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Statement of
Elmer B. Staats
Comptroller General of the United States
before the
Senate Committee on Government Operations
on S. 2872
A Bill to Extend the Federal Energy
Administration Act of 1974

My statement today first discusses three discrete areas which are of interest to this Committee in its consideration of S. 2872. These areas relate to (1) possible organizational changes to the Federal Energy Administration (FEA) which specifically address FEA's energy policy and regulatory roles within the context of improving the Federal Government's approach to energy problems, (2) the energy data issue, with emphasis on the need for credibility and objectivity in Federal energy data efforts, and (3) mandatory reporting requirements in the area of national energy conservation efforts.

My remarks will be concluded with an overview of GAO's efforts with respect to FEA's compliance and enforcement work and a brief discussion of some of our planned and recently completed efforts in other FEA responsibility areas.

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FEA ORGANIZATIONAL CHANGES

S. 2872 would extend the expiration of the Federal Energy Administration Act of 1974 from June 30, 1976, to September 30, 1979. While we support the temporary extension of FEA's authorities, we believe that the best long-term organizational approach to the solution of energy problems is to establish a Department of Energy and Natural Resources (DENR) which we have consistently supported. Pending the establishment of a full DENR; however, Congress may wish to mandate some organizational changes in the Executive branch which begin to move in the direction of creating such a department.

FEA currently has responsibilities for both energy policy development and energy regulation. A desirable division of FEA's responsibilities, in our opinion, would be to separate FEA's policy, planning and program development activities from its regulatory activities, combining the two functions with related functions of other energy agencies. The problems inherent in having a single agency responsible for policy and regulatory programs were recognized by Congress in the old Atomic Energy Commission which was recently reorganized into the Energy Research and Development Administration and the Nuclear Regulatory Commission.

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The drawbacks of such a combination have again been demonstrated by the FEA. For example, last fall, during debate over the extension of oil price controls, FEA was the chief administration spokesman in favor of phasing out such controls, while at the same time having responsibility for administering the oil price control program--a situation not conducive to the most vigorous enforcement policy.

We would propose combining FEA's permanent energy policy responsibilities with the Energy Research and Development Administration's (ERDA) energy research and development policy responsibilities into a new NATIONAL ENERGY ADMINISTRATION. It seems to us that the most critical need in solving the Nation's energy problem is to have a unified and concentrated effort for developing national energy policies, plans and programs. We believe this new agency can bring about this effort, and, as I stated previously, its creation is a logical first step to the longer term creation of a Department of Energy and Natural Resources.

In addition, there is now proposed another new Federal organization--the Energy Independence Authority (EIA)--which would help finance and encourage the commercialization of a variety of more advanced energy technologies, such as synthetic fuels. On April 13, 1976, we testified before the Senate Committee on Banking, Housing, and Urban Affairs on the EIA proposal. Our testimony is available for the Committee's use and we hope that it can be made part of the record.

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If created with financial assets of \$100 billion, EIA would inevitably become a major factor in energy policy development. Its relationship to ERDA and FEA is unclear. ERDA, for example, has authority, and is now seeking funds, to assist industry in financing demonstration projects in synthetic fuels. We believe that the concept embodied in the EIA Act currently before Congress should also be included in the new NATIONAL ENERGY ADMINISTRATION. Such an agency could then exercise control and coordination of three basic energy policy components: (1) policy formulation, presently in FEA, (2) allocation of research, development and demonstration funds, currently in ERDA, and (3) allocation of commercial financing monies or guarantees, currently proposed for EIA.

On the regulatory side, and in conjunction with the proposal to combine FEA's and ERDA's policy responsibilities into a new agency, we would further propose a consolidation of Federal energy regulatory responsibilities. There are several ways to accomplish this. Perhaps the simplest would be to transfer FEA's residual regulatory responsibilities to the Federal Power Commission (FPC). An alternative would be to create a new Energy Regulatory Agency comprised initially of FEA's residual regulatory responsibilities and the FPC's regulatory responsibilities. We believe it desirable to have these functions in an agency having energy responsibility, rather than transfer them to an agency with no energy responsibility. This would ensure that the energy functions

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Neither of our proposals would preclude the continuation ⁷ of the existing Energy Resources Council. Consideration ^{1/10/75} might be given, however, to providing the Council with a statutory basis. This, in our view, would not substitute, however, for a DENR, rather it should serve as a mechanism for coordinating Federal energy activities.

ENERGY DATA

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Two years ago, GAO testified before the Senate Committee on Interior and Insular Affairs on a study done at the request of the Chairman of that Committee entitled "Actions Needed to Improve Federal Efforts in Collecting, Analyzing, and Reporting Energy Data" (B-178205, February 6, 1974). That study described Federal energy data efforts and identified and discussed problem areas which needed addressing if the Federal Government's capability for collecting and analyzing energy data was to be improved.

The study concluded that legislation would be required to establish a comprehensive energy data system and that development of that system should be placed where it will not be influenced by energy policy analysis and formulation. Because the adequacy of Federal energy data continues to be a controversial subject, GAO updated its earlier report and presented the results at hearings before the Senate Committee on Interior and Insular Affairs on March 9, 1976.

