



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

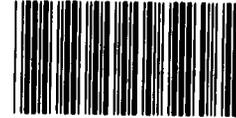
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ENERGY AND MINERALS
DIVISION

B-199778

AUGUST 8, 1980

The Honorable Edwin B. Forsythe
House of Representatives



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Dear Mr. Forsythe:

Subject: [Dispute Regarding the Operation of DOE's
OTEC-1 - Brief Background and Status]
(EMD-80-107)

In response to your request of May 5, 1980, which was supported by a subsequent request from Congressman Robert D. Dornan, we have made a preliminary inquiry into whether alleged contracting improprieties concerning a Department of Energy (DOE) sponsored ocean thermal energy conversion (OTEC-1) project warrant a full investigation. The alleged improprieties relate to DOE's failure to conduct a cost comparison, in accordance with the Office of Management and Budget's Circular A-76, before making its decision to undertake the final operational phase of OTEC-1. Circular A-76 sets forth the policies for acquiring commercial services needed by the Government. Since your request, certain events have occurred which, as discussed with your office, render a full investigation unwarranted at this time. As agreed in subsequent discussions with your office, the purpose of this letter is to provide a brief background and status on this matter. A similar letter is being sent to Congressman Dornan.

Our inquiry into this matter included a review of pertinent cost and other related documents, and discussions with officials within DOE's ocean thermal energy conversion program office and its San Francisco Operations Office, the Department of the Navy, the Office of Management and Budget, and Global Marine Development, Inc. (Global Marine).

DOE awarded a contract in the fall of 1978 to Global Marine for the design, conversion, and deployment of an old Navy tanker to be used as the test facility for the OTEC-1 project. The OTEC-1 project is to provide an ocean test facility for in-the-ocean testing of ocean thermal energy conversion subsystems and components. It will include the

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assessment of: heat exchanger technology, long-term bio-fouling and corrosion effects, cleaning and testing techniques, and environmental issues. The contract contained an option for Global Marine to also conduct the operational testing phase of OTEC-1 which was scheduled for the period June 1980 through September 1983.

In a letter dated March 5, 1980, DOE notified Global Marine that it would not exercise the option in Global Marine's contract, which was due to expire on May 31, 1980. Rather than exercise the option, DOE decided, on the basis of estimated cost savings amounting to \$18.3 million, to do the operational testing of OTEC-1 in cooperation with the Department of the Navy, instead of using Global Marine. However, the cited savings were not derived from a cost comparison that complied with Circular A-76 requirements.

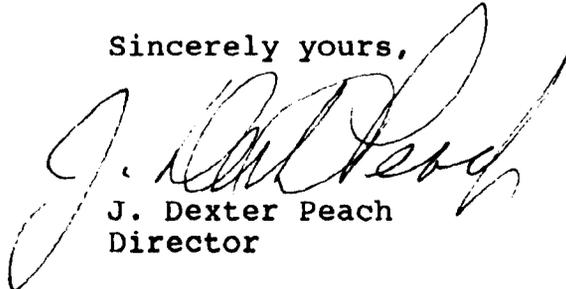
Events have recently occurred, however, which can significantly alter the outcome of this matter. Since our inquiry began, DOE as requested by the Office of Management and Budget on June 4, 1980, is presently taking steps to make a cost comparison that is to be in full compliance with Circular A-76. Also, the Department of the Navy has decided not to participate in operational testing of OTEC-1.

Global Marine is presently operating OTEC-1 under an extension to its contract through September 30. By October 1, 1980, DOE plans to decide on whether continued operation of OTEC-1 for the remainder of the operational testing phase will be performed by a private contractor or by DOE. The cost comparison is intended to aid DOE in making that decision.

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In light of the recent events mentioned above and as discussed with your office, we plan no further reporting on this matter. Over the next several months, however, as part of our continuing program reviews, we plan to review DOE's ocean thermal energy conversion program. As part of that work we plan to stay abreast of DOE's activities, including various aspects of the OTEC-1 project. If we can be of any further assistance regarding OTEC-1, please let us know.

Sincerely yours,



J. Dexter Peach
Director