suffer a loss in purchasing power of more than 8 billion dollars, over and above that which they would have suffered if energy costs had risen at the rate of inflation.
- There is a specific federal mandate for an energy policy that protects the poor from "disproportionately large effects on their income" due to energy prices.
- Poor in certain regions of the country bear a particularly harsh, and disproportionate, burden in paying for energy use.
- Structural factors in the energy pricing and delivery system work against the low-income user.
- The quality of the poor's housing stock further penalizes them in their efforts to cut energy costs.
- The average total income of the poor household has decreased in real terms since 1972, making the acquisition of adequate energy for this group more difficult.
- Reduction in costs through conservation is extremely difficult for poor households, who are often already using energy at lower levels than might be considered safe or healthy.

- The ability to offset increased energy costs through product substitution in the marketplace is lower for energy than for any other necessity good utilized by poor households.

The Committee believes that action must be taken to alleviate the burden placed upon the poor caused by this combination of factors. The Committee's consensus is that coverage of such a program should be based on the following criteria:

- Eligibility should be determined on the basis of a household's needed energy, cost of such energy and total annual household energy costs as a percentage of annual household income.
- The low-income population should be responsible for payment of a portion of fuel costs. Assistance should be provided for energy costs which exceed a certain percentage of income.

These criteria, the Committee felt, would ensure that within the context of limited eligibility, the program would provide the most help for those most needy. It would ensure that those receiving aid were those low-income households whose burden due to energy costs was most onerous.

The Committee felt that within these design parameters, the minimum group for which the program should provide assistance should be those households with total annual income less than 125 percent of federal poverty levels and who are spending more than 10 percent of their annual household income on energy.

The Committee's initial cost estimate for a program of this size, including 10 percent of total budget for administrative costs, is approximately \$3.2 billion at a 75 percent participation level. If necessary, the size of the program could be decreased by putting a dollar limit on the amount of assistance available to any single household. The Committee recommends a \$500 per residence funding ceiling.

The Committee sought to incorporate the following five criteria in its preliminary design for a plan to implement the above outlined goals:

- **Equity:** Benefits should vary directly with need. Both horizontal and vertical equity should be addressed.
- **Conservation:** The provision of benefits should discourage excessive use of energy.
- **Efficiency of Administration:** Administrative costs should be held to a minimum while adequately serving the recipients of assistance.
- **Assistance should be provided before the onset of a crisis.**
- **The program should be flexible enough to adapt to market changes.**

After examination of many different program designs, the Committee has decided that an income-indexing

program is the best choice in terms of implementing the Committee's eligibility and program design criteria. It is also the most efficient in terms of meeting the five criteria noted above. The following details of the program were agreed upon:

- Provision of assistance to low-income people should be implemented through a vendor line of credit established with the recipients principle energy supplier.
- There must be a special portion of the program designed to meet the needs of renters who do not pay their own utility bills, and who are thus unable to take direct advantage of line of credit assistance.
- Conservation incentives must be built into the program through the financial assistance formula as well as through integration of energy audits, weatherization, and consumer education programs into the overall program design.

Three agencies were considered by the Committee for administration of the program; each was thought to involve different strengths and weaknesses. The agencies cited were the Department of Housing and Urban Development; the Social Security Administration of HEW, and the Community Services Administration.

The Committee considered several different options for program funding. These were:

- Utilization of a portion of the oil import tariff.
- Utilization of a portion of a crude oil equalization tax.

- Utilization of the refiner rebates to the DOE resulting from prosecution of refiner overcharges.
- Funding from general revenues.
- Utilization of a value added "Btu tax" on all energy.
- Utilization of a portion of the Federal gasoline tax.

After careful consideration, the Committee rejected the first 3 options as being inequitable, legally and politically unsound, and incapable of generating the broad base of support necessary to ensure the program's success. The Committee felt that the fourth option -- general revenue funds -- was the most equitable but also favored full exploration and development of the latter two options. It also recommended that further suggestions be sought and further data collected regarding potential sources of program funding.

The Committee believes that the need for a program of this nature is immediate and pressing. It seeks and welcomes specific comments on this document and more detailed proposals for implementation.

## II. NEEDS ASSESSMENT

### A. Introduction: The Cost of Home Energy Use

Relative price stability in energy existed in the United States until the early 1970's. Historically, Americans have paid little by world standards for their energy, and supplies have been assumed to be inexhaustible. However, beginning in 1972-1973, abrupt changes in international and national economic and governmental policies caused energy prices to increase explosively, with crude oil prices more than quadrupling by 1978.

Figure 1 traces the movement of fuel prices from 1972 to 1978. A period of relative price stability extended through 1972. In 1973, this pattern altered abruptly; the overall Consumer Price Index (CPI), measuring the price of all goods and services in the economy, increased 55.9 percent between 1972 and 1978, while in fuel oil/coal prices increased 151.7 percent in the same period.<sup>1/</sup> And because the cost of energy is itself a large factor in the CPI, the differential between energy price movements and price increases in non-energy goods and services is in fact even more dramatic than this comparison suggests.

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<sup>1/</sup> Bureau of Labor Statistics

Low income households have been hit hard by this increase in energy costs -- far, far harder than they would have been had energy cost increases simply matched the rate of inflation. Further, the increase in energy cost has taken, proportionally, a much larger bite out of the low-income family's budget than it has out of the budget of middle-income families.

Estimates are that while the median-income household today spends 9.6 percent of its annual budget on energy, the average low-income household spends 33 percent of its annual income on fuels and utilities. Estimates further predict that with an additional 25 percent increase in energy prices -- not an unthinkable occurrence in the near future -- the percentage of a median-income household's budget spent on energy will rise to 11.3 percent, while that of the low income household will rise to over 40 percent (see Table 1).

The increase in energy prices since 1972 means, that the poor, whose average income has not risen in real terms in these six years, have lost even more ground in real purchasing power than general inflation rates would indicate. In 1972, it is estimated, the average low-income household spent \$337

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TABLE 1

DIRECT ENERGY COSTS TO  
HOUSEHOLDS AT TYPICAL AND LOW  
INCOME LEVELS, UNDER ALTERNATIVE  
PRICE CONDITIONS

	Annual Costs (in dollars)		Costs as Percentage of Average Household Income	
	Low Income <sup>1/</sup> Household (mean income \$3,318)	Typical <sup>2/</sup> Income Household (mean income \$16,582)	Low Income Household	Typical Income Household
Costs at 1978 Prices	1,103	1,594	33.2	9.6
Costs with 10 Percent Price Increase	1,213	1,725	36.6	10.4
Costs with 25 Percent Price Increase	1,334	1,913	40.2	11.5

<sup>1/</sup> Current low-income household costs from the Bureau of Labor Statistics, U.S. Department of Labor.

<sup>2/</sup> From D. Nichols and J. Stutz, "Analyzing Inputs of Energy Costs on Residents of New England", a report for the New England Regional Energy Project, February, 1979. It should be noted that as these figures are for New England they are high in comparison to the average U.S. figures.

on basic energy needs. If energy prices had simply kept pace with inflation, the same low-income family would now be spending \$565 on those same energy needs. But in fact, estimates are that that family is now spending \$1,103 on energy.<sup>2/</sup> As of 1978, this increase represents an average loss for a low income household of \$538 of purchasing power relative to 1972 levels, due to rising energy costs over and above the level of inflation. In the aggregate in 1978 alone, this means that the 15 million low-income households in America suffered a loss of over \$8 billion in purchasing power -- \$8 billion of income transferred away from the most needy in our society because of escalating energy prices.