In that testimony, we pointed out that many basic problems of energy data continue to persist. New energy data collection efforts for the most part have been piled on top of old efforts and efforts for improved coordination have yet to show much success. We concluded that the establishment of a Department of Energy and Natural Resources with an independent data collection component offers the best long-term organizational solution to energy problems, including energy data problems. In the interim, we suggested that, with proper legislative safeguards, FEA could be strengthened to make it a more credible and objective focal point for Federal energy data efforts.

The legislation which created FEA gave it significant data collection responsibilities and established it as a focal point for Federal energy data. Moreover, the recently passed Energy Policy and Conservation Act will require FEA to undertake substantial new energy data collection activities. FEA, however, was not given the authority to influence the energy data collection efforts of other Federal agencies. Thus, while FEA became a principal collector of energy data, its efforts were additive to the already existing as well as the new efforts of other agencies. As a principal collector of energy data, FEA, over the past two years, has been instrumental in efforts to improve the coordination of energy data.

Questions still could be raised regarding FEA's ability to establish itself as a credible source of objective energy data in view of its responsibility for energy policy analysis and development. FEA's problem, however, is similar to the problem which would have to be faced if a Department of Energy and Natural Resources were created. As with that department, Congress could enact explicit statutory provisions to insure the necessary independence of the data unit. We are including as attachment I to our statement a listing of the types of statutory provisions that we believe could be effective in properly insulating energy data collection functions from the influence of energy policy analysis and development. Of course, under our present proposal, such a unit would be independently established in the new NATIONAL ENERGY ADMINISTRATION.

Mr. Chairman, I would like to add that because of the concern of the Congress over the accuracy and credibility of energy data, the Energy Policy and Conservation Act gave GAO new responsibilities in the energy data area. Specifically, Title V of that Act authorizes us to independently verify energy data. We are currently involved in efforts related to this new responsibility and are including as attachment II to our statement a listing of current Title V efforts.

STATUTORY MANDATE ON
ENERGY CONSERVATION

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Energy conservation must be a key element of national energy policy. While the recently enacted Energy Policy and Conservation Act...

area, we believe that FEA's current responsibility to actively function as the Federal Government's central coordination and fact gathering agency in energy conservation would be strengthened and enhanced if a statutory requirement were imposed on the agency to annually report to the Congress on current national energy conservation activities and Federal plans and needs in the conservation area for the upcoming year. We recommend that this reporting requirement be made mandatory for a period of five years or until FEA's authority expires, whichever comes first. Again, however, under our present proposal, this reporting requirement would be given to the new NATIONAL ENERGY ADMINISTRATION.

Mr. Chairman, I would like to point out at this time that the conservation reporting requirement that I am speaking of was one of several detailed comments made by us on S. 2872 in written comments to the Chairman, Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce at his request on February 17, 1976, and more recently to Senator Percy at his request. Our comments in response to both requests are similar and I would hope that our latest response can be made part of the record.

The reporting requirement that we have in mind should build on the new authorities given to FEA under the Energy Policy and Conservation Act and should include but not be limited to the following:

- (1) Public education efforts and conservation targets established for the industrial, residential, commercial, and governmental sectors of the economy;
- (2) All Federal Government expenditures on conservation, the purpose for which the expenditures were made, and the relation of the expenditure to FEA's conservation targets under (1) above. This section should specifically discuss government, civil, and military housekeeping functions, R&D efforts, procurement practices, Federal public land activities, Federal-State activities, all educational and advisory activities by any Federal agency by consumer, residential, industrial, and transportation sectors;
- (3) An assessment of the Federal Government activities in terms of furthering conservation including identification of targets and goals, whether or not the targets or goals were met, and an analysis of the reasons as to why targets or goals were or were not achieved;
- (4) A discussion of problems perceived and plans for further conservation progress for the upcoming year in all areas addressed in section 2 above;

(5) An assessment of whether existing targets and goals can be met by voluntary means in those cases where they were not met in the previous year; whether additional progress can be made in the next year in all areas, and if so, to what extent. In those areas where targets or goals are not being met, or further progress of a significant scale is not anticipated, recommendations for legislative action needed to achieve conservation targets and goals, should be proposed. Related funding needs for the Federal Government to carry out the mandatory programs, and proper incentives, financial or otherwise, which might appropriately be coupled with the establishment of mandatory measures should be included in the legislative action package for Congressional consideration.

We have continually had problems with the Administration's priorities in energy conservation. FEA has not given it the emphasis we believe it deserves; ERDA, until this month 1/, has not emphasized it in allocating funds for research and development, and the Administration's most comprehensive energy development proposal to establish an Energy Independence

1/ ERDA's April 15, 1976, update of its June 1975 A National Plan for Energy Research, Development and Demonstration: Creating Energy Choices for the Future, stressed the importance of energy conservation through improved efficiency.

Authority would hamper rather than simply fail to promote conservation efforts.

On April 13, 1976, when we testified before the Senate Committee on Banking, Housing and Urban Affairs on the Energy Independence Authority proposal, we pointed out that our central concern with the proposal was its lack of balance in exhibiting a clear preference for supply-increasing initiatives. We stated that the choice of projects to receive financial assistance, and the form of assistance, ought to be based upon reasonable forecasts of the degree to which each project will advance the goal of independence per dollar of assistance accorded it.

We believe that the many potential initiatives in the direction of conservation hold the promise of moving the country farther down the road toward energy independence per dollar spent than do most supply increasing options.

