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GAO has two distinct roles under the Energy Policy and Conservation Act: (1) to examine the books and records of energy firms and to verify the information they produce; and (2) to oversee the work of the Securities and Exchange Commission (SEC) and the Department of Energy (DOE) in developing an energy data base and related accounting practices and to report to the Congress on the adequacy of their work. Rather than systematically verifying the accuracy of data reported to the Government by energy firms, GAO has used its authority to gather credible information needed for particular issues under study. Since GAO began its use of this authority, it has requested information from more than 100 different energy companies and has conducted onsite audits of data in over 30 companies. The approach taken to its oversight role has been to monitor the efforts of the SEC and DOE to provide observations on their work informally as projects progress. DOE has completed a comprehensive data collection form, but it is unclear how the data in that form will assist DOE in analyzing policy issues or how the data will meet the needs of other Government decisionmakers. There are a number of things the SEC can do to improve accounting standards without DOE's guidance as to what data it needs, but the SEC must eventually have DOE's input to insure that its accounting standards meet the needs of policymakers. Without a well-documented system, DOE runs the risk of imposing unnecessary reporting burdens on industry. DOE should determine whether sample basis reporting by small producers will adequately provide the needed information. (RRS)

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GAO'S ROLE IN ENERGY POLICY

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I appreciate the opportunity to be here this morning. While it is my first appearance at this conference, it is a return visit for the General Accounting Office. My predecessor as Director of the Energy and Minerals Division, Mr. Monte Canfield, spoke here two years ago. One of the hottest topics of conversation at that time was the Energy Policy and Conservation Act, particularly the sections requiring the development of oil and gas accounting standards and the audit of energy firms by GAO. Monte spent a considerable amount of time discussing these provisions during his presentation.

Since then, much has happened in this area. I will spend the bulk of my time this morning describing GAO's role and recent activities under the Act.

First, however, let me describe briefly GAO's role in the Government, since some of you may have only a passing acquaintance with what we do. GAO is an independent audit, investigative, and analysis agency in the legislative branch. GAO's independence stems in large part from the 15-year appointment given its chief official--the Comptroller General of the United States. He

cannot be appointed to a second term of office and can be removed only be resignation or impeachment proceedings resulting from improper conduct. Further, there are no political appointments at any level of the GAO.

GAO assists the Congress in carrying out its legislative and oversight responsibilities by auditing and evaluating the programs and policies of Federal agencies. About 35 percent of GAO's work is in response to Congressional requests. The remaining 65 percent is self-initiated by GAO in areas of major public and Congressional interest. In the energy area, because the Nation is still groping to develop energy policies, much of GAO's work has related to evaluations of policy proposals.

Let me emphasize, however, that GAO is not a policy making organization and that it does not manage Federal programs. GAO can influence Federal policies and program management only to the extent that it conducts objective, independent studies in areas of current interest and prepares convincing reports to the Congress and heads of agencies.

With this background in mind, let me discuss our activities under the Energy Policy and Conservation Act.

GAO has two distinct roles under the Act:

- Under Section 501, GAO is authorized to examine the books and records of energy firms and to verify the information they produce.
- Under Sections 503 and 505, GAO is required to oversee the work of the Securities and Exchange Commission (SEC)

and the Department of Energy (DOE) in developing an energy data base and related accounting practices, and to report to Congress on the adequacy of their work. Since most of you are probably more interested in what GAO is going to do in examining your records than what we think of the work of other Federal agencies, I will first discuss our work under Section 501.

Verification Examinations
Responsibilities Under Section 501

Essentially, Section 501 authorizes GAO to examine the books and records of any enterprise that reports energy information to a Federal agency other than the IRS. These examinations can be initiated by GAO when we feel the data presently available is inaccurate, unreliable, or inadequate, or they can be mandated by a Congressional committee having oversight authority in the energy area. Obviously, this is very broad authority and to assist in implementing it the Comptroller General can issue subpoenas, require responses to interrogatories, administer oaths and collect civil penalties up to $10,000 per violation.

Acts of Congress are not always easy to interpret and I'm sure many of you have read different things into Section 501 at different times. Some, I believe, initially thought that GAO would go door to door systematically auditing individual data reports submitted to the Federal Government. GAO has chosen,

however, not to use its authority in that way, but instead in a way I believe is much more meaningful.

