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THE CHANGING ROLE OF THE  
GENERAL ACCOUNTING OFFICE  
IN ENERGY INFORMATION AND DATA PROGRAMS

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GAC 0140

Before  
Twelfth Annual Institute  
on  
Oil and Gas Accounting  
Southwestern Legal Foundation  
Dallas, Texas  
September 8, 1976



LOG 01230

The question of adequate and credible energy data--financial and otherwise--is recurrent and deep-seated. What I will talk to you about today is drawn largely from our efforts at GAO to provide the Congress with factual information concerning the issues and options with which it must grapple.

The GAO is an independent agency of the legislative branch and has traditionally been called the Congress' "watchdog" because of its responsibility to evaluate executive branch and regulatory agency programs. Traditionally, we have audited these programs and reported on their financial and economic efficiency. Increasingly however, we are called upon to provide the Congress with critical analyses of Governmental proposals, alternative policies, and legislative initiatives.

Today I will focus on GAO efforts to improve collection, analysis, and reporting of energy data in the Federal Government; Congressional concern with the need for improved energy data

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as expressed in legislation enacted during the past two years; and describe briefly some other work GAO is doing in the energy field which I think might interest you.

GAO's first major study of energy data programs was started in April 1973. Senator Henry Jackson, Chairman of the Senate Interior Committee requested that GAO make a study of energy information needs, including recommendations for improving efforts in collecting, analyzing, and reporting energy data. His concern was that the Federal Government may be making energy decisions on the basis of inadequate information. He also raised serious questions about the accuracy and completeness of available statistics.

Our study addressed the magnitude of the Federal energy data effort, indentified and discussed several problem areas regarding the Federal Government's capability for collecting and analyzing energy data and discussed executive and legislative proposals to improve energy data collection and analysis. We came to several conclusions regarding the need for improvement in Federal energy data programs.

When we began our work in April 1973, there was no agency in the Government responsible for directing or coordinating the collection of energy data. Predictably, the Government's involvement in the collection, analysis, and reporting of energy data was fragmented and uncoordinated.

We found that a great deal of data was being collected by a wide range of Federal agencies. However, it was being collected to meet the needs of specific programs or agencies. There was no systematic assembling of energy data.

Our study, completed in February 1974, concluded that major improvements were required. For the long run, the study pointed out that there was a need to establish a fully integrated comprehensive energy data system, building, where possible, on existing data collection systems and programs. That study suggested that responsibility for developing the system be placed in an organization within the executive branch which could establish itself as a professional, objective, independent gatherer of energy information. To establish the comprehensive data system envisioned, the study concluded that legislation would be needed which

- Required reporting of needed energy-related information
- Provided for certification of the accuracy of reported data and established sanctions for nonreporting or incorrect reporting.
- Provided for access to records and other supporting documentation by those collecting data so that programs of data verification could be established.
- Provided for standardization of terms and definitions to prevent confusion.
- Assured that needed data would be available to Government agencies.

- Provided for prompt and complete public disclosure, limiting confidential data to the minimum.
- Provided assurance of independent reviews of energy data collection by giving GAO access to all reported data and to the records and supporting documentation.

With respect to organization, the study concluded that primary responsibility for energy data collection should preferably be located where it could be independent of policy development, administrative and analytical functions.

The study further concluded that the best long-term organizational approach would be the establishment of a Department of Energy and Natural Resources having the scope and stability to deal with complex energy issues. Within the Department, a separate organization could be given responsibility for energy data collection with statutory provisions to insure its objectivity and appropriate insulation from the policy and operations of the Department. 697

#### FEA ACT

The Federal Energy Administration Act of 1974 established FEA as the focal point for Federal energy affairs and specifically required that FEA establish a central clearinghouse for energy information. FEA established the National Energy Information Center (NEIC) to serve as such a clearinghouse. 75

The establishment of NEIC has been FEA's prime effort to act as a focal point for energy data collection. Among its other accomplishments, NEIC has made efforts toward two of the steps called for in our February 1974 study--an inventory of existing Federal energy data collection efforts and development of a directory of energy data. Much, however, remains to be done.

Accordingly, as a result of renewed Congressional interest in the area, GAO updated its February 1974 report and presented the results at hearings held by the Senate Interior Committee on March 9, 1976. The results of the update were summarized in a report to the Congress dated June 15, 1976.