The reporting requirement that we are recommending will give a centralized picture of the Federal Government's overall conservation effort, enable judgments to be made on its effectiveness, identify plans in the area for the upcoming year, and provide a basis for assessing the merits of further voluntary efforts vs. the need for mandatory efforts. More significantly, it will provide the Congress with a base of information upon which to take future legislative actions such as was done with establishment

of mandatory automobile mileage standards in the Energy Policy and Conservation Act.

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I would like to conclude my remarks with a brief overview of GAO's past efforts on FEA's compliance and enforcement activities and provide the Committee with an idea of the nature and direction of our present audit efforts at FEA.

Section 12 of the Federal Energy Administration Act of 1974 specifically directs that GAO monitor and evaluate operations of FEA. We have done considerable work pursuant to that legislative mandate and pursuant to congressional requests, including a specific request from the Chairman of this Committee, asking that we report periodically on the results of our work. Much of our work concerned FEA's compliance and enforcement program.

Since March 1974, we have issued eight reports dealing with FEA's compliance and enforcement operations. In July 1974, we reported that FEA's efforts in the area were rather limited and may have been misdirected. Specifically, we pointed out that the then Federal Energy Office had 62 investigators assigned to the audits of the 31 largest refinery companies--which amounted to two investigators per refiner. Subsequent to that report and after discussions with staff members of the Subcommittee on Reorganization, Research, and International Organizations, of this Committee,

we made an in-depth review of FEA's compliance activities. As a result of that effort, we issued a report in December 1974 which outlined problems in FEA's compliance and enforcement effort. Significantly, we found problems in FEA's efforts in all four levels of industry operations. In short, we found that:

- There was almost no direct audit of crude oil producer operations which provide the basis for the cost of crude oil processed in refineries.
- FEA concentrated its audits at the retail level and found numerous violations; however, there was evidence of large violations at the wholesale level where little audit effort had been directed.
- The audits of refinery operations were not completed.
- Many substantive issues relating to the adequacy of FEA's pricing regulations remained unresolved.
- Organizational disputes within FEA hindered the refinery audit effort.

We concluded that if price controls were to be continued over crude oil and petroleum products, FEA would have to substantially strengthen its compliance and enforcement program at all levels if the Government was to have adequate assurance that firms were in substantial

compliance with pricing regulations. FEA generally agreed with our conclusions and stated that they would redirect their compliance and enforcement effort to (1) initiate audits of crude producers, (2) increase the audit attention at the wholesale level, and (3) increase attention at the refinery level.

At the suggestion of your staff, we looked more closely at FEA's review of crude oil producers. In October 1975, we reported that FEA had increased its review of crude producers but its review was concentrated at independent producers which accounted for only about 30 percent of domestic crude oil production. On the other hand, FEA had not completed enough work on crude oil production activities of major oil companies to establish whether those companies had complied with petroleum pricing regulations. We concluded that FEA needed to intensify its efforts at the latter producers.

While our historical interest has focused on FEA's compliance and enforcement effort, we have recently expanded our efforts into other aspects of the agency's operations, primarily because of the Energy Policy and Conservation Act.

The Energy Policy and Conservation Act, which substantially increased FEA's energy responsibilities will result in increased efforts on our part to continually monitor and evaluate the effectiveness of that agency's activities and programs.

Among other things, the Act authorizes FEA to:

- establish a Strategic Petroleum Reserve of one billion barrels of oil,
- develop standby plans for rationing and mandatory conservation,
- prescribe standards for U.S. petroleum companies necessary for participation in the International Energy Program,
- prescribe energy efficiency standards for consumer appliances,
- administer a program of grants to States to promote conservation programs,
- establish industrial energy conservation programs,
- develop standby mandatory allocations for asphalt,
- administer a new underground coal mine loan guarantee program.

We recently initiated a broad review of Federal efforts to achieve energy conservation. Our broad objectives of this assignment are to determine whether energy conservation programs are working, what further incentives and/or requirements are needed for various sectors of the economy to effectively conserve energy, and what should be the Federal role in establishing energy conservation policies and priorities.

We recently wrote the Federal Energy Administrator, recommending that he take a leadership role, rather than a secondary role, in collecting coal export information. A copy of our letter is included as attachment III. FEA currently relies on the Department of Commerce for information on coal exports, and such information is not available on the volatility of coal within each type exported nor is it available on other quality factors, such as ash and sulfur content. Users who depend upon this type of coal in their steelmaking process feel that there should be a more detailed monitoring system than is currently being maintained by the Government. The Federal Energy Administration Act of 1974 directs the Administrator to collect and maintain detailed information on coal exports. In view of this mandated responsibility and opinions of domestic coal users, we recommended that FEA collect and maintain detailed information on transactions involving coal exports.

More recently we wrote the Administrator on weaknesses in program planning and direction which have inhibited FEA's ability to significantly impact on State and local activities in dealing with energy problems. A copy of this letter is included as attachment IV. Specifically, we assessed FEA's impact on States in dealing with significant energy problems in four areas--energy conservation; natural gas; coal; alternate energy

resource development. We found that FEA had not devoted sufficient attention to effectively utilizing its regional office personnel as well as State and local energy personnel. In view of the enactment of the Energy Policy and Conservation Act, this becomes increasingly imperative, since that Act significantly increases FEA's responsibilities and undoubtedly will cause increased staffing in its regional offices. We recommended that FEA develop and implement a plan in which State and local governments should be involved and specifies the manner in which FEA headquarters and regional offices will obtain their involvement. We also recommended specific elements such plan should contain, including consideration of an internal organizational alignment which will allow the maximum flow of information among all organizational elements.