Verifying the data reports that you submit to the Government is the job of those who collect the data. The Energy Information Administration within DOE is responsible for assuring the availability of accurate and credible energy data in the Federal government. Embodied in this responsibility is an obligation to verify the data collected or see that someone else does. While DOE has not attacked this duty with overwhelming vigor at this time, the answer is not to saddle GAO with overlapping responsibilities, and GAO has not interpreted Section 501 as doing so.

Rather than systematically verifying the accuracy of data reported to the Government by energy firms, GAO has used its Section 501 authority to gather credible information needed for particular issues under study. Stated another way, the new authority is a tool that GAO uses in conjunction with its ongoing work where questions exist about the accuracy and reliability of information in the Federal government or where accurate and reliable information is not readily available.

If you see GAO at your door one day, it most likely will be to check the reliability of available information or to gather reliable information needed to analyze a particular issue of concern to policymakers. It may or may not relate directly to a specific data entry on a form filed with the Government.

Since GAO began its use of this authority, it has requested information from more than 100 different energy companies and conducted on-site audits of various data in over 30 companies. These activities covered a wide variety of energy sources and policy issues. By and large, companies have cooperated in providing us with the information we need to do our job.

Role in Developing a Data Base and Related Accounting Practices Under Sections 503 and 505

Now let me turn to the work underway in response to the sections of the Energy Policy and Conservation Act requiring the development of an energy data base and related accounting standards.

Briefly stated, Section 503 of the Act requires the SEC to develop accounting practices that will enable the compilation of reliable petroleum exploration and production data. Under Section 505, DOE must collect information kept in accordance with these accounting practices and submit quarterly reports to the President and the Congress. Like Section 501, these provisions reflect Congress' concern over the lack of reliable energy data available for policymaking purposes.

GAO was brought into the project through Section 503 to perform a two-fold role. First, consistent with our traditional role in the Government, we have a responsibility to oversee the work of SEC and DOE and to advise the Congress of additional actions required to fulfill the intent of the Act. Secondly,

we have a role as consultants to the SEC. Section 503 requires SEC to consult with us in developing its accounting practices.

The approach we have taken to our role has been to closely monitor the efforts of SEC and DOE and to provide observations on their work informally as the project progresses. Our involvement began in January 1976 when we attended the first meeting of the Financial Accounting Standards Board (FASB) task force on the extractive industries, and has continued through all the hearings, proposed rules and releases associated with this project. We have tried to voice our own observations and concerns on a timely basis so the agencies could address them as they proceed with their work.

Our views on DOE's progress to date were summarized in a report issued on July 31 of this year. In our report to DOE we cited three major concerns, the first regarding the adequacy of DOE's efforts to identify the data needs of policymakers under the Act. The Act directs DOE to compile financial and operating information on the petroleum exploration and production business, but it does not specify precise data or provide a complete list of analyses that are to be made using the data. Congress left these fundamental determinations to the discretion of the DOE. The Act provides some broad guidelines in this regard, but DOE must ultimately determine what issues the data base will address and what specific data are required.

While DOE has completed a comprehensive data collection form called the Financial Reporting System (FRS), it is unclear how the data in that form will assist DOE in analyzing policy issues or how the data will meet the needs of other government decisionmakers.

In our view, this is the focal point of the entire project. There are a number of things that the SEC can do to improve accounting standards without DOE's guidance as to what data it needs, but SEC must eventually have DOE's input if it is to insure that its accounting standards meet the particular needs of policymakers. We raised this concern several times during the past two years and in our report we formally recommended that the Secretary of Energy document the needs and uses of the data in the proposed collection form and insure that the data relate directly to the reporting system's objectives.

Lacking a well-documented system, we believe DOE runs the risk of imposing an unnecessary reporting burden on industry, inundating policymakers with irrelevant data, and delaying the collection of relevant information on which energy policy should be based.

In our report we stated that the FRS should not be implemented until the following seven questions have been answered:

1. What policy issues are most relevant and potentially useful in accomplishing the public policy objectives to which the system is oriented?