B. Government Reaction: Concern and Mandate

During this period, there has been continued and increasing governmental recognition that low-income households face an energy dilemma orders of magnitude greater than that faced by most American households. Initial government concern was demonstrated by the Community Services Administration (CSA) in 1973-74 through pilot project funding of a weatherization program in the State of Maine and an energy crisis intervention program in Wisconsin, Colorado, and Pennsylvania. In 1977-78-79 Congress and the Senate expressed their concern through authorization of a Special Crisis Intervention and Energy Assistance Program implemented through CSA. Such programs have been helpful but not adequate.

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<sup>2/</sup> Bureau of Labor Statistics

The crux of the problem was stated by one observer in these words: "Budgets, which cannot meet basic living needs to begin with, cannot reallocate resources to pay for energy without taking money away from other basic needs, such as food, clothing, and health care."<sup>3/</sup>

Governmental acknowledgement of the problem was expressed in 1977 by John O'Leary, then Administrator of the FEA. Mr. O'Leary produced figures for the Senate Committee on Aging which showed that as early as 1975 the percentage of disposable income spent on energy in some parts of the country was as high as 27 percent and estimated that in the recent winter there were many elderly poor who were spending as much as 50 percent of their disposable income on energy.<sup>4/</sup>

President Carter and the Office of Energy Policy and Planning also recognized the special problems caused by rising energy costs for the low-income household. The fifth guiding principle of the National Energy Plan I was that the U.S. must solve its energy problem in a manner that "is equitable to all regions, sectors and income groups." Specifically, the White House stated that:

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<sup>3/</sup> Anthony J. Maggiore, Jr., testimony to Subcommittee on Housing and Consumer Interests of the U.S., House Select Committee on Aging, September 26, 1978, p.3.

<sup>4/</sup> John O'Leary, testimony before the Senate Select Committee on Aging, April 7, 1977. p.2.

In particular, the elderly, the poor, and those on fixed incomes should be protected from disproportionately adverse effects on their income. Energy is as necessary to life as food and shelter. <sup>5/</sup>

NEP I further recognized that:

Existing emergency assistance programs are deficient in assisting low-income persons to meet sharp, temporary increases in energy costs due to shortages or severe winters.

Clearly, then, those in government have been concerned with the effects of energy price increases on those least able to afford them. Yet in 1979, every indication is that the poor have borne the brunt of rising energy costs in exactly the manner that public officials hoped to prevent. Senator Kennedy recognized this fact in his January 9, 1979 speech to the National Association of Broadcasters. He stated that:

In major northern cities those at or under the poverty level last winter paid more than 45 percent of their income for energy, according to the National Center for Community Action. 'Let them freeze in the dark' has become not just a clever cliché, but a cruel reality.

The time is obviously right for a specific government program to alleviate the harm caused to the poor by escalating energy prices.

<sup>5/</sup> The National Energy Plan, Executive Office of the President, Energy Policy and Planning, April 29, 1977, p. 29.

<sup>6/</sup> Ibid. p.28.

C. The Particular Energy Hardship of the Poor

It is apparent that the low-income households in America pay a far higher proportion of their total annual income for energy than do higher-income households. However, it must be understood that these aggregate factors represent only a national average. The poor in various regions of the country where climate conditions are more severe than average -- and energy costs are higher -- face a still greater problem. For example, current estimates are that it costs New England residents 38.8 percent more than the national average to supply adequate energy to their homes.<sup>7/</sup> This points to the magnitude of the disparities in need and the resulting, numerous cases of extreme hardship that lie behind the aggregate average figures.

Structural factors inherent in the energy delivery system combine to make the energy burden on the poor yet higher.

First among these factors is the operation of the energy pricing structure. Utilizing inverted pricing schedules, with declining rates at higher usage levels, utility companies charge higher unit prices for those consumers using smaller amounts of energy (see Table 2). As low-income households consume less energy than the average household they are particularly

<sup>7/</sup> Eunice and George Grier, "The New England Energy Consumer," January, 1979. p.28.

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TABLE 2

## NATIONAL WEIGHTED AVERAGE CHARGES FOR RESIDENTIAL SERVICE

1972 - 1978

(CITIES OF 2,500 POPULATION AND MORE)

	Average Charge Per kwh				
	100 kwh	250 kwh	500 kwh	750 kwh	1,000 kwh
Jan. 1	cents	cents	cents	cents	cents
1978	6.87	5.39	4.44	4.16	4.10
1977	6.54	5.14	4.17	3.90	3.82
1976	6.15	4.82	3.85	3.57	3.49
1975	5.89	4.60	3.59	3.30	3.23
1974	4.99	3.79	2.82	2.55	2.49
1973	4.65	3.47	2.51	2.26	2.19
1972	4.51	3.34	2.40	2.15	2.07

SOURCE: DOE/EIA 0040/1 Typical Electric Bills - Jan. 1, 1978

affected by inverted pricing schedules. Due to higher per-unit prices paid by low-income households, the difference in total amounts spent annually for energy between low-income households and all households was less than the difference in energy consumption (see Table 3).

The same inverted pricing structure applies to fuel oil; for economic reasons most companies reduce the cost per gallon of fuel for large orders and increase the cost per gallon for smaller orders. Further, those using fuel oil are confronted with additional problems. In general, low-income consumers have smaller storage capacities and, with rare exception, do not have adequate resources to purchase larger orders even if they have larger storage capacities.<sup>8/</sup> In addition, the credit and delivery practices of fuel oil dealers inadvertently penalize the poor. Because of credit practices, low-income persons are normally prevented from using credit or budget payments to pay for the fuel. They generally do not have a high enough credit rating to warrant these deferred approaches. As a result, low-income consumers are forced to pay "cash on delivery" for fuel oil. The COD system is particularly onerous for the poor and near-poor for most fuel expenditures take place over the

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<sup>8/</sup> Testimony, Anthony Maggiore, Fuel Oil Evidentiary Hearing.

TABLE 3

DIFFERENTIAL IN CONSUMPTION AND EXPENDITURES FOR  
ELECTRICITY AND NATURAL GAS BETWEEN LOW-INCOME HOUSEHOLDS  
AND ALL U.S. HOUSEHOLDS, 1975

	Low-Income Households	All U.S. Households	Difference (Percent)
* Electricity			
Average annual Btus per household (million)	60.6	94.2	55.4%
Average annual cost per household (dollars)	\$188.00	\$278.10	47.9%
Average price per million Btu's	\$ 3.10	\$ 2.95	
Natural Gas			
Average annual Btus per household (million)	109.8	136.3	24.1%
Average annual cost per household (dollars)	\$182.30	\$224.60	23.2%
Average price per million Btu's	\$ 1.66	\$ 1.65	

Source: Washington Center for Metropolitan Studies, National Survey of Household Energy Use, 1975.

\*

The Public Utility Regulatory Act of the National Energy Act states that utility companies must consider, among other things, the applicability of a prohibition against declining block rates which favor larger users by pricing successive blocks of electricity at lower per-unit prices, and further, lifeline rates for essential needs.

relatively short period of a few months. Those on credit or budget plans can spread fuel cost over a much longer time period than the low-income household which is forced to pay cash on delivery. Further, since low-income households do not generally have credit plans, they are for the most part denied automatic refills. They cannot have their tank filled when oil is needed, but only when they have sufficient cash for immediate payment. In addition, it must be noted that in many cases, persons who are not on credit or budget payments are forced to pay certain "surcharges" for such items as delivery at certain times and to certain places.<sup>9/</sup>

The low-income family is further penalized by the quality of their housing stock, which is generally older, in poorer repair, and less well insulated than those houses utilized by higher-income households. In northern climates, this results in the need to use more fuel to maintain a certain temperature than in well insulated homes. Thus, the low-income family's home is likely to be even less well heated than is suggested by the fact that the poor consume less energy per household than does the average American family.