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As a final item, Mr. Chairman, we were asked by Senator Glenn to comment on his April 14, 1976, amendment to S. 2872. This amendment would authorize FEA to publish voluntary electric utility rate structure guidelines, continue and expand its electric utility rate structure and load management demonstration projects, intervene in rate cases, and provide technical assistance to State utility commissions. We have no objection to the amendment inasmuch as it would seek to promote more

efficient use of electric power facilities, and its objective is generally consistent with our position on the need to place high priority on conservation options.

Mr. Chairman, this concludes my statement. We will be glad to respond to questions.

SUGGESTED ACTIONS TO
INSULATE ENERGY DATA COLLECTION
AND ANALYSIS FROM POLICY ANALYSIS
AND DEVELOPMENT

- Give the head of the data agency (who would be appointed by the President and confirmed by the Senate) a specified term of office. The term of office should be at least 5 years or possibly 9 years so that it would exceed the Presidential term of office.
- Give the deputy head of the data agency the same term of office as the head of the data agency.
- Establish the data component as a professional agency by requiring that the head of such component, and his deputy, be professionally qualified, be a person of competence in the energy data area, and be chosen on a merit basis.
- Require that the head of the data agency report directly to the head of agency in which the data agency is located.
- Do not provide the data agency with any regulatory or policy functions.
- Stipulate by specific legislative provisions the responsibilities of the energy data agency emphasizing its independence, objectivity, and credibility as a source of energy data. In this regard, provide through legislative history the intent of the Congress that the head of the data agency independently speak of all matters relative to energy data, including testimony before the Congress.
- Provide for close congressional monitoring and oversight of the data agency's activities, including calling for the exercise of GAO's new responsibilities under the Energy Policy and Conservation Act to verify energy data.

GAO Assignments Under Title V
of the Energy Policy and Conservation Act
in Process as of April 26, 1976

- Review of transportation costs of petroleum companies importing crude oil (Request by Chairman, House Interstate and Foreign Commerce Committee, February 11, 1976)
- Study of major oil company relationships with OPEC nations and implications on domestic energy resource development (Request by Chairman, Joint Economic Committee, March 16, 1976)
- Review of the promises and uncertainties of domestic coal development (Request by Chairman, Senate Judiciary Committee, March 19, 1976)



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

OFFICE OF SPECIAL PROGRAMS

- ENERGY
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B-178205

APR 14 1976

The Honorable Frank G. Zarb
Administrator, Federal
Energy Administration

Dear Mr. Zarb:

Because of congressional and public concern over the need for increased reliance on domestic energy resources, we have examined coal exportation. Coal is by far our most abundant energy resource, and it is expected to play an important role in the Nation's future energy picture. If past coal export trends continue, the availability of coal for future domestic use could be limited.

As a part of our examination we reviewed agency guidelines and legislative documents dealing with coal exportation. In addition, we conferred with representatives of governmental agencies, including the Offices of Coal and International Energy Affairs within the Federal Energy Administration (FEA); the Office of Energy Programs, the Domestic and International Business Administration, and the Bureau of the Census within the Department of Commerce; the Customs Service within the Department of the Treasury; the Bureau of Mines within the Department of the Interior; and State and U.S. Geological Survey representatives. We also interviewed representatives of coal exporters, domestic coal users, and coal producers and held discussions with officials of industry associations related to the production, exportation, and use of coal.

In summary, we found that most of the coal being exported from the United States is of the type and quality used in steelmaking operations; this coal is commonly referred to as metallurgical coal. A large percentage of the exported metallurgical coal is identified technically

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as low volatile bituminous coal. This type of coal is not as abundant as our other coal types. Industry officials said metallurgical coal is difficult to obtain, and they expressed concern over its future domestic supply.

The United States exported approximately 60 million tons of coal in 1974. The largest overseas customers were Japan, which received 27.3 million tons, or 46 percent, and Canada, which received 13.7 million tons, or 23 percent. The United States exports large quantities of coal to other countries, including Italy, the Netherlands, France, Spain, and the United Kingdom. According to the coal exporters' trade association, 14 companies control 85 percent of the U.S. coal export market.

The Federal Energy Administration Act of 1974 (Public Law 93-275) directs the Administrator to collect and maintain detailed information concerning every transaction, sale, exchange, or shipment involving U.S. coal exports. The Administrator's information on the amount of coal being exported, however, is limited to the data acquired from the Department of Commerce. Essentially the data is presented only by types of coal, such as anthracite, bituminous, and lignite. Information is not available on the volatility of coal within each type being exported nor is it available on other quality factors, such as ash and sulfur content.

The conference report¹ on the act indicates that FEA is to assume primary responsibility for obtaining coal export information. We believe FEA should therefore take the leadership role in collecting coal export information. Collecting this information would not place an undue burden on the agency, since information on 85 percent of the coal export market could be obtained from just 14 exporters. Because of the concern over the future domestic supply of low volatile bituminous coal, we believe such information should at least show the exports by the three categories of volatility.