2. What specific questions need to be answered in resolving the policy issues relevant to the system?

3. What analyses and industry-wide information are needed to answer the specific questions?

4. What specific data must be collected from individual companies to compile the needed information and make the required analyses?

5. Who should be required to submit the data?

6. What accuracy tolerances should be placed on the data?

7. What accounting practices are needed to insure that data is adequately comparable and reliable?

The second concern raised in our report concerns DOE's lack of effort in designing a reporting form for small producers who must report under the Act. The present FRS form was designed for collecting data from 29 large petroleum firms and small producers did not play a significant role in DOE's field test of the form. We recommended that DOE design a form for small producers and that they be given an opportunity to review and comment on the form as it is developed.

The third and final concern expressed in our report relates to DOE's plans to collect data from producers on a sample basis. The Act requires that DOE collect data from all producers, and however unnecessary that may be, it is against public law to do otherwise. We recommended that DOE determine whether sample basis reporting by small producers will adequately provide the information needed for purposes of the Act, and seek necessary legislative changes in the Act's provisions.

The DOE is required by law to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs within 60 days. Our report was dated July 31, 1978, so they still have about 30 days to respond. In addition, we understand that the Office of Management and Budget (OMB) is requiring a DOE response to our recommendations and questions before it will clear the FRS form for implementation. Obtaining clearance from OMB is the last step that DOE must go through before it sends the form to you for completion.

Our views on SEC's efforts at this point are still in the formative stage. We are still trying to digest the releases issued by the Commission last week and evaluate their implications for a Government data base. Needless to say, we cannot fully evaluate the adequacy of SEC's actions until we receive DOE's response to our July 31 report. Once we have a better feel for what analyses DOE plans to make with the FRS data, we can better assess the adequacy of SEC's standards in providing the necessary information on a comparable and reliable basis.

I was somewhat surprised, as I'm sure many of you were, to see the SEC move so aggressively toward value-based financial information and particularly value-based earnings presentations. Certainly there are problems to solve in implementing RRA, but a bold and important step has been taken. I hope the Commission can move as quickly in this area as they apparently believe they can.

Personally, I am somewhat concerned that the Commission left producers an open choice between the successful efforts and full cost concepts in preparing their principal financial statements while RRA is being developed, particularly in view of the uncertainty of overcoming the problems involved in implementing RRA.

In a letter to the SEC dated August 4, 1978, we expressed our belief that a single, uniform method of accounting and reporting was needed for the oil and gas industry and that all producers, regardless of size and diversity should follow that method. The SEC expressed a similar view in its accounting release and is apparently committed to the ultimate goal of placing the industry on a single method. The Commission is willing, however, to live without uniformity in the basic financial statements until a new method resembling RRA can be developed. I recognize the deficiencies in present historical cost accounting methods and the relevance of the disclosures that the SEC is requiring, but the fact remains that the basic financial statements play a key role in decisions made by financial statement users. Under SEC's rules, the principal financial statements will continue to broadcase different signals for an uncertain period of time. This course of action intensifies the pressure on you as well as the Commission to develop the RRA method and I urge you to give 110 percent to this effort.

Reflecting somewhat on events leading up to the SEC's ruling, I would like to make two brief observations, both of which were

included in our August 4 letter to the SEC. I mention these because they relate to the standard setting process in general and not just the current oil and gas issue.

The first observation concerns the Commission's responsibility for setting standards and its relationship with the FASB. We followed the FASB project in this area very closely. Along with many other people, we believe the FASB did a commendable job of researching this difficult technical issue in a fair and independent manner and provided an adequate opportunity for interested parties to comment on the issues before issuing its Statement No. 19. The Energy Policy and Conservation Act placed the Board under an extremely tight deadline calling for a final decision by December 22 of last year, and the FASB responded in a timely and responsible manner. The Commission, however, has the ultimate responsibility for developing accounting standards under public law and the Act placed a unique requirement on them to independently evaluate the Board's position in this case and to make the final decision. While we support standard setting in the private sector and commend the Board for its effort on this issue, it is important to recognize the Commission's responsibility for reporting standards and to support their discharge of that responsibility.

