



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

119690

RELEASED

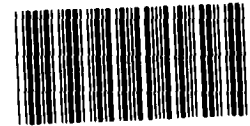
INTERNATIONAL DIVISION

**RESTRICTED** — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

SEPTEMBER 14, 1982

B-208826

The Honorable Joseph M. Gaydos, Chairman  
Congressional Steel Caucus  
House of Representatives



119690

Subject: Priority Support for Energy Programs  
Under the Defense Production Act  
(GAO/ID-82-60)

Dear Mr. Chairman:

In your letter of May 13, 1982, to the Comptroller General, you requested, among other things, information on Commerce Department procedures under the Defense Production Act as they pertain to priorities for steel to meet future energy requirements. This letter responds to that part of your request.

Section 101(c) of the Defense Production Act of 1950, as amended, authorizes the President to give priority support to certain energy programs to maximize domestic energy supplies. After making certain findings, the President can require that contracts or orders for material and equipment relating to authorized energy programs be accepted and performed on a priority basis. This means, in essence, that priority-rated orders get production scheduling and delivery preference for industrial materials, products, and services. In general, priority-rated contracts and purchase orders must be accepted and the items delivered by the contractor or supplier in preference to non-rated orders. This helps to ensure that authorized energy programs are kept on schedule. There are criminal penalties for violation of these requirements.

To implement section 101(c) authority, the President delegated responsibilities to the Federal Emergency Management Agency and the Departments of Commerce and Energy. The Federal Emergency Management Agency is responsible for the direction, control, and overall coordination of the section 101(c) program. The Departments of Commerce and Energy administer the day-to-day responsibilities of the program.

483363

523355

Information obtained on the section 101(c) program from the Commerce and Energy Departments indicates that its authority has been used sparingly and has not significantly affected producers and suppliers of domestic steel or other materials and equipment. From program inception in 1977 through June 30, 1982, the Energy Department received only 50 applications for priority rating; it sent 32 applications to Commerce for further processing, turned down 16 as not being eligible for priority rating, and still was processing 2 as of June 30, 1982.

Commerce authorized priority ratings for 23 of the 32 applications and denied priority ratings for 9 of them. Of these 32 applications, 21 involved steel material; 13 of them related to Alaskan North Slope projects, 6 to coal projects, 1 to the Strategic Petroleum Reserve and 1 to natural gas. Commerce authorized priority ratings for 14 of the 21 applications. The steel items approved for priority rating are shown in the enclosure.

#### PROGRAM PROCEDURES

Applicants seeking priority rating support for energy programs send their requests to the Department of Energy's Procurement and Assistance Management Directorate. In processing the applications Energy makes two findings.

1. Whether the energy program maximizes domestic energy supplies.
2. Whether the requested materials and equipment are critical and essential to the applicable energy program.

In deciding whether programs maximize domestic energy supplies, Energy uses criteria which analyze the quantity of energy involved, benefits of timely program completion, impacts caused by delays in program completion, and extent to which the program supports established national energy policies.

Programs that meet these criteria are designated as "eligible" and further reviewed for criticality and essentiality.

Essentiality is basically determined by whether the supplies of material and equipment are indispensable to the eligible program. Criteria for this finding include whether the item is fundamental to the energy program and whether a substitute material is readily available. The finding of criticality concerns the urgency of obtaining the particular material and equipment.

Applications that Energy determines meet the criteria for the two findings are then forwarded to Commerce's Office of Industrial Resource Administration, where they are further processed to determine:

1. Whether the supplies of material and equipment are scarce.
2. Whether the program or project can reasonably be accomplished outside of the priorities and allocation systems.

Scarcity implies unusual difficulty for the purchaser in obtaining the materials or equipment in appropriate specifications, quality, and quantity and within the required time frame. The scarcity determination considers all sources, both domestic and foreign, that are capable of meeting required product specifications, quality, and quantity within the required time frame. Relevant factors to making a scarcity determination include shipments; consumption; imports and exports; sources of supply; inventories of producers, users and traders; rate of capacity utilization; volume of new orders; and average time for filling orders.

In deciding whether there is a need to use the priorities and allocation systems, Commerce looks at such factors as whether there are alternative solutions to the supply problem. To the extent practicable, it also assesses whether priority support for the project creates problems with priority support for other important energy or national defense programs.

If Commerce does not find both scarcity and a need to use the priorities and allocation systems, the application is returned to the Department of Energy, which then informs the applicant of the negative decision. The applicant or Energy may request Commerce to reconsider its decision.

If Commerce makes a favorable finding on the application, Energy is authorized to grant priority authority to the applicant to obtain specifically described materials or equipment. In using priority authority, the applicant is governed by the rules, regulations, and procedures of the Defense Priorities and the Defense Materials Systems. These systems assure the timely availability of necessary industrial resources to meet current national defense and energy requirements. They also provide a framework to facilitate rapid industrial mobilization in case of national emergency.

A draft of this letter was reviewed by officials of the Departments of Commerce and Energy who administer the section 101(c) program, and their comments were considered in preparing the final letter

Please let us know if you need additional information. As arranged with your office, we plan no further distribution of this report until 30 days from the date it is issued. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan". The signature is written in dark ink and is positioned above the printed name and title.

Frank C. Conahan  
Director

Enclosure

STEEL APPLICATIONS APPROVED FOR PRIORITY RATINGS

<u>Case No.</u>	<u>Item Description</u>	<u>Estimated steel content</u> (In tons)
E2-80	plug valves	116
E3-80	steel forms and shapes	380
E4-80	meter tubes and turbines	29
E5-80	ball and gate valves	a/
E6-80	globe stop valves	0.35
E8-80	flow meters	2.2
E9-80	control valves	1
E11-80	globe and butterfly valves	5
E13-80	pipng for pipe spools	704
E14-80	connectors for let down valves	a/
E1-81	meter run assemblies	3.2
E6-91	plug valves	25
E7-81	meter run assemblies	27
82-3-3	meter run assemblies	2

a/ Steel content could not be estimated from information furnished