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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED 10:00 EDT
MONDAY, MARCH 17, 1975

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
ON ALTERNATIVE ENERGY PROPOSALS
BEFORE THE COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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Within recent weeks a number of alternative energy proposals have been developed. Their development reflects the growing consensus that the Nation must have a disciplined and cohesive national energy policy and that this policy will significantly change our patterns of energy supply and consumption from those of the 60's and early 70's. Agreement seems to be developing around five basic points:

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- The United States can no longer maintain historic energy growth patterns.
- Increased production from conventional domestic sources will take years to develop.
- New domestic energy sources will take even longer to develop.
- Reliance on imported oil must be reduced.
- For the short-run, conservation offers the best opportunity for moving toward a greater degree of energy independence.

In late January the General Accounting Office, in response to congressional inquiries, developed a package of energy proposals which we believe to be mutually supportive and reasonably comprehensive.

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conservation. They include programs of tax credits and low interest loans to encourage installation of energy saving measures such as storm windows and doors and insulation; development of minimum thermal performance standards for new homes and buildings which would be mandatorily applied to new Federal facilities and new homes and buildings financed under Federal loan guarantee programs; and development of model performance standards for industrial processes and a program of investment tax credits for the purchase of equipment which meets such standards.

Truth-in-energy provisions designed to increase consumer awareness concerning energy efficiency would also be an important part of this package.

IMPORT REDUCTION

To reduce dependence on imports, we propose a program of import quotas having as its goal the reduction of imports by 2 million barrels of oil a day over a 2 to 3 year period. To reduce hardships resulting from such reduction, Federal authority to allocate petroleum products would be continued. Standby gasoline rationing authority would be provided.

We believe it vital that, over time, the United States reduce its reliance on imported oil. In a moment, I will summarize the results of our analysis of the energy impacts of implementing our package of proposals. That analysis indicates that any goal of reducing imports must be carefully monitored into the 1980s and that such actions must be closely matched with the Nation's ability to conserve energy and develop new sources of supply.

Under our proposal, the Department would consist initially of three key entities--the Department of the Interior, the Federal Energy Administration, and the Energy Research and Development Administration--which would bring together the key energy-related agencies of the Government. The President would be directed to propose additional organizational changes he deemed necessary to further consolidate energy activities.

Pending the creation of the Department of Energy and Natural Resources, we support the establishment of an Energy Conservation and Production Board operating under broad presidential mandate to direct and coordinate the Nation's energy effort. The Board should have authority to flexibly administer the import quota program and to oversee administration of the allocation and rationing programs to the extent these become necessary.

* * * * *

There are many similarities among the various alternative energy proposals and a number of basic differences. Key differences include the manner of implementing and the timing of any import reduction, the extent to which oil and natural gas prices should be controlled, the amount and method of phasing in any new retail tax on gasoline, and the desirability of voluntary as opposed to mandatory actions to improve the fuel efficiency of automobiles.

This is by no means an exhaustive list, but it does highlight this Committee's and the Congress' problem as you struggle with the

Our analysis of the impact of implementing our package of proposals indicates that even with the implementation of strong energy conservation measures and increased efforts to develop new domestic energy supplies, the United States could be forced to increase its reliance on oil imports in the years ahead. In our proposal, we suggested a program of import quotas having as its goal the reduction of imports by 2 million barrels of oil a day over a 2 to 3 year period from their level at January 1, 1975. Our subsequent analysis indicates that by 1980 such an import reduction program implemented along with our other proposals would result in energy supplies--foreign and domestic--equivalent to 33 million barrels of oil a day to meet an expected energy demand equivalent to 37.4 million barrels--a deficit of 4.4 million barrels.

Our analysis shows that neither conservation savings nor domestic supply increasing actions will be dramatic enough in the short term to offset the decline in domestic production and the growth in demand we expect. Assuming a 4 percent annual decline in domestic production of oil and a 3 percent annual decline in the production of natural gas in the lower 48 states, and a low 1.3 percent annual growth in demand as a result of strong conservation measures between now and 1980, our estimates indicate that under our proposals we would have to allocate the deficit of 4.4 million barrels of oil a day in 1980. That deficit could continue to rise beyond 1980.

This leads us to modify our recommendations regarding import restrictions. We continue to believe that a program of import quotas

Whatever the import restriction goals, we would suggest that the Energy Production and Conservation Board have a clear responsibility for carefully monitoring the import quota system and adjusting such quotas to reflect the Nation's ability to conserve fuel and increase supply.

The transportation sector is one of the few areas where all alternative energy proposals are clear enough to provide a basis for comparative analysis. Comparative analysis is needed because the claimed savings for the various alternative energy proposals are being computed under different assumptions and using different data bases. For example, our analysis of the energy savings in the transportation sector claimed by the various alternative proposals showed that average miles per gallon required for post-1975 automobiles to meet the claimed savings resulting from the introduction of more efficient autos, ranged from about 17 up to 27 miles per gallon.

We also made an analysis of the energy savings expected in 1980 from energy conserving actions in the transportation sector using common assumptions and a common data base. This analysis shows that implementation of our package of proposals would result in savings ranging from 1.6 to 2.2 million barrels a day by 1980 as compared to estimated savings of 1.6 to 1.7 million barrels of oil per day under the congressional proposal--the next most effective proposal in achieving transportation conservation savings.

we also analyzed its impact and found that it would generally have a depressing effect on both economic growth and employment.