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<sup>9/</sup> Ibid.

In the South, the substandard quality of the poor's housing stock also manifests itself. In cheaply designed dwelling units -- particularly in mobile homes which are prevalent in Southern states -- air conditioning is a necessity. Temperatures in non-air conditioned low-income southern homes present severe health hazards to the occupants -- many of whom are elderly, and suffering from respiratory or heart ailments made worse by increase in home temperature. In Dallas, Texas, July 1978, over twenty people died from the heat prostration. They were all elderly, poor and lacked air conditioning.

D. Economic Constraints in the Marketplace: Why the Poor Have Lost Ground Since 1972

There are three overriding economic factors in the marketplace which explain the poor's exceptional inability to adjust to higher energy costs. These are:

- The average income of the poor household has actually decreased since 1972;
- Reduction in costs through conservation is extremely difficult for poor households;
- Substitutability is lower for household energy needs than for any other good or service in the economy.

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According to the most recent national figures the disposable income of the poor and near-poor has not kept pace with the overall CPI (see Figure 3). The major public assistance programs have not made up the inflationary gap for those low-income households receiving aid. All items in the CPI rose approximately 30 percent from 1973 to 1976. Unemployment insurance payments rose only 27.8 percent during the same period; further, since unemployment insurance is an inherently unstable and limited form of income, this probably had less impact on real income maintenance than generally assumed. The more steady income maintenance programs did not come close to matching inflation during this period. Average AFDC benefits rose about 19 percent between 1973 and 1976, indicating a drop of roughly 8.5 percent in real income, while Supplemental Security Income (SSI) rose an average of 19.19 percent, amounting to a decrease in real income of about 7.3 percent.<sup>10/</sup> Thus, a situation existed in 1976/77 in which the major income transfer mechanisms did not maintain the real purchasing power of those receiving aid. This same decline in real purchasing power faced all households whose income from any source had risen less than 30 percent during the

<sup>10/</sup> Social Security Bulletin, April 1977, Dept. of HEW, Social Security Administration.

1973 to 1976 period. Clearly, the low-income and elderly households, many of whom are on fixed incomes, are most seriously affected.

On a national aggregate level, reduction in household energy consumption through conservation has been somewhat successful in helping people live with higher energy prices. Northeast fuel oil dealers estimate that the response by homeowners to the first wave of price increases in 1973-1974 was a 15 percent average reduction in the use of home heating oil.<sup>11/</sup> However, this tactic for reducing income spent on energy has not worked well and will not work well for the poor for a number of reasons. Simply put, evidence is ample that the poor generally are already conserving as much as they are able -- more, in fact, than could be regarded as healthy. Table 3 shows that low-income households use 54 percent less electricity and 24.1 percent less natural gas than the average U.S. household. Low-income people thus subsist on lower amounts of energy than the average American, and have already cut back to the point of endangering health.

<sup>11/</sup> Transcript, Case #DEH-0058, DOE Office of Hearings and Appeals, Aug. 1978.

Conservation methods involving the upgrading of the quality of the housing unit are by and large out of the financial reach of the low-income family. While many poor would stand to gain through conservation resulting from the upgrading of their homes -- as the dwellings tend to be highly inefficient in per-Btu utilization of energy -- the cash is simply not available to them.

Unlike most middle and upper-income families, the cash flow of the low-income family is not flexible enough to meet crisis situations. The large cash outlays needed for weatherization might be available only by foregoing expenditures on such pressing necessities as food or clothing. Further, due to low credit ratings, or in some cases because their homes are in an allegedly "redlined" neighborhoods, low-income households' access to "home improvement" loans is severely limited. Further, as a higher proportion of low-income families rent, rather than own, their homes, there is little incentive to make improvements in which they would have no equity. To compound the problem, landlords renting units to low-income families often keep their units in poor repair and are reluctant to make improvements. Clearly, low-income families are already financially constrained to be thrifty in their energy use. This thriftiness

is an illustration of the fact that low-income families have little or no scope for further reduction of energy use.

Substitutability is the dynamic economic factor which sets energy-caused income problems apart from other price and inflation-related income problems affecting the poor.

Substitution is the avenue that a consumer has open to offset the effect of an increase in price for a given good or service in the marketplace. If a good increases in price to the point that consumers cannot afford sufficient quantities of that good, they will substitute for it a different, cheaper good of the same general type. In most necessity items, substitution is a practical possibility. In food and clothing there are many alternative goods which consumers may substitute for a single good that they can no longer afford -- for instance, there has been a dramatic rise in the purchase by consumers of non-name brand food products in the last five years of spiralling prices.

But in energy, substitution, particularly in the short term, is a practical impossibility. Three factors contribute to this situation. First, current options available to the greatest number of low-income people

for provision of household energy are limited to three: oil, gas, and electricity. Second, the three available options exhibit roughly equal per Btu pricing levels. Third, capital costs of substitution among the three options are so prohibitively high that substitution has been proven to take place only over the very long term--only with changes in the housing stock itself. Thus, low-income consumers do not have the practical option of substituting a different form of energy for their present source as their bills climb even higher. (Clearly, efforts should be made to utilize alternative sources where practical--such as solar, etc.).

Thus, energy, of all goods and services consumed by low-income households, presents a unique threat to the poor's well being. They are in a worse overall position to fight high energy prices than they were before the beginning of the oil price spiral in 1972. They are incapable, generally, of reducing their costs through reductions in consumption. And they have no other available option to continued consumption -- there is no practical substitution possible that would provide cheaper energy sources. The unique nature of this hardship demands direct action to meet the goals of NEP I. It is incumbent upon the government to institute a plan of assistance to ease the hardship caused the poor by high energy prices.

### III. PROGRAM SIZE AND ELIGIBLE POPULATION

Depending on the final eligibility criteria, the desired subsidy levels, and the program administration method decided upon, program size and costs will vary. Therefore, the parameters which can be addressed here are necessarily general.

The Committee felt that at least those households at or below 125 percent of poverty should be eligible for assistance. At present, the income of a family of four (4) at 125 percent of poverty is \$7,750 per year. It was felt that households at somewhat higher income levels were also in need of aid, but given the probability of financial constraints being placed on the program broader coverage was deemed impractical. The only exception to the 125 percent criterion contemplated by the Committee was the inclusion of elderly households receiving SSI.

Using the agreed upon income eligibility figure, there would be approximately 15 million households initially eligible for assistance. Of these 15 million, almost 6 million households are headed by persons 60 or older.

This group of households represents those who have been most affected by increased energy costs.<sup>12/</sup> This is the sector for which calculations have been presented that show a loss of purchasing power because of higher energy prices of over \$8 billion in 1978 alone. To fully redress the situation would be impossible. Death and suffering are not easily forgotten with the mere reimbursement of funds. However, an energy assistance program could help eliminate future degradation of these 15 million households which results from having to choose between fuel and food.