U.S. COAL RESERVES

Coal is abundant in most parts of the United States, and it constitutes about 80 percent of the Nation's proven energy reserves. The known recoverable reserves (i.e., coal reserves that can be mined economically using current technology) are estimated at 217 billion tons as of January 1, 1974. The latest data reported by the Bureau of Mines shows an annual production of about 600 million tons; thus, the coal reserve base suggests more than a 300-year supply of coal at current rates of consumption.

¹The conference resulted from the disagreeing votes of the two Houses on the Senate amendment to the bill (H.R. 11793), the basis for the Federal Energy Administration Act of 1974.

Despite such a large coal reserve base, the Nation could be faced with a shortage of low volatile bituminous coal, which is used to manufacture coke for the steel industry.

Availability of low volatile bituminous coal

A U.S. Geological Survey report dated January 1, 1974, noted that this type of bituminous coal is in relatively short supply; it constitutes about 1 percent (approximately 20 billion tons) of the identified coal resources in the United States. The report further noted the areas containing low volatile bituminous coal (West Virginia, Pennsylvania, Maryland, Alabama, Oklahoma, Arkansas, Colorado, and Virginia) are being mined out very rapidly.

Importance of low volatile bituminous coal to the steel industry

Steel industry officials said that this type of coal is a necessary ingredient to the steelmaking process, and that it is difficult to obtain. According to a Department of the Interior publication, low volatile bituminous coal is the most important of all coal used to manufacture coke because (1) it has extremely high coking characteristics and can be used in coking coal blends to upgrade much larger resources of high volatile bituminous coal, which has much lower coking characteristics, (2) most areas with low volatile bituminous coal are on the east edge of the Appalachian coal basin near centers of population and industry on the eastern seaboard, and (3) it contributes less to pollution than lower ranks of coal.

There is a potential that research and development efforts could ultimately result in a new technology for coke production, thereby reducing the importance of low volatile bituminous coal. We were told that industry researchers are working on a totally new concept of coking coal--called "form coke"--which will permit using a broader range of coals to make high quality coke. A pilot plant for producing this form of coke is under construction. It will not be known, however, until 1977 or later whether this process will produce a satisfactory product for blast furnaces.

Type of coal exported by the United States

During the past 10 years, total bituminous exports have fluctuated between 49 million and 71 million tons annually, or about 9 to 12 percent of the total domestic production. Most exports of bituminous coal are used to manufacture coke for metallurgical purposes. Bureau of Mines' statistics show that of the 52.9 million tons of bituminous coal exported from the United States in 1973, 42 million tons, or 79.4 percent, were used for metallurgical purposes. Of the 60 million tons

exported from the United States in 1974, 51.7 million tons, or 86.2 percent, were used for metallurgical purposes. We were unable to find any precise figures on exports by volatility; however, an official of an association representing the iron and steel industry estimated that 80 percent of the metallurgical coal exports consisted of low volatile bituminous coal.

LEGISLATIVE AND AGENCY GUIDELINES
DEALING WITH INFORMATION ON COAL
EXPORTS

FEA was established to insure a coordinated and effective approach for developing policies and plans to meet the Nation's energy needs. To carry out this mandate, section 13 of the Federal Energy Administration Act of 1974 (Public Law 93-275) states that the Administrator shall collect, assemble, evaluate, and analyze energy information by categorical groupings of sufficient comprehensiveness in order to permit fully informed monitoring and policy guidance.

Section 25 of the act requires that the Administrator establish and maintain a file on every transaction, sale, exchange, or shipment involving U.S. coal exports. Each file is to contain, at a minimum, the name of the exporter, the volume and type of product involved, the manner of shipment, the identification of vessel or carrier, the destination, the name of the purchaser, and a statement of reasons justifying the export. In addition, the conference report on the act explicitly states that the intent of this section is to give the Administrator primary responsibility for obtaining the information and that all other Federal agencies are expected to cooperate fully with the Administrator in collecting and compiling the data.

COAL EXPORT DATA CURRENTLY AVAILABLE
THROUGH EXISTING MONITORING SYSTEMS

The Customs Service gathers the documents containing export data--Shipper's Export Declarations--at the port of loading and submits them to the Department of Commerce. The Department of Commerce accumulates coal export information by rank of coal, such as anthracite, bituminous, and lignite. This information is sent monthly to various subscribers, including FEA. No additional information on coal exports--such as categorizations by volatility, ash content, or sulfur content--is maintained by FEA.

Department of Commerce representatives believe that there is insufficient justification to provide more detailed reporting of coal exports, such as by volatility. These representatives said they have

received no complaints from steel companies or the steel industry association concerning metallurgical coal shortages. Furthermore, they believe that advances in mining technology will provide additional coal when needed; that is, when currently known coal reserves are depleted. They also believe advances in technology will demonstrate new processes which will need less coal or different grades of coal than now used to make coke.

We noted, however, that on at least one occasion--in 1970--a detailed monitoring system was implemented when coal exports increased significantly. This system, which provided data on exports by volatility and steam qualities, was discontinued in 1973 when it was determined that export tonnage decreased and seemed to be stable.