We reported that many of the basic problems described in our earlier report had not been resolved. Further, the volume of energy data had grown tremendously and except for certain congressionally mandated FEA efforts, Federal agencies generally continued to design information requests to fit only individual needs. We concluded that efforts towards improved coordination have shown only limited success.

GAO continues to believe, and has testified on several occasions, that the best long-term organizational approach to the solution of energy problems, including energy data collection problems, would be the establishment of a Department of Energy and Natural Resources.

Congressional action to establish a DENR has not yet been forthcoming. Pending the establishment of a full DENR, therefore, we recently proposed that organizational changes be made in the

Executive Branch which would begin to move in the direction of creating such a department. The changes involve combining all energy policy, programming, research and development, financing and data activities into a single new agency. FEA's energy regulatory functions would be "spun off" to the FPC.

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/ We proposed, specifically, abolition of FEA and ERDA- 66 and establishment of a new National Energy Administration. The Administration would combine all FEA functions (except regulatory) with those of ERDA, add a statutorily independent data office and include programs designed to finance commercialization of emerging technologies and actions. I understand that the Executive Branch is exploring such an alternative and is expected to report soon to the Senate Government Operations Committee on it and other options.

## ENERGY CONSERVATION AND PRODUCTION ACT

The Energy Conservation and Production Act, which was signed into law by the President on August 14, is further evidence of Congress' abiding interest in energy. This Act authorizes new programs and initiatives in the areas of energy data, energy conservation, and enhancement of domestic production. It also imposes specific new requirements on the GAO.

Consistent with the GAO proposal, the Act established an independent Office of Energy Information and Analysis within the FEA. The Director of this office is required to establish a National Energy Information System. The system is to be designed to contain information which will provide a description of energy supply and consumption to facilitate analysis and meet the needs of the FEA, Congress, and others.

The system design is supposed to capture the energy information necessary to carry out the Administration's statistical and forecasting activities. It is to contain energy information required to define and permit analysis of:

- the institutional structure of the energy supply system including patterns of ownership and control of mineral fuel and nonmineral resources and the production, distribution, and marketing of mineral fuels and electricity;
- the comparability of energy information and statistics that are supplied by different sources; and
- the sensitivity of energy resource reserves, exploration, development, production, transportation and consumption to economic factors, environmental constraints, technological improvements, and substitutability of alternate energy sources.

*A* The Act also provides for the creation of a Professional <sup>623</sup> Audit Review Team consisting of at least seven professionally qualified Government employees. The Chairman of the Team is to be designated by the Comptroller General. The Review Team will be responsible for conducting a thorough annual audit of the procedures and methodology of the Office of Energy Information and Analysis and preparing an annual report of its findings to the President and to the Congress.

The Act places several specific new requirements on GAO including that GAO review and evaluate the effectiveness of energy conservation and renewable resource programs and provide an annual report to the Congress on the activities of the FEA.



## ENERGY POLICY AND CONSERVATION ACT

Enacted last December, the Energy Policy and Conservation Act of 1975 was the first major piece of comprehensive energy legislation. It addressed matters to increase domestic energy supply and improve energy efficiency. The Act substantially increased FEA's energy responsibilities, and is resulting in increased efforts on GAO's part to continually monitor and evaluate the effectiveness of that agency's programs.

The Act also gave GAO new responsibilities in the energy data area. Specifically, Title V of the Act authorized GAO to independently verify energy data and states that GAO may use its authority to inspect the books and records of private persons and companies under the following conditions:

1. If a company is legally required to submit energy information to FEA, the FPC, or the Department of the Interior.
2. If a company is engaged in the energy business, other than at the retail level, and
  - a. furnishes energy information directly or indirectly to any Federal agency, excluding the Internal Revenue Service, and
  - b. GAO determines that the Federal agency uses this information in carrying out its official functions.
3. If the energy information is any financial information pertaining to a vertically integrated petroleum company.

In carrying out our responsibilities under Title V of the Act, the Comptroller General is authorized to (1) sign and issue subpoenas, (2) require any person to reply to interrogatories, (3) administer oaths and (4) assess and collect civil penalties not to exceed \$10,000 for each violation. The Comptroller General is required to submit an annual report to the Congress identifying any deficiencies in energy or financial information and including actions to correct such deficiencies.