Clearly, once an income ceiling has been placed on eligibility, financial considerations and value judgments concerning program coverage necessitate that parameters and limits be placed on the other eligibility criteria. The Committee felt that these limits should be based on energy needed and cost for such energy, less an acceptable percentage of household expenditures for energy. The eligibility criteria presented here reflect the Committee's feeling but remain flexible, allowing adjustments to achieve a desired level of coverage.

A household would be eligible for assistance if the generic total cost of home energy needed particular to

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<sup>12/</sup> U.S. Bureau of the Census; Survey of Income and Education, 1976.

the individual's region and dwelling type exceeded a standard percent of income (See Appendix E).

This criterion could take two distinct forms. First, the standard "percent of budget" could be fixed. To be eligible a household below a given income level (i.e. 125 percent of poverty) would have to spend more than a certain fixed percent of its income on home energy use. Second, a sliding "percent of budget" scale could be utilized to possibly expand program coverage. For example, a household earning \$3,000 a year should perhaps only be expected to spend 3 percent of its budget on home energy use to be eligible for the assistance program, while the minimum home energy expenditure of a family earning \$7,000 might be set at 11 percent of income for qualification. With a sliding "percent of budget" scale, eligibility for assistance would vary inversely with the income and thus would provide a more realistic determination of actual need than with the fixed percent.

The specific type of program proposed is tied closely to these broad eligibility parameters.

## IV. PROGRAM COST ESTIMATES

To arrive at an estimate of cost for this type of program the Committee decided to limit eligibility to those families at or below 125 percent of poverty level who currently spend more than 10 percent of their annual household income on energy. While additional detailed research is required, the cost of a program with these eligibility requirements is estimated to lie between three and four billion dollars annually.

A preliminary analysis of total program cost was carried out using the following formulas on a regional basis.<sup>13/</sup> These regional totals were then added to obtain a national figure.

## #2 Fuel Oil:

$$[(400 + .119 (\text{deg. days})) \times \text{fuel cost}] - \$310 \text{ (# of households)}$$

## Natural Gas:

$$[(47,000 + 15.5 (\text{deg. days})) \times \text{fuel cost}] - \$310 \text{ (# of households)}$$

## Electricity:

The total cost of electricity used was calculated using the average use figure for low-income families in The Energy Crisis and Low-Income Americans by Eunice Grier (1977), and the Sept. 1978, per kwh cost of electricity (MER, Jan 1979).

<sup>13/</sup> The following is a brief explanation of the formulas. (400 + .119 degree days) and (47,000 + 15.5 degree days) are taken from the INGAA formulas for average fuel oil and gas use, respectively, \$310 equals 10 percent of the median income for poverty households.

While it is clear that there are great differences in regional costs and usage which should be taken into account, specific use data for low-income households is scarce. It is hoped that while regional differences need to be addressed to include cooling needs, the aggregate average will suffice as a rough estimate of total use of electricity, including use for cooling. Based upon the calculations above and in Appendix B total home heating/cooling cost was estimated at between 2.5 and 3.0 billion dollars.

Inclusion of other household energy costs would result in the addition of approximately 33 percent to total assistance costs. Thus, if all household energy costs are included the total costs of the program would lie between three billion and four billion dollars. If it is assumed that the administrative cost runs 10 percent of total budget then projected total program costs range from \$4.3 billion assuming a 100 percent rate of participation, to \$3.2 billion at a participation rate of 75 percent, utilizing the subsidization level contemplated above.

If lower total program costs are necessary, it is suggested that this be accomplished by establishing a per-household maximum on the amount of subsidy with a \$500-per-household subsidy ceiling. Clearly, estimated costs will vary greatly if different final eligibility criteria and level of subsidization are selected, and a different rate of participation is assumed.

## V. PROGRAM MODEL

### A. Type of Program

After lengthy discussion, the following criteria were developed by the Committee to judge the various program options:

1. Equity: Benefits should vary directly with need.

The subsidy should take into consideration climate, type of fuel, household size and household income. The program should include the concepts of horizontal and vertical equity -- benefits should be distributed on the basis of need both within specific income groups and across different income groups. For example, horizontal equity should result in equal treatment of low-income urban and rural recipients.

2. Conservation: The provision of benefits should seek to encourage the conservation of energy, preferably directly, but at least indirectly.

3. Efficiency of Administration: Within the requirements of adequate control, program integrity, and responsiveness to clients, administrative costs should be held to a minimum while helping the broadest range of eligible persons reasonable.

4. Provision of Energy Assistance Prior to Severe Crisis:

Benefits should be provided in a form that reduces initial client payments and removes financial burdens from vendors -- "front-end assistance."

5. Adequacy: The program design should offer benefits which are significant, and outweigh the costs of the program. The program should have the flexibility to be responsive to market charges.

The Committee examined several possible forms which a low-income Energy Assistance Program could take. After research and discussion, the basic framework outlined below was arrived at as the one which stood the greatest chance of achieving the above objectives. It was also considered to stand the best chance of success in an administrative efficiency sense -- in reduced administrative costs, simplified mechanism for delivery, and fraud protection.

In evaluation, two aspects of any possible system must be appraised:

1. The type of program which will satisfy objectives 1, 2, and 5 above;
2. The delivery system for the program, which, when implemented, will best satisfy objectives 3 and 4 above.

The type of program which the Committee recommends is an income-indexing program. (An encapsulation of the positive and negative aspects of all types of programs examined, as well as a brief description of each program type, is contained in Appendix A).

The income-indexing system is best equipped to satisfy the Committee's belief that eligibility and amount of assistance should be derived from both income level and energy use as a percent of income. The program ties these two parameters together more closely than any other available program option. (A detailed description of program parameters, and of the specific formula used for calculating program assistance, is contained in Appendices C, D, and E).

The delivery system for the subsidy that the Committee believes best satisfies objectives 3 and 4 is the vendor line of credit with credit flowing through the individual's primary source energy supplier. In this system, once program eligibility is determined, the vendor acts as interface between the recipient and the government. Administrative costs are greatly reduced by the system, relative to one which must reach each individual recipient on a regular basis. Further, costs are reduced for the dealer as cash flow problems are minimized. The vendor is not constrained in peak-season purchasing decisions by delays on government reimbursement, but rather is provided subsidies against which recipient bills are reduced.

### B. Subsidy Disbursement

Several options exist in the disbursement of the subsidy.

First, the line of credit could be established in such a way that a monthly subsidy would be made to the

vendor, in proportion to usage in each month in the heating/cooling season. This would help budget the subsidy according to actual use and need.

Second, the line of credit could be provided to the vendor on a quarterly or an annual basis. Its drawdown rate would be determined by the client's ability to pay and the expansion of credit extensions provided by the vendor, given the existence of the guaranteed government subsidy.

Generally, regardless of what variation of subsidy disbursement is utilized, there is an increased likelihood that delivery practices for low-income households will be regularized in such a way that costs for all parties concerned will be reduced. Indeed, we may even find that an incentive exists for the vendor to encourage low-income households to standardize their purchasing and payment practices because of the attractiveness of possible cost savings.

In these ways the low-income household may find itself, for the first time, able to take advantage of financing practices usually available only to better off Americans.

#### C. Coverage of Utility-Paid Rental Units

The low-income renter is often not responsible for direct payment of utility bills--rather, the property owner

pays them. This category of renter is bypassed by an energy-subsidy delivery system which supplies the subsidy through the principal fuel supplier. Thus, an exception must be created in the program for this class of recipient.

One approach for the subsidy in this case would be some form of chit or voucher system. A renter qualifying for the program--or a landlord with a renter qualifying for the program -- would receive a chit or voucher which would be deducted against rent.

