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Statement of
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Before the
Subcommittee on Economic Stabilization
Committee on Banking, Currency and Housing
United States House of Representatives
on
Energy Conservation Financing

Mr. Chairman and Members of the Committee:

We welcome the opportunity to be here today to discuss with you the energy conservation proposals contained in H.R. 14205, a bill to amend the Energy Policy and Conservation Act, and H.R. 12169, the proposed Federal Energy Administration Extension Act. You asked that we focus on loan guarantees and other financing mechanisms contained in these bills for the purpose of encouraging implementation of energy conservation measures.

ENERGY CONSERVATION

Energy conservation holds the promise of moving the country further down the road toward energy independence per dollar spent than do most energy supply increasing options. In fact, conservation is truly one of our least costly energy supply options and must be a key element of national energy policy.

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Conservation measures can be effective throughout the economy. Transportation uses about 25 percent of our total energy requirements, the residential sector about 20 percent, the commercial sector about 15 percent, and industry about 40 percent. The utility industry consumes about 28 percent of our energy to generate electricity. In each sector, specific conservation areas can be identified so Federal incentives and State programs can be tailored to specific conservation opportunities.

Both bills would increase national attention and activity in energy conservation and are similar in many respects. Industry, commercial establishments, and homeowners would benefit directly because these measures could lower energy consumption and costs. The country as a whole would benefit from increased attention to energy conservation.

One major area of omission should be mentioned. Neither bill addresses conservation opportunities available in the transportation sector. Besides the fuel economy standards of the Energy Policy and Conservation Act and other measures which would increase the costs of private transportation, expansion of public transportation opportunities would be a useful conservation measure. Proposals we have suggested in the past for this area include subsidized public transportation for low-income persons, the purchase of buses, and the development of fringe parking lots and express bus lanes.

FINANCIAL MECHANISMS

Loan guarantees would be provided by H.R. 14205 for homeowners, commercial establishments, and industry to help finance the cost of conservation measures or add renewable energy resource equipment such as a solar heating system. Under H.R. 12169, loan guarantees would be provided for industry, State and local governments, and other sectors of the economy to the extent funding is available. In addition, direct loans would be provided through the Small Business Administration for small business concerns.

Both bills would also provide direct Federal assistance to stimulate conservation in the residential and commercial sectors. Direct Federal funding of 20 percent of the costs, up to \$400, would be provided per home improvement loan for conservation measures, and 25 percent of the costs, up to \$2,000, for adding renewable energy resource equipment such as a solar heating system. The commercial sector would also be provided a significant incentive, up to 20 percent of costs or \$4,000 per improvement loan in H.R. 12169 or \$5,000 in H.R. 14205 to implement conservation measures or add renewable energy resource equipment.

In addition to the incentives cited above, there are other financial incentives which should be considered. We believe that, particularly in the case of low income homeowners and others of limited financial capability, direct

3 low interest loans from the Treasury would offer a more 38
immediate and effective way of implementing conservation
opportunities for that sector. For middle and upper income
homeowners, tax writeoffs or rebates can provide effective
mechanisms for stimulating conservation improvements. The
provisions of the bills discussed above which contain direct
Federal assistance by forgiving portions of the loans to
homeowners and commercial businessmen also offer immediate
financial incentive to encourage such investment.

I want to point this out because, while much of the concern
today focuses on loan guarantees, it is important to recognize
that implementation of a loan guarantee program may need to
be accompanied by complementary actions. Effectiveness must
be carefully monitored and other more aggressive actions
taken, such as I have described, should the loan guarantee
program fail to induce the necessary conservation investment.

In this regard, given the distribution of loan guarantee
funds contemplated in H.R. 12169, it is unclear to what extent,
if any, loan guarantees would actually be made available to
homeowners.

There are situations in which loan guarantees may not be
the most appropriate vehicles for stimulating energy activities.
It is important to remember that no single financial mechanism
is universally acceptable for all energy activities. In this
regard, we are presently studying the question of the efficacy

of loan guarantees and other financing mechanisms to stimulate energy activities including high technology, high capital ventures such as synthetic fuels and conservation opportunities.

As a general rule, in situations where the technology is known to work and to be economic, loan guarantees can provide a useful vehicle to stimulate investment. This is particularly true where the person, company, or institution wants to make investments in economically attractive energy-saving technology but cannot do so because of financial constraints.

For example, municipal and state governments, small colleges, and other public or non-profit institutions may not have the financial strength to accumulate quickly the necessary front-end capital to install energy-saving devices in their buildings. Even though the total life cycle costs may be shown to be less than the capital investment, it may be impossible for them to receive through normal financial channels loans for that purpose. This is also true of many small commercial operations whose total indebtedness for their ordinary operations may preclude them from additional borrowing under normal financial circumstances. Under these conditions, it would appear appropriate for the Government, on a case-by-case basis, to authorize loan guarantees.

