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H.R. 11678 addresses many of the issues concerning the need for national energy analysis that GAO has addressed over the past several years. There are five crucial steps to national energy planning which are required to put the Nation's long-range energy needs in perspective and design effective energy policy: (1) development of a set of realistic projections to show what the energy future will be like without new policy initiatives; (2) debate by Congress of the implications of national energy trends revealed by the projections; (3) development by Congress of realistic energy goals and objectives; (4) development and analysis of a wide range of policy options; and (5) establishment of a set of standby programs. An organization such as the Institute for Long-Range Energy Policy Analysis could play a constructive role in implementing these recommendations. Enactment of H.R. 11678 at this time is not recommended, but Congress should give serious consideration to planning the Nation's energy future. Language changes to the proposed legislation are included. (RRS)

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UNITED STATES GENERAL ACCOUNTING OFFICE

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TESTIMONY OF
MONTE CANFIELD, JR., DIRECTOR
ENERGY AND MINERALS DIVISION
ON H.R. 11678
BEFORE THE
HOUSE SUBCOMMITTEE ON ENERGY & POWER
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

Dear Mr. Chairman:

H.R. 11678 addresses many of the issues concerning the need for national energy analysis that the General Accounting Office has raised over the past several years.

We would like to review the General Accounting Office's recommendations for energy planning with you in the context of this bill. Those recommendations, and the reasons we made them, show why long-range analyses are needed.

It appears to us that there are five crucial steps to national energy planning which are required to put the Nation's long-range energy needs in perspective and design effective energy policy.

First is a consistent set of realistic projections which show what our energy future will be like without new policy initiatives. The recent past has brought forth a plethora of energy forecasts. However, much of this work has created confusion rather than enlightenment. The studies used

different data, methods, and time periods. They often presented results incompletely and did not fully reveal the assumptions behind the projections. The Department of Energy and its predecessor agencies have not been immune to these problems as the report of the GAO-lead Professional Audit Review Team concerning the Energy Information Administration recently revealed.

The "base case" forecast occupies a central place in energy policymaking because all options and alternatives are permutations of it. Consequently, Congress should not be forced to simply accept or reject the Administration's "base case". An independent and objective projection would be a valuable tool for analyzing both the Administration's and other policy initiatives.

Second, Congress needs to debate the implications of the national energy trends which are revealed by the projections. Energy production and consumption is intertwined with our economy, national security, environment, and lifestyles. Only through this debate can Congress decide what areas of our national life are most vulnerable to damage from an undesirable energy future and determine priorities for implementing corrective action. We feel it is important that the Congress consider these overall aspects of energy policy in addition to the specific proposals such as energy taxes, prices, and conservation standards. This would add perspective to our energy

problem that has been missing so far.

For example, although the Administration and others decry our rising oil imports, there has been surprisingly little debate on the economic and national security implications of various levels of imports, aside from the simple assertion that oil imports make us politically vulnerable and are linked to a declining dollar. Imports of oil, like imports of most commodities, are not inherently evil. But there is certainly a level above which they pose a threat to the Nation. There is no consensus on what that level is. Analysis of long-range import needs is obviously crucial to establishing realistic national energy goals. Otherwise, we may under- or overshoot the amount of imported oil we can safely and productively use. Either miscalculation could be costly.

The third step to energy planning is that Congress must develop realistic energy goals and objectives. As we stated last June, the Administration did establish goals for National energy policy, but it did not design its Plan to achieve its own goals--even had the plan been passed exactly as it had been proposed.

Once goals are established, the policy options chosen to reach the goals should be closely tailored to reach them at minimum cost. It is also important that milestones be established so that it is clear, over time, whether we

are making satisfactory progress toward meeting those goals.

The fourth step to policy formulation is development and analysis of a wide range of policy options. These options must be thoroughly evaluated for their energy payoff, their economic cost, environmental implications, national security ramifications and any social costs they may cause. The selection process must combine technical analysis of energy options with peoples' needs as revealed through the democratic process. For example, oil from shale is one option which is often mentioned as a way to greatly reduce future oil imports. Technical analysis has shown, however, that oil from shale would be very costly, could irretrievably scar a great deal of land, and may cause a considerable amount of social disruption in what is now a rural agricultural area. What may be most damaging, however, is the loss of the large amount of water needed for shale oil production. The limited water available and the ever expanding needs of agriculture, industry, and households for it is part of the cost of developing a large shale industry. We need a better understanding of the potential energy payoff and secondary implications of the various options to permit the Congress to make informed judgments on which areas need government action.

