

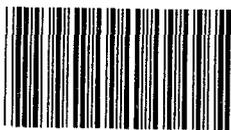


COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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JUNE 5, 1979

The Honorable Henry M. Jackson
Chairman, Committee on Energy
and Natural Resources
United States Senate

SEN 006300

Dear Mr. Chairman:

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Your letter of March 19, 1979, requested that we review of the history of the proposed Long Beach, California, to Midland, Texas, pipeline project sponsored by The Standard Oil Company of Ohio (Sohio), known as PACTEX. Specifically, you asked us to determine the causes of delays in the permit process, where the responsibility lies for the time consumed, and for recommendations we would make, if any, to improve the efficiency of the permit process for projects of national interest without sacrificing the Government's responsibility to scrutinize such projects.

DLG 0848

This interim report covers the results of our review to date. It describes the principal problems encountered with obtaining the permits for PACTEX. Because of the limited time for issuing this interim report we relied on statements made by Sohio, the Secretaries of Energy and the Interior, and others that identified California air quality permits as causing the major problems. We did not validate the adverse effects on the project claimed by Sohio or attempt to evaluate whether the parties were intentionally causing delays, or to judge the correctness of the positions taken.

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The enclosure provides more detail. As requested by your office, we did not obtain comments of the principal agencies and companies whose activities are discussed in this interim report. Our final report will further analyze the problems which led to delays in the PACTEX project, and will include recommendations for improving the permit process for energy projects of national significance. The scope of our review is indicated on p. 8 of the enclosure.

Sohio encountered its most serious problems in obtaining State and local air quality permits for the terminal in California. The problems involved not only obtaining the air quality permits, but time-consuming litigation as well

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by local Long Beach opponents of the project who expect to continue seeking judicial review of the actions by the regulatory agencies. About two and a half years lapsed before the local air quality permit was issued, and the State approval of the local permit is still pending.

The project's proposed terminal in Long Beach would be located in one of the worst air pollution areas in the country, particularly for the type of pollutants that would be emitted by the project. It is in a "nonattainment area", having failed to attain the air quality standards set under the Federal Clean Air Act, as amended.

The 1970 act established that in nonattainment areas no further industrial growth that would increase emissions could occur. Because a complete suspension of industrial growth was likely to cause economic and social hardships, in 1976 the Environmental Protection Agency adopted a new source offset policy to permit new growth under certain circumstances.

Under this policy, emissions from a new source must be more than offset by emission reductions from one or more existing installations. In addition, the new source was required to use the best available control technology. The Environmental Protection Agency believed that industrial growth in a nonattainment area need not be halted so long as the net total of the new emissions together with the additional reductions from existing sources would contribute to reasonable progress toward attainment of the air quality standards.

Because the ^{CA} Los Angeles Air Basin, in which Long Beach is located, is a nonattainment area, the new source offset policy contained in the Clean Air Act, as implemented by State and local agencies in California, must be complied with by any new source of pollution seeking to locate in the area.

Under the Federal and California new source offset policy, the PACTEX terminal and related project activity emissions must be controlled to the greatest degree possible at the source. Any remaining emissions must be offset by even greater reductions in emissions from other existing sources in the area.

We believe the problems created by the controversies over the application of the new source offset policy in

issuing the air quality permits could have been materially reduced if guidelines or guidance had been available.

We issued a report on October 11, 1978, entitled, "16 Air and Water Pollution Issues Facing The Nation," (CED-78-14A, B, C,), in which we identified major issues

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and recommended congressional and agency actions. One of the air pollution issues we examined was whether the Environmental Protection Agency's new source offset policy was reasonable with respect to the siting of new petroleum facilities. The PACTEX project was one of several examples cited of petroleum companies having difficulties in meeting the offset requirements.

In our current review we have found that the major reason for Sohio's problems is that neither the Environmental Protection Agency nor California's State and local agencies had established requirements implementing the new source offset policy that clearly define the conditions that must be met by companies desiring to install facilities.