There is already a system in place which could deliver this part of the program with minimal modification; the Housing and Urban Development's low-income rent subsidization program. This vehicle, which is built specifically to reach low-income renters, could simply be augmented with an additional energy subsidy for qualified renters. This aspect of the energy assistance program may thus entail minimum start up costs and additional administrative costs on an equally reasonable scale.

#### D. Conservation Incentives

The program is designed to provide assistance while continuing to give the recipient a financial incentive to conserve energy. If the recipient were able to conserve energy, this would not reduce the level of energy assistance during that year.

The recipient would then be able to pocket these conservation savings.

It must be recognized that this program will produce an expansion in the recipient's purchasing power (the "income effect" produced by any income transfer program); but it is the Committee's belief that the income effect produced by the program will be small enough that there is no possibility that the program will cause excessive use of energy. This belief is based upon several factors. First, there is ample evidence that low-income households' present utilization of energy often is lower than is safe or healthy. There are many deaths each year attributed to inadequate home heating or cooling. Second, it is evident that the income elasticity for home energy over the relevant range of income is low. Third, the proposed amount of the subsidy is not at levels to make substantial differences in the family's consumption habits for any commodity or service.

The net projection, therefore, is that this program may give many low-income families the chance, for the first time since 1972, to experience their energy consumption of minimum humane levels -- levels thought reasonable and proper for all other members of our society.

Further, incentives for actual conservation will be

built into the program through strong ties to the existing federal conservation programs. A family eligible for energy assistance should be provided access to energy audits, conservation counseling, and weatherization assistance -- which would allow reduction of energy consumption necessary for attainment of given living standards in low-income dwellings, and thus encourage outright reductions in consumption. In this case, the subsidized resident would experience a greater expansion of effective purchasing power and would not need to utilize this increased purchasing power on energy.

Thus, with this tie in there are not only real possibilities for reduction in necessary energy consumption by low-income households, but also possibilities for betterment of these households economic position far in excess of the actual dollar level of the subsidy.

#### E. Program Administration

Three agencies appear to offer certain strengths in terms of program administration at the Federal level.

The Community Services Administration is one alternative, with its experience in energy, its mandate to serve as a demonstration agency, its community action agency network, and its established relationship to non-welfare poor.

The Department of Housing and Urban Development (HUD) has several strengths. HUD's delivery system has access to all regions of the country and some established ties to rural as well as urban areas. As its sole responsibility is housing, it has considerable experience in programs related to low-income needs and shelter, such as the aforementioned rent subsidy program.

The Social Security Administration (SSA) has strong experience with income transfer programs and with the elderly, who comprise approximately 35 percent of the eligible population. Further, SSA has a wide scope in terms of outreach to potential recipients. SSA offices are numerous and its penetration into urban and rural areas is the most thorough of these agencies.

The administration of the program on a local level would necessarily include at least the following functions:

1. Determination of individual household income eligibility.
2. Establishment of the amount of subsidy to which each eligible household would be entitled.

3. Authorization of vendor to establish a "line of credit" for subsidy.
4. Execution of public information and outreach effort.
5. Monitoring to prevent system abuses.
6. Provision of energy conservation counseling and referral to other energy assistance agencies.  
(Example: weatherization, energy audit, etc.)

## VI. PROGRAM FINANCING

A variety of options for financing the program were studied by the Committee. After careful consideration, the Committee rejected the following three options as being inequitable, legally and politically unsound, and incapable of generating the broad base of support necessary to ensure the program's success:

- Utilizing the rebates from refiners to the DOE resulting from prosecution of refiner overcharges.
- Utilizing the crude oil import tariff.
- Utilizing a crude oil equalization tax.

The following options were considered much more acceptable:

- Direct funding from the Federal Treasury. The Committee felt this to be the most equitable option.
- Funding from the imposition of a value added, "Per-Btu" tax on all forms of energy.
- Utilization of a portion of existing Federal gasoline tax. It is probable that utilization of only 2 cents of the existing tax would yield full program funding. Further, this

method is not likely to impose any new costs on any sector of the economy, as there is a large, continual surplus in the highway trust fund from the collection of this tax.

The Committee recommended exploring the latter three options in detail, while seeking out further detailed information regarding all possible methods for program funding.