In any event, FEA does not maintain a detailed file on every transaction involving coal exports as required by the act. The coal export data acquired by the Department of Commerce is the only information on coal exports maintained by FEA. An official of FEA's Office of Coal said that his office's philosophy is to use only existing sources to gather data and that he did not think it wise for FEA to gather more detailed information.

OPINIONS OF DOMESTIC COAL USERS

We discussed the availability of coal with coal users and with officials of an association representing the iron and steel industry.

Coal users in the steel industry stated that metallurgical coal is in scarce supply and that the Federal Government should become involved in monitoring--possibly even controlling--exports of such coal. For example, two users believed a monitoring system should be instituted to show amounts of low, medium, and high volatile and steam coal. This would provide information to warn when a danger point is being reached, at which time controls could be executed. Another user of metallurgical coal believed controls on coal exports are needed now, and another felt controls will be required in the future.

In discussing this matter with officials of the iron and steel association, we were furnished documents which presented their position on coal exports.

An association letter sent on April 10, 1974, to the Secretary of Commerce pointed out the steel industry's concern for the growing consumption of metallurgical coal and the need to develop a Government

position on coal exports. An association position paper enclosed with the letter stated:

"That a temporary licensing program on bituminous coal exports, excluding those to Canada and Mexico, be put into effect immediately as a mechanism for measuring the level and scope of foreign demand for U.S. coal in 1974. Further, an acceptable level of U.S. coal exports in 1974 should be determined now and made known to our normal foreign customers. This procedure is considered preferable to one which attempts to cutback on exports after they have been permitted to reach abnormally high levels."

In May 1975 the association released a subsequent position paper to the Industry Sector Advisory Committee for Trade Negotiations, a presidential advisory committee established by the Trade Act of 1974 (Public Law 93-618). This paper recommended that

" * * * the U.S. government and other governments who seek continued access to U.S. metallurgical coal supplies jointly undertake a world survey of the projected supply and demand for metallurgical coal, based upon projected expansion of world steel capacity. The results of such a study would form a factual basis for exchanges during negotiations on conditions of access to U.S. metallurgical coal supplies."

CONCLUSIONS

Most of the metallurgical coal exports are a type identified as low volatile bituminous coal which, according to some users, is in critical supply. Users who depend upon this type of coal in their steelmaking process feel that there should be a more detailed monitoring system than is currently being maintained by the Government. On the other hand, Department of Commerce officials believe that there is insufficient justification to obtain data beyond the present system.

FEA has prime responsibility for obtaining information on coal exports in sufficient detail to permit fully informed monitoring and policy guidance. At the present time, however, their data on coal exports is limited to that being compiled by the Department of Commerce. As a result, neither of them can determine how much low volatile bituminous coal is being exported.

In view of the Administrator's mandated responsibilities and the opinions voiced by domestic coal users, we believe that the Administrator should take a leadership role, rather than the secondary role, in collecting and compiling information in sufficient detail to properly monitor U.S. coal exportation.

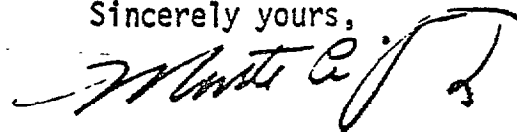
RECOMMENDATIONS

We recommend that FEA collect and maintain detailed information on transactions involving coal exports. A sufficient sample of the transactions can be acquired by requesting the information from the 14 exporters who comprise 85 percent of the coal export market. Because of the scarce domestic supply of low volatile bituminous coal, this information should at least show exports by the three categories of volatility to identify whether controls must be implemented.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We shall be pleased to discuss the contents of this letter in further detail should you so desire.

Sincerely yours,



Monte Canfield, Jr.
Director

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

OFFICE OF SPECIAL PROGRAMS

- ENERGY
- MATERIALS
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- REGULATORY REPORTS REVIEW

B-178205

April 23, 1976

The Honorable Frank G. Zarb
Administrator
Federal Energy Administration

Dear Mr. Zarb:

We have recently completed a survey of the Federal Energy Administration's (FEA) assistance to State and local governments in developing and administering energy programs. The survey was made at FEA headquarters and FEA regional offices in Dallas, Texas; Philadelphia, Pennsylvania; and San Francisco, California. We also visited State energy offices in Arizona, Arkansas, California, New Mexico, Oklahoma, Pennsylvania and Texas.

We found several weaknesses in program planning and direction which have inhibited FEA's ability to significantly impact on State and local activities in dealing with energy problems. Although liaison between FEA headquarters, FEA regional offices and State energy offices has been established and all organizational elements have developed some form of energy conservation programs, we found little coordination and communication, and ineffective use of manpower in dealing with other significant energy problems and issues. In view of the additional responsibilities given FEA under the Energy Policy and Conservation Act and the opportunity for an increasing role for FEA regional offices in carrying out FEA programs, we are bringing these matters to your attention to assist you in implementing your future programs and activities.

BACKGROUND

The Federal Energy Administration Act of 1974 states that "***the general welfare and the common defense and security require positive and effective action*** in developing policies and plans to meet the energy needs of the Nation". To achieve this goal, the Administrator of FEA is charged with, among other things, developing

effective arrangements for the participation of State and local governments in the resolution of energy problems. In addition, Section 20 of the Act authorizes specific actions to be taken by the Administrator to achieve a high level of involvement by State and local governments in shaping national energy policy.