We are anticipating that GAO's new authority will generate a substantial number of requests from congressional committees to examine energy company records. We believe this for the following reasons:

1. We have identified at least 33 congressional committees having some jurisdiction over energy matters. Any one of them could request GAO to exercise its new authority. In addition there are 86 subcommittees to these 33 committees which deal with energy matters. While these 86 subcommittees do not have direct power to request GAO's assistance under this authority, they often are able to obtain the committee chairman's cooperation in sending out requests over the chairman's signature. Thus, we believe there are 119 potential congressional requestors which GAO may have to deal with.

2. Much of the debate in Congress over energy issues since the Arab embargo has had at its roots a basic distrust of the motives and operations of the big multi-national oil companies.

The companies have not always helped their own cause by hiding behind the shield of proprietary information when questioned by members of Congress during hearings. Regardless of whether there is in fact a basis for this mistrust, we are certain that a number of requests will be forthcoming from the committee chairmen that GAO "get the facts" concerning various allegations made against the energy companies.

In addition, we assume that the energy issues and problems being discussed today will not "go away" in the next few years. Thus, we can get an idea of the type of requests forthcoming from examining current energy issues. We expect GAO to be called upon to provide "answers" to the many question marks punctuating congressional energy debates. Let me mention a few--

A. Oil and Natural Gas Pricing - The Federal Government currently controls by various means prices on oil and gas. We expect at least some of these controls to continue for the next few years. As long as the energy industry continues to oppose price controls by arguing that higher prices will lead to higher production, the Congress will continually be raising questions concerning oil and gas prices.

GAO might be asked -- (Some already have been asked)

1. Are companies failing to develop reserves or shutting-in reserves in anticipation of higher prices?
2. Are companies accurately reporting "old" and "new" oil production to FEA?

3. Are price actions undertaken by FEA and FPC justified on the basis of actual costs incurred by the energy companies?
4. Are the acquisition costs of imported oil being accurately reported to FEA?
5. Are industry profits sufficient and/or justified?

B. Oil and Gas Reserves and Resources - While industry argues for higher prices to spur additional oil and gas production, others argue that the U.S. is running out of resources and higher prices will not yield additional production. GAO may be requested by Congress to evaluate heretofore confidential company information to determine the adequacy of U.S. oil and gas reserves and the industry's ability to convert resources to reserves.

C. Divestiture of Integrated Oil Companies - There is a controversy in Congress over the relationship between vertical integration in the oil and gas industry and the resulting control or lack of control on supply and price. GAO could well be called on to determine profitability, and supply and market control exercised by the major oil companies. Likewise issues arise over horizontal integration as oil companies invest in other energy activities, such as coal production.

Issues not now being widely debated, but foreseeable in the future include:

A. Frontier OCS Oil and Gas Development - GAO might be asked to evaluate company information on potential OCS oil and gas resources.

B. Alaskan Oil and Gas - With the completion of the Alaska oil pipeline in 1977 and the proposed completion of a natural gas pipeline by the early 1980's, we expect to be asked to verify the accuracy of data supporting the price for Alaskan oil and gas.

These are just a few of the issues that we foresee ourselves getting involved in with our new authority.

In order to effectively respond to congressional requests generated under our new authority on a timely basis, we have established a separate staff within the Energy and Minerals Division to handle this work. Anticipating that many of the requests GAO will receive will be highly technical in nature, our staff will include persons with varied academic disciplines and energy backgrounds such as geologist/geophysicist, mining engineer, petroleum engineer, petroleum accountant, economist, environmentalist, and accountant/auditors.

We currently have underway about six assignments in various stages of completion. These include

1. A review of the transportation charges claimed by petroleum companies importing foreign crude oil

The primary effort here is to identify possible overcharges or questionable charges for tanker transportation costs of imported crude oil.

Secondary efforts are concerned with identifying the variety of transportation practices that have a direct impact on transportation costs and determining the significance that each of these practices has on total transportation costs.

2. A review of relationship between international oil companies and OPEC governments

This review includes a research of available literature, an examination of company documents, and inquiries into the degree to which, if any, preferred access to OPEC crude assists in OPEC price maintenance mechanisms. It will also consider what inhibiting effects, if any, those relationships might have on company incentives to expand domestic energy production.

3. Survey of the accounting practices of persons engaged in domestic production of crude oil and natural gas

The objectives of this assignment are to review and comment on (1) company exploration and production accounting principles and practices and how such practices affect the presentation of data in financial statements, and (2) available company data regarding their ability to employ alternative accounting principles and practices and the potential costs associated with changing to a uniform method of accounting for exploration and production.