In the absence of clear definitive Federal and State requirements for obtaining air quality permits, the participants in the permit process engaged in lengthy negotiations over

- how to measure the PACTEX emissions that would have to be offset,
- what offsets would be provided under the new source offset rule, and
- the acceptability of a demonstration project as an offset.

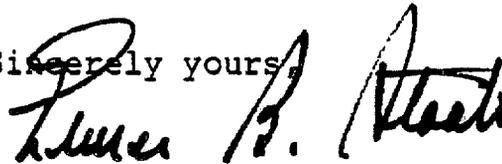
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The disagreements were not solely between Sohio and the *DL60189* agencies. The South Coast Air Quality Management District, CA. and the California Air Resource Board, for example, disagreed on the method of measuring the potential PACTEX emissions and on the acceptability of the offset demonstration project.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

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Our final report to you will not only present our conclusions and recommendations on the problems discussed in this interim report, but also will present our recommendations to improve the permit process for energy projects of national significance.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Luther B. Stebbins". The signature is written in a cursive style with a large initial "L" and "S".

Comptroller General
of the United States

Enclosure

REGULATORY PROBLEMS ENCOUNTERED
BY SOHIO FOR ITS PROPOSED CRUDE
OIL PIPELINE

THE PACTEX PROJECT

In 1974 The Standard Oil Company of Ohio (Sohio) began planning the PACTEX project which would be the first major west-to-east crude oil pipeline in the United States. It would move Alaskan crude oil which is surplus to the refining needs of the West coast to refining centers in the central and eastern portions of the country.

The project contemplated, among other things, construction of a new deep-water tanker terminal in the Port of Long Beach, California, to receive up to 700,000 (later reduced to 500,000) barrels per day of Alaskan crude oil. The Long Beach terminal would be connected to a pipeline which would carry the crude oil 1,030 miles to Midland, Texas, where it would enter the existing crude oil distribution system that emanates from West Texas. The pipeline would utilize two existing natural gas lines owned by El Paso Natural Gas Company (approximately 675 miles) and Southern California Gas Company (approximately 125 miles). They would be modified to carry crude oil and to reverse its present east to west direction of flow. About 227 miles of new pipelines would be constructed to connect the pipelines and the terminal.

PACTEX is considered by the Secretary of Energy to be in the national interest because it would encourage exploration and production of Alaskan and California crude oil. Since July 1977 Alaskan oil has been flowing from the North Slope through the Trans-Alaskan Pipeline, and a surplus of crude oil has developed on the West Coast of the United States. The surplus is due in part to West Coast refinery inability to process the heavier Alaskan and Californian crude oil and in part to Federal and State environmental restrictions on the refineries' emissions. The size and duration of the surplus are uncertain, but both appear to be great enough to require some means of redistributing the excess oil. There is considerable interest in transporting this oil to other regions of the country which are dependent either on oil imports or on domestic fields.

For the lack of a west-to-east pipeline, the surplus Alaskan oil is being shipped through the Panama Canal to refineries on the Gulf Coast and elsewhere. Most of the surplus is owned by Sohio which does not have any West Coast refineries. Sohio officials have indicated that if PACTEX is indeed abandoned it will continue shipping the oil through the canal.

On March 13, 1979, Sohio's Chairman of the Board announced that it was abandoning the PACTEX project after

investing more than \$50 million and almost 5 years of work trying to secure Federal, State and local permits. The Chairman cited several reasons for abandoning the project, including, "endless government permit procedures, pending and threatened litigation, and the prospective unavailability of the two natural gas lines which Sohio proposed to convert to the oil pipeline."

After Sohio's announcement, the Secretary of Energy called a meeting on March 20 to explore the possibilities of reviving the project. Those in attendance included members of Congress, officials representing the Governor of California, the Chairman of the involved local air quality district in Southern California, and the Chairman of the Board of Sohio.

As a consequence of that meeting, Sohio agreed to reactivate its application before the local air quality district on the pledge of Federal and State officials that every effort would be made to remove the remaining obstacles within 6 months.