The Energy Policy and Conservation Act significantly expanded FEA's responsibilities in the energy area. Among other things, the Act requires FEA to (1) create a strategic petroleum reserve containing up to three months supply of important petroleum products, (2) establish energy conservation and gas rationing contingency plans, (3) establish energy efficiency standards for consumer products and (4) develop State and industrial energy conservation programs.

About half of FEA's 3600 employees are located in its 10 regional offices. The majority of FEA's regional personnel are involved in petroleum pricing and allocation programs. The remainder are involved in energy conservation, energy research and development, public affairs, legal matters and administrative and staff activities.

All 50 States have established energy offices to carry out State activities in the energy area. During the Arab oil embargo, the State energy offices were primarily involved in allocating oil products; however, dissipation of the energy crisis has allowed these offices to become increasingly involved in dealing with other energy problems and issues. To facilitate communication between FEA and the 50 State energy offices, FEA has designated a Federal/State liaison officer (SLO) for each of the States.

In order to assess FEA's impact on the States in dealing with significant energy problems, we selected four issue areas and examined actions taken by FEA and States to deal with these issues. The issue areas, which FEA and State energy officials agreed were among the most important of the Nation's pressing energy problems, are:

- Establishment and evaluation of conservation programs by Federal and State agencies, as well as the private sector.
- Actions needed to effectively deal with the growing natural gas shortage.
- Desirability of greater use of coal as an energy source.
- Feasibility and practicability of developing alternate energy sources, such as solar, geothermal and solid waste.

In addition to these four issues, it was generally agreed that the potential for use of nuclear energy was a most significant issue. However, most FEA and State officials felt that this was a responsibility of the Energy Research and Development Administration. Consequently, little attention was given to this area by the States in connection with FEA. FEA regional and State energy office personnel also cited the need for a more complete and timely energy information data base. There was little agreement, however, on who should be responsible for such a data base and what it should contain. Although these officials were aware of the National Energy Information Center, established by FEA, some felt that the Center has not been effective. Consequently, some States are developing their own energy data bases.

NEED FOR BETTER COORDINATION
AND EFFECTIVE USE OF MANPOWER

In all States we visited, FEA liaison officers and State energy officials generally maintain an awareness of each others programs and activities. The sheer volume of energy activities in some of the States, however, allows the State liaison officer time to do little more than monitor the progress being made at the State and local level in developing energy legislation and implementing related programs. We found that there was little contact between the State energy offices and FEA regional office personnel besides the SLO.

Regional offices advised us that there is minimal coordination between headquarters divisions and the regional offices and among the 10 regional offices. We found little evidence to show that headquarters officials were soliciting input from regional offices or State and local governments. Regional officials informed us that programs often initiate at headquarters without any input from the regions. Also, many self-generated activities the regions are involved in, such as local conservation efforts, had not been coordinated with headquarters officials. In fact, one regional official informed us that in many cases people in the headquarters office responsible for the respective areas seemed uninterested in field office activities.

Regional office officials maintain very little dialogue with their counterparts from other regions. Consequently, the field offices are developing differing approaches to problems without the benefit of experiences and ideas of other regions. Effective techniques in one region were not being communicated to personnel in other regions, thereby negating the possible learning curves.

The following describes by energy issue area, FEA and State and local government activities and the level of communication and coordination among FEA headquarters, FEA regions, and State and local governments.

Establishment and evaluation of energy conservation programs

FEA headquarters, FEA regional offices, and all State offices we visited had established various types of energy conservation programs. However, there was little guidance from FEA headquarters and a lack of coordination between FEA regional offices and the States in the development of such conservation programs. For example, FEA headquarters had developed a voluntary industrial energy conservation program designed to encourage the largest energy using industries to conserve energy. However, this program was not coordinated through the FEA regional offices or the State energy offices.

On the other hand, State energy offices had developed fragmented and uncoordinated conservation projects without guidance from FEA. For example, various States had developed programs such as youth energy conservation efforts, utility public relations programs, appliance labeling standards programs and programs establishing standards for public buildings.

FEA headquarters also has established six major energy conservation projects which are to be administered as regional programs. These are:

1. Utilities conservation action now.
2. Thermal heating and lighting for commercial buildings.
3. Federal energy management program.
4. State/Federal energy conservation program.
5. Low-income weatherization program.
6. Conservation education program.

The lack of manpower assigned to these projects, however, may inhibit the achievement of meaningful results. For example, FEA headquarters had only two personnel assigned to their thermal heating and lighting project. One regional office had been authorized eight personnel to conduct all conservation programs for four States and has had to borrow people from other divisions within their office to handle this workload. In another regional office, three people were responsible for administering all conservation activities for another four-State area.

Actions to deal with growing
natural gas shortage

In the fall of 1975, FEA officials predicted that based on the available natural gas supply and expected weather conditions, the Nation could expect to experience a severe natural gas shortage during the winter of 1975-1976. FEA headquarters, FEA regional offices and State energy offices all initiated activities to study the potential problems associated with such shortages. However, these studies were largely carried out independent of one another.

FEA headquarters created a natural gas task force to assess the nationwide availability of natural gas supplies in the most potentially vulnerable States. Upon completion of its study, the task force advised governors of the States which they predicted would be most heavily hit by potential shortages and recommended that legislation be enacted to provide for emergency deregulation of interstate natural gas rates.