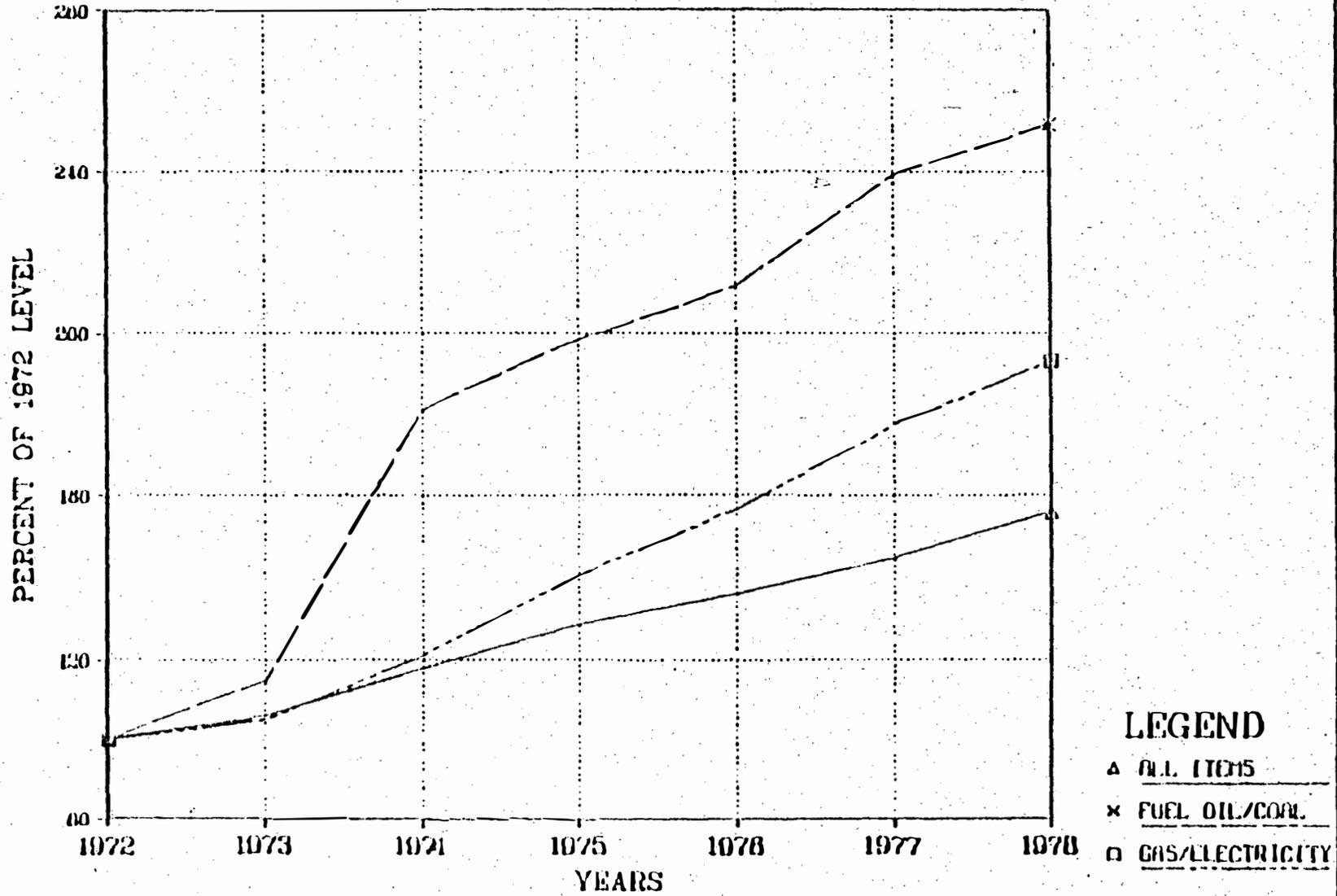
**DRAFT**

**CHARTS AND GRAPHS**

FIGURE 1

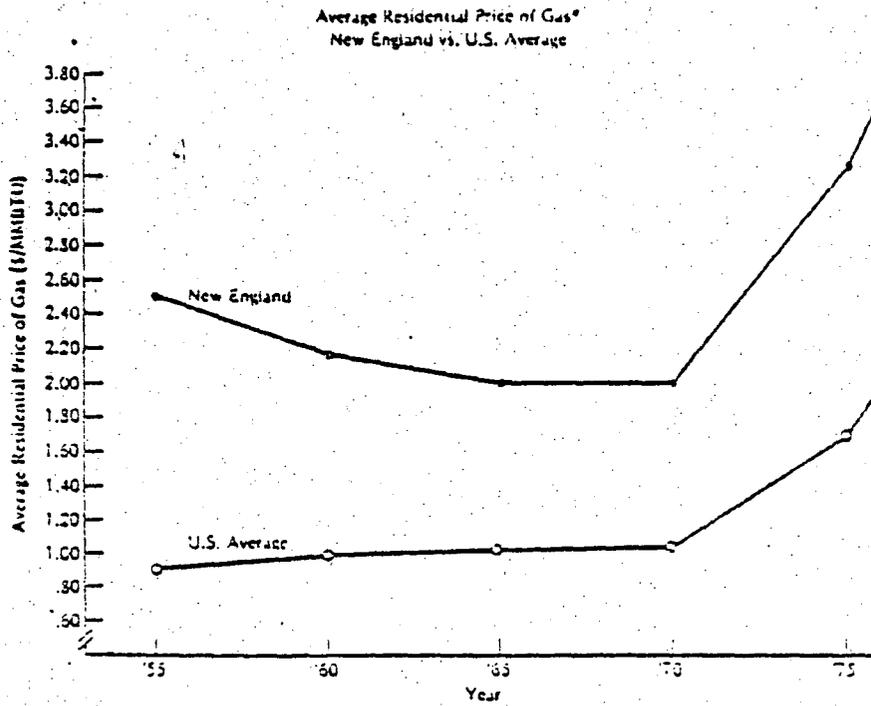
# THE CONSUMER PRICE INDEX - FUEL PRICES 1972 = 100

SOURCE: Bureau of Labor Statistics



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FIGURE 2



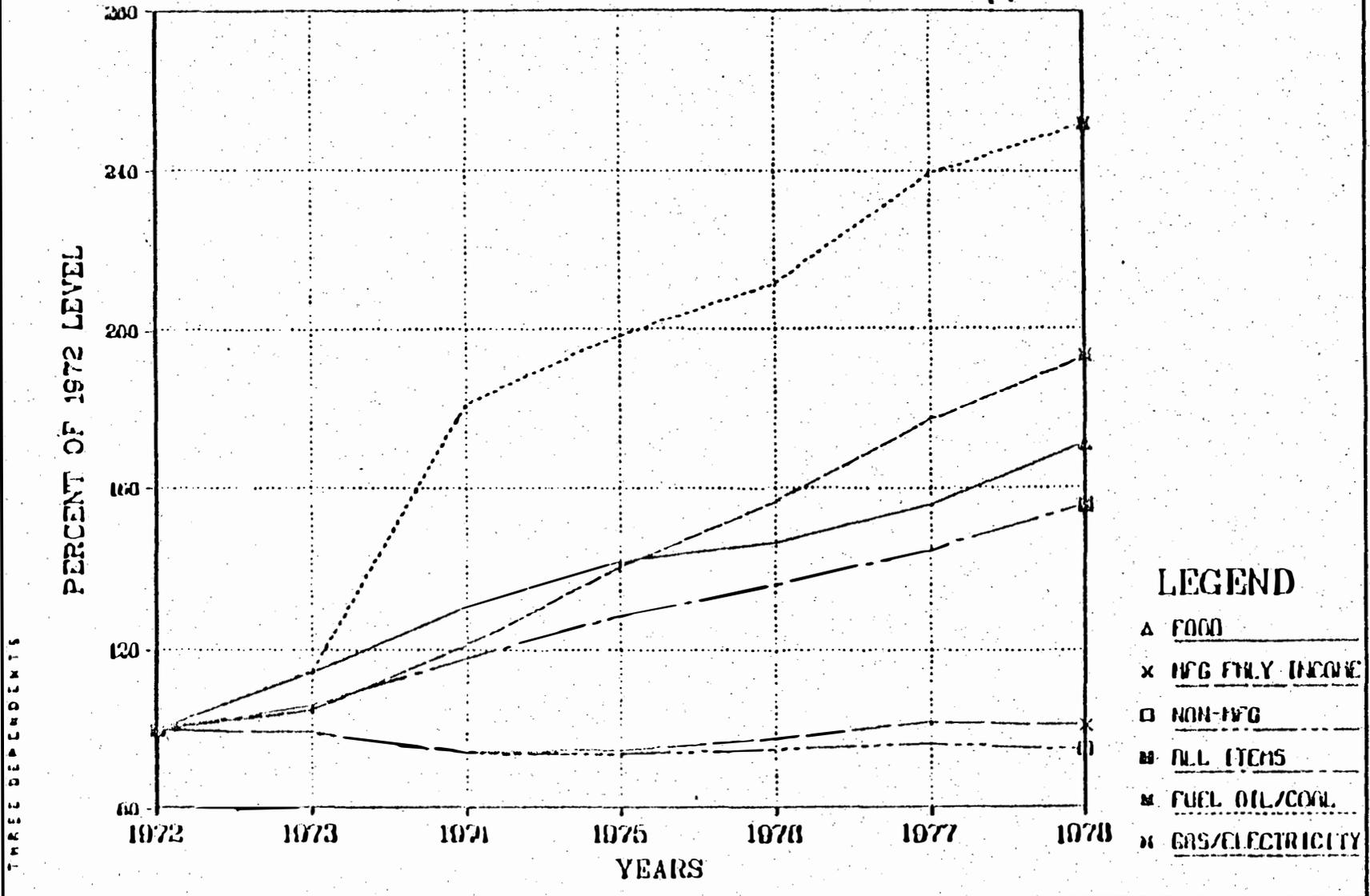
Source: Table 93, Pg. 116, "Gas Facts", 1977 American Gas Association

\*Includes cooking & water heating uses as well as heating

FIGURE 3

# THE CONSUMER PRICE INDEX/SPENDABLE INCOME 1972 = 100

SOURCE: Bureau of Labor Statistics.