The bills under consideration also have different provisions regarding the amounts of loan guarantees available to any given corporation. H.R. 12169, for example, does not limit

the amount of guarantee available to any given eligible borrower. It is our judgment that the Committee should consider targeting more specifically the areas to which the loan guarantees would apply. In particular, we are not sanguine that loan guarantees would necessarily induce conservation investments by large integrated corporations if they believed that they had an opportunity to receive more return on investment in other activities.

FEDERAL ORGANIZATION

These bills would place Federal responsibilities for these conservation programs in either FEA or ERDA. ERDA is responsible for energy research, development, and demonstration and FEA has responsibility for both energy policy development and energy regulation. FEA also has responsibility for implementing the Energy Policy and Conservation Act. Prior to an energy reorganization, FEA is the logical choice for administering additional conservation programs. H.R. 12169 would extend the life of the Federal Energy Administration

I should make the Committee aware that GAO is on record in favor of the abolition of FEA and ERDA and the creation of a new energy organization to be called the National Energy Administration as an interim step toward the establishment of a Department of Energy and Natural Resources. Attachment I to this statement is a detailed explanation of our proposal.

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Finally, Sections 483 and 491 of the Federal Energy Administration Extension Act places certain reporting requirements on the Comptroller General and requirements to review default ratios under loan guarantee programs. We have some technical difficulty with this section. Attachment II presents our detailed comments and substitute language for the Committee's consideration.

Thank you, Mr. Chairman.

GAO COMMENTS ON
ENERGY ORGANIZATION

H.R. 12169 would extend the expiration of the Federal Energy Administration Act of 1974 to September 30, 1977. 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.

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 proposed 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 problems 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.

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 comprise 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 received proper priority within the agency.

Neither of our proposals would preclude the continuation of the existing Energy Resources Council. Consideration 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.

SUGGESTED GAO CHANGES
TO SECTIONS 483 AND 491
OF H.R. 12169, AS AMENDED

SECTION 483

Section 483 requires the Comptroller General to report annually to the Congress on the activities of the Administrator of FEA under Title IV of the bill. We believe that the reporting requirement should be changed so that the Comptroller General will have flexibility to determine the frequency of audits and timing of his reports. We suggest the following language be substituted for Section 483(a).

"The Comptroller General shall continuously monitor and report as appropriate to the Congress on the activities of the Administrator under this title. The provisions of section 12 of the Federal Energy Administration Act of 1974, as amended, relating to access by the Comptroller General to books, documents, papers, statistics, data records, and information in the possession of the Administrator or of recipients of Federal funds shall apply to data which relate to such activities."

SECTION 491

Section 491 authorizes the Administrator to provide loan guarantees to improve energy efficiency in the industrial and other sectors. Section 491(i)(4) requires the Comptroller General to review, on a continuing basis, the accuracy of the probability of default ratio as determined by the Administrator under Section 491(i)(2). Section 491(i)(4) lists the findings and determinations that must be made by the Comptroller General and requires the Comptroller General to report the results of his review to the Administrator. The findings and determinations required under this section would involve our Office in an Executive Branch function and is inconsistent with our oversight role. We believe it desirable for FEA to make the findings and determinations and GAO to review its activities. We suggest that Sections 491(i)(2) and 491(i)(4) be revised as follows.

At the end of Section 491(i)(2) add

"In determining the default ratio, the Administrator shall find and determine

"(A) the actual rate (and amount) of default on obligations guaranteed by the United States under this section, and on comparable obligations guaranteed under other Federal statutes;

"(B) the actual rate (and amount) of recovery by the United States of amounts paid by it to the holders of obligations guaranteed under this section, and to holders of comparable obligations guaranteed under other Federal statutes, in cases of default on such obligations;

"(C) any other relevant factors, including the general state of and prospects for the economy; and

"(D) the probability of default ratio based on the actual experience, taking into account the relationship between the rate of default on such obligations, the rate of recovery of amounts paid by the United States when obligors default on such obligations, and other relevant factors.

"As used in paragraphs (A) and (B), an obligation guarantee is comparable if (i) the proceeds of the obligation guarantee are required to be used for the acquisition, rehabilitation, or improvement of real property or tangible personal property having a useful life of 10 years or more; and (ii) the United States is granted and subrogated to substantially the same rights provided for in subsection (f)."

Delete existing Section 491(i)(4) and substitute the following.

"(4) The Comptroller General of the United States (hereinafter referred to as 'Comptroller'), in cooperation with the Administrator and the Secretary of the Treasury shall, upon the basis of actual experience under this section and under comparable obligation guarantee programs under other Federal statutes, review the accuracy of the probability of default ratio determined by the Administrator on a continuing basis, and report as he determines appropriate. The Comptroller shall from time to time invite

views and comments, with respect to any such review, from financial analysts and other persons and governmental entities, and such Comptroller shall study and evaluate such views and comments in the course thereof."