Hearings to investigate the circumstances surrounding Sohio's abandonment decision were subsequently held on March 27, 1979, by the Senate Committee on Energy and Natural Resources and on April 2, 1979, jointly by the Energy and Power Subcommittee and the Oversight and Investigations

Subcommittee of the House Committee on Interior and Insular Affairs.

On May 25, 1979, Sohio announced that on May 24, 1979, its board of directors had unanimously reaffirmed its March 13, 1979, decision to abandon the PACTEX project. Sohio stated that it was hopeful that an economic means can be found to bring crude oil from the West Coast to the midwest. It offered to make Sohio's preparatory work on PACTEX available to any interested company.

FEDERAL CLEAN AIR REQUIREMENTS

The proposed terminal at Long Beach would be located in one of the worst air pollution areas in the country, particularly for the type of pollutants that would be emitted by the project.

The Congress provided a framework for a concerted, comprehensive cleanup of the Nation's air through the Clean Air Act of 1967 and its 1970 and 1977 amendments. The Environmental Protection Agency (EPA) is responsible for implementing the act. The Clean Air Act Amendments of 1970 were promoted by earlier congressional findings that, among other things,

- the prevention and control of air pollution at its source is the primary responsibility of State and local governments; and

--Federal financial assistance and leadership is essential for effective air pollution control.

The 1970 act established that in a nonattainment area (an area that does not meet Federal and State air quality standards for certain pollutants that have been identified as health hazards) no further industrial growth that would increase emissions could occur. Because a complete suspension of industrial growth was likely to cause economic and social hardships, in 1976 EPA adopted a new source offset policy to permit new growth under certain circumstances.

Under this policy, emissions from a new source must be controlled to the greatest degree possible, using the best available control technology. Any remaining emissions must be more than offset by emission reductions from one or more existing installations in the area. EPA believed that industrial growth in a nonattainment area need not be halted so long as the net total of the new emissions together with the additional reductions from existing sources would contribute to reasonable progress toward attainment of the air quality standards.

The Clean Air Act Amendments of 1977 provide that until July 1, 1979, a State may approve new construction permits using EPA emission offset policy. After July 1, 1979, each source wishing to locate in a nonattainment area

will have to use the lowest achievable emissions rate, a stricter requirement than best available control technology. In addition, States would have to show a continuous improvement in air quality, whether or not they allow new sources to be built in nonattainment areas.

STATE RESPONSIBILITIES

The California Air Resource Board (Board) is the agency responsible for Statewide control of air pollution. This includes preparation of the State implementation plan which indicates how California intends to achieve the air quality standards of the Federal Clean Air Act. Typically, the implementation plan is a compilation of State air pollution statutes, regulations, and pollution control strategies that include emission limitations, land use controls and transportation controls.

Part of this plan is to contain a description of how nonattainment areas will evaluate new sources of emissions to determine what measures will be required to prevent further degradation of air quality. California has been trying to submit an acceptable plan since 1972. However, EPA has rejected the plan because the portions dealing with new source offsets do not seem to comply with the requirements of the Clean Air Act.

DISTRICT RESPONSIBILITIES

The primary responsibility for control of air pollution in California has been assigned to local and regional authorities. The South Coast Air Quality Management District (District) is the local agency with the responsibility for comprehensive air pollution control in the South Coast Air Basin (which includes the Los Angeles and Long Beach areas). The Board can amend District actions, including the conditions attached to air quality permits issued by the District.

The District and the Board adopted rules to implement the Federal new source offset policy in October 1976.

Since 1974, Sohio has worked to acquire licenses and permits for PACTEX, which according to Sohio, totals over 700. Sohio officials said that many of the permits did not pose significant problems individually. However, just the sheer number and variety of Federal, State and local permits made the permitting process very complex.

The chronology of major events are shown below.

- Jan. 1975 The Long Beach to Midland route was selected following a feasibility study of alternative west-to-east routes.
- Jan. 1976 California began drafting an environmental impact report.

Oct. 1976 Sohio applied to the District for an air quality permit.

Nov. 1976 Sohio applied to the EPA for a Federal air quality permit.

