



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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APRIL 3, 1979

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The Honorable Henry M. Jackson
Chairman, Committee on Energy
and Natural Resources
United States Senate *SEN 300*
The Honorable Don Fuqua
Chairman, Committee on Science
and Technology *HS 63500*
House of Representatives



The Department of Energy Act of 1978--Civilian Applications (Public Law 95-238), among other things, authorizes a program for the use of loan guarantees for alternative fuel demonstration facilities. The act also requires that the Comptroller General audit, every 6 months, the loan guarantee recipients. To date, the Department of Energy has not issued any loan guarantees for alternative fuel demonstration facilities. Therefore, we have no audit results to report. However, as discussed with your staffs, this letter presents a brief status of the Department's loan guarantee program as well as suggested legislative changes to allow us flexibility in auditing the recipients.

PROGRAM STATUS

As you know, the act, in part, authorizes a program for issuing loan guarantees for demonstration facilities to produce alternative fuels from coal, oil shale, biomass, and other domestic resources, and to convert municipal or industrial waste into synthetic fuels. The Department's efforts since the act's passage on February 25, 1978, have been to structure the program, issue a program report, and initiate the development of regulations and internal procedures necessary to issue the loan guarantees.

Under the current program structure, three groups within the Department are actively involved in these loan guarantee efforts. Urban Waste Technology Branch under the Department's Office of Assistant Secretary for Conservation and Solar Applications, has responsibility for loan guarantee efforts pertaining to municipal solid and liquid waste, including sewage, sludge, and organic waste. The Office of Industrial Energy Conservation under the same Assistant Secretary has

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responsibility for the efforts pertaining to industrial waste. Of the remaining resources covered under the act, the Department currently believes that high-Btu gasification may be the only other resource for which loan guarantees could be issued in the near future. The responsibility for this portion rests with a high-Btu gasification Resource Manager under the Office of the Assistant Secretary for Resource Applications. These three groups are responsible for planning and implementing loan guarantees.

On September 15, 1978, the Department issued a letter to respond to the act's requirement that the Secretary of Energy provide, within 180 days after the act's passage, (a) recommendations on the best opportunities to implement a program of Federal financial assistance with the objective of demonstrating production and conservation of energy, (b) a study of the Federal Government purchase of the products of any alternative fuel facilities constructed under a program as a direct or alternate form of Federal assistance, and (c) a comprehensive plan and program to acquire information and to evaluate various impacts of the Federal financial assistance program. This letter was issued about a month after the 180 days expired. Department officials informed us that this delay was basically caused by some internal coordination problems between the groups responsible for the program.

This letter did not, however, contain comprehensive recommendations on the opportunities to implement a program of Federal financial assistance. It stated that these recommendations should be formulated within the context of an integrated National Energy Plan. In addressing Federal fuel purchase incentives, it stated that the Department has carried out preliminary investigations into its potential role. Further it stated that guaranteed Federal fuel purchase agreements or commitments to purchase could be effective in fostering private action to develop alternative fuel facilities. In regard to the comprehensive information plan and program, the report addresses these issues in terms of a general proposed approach because no appropriations have been made for such programs.

In regard to the Department's efforts to develop loan guarantee regulations and internal procedures, the act states that required regulations are to be issued within 180 days after the act's passage. The Department has not met this deadline and estimates that the loan guarantee regulations and internal procedures for managing the loan program will be finalized by mid-1979. Department officials told us that because these regulations are very complex, the 180 days was an unreasonable deadline.

For fiscal year 1979, the Department has allocated \$7 million for (a) completing the loan guarantee regulations and internal procedures, (b) issuing solicitation documents, (c) evaluating applications, (d) providing community impact assistance, and (e) funding support functions. The Department originally planned to allocate these funds among the various resources as shown in the table below.

<u>Resource</u>	Estimated fiscal year 1979 funding (<u>in millions</u>)
Urban and industrial waste	\$0.5
High-Btu gasification	3.3
Low- and medium-gasification, liquefaction, and oil shale	<u>3.2</u>
Total	<u>\$7.0</u>

As a result of the Office of Management and Budget's action on the Department's fiscal year 1980 budget request, however, these plans may change. The Department had requested the establishment of a \$10 million urban waste fund and a \$225 million high-Btu gasification fund which would allow for the issuances of loan guarantees in fiscal year 1980. However, the Office of Management and Budget turned down the request. Therefore, in light of the possibility of no loan guarantees being issued in fiscal year 1980, the Department is reassessing the activities planned for fiscal year 1979 and expects to decide on this matter by April 1979.

ELIMINATION OF AUDIT REQUIREMENTS

Section 19(x)(1)(B) of the Federal Nonnuclear Energy Research and Development Act of 1974, as added by section 207(b) of the Department of Energy Act of 1978--Civilian Applications, requires that:

"Within 6 months after the date of enactment of this section and at 6-month intervals thereafter, the Comptroller General of the United States shall make an audit of recipients of financial assistance under this section. The Comptroller General may prescribe such regulations as he deems necessary to carry out this subparagraph."

We believe there are two principal reasons why this provision should be eliminated. One is that the requirement for audits of recipients every 6 months is unnecessarily restrictive. This requirement would result in almost continuous audits of each loan guarantee recipient. We believe that less frequent audits would provide us with an adequate basis for reporting on the program to the Congress. It should be noted that even without this provision, we would periodically audit the major loan guarantee recipients as part of our ongoing audit responsibilities.

The other principal reason is that this provision could severely strain our limited staff resources. Our current budget, which has been reduced by 5 percent from fiscal year 1978, impinges on our staffing level. This affects all areas within GAO. Department officials, while unable to be precise, estimate that at the height of this program, more than 20 loan guarantees could be outstanding, ranging from \$0.5 million to \$1 billion. Auditing each of these recipients would require an extensive staff commitment which would be diverted from other areas of congressional interest.

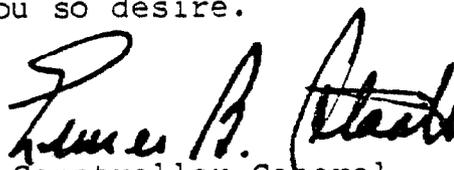
Because of these reasons, we believe this provision should be eliminated by amending the Department's authorization legislation. We offer the following language to effect the needed legislative revision.

"Section 19(x) of the Federal Nonnuclear Energy Research and Development Act of 1974 (42 U.S.C. 5901, et seq.) is amended--

"(1) by striking out the letter '(A)' from the first subparagraph of paragraph (1); and

"(2) by striking out the entire subparagraph (B) of paragraph (1)."

We trust that this background information and our recommended legislative change satisfactorily meet your needs. We would be pleased to meet with you or your staffs to discuss the matters presented should you so desire.


James B. Stacks
Comptroller General
of the United States