

[8/16/78-Not Submitted] [CF, O/A 548]

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THE WHITE HOUSE
WASHINGTON

Call

withdrawn

THE WHITE HOUSE
WASHINGTON

8/14

Kelly says that Tom
has been WITHDRAWN
by Elliot. He is out
of town but will call
us to confirm this.

—
T. S. C.

<input checked="" type="checkbox"/>	FOR STAFFING
<input checked="" type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input checked="" type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input checked="" type="checkbox"/>	IMMEDIATE TURNAROUND
<input checked="" type="checkbox"/>	NO DEADLINE
<input checked="" type="checkbox"/>	LAST DAY FOR ACTION -

ACTION
FYI

<input type="checkbox"/>	ADMIN CONFID
<input type="checkbox"/>	CONFIDENTIAL
<input type="checkbox"/>	SECRET
<input type="checkbox"/>	EYES ONLY

<input checked="" type="checkbox"/>	VICE PRESIDENT
<input checked="" type="checkbox"/>	EIZENSTAT
<input checked="" type="checkbox"/>	JORDAN
<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LIPSHUTZ
<input checked="" type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input checked="" type="checkbox"/>	WATSON
<input type="checkbox"/>	WEXLER
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	MCINTYRE
<input checked="" type="checkbox"/>	SCHULTZE

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	CRUIKSHANK
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	RAFSHOON
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	VOORDE
<input checked="" type="checkbox"/>	WARREN
<input type="checkbox"/>	WISE

<input type="checkbox"/>	ADAMS
<input type="checkbox"/>	ANDRUS
<input type="checkbox"/>	BELL
<input type="checkbox"/>	BERGLAND
<input type="checkbox"/>	BLUMENTHAL
<input type="checkbox"/>	BROWN
<input type="checkbox"/>	CALIFANO
<input type="checkbox"/>	HARRIS
<input type="checkbox"/>	KREPS
<input type="checkbox"/>	MARSHALL
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VANCE

DATE: 28 JUL 78

FOR ACTION: HAMILTON JORDAN *NC*

9/1/78
STU EIZENSTAT

FRANK MOORE (LES FRANCIS)

JACK WATSON

CHARLES WARREN *with comment*

*concur
8/2/78
HWT*

1/028
*Manisha Thomas
want unit
4:00 today 8/2*

INFO ONLY: THE VICE PRESIDENT

ANNE WEXLER

CHARLIE SCHULTZE

- concurs

SUBJECT: MCINTYRE MEMO RE PROPOSED LEGISLATION TO CREDIT TVA
POLLUTION CONTROL INVESTMENTS AGAINST PAYMENTS TO
THE TREASURY

*not
SE*

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM MONDAY 31 JUL 78 +
+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

*8/2 11:02D
per OMB*



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

28 JUL 1978

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM McINTYRE

SUBJECT: Proposed Legislation to Credit TVA Pollution Control
Investments Against Payments to the Treasury

TVA Proposal

Dave Freeman wishes to have Administration support for legislation that would, in effect, have the Federal Government, rather than TVA ratepayers, pay for one-third of the pollution control investments to be made by TVA during the next six years. Dave understands that the legislation is marginal on the merits, but he believes that the Administration's political posture in implementing the Clean Air Act so as to raise electric rates makes it difficult for the Administration to flatly oppose legislation of this type and is therefore suggesting this compromise.

Specifically, the proposed legislation would enable TVA to deduct 50 percent of its capital expenditures for pollution control equipment from its annual debt repayment to the Treasury. TVA argues that (1) customers of private utilities get breaks (i.e., various tax benefits like rapid amortization, investment tax credit, and industrial development bond financing) that are unavailable to TVA consumers, and (2) such benefits cut in half the effective amount that customers of private utilities actually pay for pollution control equipment.

Background

As a result of Environmental Protection Agency requirements which apply to TVA and all other utilities, TVA has embarked on a massive pollution control program. This program is expected to require total expenditures for air and water pollution control of almost \$1.4 billion during the six-year period FY 1978 through FY 1983. The TVA tax credit equivalency proposal would, during this six-year period, shift about \$420 million of total TVA pollution control expenditures to the U.S. budget from ratepayers by eliminating or greatly reducing the annual TVA payment to the Treasury of \$85 million. 1/

1/ Since 1959, TVA has been required to make annual payments (currently about \$85 million) as repayment for initial Federal investments in the TVA system. TVA is obligated by law to repay \$1 billion by 2014. This represents about 70 percent of the original Federal investment in the TVA through the period 1933 to 1959.

Five identical bills now pending in the Congress would provide for crediting future TVA pollution control expenditures against required Treasury payments; however, these bills would go much further than the TVA proposal in two respects--TVA would be permitted first to credit 100 percent, instead of only 50 percent, of its annual capital expenditures for pollution control, and second to carry forward unused credits to future years.

Analysis and Recommendation

We and Treasury have examined the TVA proposal and offer the following arguments against it:

- (1) The proposal would undermine the polluter-pays principle, to which you referred in your recent speech to TVA employees;
- (2) By reducing receipts by that amount, the proposal would add \$85M to already potentially large budget deficits in FY 1980 and 1981; and
- (3) In fact, and contrary to TVA's assertion, TVA electric consumers already pay much less (at least 39 percent less) for capital investments (including pollution control) than do consumers of investor-owned utilities. Not only does TVA borrow more cheaply than Aaa-rated investor-owned utilities (they do not have to meet the test of the market; they borrow from the Federal Financing Bank at 1/8 of 1 percent above the Treasury's own low cost of funds), but TVA also is enabled, on the strength of indirect Federal financial backing, to operate with an extremely high debt-equity ratio and with an extremely low, implicit rate of return on its equity.

Political and tactical arguments can be made for supporting TVA's initiative. Politically, a strong argument can be made that the Administration owes something to the Tennessee Valley area, particularly in view of the Administration's (1) position regarding Columbia Dam, (2) decision to terminate the Clinch River Breeder Reactor project, and (3) decision to build the centrifuge enrichment plant at Portsmouth, Ohio rather than at Oak Ridge, Tennessee.

Tactically, you should recognize that the Congress may well enact one of the bills now pending in the House and Senate, with 100% tax credits (vs. TVA's proposed 50%) and a carry-forward provision (vs. TVA's proposed no carry-forward). These bills clearly would be worse than what TVA has proposed, with annual budget costs of \$170M for several years.

Because we believe that the budget costs are too high to ignore--even at \$85M annually--and because TVA already has significant advantages over private utilities, we probably would recommend a veto of any one of these bills if and when one is passed by the Congress. Therefore, we recommend that the Administration oppose the bills already introduced and that the alternative TVA proposal not be offered.

Decision

Support legislation (TVA)

Oppose legislation (OMB)

DATE: 28 JUL 78

FOR ACTION: HAMILTON JORDAN

STU EIZENSTAT

FRANK MOORE (LES FRANCIS)

JACK WATSON

CHARLES WARREN

INFO ONLY: THE VICE PRESIDENT

ANNE WEXLER

CHARLIE SCHULTZE

SUBJECT: MCINTYRE MEMO RE PROPOSED LEGISLATION TO CREDIT TVA
POLLUTION CONTROL INVESTMENTS AGAINST PAYMENTS TO
THE TREASURY

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OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

28 JUL 1978

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