Jan. 1978 The California Public Utility Commission certified the final environmental impact report which identified the air pollutants emitted by the proposed project.

Oct. 1978 EPA issued the Federal air quality permit.

Mar. 1979 The District completed its hearing on the offsets to be provided by Sohio.

Apr. 1979 The District issued its air quality permit.

Pending as of June 1, 1979 The Board approval of the air quality permit issued by the District. Also pending are other Federal permits, but no problems are foreseen in their issuance. However, pending and threatened litigation promise extensive delays to final project approval.

SCOPE OF REVIEW

In conducting our review we contacted officials of the Departments of Energy (DOE) and the Interior, the Environmental Protection Agency and other Federal officials involved in Sohio's permit process. We also contacted officials

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of California's Air Resources Board, South Coast Air Quality Management District, and other State and local government officials in California. In addition, we contacted officials of Sohio and Southern California Edison Company (SoCal Edison).

We reviewed relevant General Accounting Office (GAO) reports, other reports and studies, and related testimony given in hearings at the State and Federal level. We examined various Federal, State, and local documents, laws, regulations, and procedures related to the permit process. We also reviewed existing and proposed legislation for expediting PACTEX and other energy transportation systems.

Because of the limited time for issuing this interim report we relied on statements made by Sohio, the Secretaries of Energy and the Interior, and others that identified California air quality permits as causing the major problems. We did not validate the adverse effects on the project claimed by Sohio or attempt to evaluate whether the parties were intentionally causing delays, or to judge the correctness of the positions taken.

DIFFICULTIES IN SATISFYING
CALIFORNIA PERMIT REQUIREMENTS

Sohio and the involved Federal and State officials agreed that Sohio encountered its most serious problems

in obtaining State and local air quality permits for the terminal in California. The problems involved not only obtaining the air quality permits, but time consuming litigation as well by local Long Beach opponents of the project who expect to continue seeking judicial review of the actions by the regulatory agencies.

The major reason for Sohio's problems is that neither EPA nor California has established requirements that clearly define conditions that must be met by companies desiring to install facilities under the new source offset policy.

We believe the problems created by the controversies over the application of the new source offset policy in issuing the air quality permits could have been materially reduced if guidelines or guidance had been available.

In the absence of clear definitive requirements for obtaining air quality permits under the offset policy, the participants in the permit process engaged in lengthy negotiations over

- how to measure the PACTEX emissions to be offset,
- what offsets would be provided under EPA's new source offset rule, and
- the acceptability of a demonstration project (using unproved technology) as an offset.

The disagreements were not solely between Sohio and the agencies. The District and the Board, for example, disagreed on the method of measuring the potential PACTEX emissions and on the acceptability of the offset demonstration project.

Lack of Federal or State guidance

EPA's new source offset policy, announced in 1976, did not provide specific guidelines on how a new source review was to be evaluated. It was left to the discretion of the State or local agency to interpret and apply the ruling as they believed it applied to their area. Regional EPA officials told us that limited guidance was provided to the State and local air quality agencies.

A District official told us that Sohio was the first real test of its rule implementing the new source offset policy. The rule was adopted by the Board on October 8, 1976, and Sohio submitted its applications on October 28, 1976. There were little or no precedents on which to make most decisions and there was a lack of definitive direction from both EPA and the Board on how to proceed. For example, there was no offset ratio provided.

Problems in measuring project emissions

To obtain an air quality permit from both EPA and California, Sohio had to reduce the emissions from its project as much as possible, then ascertain the amount of the

emissions that would remain, and finally, provide appropriate offsets of those remaining emissions. Specific guidance had not been provided by the District, the Board, EPA, or the Clean Air Act Amendments of 1977.

Reducing emissions from the project as much as possible presented no particular difficulty. However, these major problems arose between Sohio and the regulatory agencies in ascertaining the amount of the remaining emissions.

--The method of measuring the operational level of emissions for tanker and terminal operations.

--Whether emissions caused by generating electricity for the project should be included as project emissions.