Let me repeat briefly a point made earlier about one new role for GAO. Title V does involve GAO in the development of accounting practices for crude oil and natural gas producers because of the requirement that the Securities and Exchange Commission, which is charged with developing such practices, consult with GAO, among others. Let me just assure you that Horace Brock has described for you the role of FASB in this. We plan to work very closely

with SEC in fulfilling our consulting role--since we will have to live with their decisions for many years to come.

OTHER GAO ENERGY WORK

Our work in energy goes further. We have about 90 studies underway or planned. Of these, 27 were initiated as a result of congressional requests--the remainder were undertaken on our own initiative. In our work we are giving special attention to the question of increasing energy supplies, particularly since our future energy demand has received so much attention during the past several years. If we continue increasing our energy demand at 3 percent per year, our energy supplies must more than double by the year 2000. The unanswered question which GAO feels compelled to ask again and again is, "Can we get there from here?"

To give you an idea of some of our studies, I would like to briefly mention a few:

--A study completed in July 1975 of the Liquid Metal Fast Breeder Reactor Program. We reported that the LMFBR program should be clearly identified and recognized for what it is: a research and development program. There has been premature concern and emphasis on commercializing the LMFBR at a time when the Nation is years away from demonstrating that commercial-size LMFBR plants can be operated reliably, economically, and safely. We believe that the Nation need not make

a definite commitment to this energy source for another 7 to 10 years.

--A study completed in January on the implications of natural gas deregulation. We reported that even with deregulation, natural gas production is likely to continue its decline. Deregulation could, however, slow, and possibly arrest, the rate of decline. Without it, production would decline even more steeply. In any case, the Nation will not likely achieve production again in the amounts currently being produced.

Even with continued regulation, the price of natural gas will increase, but with deregulation the increase would be more rapid. The additional supplies of gas likely to result from deregulation must be weighed against the additional costs to consumers. The undersirable implications of continuing a regulatory framework which creates separate interstate and intrastate markets also must be faced.

Deregulation must be carefully weighed against other alternatives which include continuing regulation,



but at higher prices, and bringing intrastate supplies under Federal regulation. The implications of deregulating natural gas and allowing its price to rise to the equivalent price of imported oil--which is not established in a free and competitive market--also must be carefully considered.

In the final analysis, deregulation requires a political judgment based on a careful weighing of the economic tradeoffs involved in alternative courses of action.

--A study completed in August which evaluated federal proposals to finance commercialization of advanced energy technologies sought answers to the following questions:

- (1) What could Government do to accelerate development of synthetic fuels to meet the Nation's future energy needs?
- (2) Can more energy be produced at less cost if Federal incentives are used to stimulate the development of other new energy supply technologies such as solar energy, geothermal power, and enhanced oil recovery?
- (3) Is conservation a more cost-effective alternative to Federal incentives to increase supply?
- (4) Which types of Federal financial incentives--loans, loan guarantees, tax actions, purchase agreements, price regulation, Government ownership--are best in specific situations?

Report recommendations included that Congress:

- (1) Continue to place the highest priority on energy conservation actions, requiring improved information on major conservation opportunities which will provide the basis for the development and funding of specific programs which can be tailored to take maximum advantage of the opportunities.
- (2) Maintain close oversight of the several new programs to encourage energy conservation, evaluate the effectiveness of incentives offered, and consider such further actions as may be necessary, including the greater use of mandatory energy efficiency standards.
- (3) Not approve legislation authorizing Federal loan guarantees to builders of synthetic fuel plants, and instead direct ERDA to, continue to give high priority to research and development to improve the technology. We suggested that Congress consider authorizing construction and operation of small size plants of a sufficient size to meet ERDA's goal of obtaining socio-economic, environmental, and regulatory information in a timely fashion.

--A study, to be completed early next year, on the promises and uncertainties of coal development. This coal study will be a comprehensive analysis of coal's future as a near-term and long-term energy source and of what will be required to develop this resource in an orderly, economic, and environmentally sound manner.

It's obvious that we in GAO who are concerned with energy find it difficult to imagine idle times ahead. We welcome your advice and criticism of our continuing efforts in this area. We are cognizant of the sobering responsibilities we have been given and hope we can acquit ourselves accordingly.

I'd like to stop here and use the remainder of my time to answer questions and listen to your advice.

Thank you.