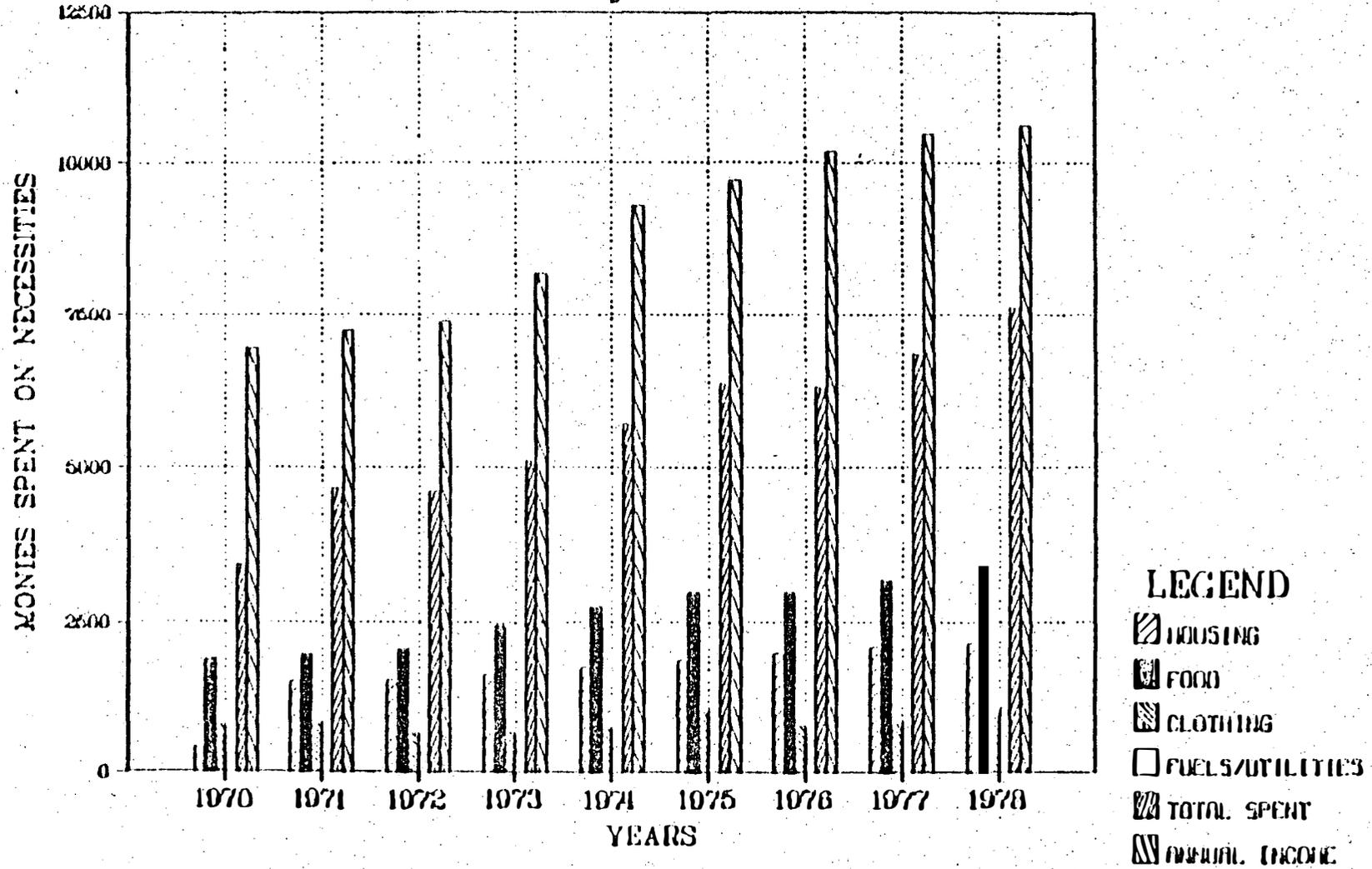


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FIGURE 4

# BASIC NECESSITIES EXPENDITURES OF TOTAL INCOME FOR LOW-INCOME FAMILY OF FOUR

Source: Bureau of Labor Statistics



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APPENDICES

APPENDIX A  
PROGRAM DESIGN OPTIONS

	<u>Energy Stamps</u>	<u>Income Indexing</u>	<u>Income Indexing with % Payment</u>
Basic Program	On the basis of income eligibility persons would be able to purchase or receive stamps redeemable for fuel or utility expenses at authorized vendors. Stamps could be free or purchase requirements based on income could be established.	Once a household has spent 10% of its income on energy, the household's remaining costs for energy would be paid through the household's energy vendor.	Same as income indexing with percent amount of government subsidy varying with energy use and income.
Some Possible Advantages	Similar to food stamps. Only income criterion needed, which simplifies administration.	Both income and energy use are used as criteria for eligibility. Households must use their own income first before payments are made.	Both income and energy use are used as criteria. Household makes first payment, then continues to pay.
Some Possible Disadvantages	Receipt of stamps is not tied to energy use. If there is payment for stamps, there would be an increased burden on income of poor. High Administrative costs.	No upper limits are placed on energy expenses reimbursed which could encourage unnecessary usage.	Local administration is required and may be complex.  No ceiling is placed on usage.
Conservation Incentives	May occur if recipients must pay for a portion of the stamps.	Indirect incentives	Direct and indirect incentives

	<u>Energy Entitlement</u>	<u>Per Capita/Household Formula Grant</u>	<u>Dealer Credit</u>
Basic Program	A household is guaranteed a set amount of energy. The household pays for the first 10% of its energy. Remainder of cost, up to set energy amount is paid to an energy vendor.	Each eligible household would receive a grant of money, to cover additional costs due to energy expense increase.	Using a formula incorporating income criterion, each dealer would send to the administering agency an invoice for energy delivered over set amount
Some Possible Advantages	Standard energy use as well as energy costs and income are used as criteria. Upper limits are placed on expenditure by set energy amount.	Ease of administration e.g. using Welfare Department	Income and energy costs are included as criteria. Minimal local government administration would be involved. After certification, transactions would flow between funding source, dealer, and client.
Some Possible Disadvantages	Government required to set standard energy amount. Administration is complex.	Allocation is tied to income, not to energy. In addition the money need not be spent on energy.	Financial and Administrative strain could be placed on fuel dealers.
Conservation Incentives	Indirect incentives.	Indirectly, through income limits.	Indirect incentives.

Tax Credit"Indiana" PlanHEW  
Project FuelBasic  
Program

Each low income person would receive a cash tax credit for all energy bills over a certain ceiling, e.g. 10% of income.

Senior citizens in poverty are provided a credit, not to exceed \$200, for electricity and heating fuel. The credit is deducted from their bill prior to the bill being sent. The vendor deducts the credit amount from his state sales tax deposit.

In emergency or crisis situations, local administering agencies would provide assistance within broad federal guidelines. The amount of assistance would be paid in cash and tied to need.

Possible  
Advant-  
ages

Energy use and income are used as criteria. Only one central agency is required for processing.

Clients receive bill deductions. Vendor receives payment immediately. Administration is simple. Energy tax is used for energy cost.

Tied to local need and circumstance. Allows for broad administrative discretion at the local level.

Possible  
Disad-  
vantages

Low-income persons cash flow does not allow rebate process. Complex accounting for client required. Many low-income persons do not file taxes. Cost of auditing returns would increase. Local staff would have to assist clients in tax preparation.

Payments are extremely limited. Not all states have sales tax. Total burden is on the state.

Cash payment not clearly tied to fuel. Assistance is not provided until serious crisis occurs. There is no provision for ongoing assistance.

Conserva-  
tion  
Incent-  
ives

Indirect incentives.

Indirect incentive through providing limited assistance.