--Determining the size of the geographical areas in which the emissions from tankers in transit should be counted.

Operational level of tanker and terminal emissions

While a daily "worst case" or maximum operational level scenario for the tanker and terminal operations was finally used to determine project emissions, Sohio was opposed to this because the maximum operational level was predicted to occur only 12 days a year. Significant differences in emission levels would occur on days when the marine terminal operated at average levels. For about 125

days a year, no emissions other than a small amount of hydrocarbons would occur at the terminal.

The District believed that requiring a daily trade-off larger than the "worst case" scenario would provide a measure of safety to essentially preclude the possibility of total emissions increasing during any day of the year. In addition, it believed this criterion fulfilled the requirements of "demonstrable air quality benefit" required by the Clean Air Act Amendments of 1977. As a result of this District requirement, Sohio estimates that the annual pollutant reduction will be about three times higher than it would be if the average daily emission were to be offset.

Emissions from powerplants

The greater source of conflict involved the issue of whether emissions from the powerplants of Southern California Edison Company (SoCal Edison) must be counted as part of the project's overall emissions. The project would draw about 7.2 million kilowatt-hours of electricity per month, principally to power the pumps that would move the oil to the inland storage tanks to local refineries, and through the pipeline out of the Los Angeles area.

SoCal Edison draws upon power sources located both inside and outside the South Coast Basin; but until new generating plants are built, incremental increases in power

supply will come mostly from existing generating plants located in the Basin. Many of these plants are oil-fired and, although they burn 0.25 percent sulfur fuel in accordance with local requirements, they nevertheless would contribute approximately 1 ton per day, or about 20 percent of the total sulfur dioxide (SO₂) emissions related to the project.

Sohio contended that the powerplant emissions should not be counted, since they are only secondary to the new facility and should be judged according to the air quality rules that apply to the powerplants themselves. They further contended that if a powerplant is causing excessive pollution, the burden for reducing it should be on the powerplant and all its customers, not just those few customers who are subject to the new source review rules.

EPA agreed with Sohio on this issue. The Board, however, believed that State law required it to determine, before it issues a permit, that a new source will not contribute to further deterioration--and indeed will cause a net improvement--in the air quality in the area in which it is located. The Board further contended that such a finding cannot be made if powerplant emissions, which would not occur but for the project, are not counted as part

of the project's emissions. The powerplant emissions were eventually included as part of project emissions.

Emissions from tankers

Sohio contended that once a tanker leaves the terminal and passes Point Mugu, near Oxnard, its emissions no longer have an impact on the South Coast Air Basin. Both EPA and the Board contended that the outer limit of the impact area was Point Conception, about 84 miles beyond Point Magu. Sohio also contended that all tanker emissions should be counted at something less than 100 percent after the vessel leaves the immediate area of the port, since there is likely to be some dispersion before pollutants reach populated areas. Both EPA and the Board disputed the contention claiming there was minimal effective dispersion of pollutants that create photochemical smog, given the prevailing air currents off the South Coast area. The outer limit of the impact area was left at Point Conception.

New source offset ratio problems

When the District attempted to apply the new source offset policy to the Sohio project, it discovered that specific guidance necessary to implement the policy had not been provided by the District, the Board, EPA, or the Clean Air Act Amendments of 1977.

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For example, the EPA interpretative ruling of 1976, in which it established its new source offset policy, did not provide specific guidance or guidelines on how to proceed with new source reviews. EPA did, however, establish certain conditions that must be met in locating major new sources. One of these conditions was that the amount of emissions reduced must be greater than the proposed new source emissions so as to represent reasonable progress toward attainment of the applicable National Ambient Air Quality Standards. However, the ruling contained nothing specific as to what constituted reasonable progress in attaining air quality standards.

To obtain some indication of EPA's policy concerning offset emissions, the District studied two prior EPA approvals for projects coming under the new source review. These involved a Volkswagen assembly plant in Pennsylvania and a General Motors assembly plant in Oklahoma. EPA approved offset ratios of 1.14 to 1 and 1.6 to 1, respectively.