The fifth and last step toward comprehensive long-range energy planning is the establishment of a set of standby programs. Those could be put into effect if satisfactory

progress toward the national energy goals were not being made. Such standby programs would mandate greater conservation and accelerated supply development. They could include measures such as standby taxes, stricter energy efficiency standards, additional energy development on federal lands, and modification of environmental standards. These standby strategies would probably be fairly painful or costly, but their well-publicized existence could be helpful in promoting maximum efforts to reach the established goals.

The General Accounting Office feels that an organization such as the Institute for Long-Range Energy Policy Analysis could play a constructive role in implementing the recommendations we have discussed. There are, of course, other institutional arrangements which could be used; in particular, already existing institutions. The charter of the Department of Energy requires it to undertake ten-year plans with two-year updates. DOE could, of course, plan for the longer range as this bill envisions. Holding the Department's "feet to the fire" is, of course, the most obvious alternative to this legislation.

Nevertheless, one could argue that existing institutions would find it difficult to discharge the duties of the Institute as outlined in the bill. Most governmental institutions are too caught up in the day-to-day rush of

carrying out policy and operating programs to take the detached view contemplated by this proposal.

While we are not prepared to recommend enactment of H.R. 11678 at this time, we do think the Congress should give serious consideration as to how we can do a better job of planning the Nation's energy future. Therefore, should Congress wish to enact such legislation, we have several specific suggestions which we think would strengthen the proposal. The language changes we are recommending are numbered and attached to this statement. I will summarize their thrust here.

1) We feel that it would be preferable to have the 5 members of the Board of Directors appointed by the Comptroller General all be experts in a particular field related to energy policy rather than advocates of a particular interest. Although it would enlarge the board, the Committee should consider adding two more expert members in the areas of economic growth and foreign/national security affairs. There are a number of factors to be weighed before adding other members; but since both areas are so intimately related to energy policy, the benefits of views on these two sensitive subjects should be considered.

2) As we emphasized above, GAO considers the establishment of national energy goals a top priority. Therefore, we believe the "Functions and Powers" section should reflect that concern and include a new first paragraph

which charges the Institute with analyzing alternative national energy goals and objectives.

3) Since the timing of policy and programs is so important, we think it ought to be reflected in the "Functions and Powers" section. We therefore suggest an explicit mention of setting timeframes for evaluating objectives.

4) The General Accounting Office feels that the Institute should have the prerogative of making recommendations to whatever institutions it feels are appropriate. Consequently, we suggest adding a paragraph to "Functions and Powers" granting the Institute that authority.

5) We recommend the deletion of para. (8) of Sec. 516. That paragraph could be interpreted as giving the Institute responsibility for evaluating on-going programs. This function is presently discharged by the General Accounting Office. Further, we believe that it would interfere with the Institute's primary responsibility for long-range analyses.

6) We believe that GAO's relationship to the Institute should include the evaluation of its activities and not merely financial audits; therefore, we suggest that language be added to Sec. 519 to make it clear that such program evaluation is included.

Finally, one technical point. There is some question concerning the applicability of appropriations laws and other laws governing the operation of Federal agencies to the Institute, which would receive Federal appropriations, but would not be a Federal agency. Some confusion has developed in the past on this point with organizations such as the Public Broadcasting Corporation and the Legal Services Corporation. Our General Counsel is looking into this question and we will address it in greater detail in our response to Chairman Stagers' request for GAO comments on this bill.

Mr. Chairman, I would be pleased to answer any questions you may have on our testimony.

ATTACHMENT

Recommended changes in the language of H.R. 11678

1) Sec. 514, line 25 to read, "(con-)sent of the Senate on the basis of professional competence and knowledge in the following areas;" and lines 1 through 10 on Page 5 would be:

"(A) one on such basis with respect to energy issues;

"(B) one on such basis with respect to environmental issues;

"(C) one on such basis with respect to labor issues;

"(D) one on such basis with respect to industry issues;

"(E) one on such basis with respect to systems analysis competence.

2) Add a new first paragraph to Sec. 516 which would read:

"(1) analysing alternative goals and objectives; and their implications for the Nation's Energy Policy"

3) In para. 2, Sec. 516, add "and timeframes" at the beginning of line 18.

4) Insert a new paragraph between paras. (4) and (5) of Sec. 516 as follows:

"Making such findings, conclusions, and recommendations as it deems appropriate, based on its analyses, to any governmental or other institution for actions needed to implement them."

5) Delete Sec. 516, para. (8).

6) In Sec. 519 (b) (1), amend line 11 to read, "The Comptroller General may audit and evaluate the programs".

In Sec. 519 (3), change line 4 as follows, "A report of each such audit and evaluation shall be made by the"

Same section, line (8) becomes, "Congress of the financial and other operations and conditions of the"