Let me highlight some of the more significant economic impacts indicated by our analyses of our and the Administration's proposals.

We estimate that implementation of our package of proposals would result in real Gross National Product of about \$822 billion in calendar year 1976 as compared to about \$802 billion if the Administration's proposals were adopted--an annual rate of growth of 5 percent as compared to 2.8 percent. The rate of growth under our proposal is estimated to climb to 8 percent in succeeding years.

The increase in the Consumer Price Index also is less under our program, as is the unemployment rate. Our proposal does have a small inflationary impact but it is spread over a number of years so that the economy can easily absorb it. Moreover, our analysis indicates that in 1975 the inflationary impact of our package would be a full 3 percentage points less than that indicated for the Administration's program. Unemployment under our program is estimated at 9.0 percent in 1976 and 7.6 percent in 1977, as compared to 9.7 percent and 8.6 percent under the Administration's program. The different unemployment rate would mean from 680,000 to 850,000 more unemployed persons under the Administration's program.

In almost all instances, our analysis indicates that basic economic indicators would change little as a result of the implementation of our program from what they would have been if no action at all were taken on energy.

we suggest you use it critically, but we believe you may find it useful. The checklist helps identify several items included in various proposals which we believe would be worthwhile additions to any package of energy proposals:

- A statutory requirement that Federal regulatory agencies give energy conservation the highest possible priority in all regulatory actions. Particular emphasis would be placed on reducing energy wastage in railroads, airlines, trucks, and marine transportation and on working with State regulatory agencies to redesign utility rate structures to encourage energy conservation.
- Modification of the oil price control program to create sufficient incentives for producing all oil that can be recovered economically through secondary and tertiary recovery.
- A legislative mandate requiring that the Federal Government set an energy conservation example for the Nation in all of its activities which involve the direct consumption of energy. Although direct Federal energy consumption accounts for only about 3 percent of the Nation's total energy consumption, we believe it imperative that the Federal Government set an example which the private sector can follow.

In closing my prepared remarks, I would emphasize the importance of reaching early agreement on an energy policy which emphasizes conservation and the reduction of imports through a quota system. In addition, actions are needed to increase supply, develop strategic reserves, and improve energy organization.

March 30, 1977

The Honorable James R. Schlesinger
Assistant to the President
The White House

Dear Jim:

From reports in the press, some of the ideas which are surfacing bear a pretty close resemblance to proposals we outlined before the House Ways and Means Committee in March 1975 and which got very little consideration at that time. I hope the climate is better now.

I thought you might wish to glance through the statement of the testimony. I am sure that some of the specific figures are out of date but I think the main thrust of what we recommended is still valid.

Sincerely,

(Signed) Elmer

Elmer B. Staats

Enclosure ("Alternative Energy Proposals Developed by the GAO in Response to Congressional Inquiries: Statement of CG Before House Ways & Means Committee on March 17, 1975, Proposals & Supporting Analyses")

cc: Mr. Canfield

March 22, 1975

Mr. Kermit Gordon
President
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dear Kermit:

This is in accordance with our discussion
last evening.

Sincerely,

(Signed) Elmer

Elmer B. Staats

House

Enclosure

CG's statement before/Committee on Ways
and Means on Alternate Energy Proposals,
3/17/75

BEST DOCUMENT AVAILABLE

Mrs. Shea

NOTICE OF HEARINGS

COMMITTEE : House Ways and Means Committee
 SUBJECT : The Energy Crisis and Proposed Solutions
 DATE : March 17, 1975
 TIME : 10:a.m.
 ROOM : Committee on Ways and Means Hearing Room
 Longworth House Office Building
 MEMBERSHIP : Chairman Al Ullman (Oregon)

Majority : Rep. W. D. Mills Rep. O. G. Pike
 : Rep. J. A. Burke Rep. R. F. Vander Veen
 : Rep. D. Rostenkowski Rep. J. J. Pickle
 : Rep. P. M. Landrum Rep. H. Helstoski
 : Rep. C. A. Vanik Rep. C. B. Rangel
 : Rep. R. H. Fulton Rep. W. R. Cotter
 : Rep. O. Burleson Rep. F. H. Stark
 : Rep. J. C. Corman Rep. J. R. Jones
 : Rep. W. J. Green Rep. A. Jacobs, Jr.
 : Rep. S. M. Gibbons Rep. A. J. Mikva
 : Rep. J. D. Waggoner, Jr. Rep. M. Keys
 : Rep. J. E. Karth Rep. J. L. Fisher

Minority : Rep. H. T. Schneebeli Rep. Barber B. Conable, Jr.
 : Rep. J. J. Duncan Rep. D. D. Clancy
 : Rep. B. Archer Rep. Guy Vander Jagt
 : Rep. W. A. Steiger Rep. P. M. Crane
 : Rep. B. Frenzel Rep. J. G. Martin
 : Rep. L. A. Bafalis

PRINCIPAL STAFFMAN : John Martin, Chief Counsel

GAO WITNESS : Comptroller General

ACCOMPANIED BY : Mr. P. S. Hughes, Assistant Comptroller General
 : Mr. M. E. Canfield, Director, OSP
 : Mr. T. V. Griffith, Legislative Attorney, OCR

A Car will leave "g" Street, "1" basement at 9:40 a.m.

A PHOTOGRAPHER WILL BE PRESENT

T. Vincent Griffith *TG*
 Legislative Attorney, OCR