With this limited precedent the District applied the new source offset policy to the Sohio project. Sohio had no existing operations in the South Coast Air Basin. District officials told us that the determination of the offset requirement might not have been as complex or time consuming if another source of pollution owned or operated

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by Sohio in the Air Basin could have been used as an offset candidate. The District officials said that PACTEX was the first project requiring third-party offsets to be considered under the policy. This, in and of itself, accounted for some of the time consumed.

The Board at first wanted to require a 2 to 1 reduction to assure that there will be a demonstrable benefit in air quality. The District position was that 1.2 to 1 offset is reasonable for all emissions except hydrocarbons, which they agreed should have a 2 to 1 offset. Sohio agreed that the project must result in a net improvement in air quality, but contended that it is sufficient to offset emissions on a 1 to 1 basis against a "worst case," since that is almost a 3 to 1 offset measured against an average operational mode. Both EPA and the Board, however, believed that the project must show an improvement in air quality on even the worst days. The ratio finally approved was 1.2 to 1 for all emissions.

Problems in identifying acceptable offsets

In addition to delays caused by the disagreement over the offset ratio, Sohio also encountered delays with the various offsets it proposed. Generally, these resulted from (1) offsets not being acceptable because, under the State implementation plan being prepared, the polluters would

have to reduce their own emissions, (2) specific guidelines not being available to either the regulatory agencies or Sohio on acceptable offsets, and (3) conflicts existing between the agencies as to acceptable offsets. Each of these is briefly discussed below.

EPA's 1976 interpretative ruling states the new source offset policy and offers some guidance in ascertaining what existing sources are acceptable candidates for equivalent offsetting emission reductions. New sources should be allowed offset credit only for emission reductions from existing sources which would not otherwise be accomplished as a result of the Clean Air Act.

This created problems for Sohio because it did not know what requirements would exist in the State implementation plan as it submitted its offset package. For example, Sohio proposed an offset for sulfur dioxide emissions through the installation and operation of a flue gas desulfurization unit at the Martin-Marietta Company. However, the Board disagreed with this item because it anticipated a revision to the State implementation plan that would require Martin-Marietta to perform this clean-up.

In the absence of agency guidelines for determining offsets, Sohio developed its own criteria for use in selecting possible candidates.

In June 1977, the District sent Sohio a letter discussing operational restrictions, best available control technology, offset emissions, and acceptable offset emission sources. While this letter did provide some guidance and guidelines on what emission offset could be acceptable, it was sent more than 6 months after Sohio, the Board, and the District reached agreement on emission factors (December 1976). In addition, it does not identify which polluters would be required to reduce their emissions when the State implementation plan is finalized.

Scrubber/De-NOx offset option

A major controversy between the regulatory agencies and Sohio was the sulfur dioxide scrubber and the equipment to remove nitrogen oxides (De-NOx) which was proposed by the Board as an offset option.

According to the Board the idea of installing a scrubber on a SoCal Edison powerplant was suggested to Sohio in April 1977. Four months later the Chairman of both the Board and the California Energy Commission contacted SoCal Edison to determine if it would cooperate with Sohio on an offset package. SoCal Edison officials were willing to meet with Sohio representatives to discuss the matter. In January 1978, Sohio contacted SoCal Edison to begin exploring offsets. This initial contact came 9 months after the Board

had first suggested SoCal Edison to Sohio as an offset partner. An agreement was signed in August 1978.

Following the Board's suggestion that Sohio install the scrubber/De-NOx equipment on SoCal Edison's facilities, there were numerous disagreements among all the parties involved. These continued through the written agreement between Sohio and SoCal Edison until the District issued the final approval of the air quality permit on April 20, 1979. The conflicts concerned such matters as: equipment ownership, costs of installation, costs of maintenance and operation, tax consequences, reliability and efficiency of equipment, and proven technology versus demonstration project. While each of these had some impact on the overall time to issue the permit, we will address a few of the more significant conflicts.