Indirect incentives

HEW  
Utility Grant Program

Basic  
Program

A subsidy would be paid to utility company or fuel vendor for a portion of the fuel cost of an eligible household. The amount of subsidy would vary inversely with the income of the eligible population.

Possible  
Advant-  
ages

Direct vendor payments are used.

Possible  
Disad-  
vantages

No upper limit is placed on usage.

Conserva-  
tion  
Incentives

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APPENDIX B

DATA USED IN COST CALCULATION

FEDERAL REGION	# OF HOUSEHOLDS BELOW 125% OF POVERTY <sup>1/</sup> (000's)	AVERAGE HEATING DEGREE DAYS <sup>2/</sup>	FUEL PRICES		
			#2 HEATING OIL (cents/gallon)	NATURAL GAS (cents/cubic foot) <sup>6/</sup>	TOTAL ELECTRIC BILL <sup>7/</sup>
1	655	6,956	55.1 8/	.0041	\$795.65
2	1,506	5,703 <sup>3/</sup>	54.0 8/	.0034	795.65
3	1,443	4,803	52.8 8/	.0029	795.65
4	3,063	2,797	47.9 10/	.0024	795.65
5	2,470	6,748	49.8 8/	.0023	795.65
6	1,859	3,011	50.1 9/	.0019	795.65
7	755	5,640	45.9 10/	.0019	795.65
8	378	7,797	46.3 10/	.0018	795.65
9	1,644	3,125 <sup>4/</sup>	45.9 10/	.0023	795.65
10	434	7,321 <sup>5/</sup>	48.3 10/	.0029	795.65

<sup>1/</sup> From 1975 ESEA Special Poverty Census.

<sup>2/</sup> Source: For each state this involves weighting the heating degree day totals for several intra-state geographical divisions by the percent of the state population residing in each division. Figures used here are averages over the period 1931 to 1973.

<sup>3/</sup> Excludes Puerto Rico and Virgin Islands.

<sup>4/</sup> Excludes Hawaii and Trusts.

<sup>5/</sup> High due to influence of Alaska.

<sup>6/</sup> Averaged from state figures. Source: "Gas Facts", 1977 American Gas Association.

<sup>7/</sup> For average low-income households. This gross estimate was derived from the average consumption of electricity for a low-income family in 1975 (Grier, 1977), and the average cost per kwh for September 1978 (DOE, MER, 1/79).

<sup>8/</sup> Price derived from DOE Tel. Survey of Jan. 2-6, 1979. The figures for Regions I and II were averaged from the fuel oil prices for all the states in the Region; for Region III the figure is based on the state of Pennsylvania; and the Region IV figure is based on the average of six states within the Region.

<sup>9/</sup> Price taken from "Residential Heating Oil Prices By Region," MER, Nov. 1978.

<sup>10/</sup> National Average of Heating Oil Prices for Oct. 1978, DOE, MER, Jan. 1979.

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APPENDIX C  
EXAMPLES OF TWO ELIGIBILITY CRITERIA  
AND RESULTING SUBSIDIES (100%)

INCOME	PERCENT ACTUAL INCOME SPENT ON HOME ENERGY USE - 1978	ELIGIBILITY CRITERIA		100 PERCENT SUBSIDY	
		SLIDING SCALE	FIXED	SLIDING SCALE	FIXED
3000	37%	4%	10%	\$983	\$803
4000	28%	6%	10%	\$863	\$703
5000	22%	10%	10%	\$703	\$603
6000	18%	11%	10%	\$503	\$503
7000	16%	12%	10%	\$333	\$403
8000	14%	13%	10%	\$143	\$303
9000	12%	14%	10%	-	\$203

1/ Based on Bureau of Labor Statistics budget for low-income urban family of 4 with fuel and utilities bill \$1,103.

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APPENDIX D

Generic Total Home Energy Cost

A generic total home energy cost would be used with the income level determined by existing methods to determine eligibility, and the amount of assistance. The cost formula would be simple, yet take into account regional differences in climate, fuel used and fuel prices. The formula would also take into account the size of the dwelling. For example, it has been estimated that for heating costs the amount of fuel oil required to heat a 5 - 6 room house equals, in gallons,  $400 + .119 \times \text{heating degree days}$ . The generic formula would have to include total household energy costs, including cooling costs.

Amount of Assistance

Regardless of the delivery system, assistance would be provided to each eligible household for a given heating or cooling season according to a simple formula:

$$\text{Amount of assistance} = (\text{needed energy}(\text{generic usage}) \times \text{cost of energy}) - 10 \text{ percent of household income}$$

The generic total cost of home energy use would be the figure calculated to determine, in conjunction with income, eligibility. This figure would be reduced by a predetermined percent depending on which eligibility system was utilized. If a fixed percent were used the generic energy cost would be reduced by that percent to reach the subsidy figure. If a sliding "percent of budget" scale is implemented, the generic energy cost is reduced by the appropriate percent (please see Appendix C for an example of the subsidy pattern under both eligibility systems).

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appointment with harold brown  
4/11/79

THE WHITE HOUSE  
WASHINGTON

Oman Harold 4/11/79

Barrow

Trident test

Trident, B88's vs smaller  
set Code - budget

ELF = Mich/Wis - funds lapse  
+ \$100 mil + 2 yrs = Wisc only

THE WHITE HOUSE  
WASHINGTON

Kelly Weller - SAFECO

Catastrophic

Med. insurance

poor

prevention

Bob Rowell

Business coverage 1997  
medical costs

same as job

R. B. Beck Prudential

Sherrill - Metropolitan

NY & Conn

Terway body

John Hancock

Ben Nelson - Pru Healthplan

Bradshaw - Life Insurance

Vance → Cong re Cyprus  
PLO - sustained - unaffiliated  
Comm in Jordan, S.A. = Mly in Hussein  
Energy + win a good issue  
SALT + win a good issue  
Inflation - govt a guideline  
Panama - need help  
M East Supplemental - forgiveness?  
→ Columbia, Indonesia

lunch with congressman  
lee hamilton 4/11/79

Lee Hamilton lunch 4/11/79

THE WHITE HOUSE  
WASHINGTON

April 11, 1979

VIDEOTAPE MESSAGE

Wednesday, April 11, 1979  
2:30 pm (10 minutes)  
The Rose Garden

From: Greg Schneiders *GS*

I. PURPOSE

To tape a message to be used as part of a national telethon to raise money for the U.S. Olympics.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: This is the first telethon to raise money for the U.S. Olympics and it is being produced by NBC for showing on its network, Saturday, April 21. You served as the Honorary Chairman of the U.S. Olympic Committee in 1977.

B. Participants: NBC camera crew

C. Press Plan: None

III. TALKING POINTS

See attached message. This will be placed on the teleprompter.

**Electrostatic Copy Made  
for Preservation Purposes**

OLYMPIC STATEMENT

I am glad to take part in tonight's tribute to our amateur athletes -- past, present and future. Never before have so many Americans participated in amateur athletics with such energy and enthusiasm.

The United States Olympic Committee has the responsibility for equipping, training and sending our best athletes to the Olympic and Pan American Games. The Olympic Committee is a citizen effort -- not a government organization -- and it depends almost entirely on the generosity of individual Americans like yourselves.

I know many dedicated men and women are working very hard right now to get ready to represent our country in the Pan American Games and at the 1980 Olympics. These athletes will symbolize our country to the peoples of the world.

Please join me in supporting these fine men and women -- our best amateur athletes -- in the months ahead.