FEA regional offices, on their own volition, conducted studies of the potential impacts of natural gas shortages on the States within their regions, and provided the State energy offices with copies of their studies. Individual State energy offices also studied the potential problems associated with natural gas shortages and reported this information to their respective governors. Subsequently, the National Governor's Conference recommended legislation similar to that suggested by FEA's natural gas task force.

In all cases, these efforts were independent of each other and often amounted to duplication of effort.

Increased use of coal as an energy source

FEA headquarters and regional office officials told us they had devoted very little attention to promoting increased use of coal. Consequently, there has been only minor involvement by States and local governments in national coal programs. An FEA headquarters official told us that many promising coal programs had been planned and subsequently abandoned because of a lack of funds. He stated that many concepts had enormous potential as systems to combat soaring home heating costs but FEA did not have adequate funds for pilot demonstrations. FEA headquarters had established a program called "Coal Now" which was aimed at significantly increasing the Nation's use of coal by 1985. But the Director of Coal Programs at FEA headquarters told us that FEA officials were primarily involved in

commenting on proposed coal legislation and monitoring some industry initiated coal projects. Consequently, the Coal Now program has received little attention from FEA headquarters.

Regional office personnel told us they have been able to devote limited effort to the entire spectrum of coal related problems. An official from one region stated that they were not involved in coal programs because they have limited staff resources and have received no formal headquarters direction. Officials in another region said they were concentrating their efforts on two relatively small coal projects because of manpower problems but stated they believe significantly more could be done.

In contrast to the limited activity of FEA regions, one State energy office we visited, the Pennsylvania State Energy Office, had implemented a number of projects aimed at further enhancing the use of coal as an energy source. One such project, the Coal Policy Implementation Program, was designed to study and develop a coal policy for Pennsylvania. The study has been completed and includes 63 specific recommendations for action. A related publication developed in this program entitled "Coal, A Commonwealth Development Program" provides a summary of State policies and recommendations in this area.

Alternate energy resource development

FEA headquarters and regional office officials stated that they had only minimal involvement in efforts to develop commercialization programs for alternate energy resources such as solar, geothermal and solid waste. In fact, we found confusion among responsible officials as to what FEA's mission is in the area of alternate energy sources. The Director of FEA's Alternate Energy Source Program informed us that FEA currently has no formal program to address any of the institutional, economic, or environmental barriers blocking the introduction of non-petroleum based fuels into the Nation's energy system. Combustibles such as alcohol or hydrogen fuels have exhibited great potential as short- and long-term substitutes for oil products but little has been done to promote their greater use.

An FEA headquarters official stated that he believed there was merit to bringing some of these fuels on line, however, FEA has not formulated programs to do so nor did we find any instances where FEA had encouraged State or local governments to develop such projects. None of the FEA regional offices we visited were involved in studying use of alternate energy resources.

Nonetheless, we noted several instances in which State and local governments have developed or were seeking to develop projects to utilize waste material to generate electricity; were studying the feasibility of using wind as a power source; or were introducing alcohol-based fuels on a limited basis to supplant oil products.

CONCLUSIONS

One of FEA's more significant legislative responsibilities is to develop effective arrangements for the participation of State and local governments in the resolution of energy problems. However, FEA has not responded to this legislative mandate with actions designed to include State and local government input in formulation of national energy programs. Consequently, FEA has been inhibited in its ability to develop programs that could be effective in solving some of the energy problems of the individual cities, counties and States, and of the Nation as a whole.

FEA has not devoted sufficient attention to effectively utilizing their own regional personnel as well as State and local energy officials. In view of the enactment of the Energy Policy and Conservation Act, this becomes increasingly imperative. The Act significantly increases FEA's responsibilities and will undoubtedly cause increased staffing at FEA's regional offices. FEA will have to make more effective use of its headquarters and field office personnel in carrying out programs in the area of energy resource development, conservation, and other programs dealing with significant energy issues.

RECOMMENDATIONS

The Energy Policy and Conservation Act requires the States to submit energy plans to the Federal Government in order that they may receive certain Federal grants. This program is administered through FEA, thereby creating a specific requirement for FEA to work with the States on energy problems. But, the law pertains only to selected conservation measures with which the States must conform. We believe much more State and local participation is needed, which would include additional comprehensive programs besides those called for in the new Act. We have found that poor program direction exists from headquarters to the regions and that little, if any, communication exists among regional offices.

We recommend that FEA develop and implement a plan which identifies FEA programs in which State and local governments should be involved and specifies the manner in which FEA headquarters and regional offices will obtain their involvement. The plan should (1) define more precise

relationships between the program divisions in FEA headquarters and the regional personnel designated to work on specific programs and (2) provide for more effective communication and coordination between regional offices to insure a single purpose and direction in carrying out such programs. The plan should consider an internal organizational alignment which will allow the maximum flow of information among all organizational elements.

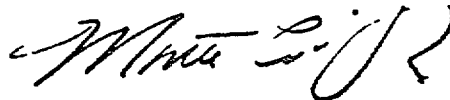
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We shall be pleased to discuss the contents of this letter in further detail should you so desire. We would appreciate receiving your comments on the matters discussed in our recommendations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report, and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the four committees identified above and to the Director, Office of Management and Budget.

Sincerely yours,



Monte Canfield, Jr.
Director