Classification of equipment

One conflict involved whether the scrubber/De-NOx equipment should be classified as a demonstration project or as proven technology. While the District believed the former, the Board believed the latter. In this regard, the question was raised as to whether a demonstration project could qualify as an offset option. During the hearings before the District on March 30, 1979, to determine the appropriate offsets, a Sohio consultant expressed the opinion

that the scrubber/De-NOx controls proposed by Sohio represent technology which, if successfully demonstrated, could offer one approach for reduction of these pollutants in this and other polluted areas. This controversy continued until the District reached its decision on April 20, 1979.

Reliability and efficiency of equipment

Another conflict involved the reliability and efficiency of the scrubber/De-NOx equipment. A District official indicated that his agency was generally opposed to the scrubber/De-NOx equipment because of its unproved efficiency-of-removal ranges at oil-fired powerplants. Based on previous studies and operating units, the scrubber's efficiency ranged from 50 to 99.5 percent at coal-fired plants and the De-NOx process' efficiency ranged from 40 to 50 percent. Because of its opposition to the scrubber package, the District suggested using ultra low sulfur fuel oil as the offset. Also, SoCal Edison was strongly lobbying for use of low sulfur fuels as an alternative means of reducing sulfur dioxide emissions in the future. While the reliability and efficiency of this option was more agreeable to the District, it caused disagreement with the Board, DOE, and Sohio. The primary areas of concern were

- the changes necessary to equipment and operations to accommodate the fuel oil and the higher fuel consumption to provide the same heat release,
- SoCal Edison's long-term contracts for the purchase of higher sulfur content oil,
- delays required to renegotiate the SoCal Edison-Sohio contracts, and
- ultra low sulfur fuel oil would have to be imported, which would not follow the current U.S. policy of lessening dependence on foreign oil.

During testimony before congressional subcommittees in April 1979, the Chairman of the District indicated that a Board representative had recently testified that his staff would recommend approval of the scrubber option but disapproval of the low sulfur fuel option advanced by the District.

This controversy continued until April 20, 1979, when the District voted to allow Sohio to use either the scrubber/De-NOx equipment or the low-sulfur fuel oil to satisfy their permit requirements, but stated its preference for the low-sulfur option. In a closing brief filed with the District, the Board indicated its agreement with this decision, but has not yet granted it formal approval.

PROBLEMS IDENTIFIED
IN OUR PRIOR REPORT

GAO issued a report on October 11, 1978, entitled, "16 Air and Water Pollution Issues Facing The Nation" (CED-78-14A,B,C), in which we identified major issues and recommended congressional and agency actions. One of the air pollution issues we examined was whether the EPA offset policy was reasonable with respect to the siting of new petroleum facilities. The PACTEX project was one of several examples of petroleum companies having difficulties in meeting the offset requirements. In the report we concluded that:

- The EPA nonattainment offset policy is a good idea but as a practical matter it should be revised and exceptions allowed on a case-by-case basis.
- A private company should not have to pay the cost of pollution control of other private companies. EPA, States, and local governments should be responsible for taking regulatory actions to control air pollution from any source. Placing the burden on a company to find ways to reduce emissions in a nonattainment area from sources it does not control is poor policy and not conducive to well-planned economic development. EPA and the States should identify potential emissions

offsets and use incentives to improve pollution control to make possible the entry of new firms.

--Also, EPA guidelines do not allow interpollutant offsets (such as sulfur dioxide reductions for nitrogen oxides emissions from the new source), although there appears to be technical justification for certain interpollutional trades.

--Siting new petroleum facilities in nonattainment areas may be crucial in helping to solve the national energy crisis and could be part of a national energy program when enacted by the Congress.

We made recommendations to the Congress and the Administrator, EPA. EPA disagreed with our recommendations. To date, EPA has not changed that position.

FINAL GAO REPORT

In our final report we will further analyze the information on the matters presented in this interim report, and present our conclusions and recommendations concerning the specific problems encountered by Sohio for PACTEX. In addition, we will consider the PACTEX project and other information in presenting our recommendations for improving the permit process for energy projects of national significance.