Several commentators advised the Commission to "rubber stamp" the Board's position and to refrain from exercising any oversight whatsoever. That course of action, if it were

followed, would do nothing more than erode Congressional confidence in the SEC and result in more active oversight directly by the Congress. I don't think it is in anyone's best interest to move standard setting into the political arena of the U.S. Congress.

As many of you know, of course, several of those who opposed the Board's position tried to bring the issue directly into that very arena for their own self interests. GAO along with numerous others opposed this move and Congress did not take a stand on the issue. The move was reckless in my view, however, and could have produced some very undesirable consequences.

The second observation I want to make concerns the role of economic impact considerations in setting accounting standards. A large number of commentators, including several Federal agencies, expressed concern over the potential economic impacts of Statement No. 19 and strongly urged the Commission to give considerable weight to these impacts in evaluating alternative solutions. Some suggested that policy objectives such as energy supply development are overriding national priorities, and that no standard should be implemented that undermines these objectives. The Department of Justice voiced concern over potential adverse impacts on competition within the oil and gas producing industry and stated that the Commission must choose the least anti-competitive alternative available.

From our review of the laws governing the Commission's development of accounting standards, we believe many overstated the weight that the Commission must give to antitrust and energy supply objectives in setting standards. We agree that the SEC should consider the potential economic impacts of alternative solutions, but we do not believe the Commission is required to select the least anticompetitive method for any issue or should support an accounting method that it feels is inadequate for investor reporting regardless of its potential usefulness in accomplishing other national policy objectives, including energy supply development.

We believe the Commission's primary responsibility in developing accounting and reporting standards under the securities laws is to provide information on which informed investment decisions can be made. In our view, promoting competition within a particular industry and stimulating energy supply development are not objectives of the standard-setting process. In developing standards for any industry, the SEC should focus its attention on the usefulness of the various alternatives in informing financial statement users and weigh other policy concerns into its analysis as secondary considerations.

Other Energy Work

Let me shift the focus now, and use the time I have remaining to briefly highlight some of the other work GAO has done in the energy area.

For more than a year now, the Congress has debated over various parts of the Administration's National Energy Plan. Soon after Congress began its work on the Plan, GAO made its own review and issued a report on July 25, 1977, evaluating the National Energy Plan in some detail. I will briefly summarize the conclusions we reached.

The Administration took an important step in formulating a National Energy Policy and submitting a comprehensive set of proposals to the Congress. We agreed with many of the specific proposals in the Plan. We did feel, however, that the Plan relied too heavily on unspecified voluntary and mandatory actions to accomplish its goals and that many of the Plan's estimates of domestic energy supplies were overstated. More importantly, these flaws led to sizeable underestimates in our projected reliance on imported oil based on the plan's implementation.

Our work indicated that the Administration's estimates for domestic energy supplies were overstated by the oil equivalent of 5.5 to 6.5 MMB/D. That pointed to 1985 oil imports in the range of 12 to 13 MMB/D, at least double what the Administration said that they would be if the Plan were implemented.

The apparent inadequacy of the National Energy Plan to meet several of its established goals, including the crucial goal of reducing oil imports to 6 MM/D by 1985, led us to the conclusion that a reassessment of our national energy policies and goals was needed. Unfortunately, Congress, in its deliberations

so far, has weakened the Plan further so that what emerges as an energy bill will probably not reduce imports significantly.

DOE is now drafting an updated national energy plan. We will evaluate the new plan as part of our ongoing work.

In June of this year, we issued a report on the Administration's efforts in the energy conservation area that voiced some of the same concerns stated in our report on the National Energy Plan. We stated that the Administration's conservation initiatives are too modest and that they rely too much on voluntary actions in some areas. Our report stated that although there is substantial potential for energy conservation, there is not enough public concern with the need of it and a general lack of incentives to promote it. We recommended that the Administration develop a conservation plan complete with goals, milestones, and standby measures, and continually monitor the plan's progress.

One of our most recent and most widely publicized reports was entitled "Liquefied Energy Gases Safety" (EMD-78-28, July 31, 1978). In that report, we addressed what we believe are the key safety issues in transporting and storing these hazardous materials. While our report addressed LNG, LPG, and naphtha, I will refer to LNG because its inclusion in our report by far generated the most comment.

Many people are aware of the controversy surrounding that report, and the fact that an early draft was "leaked" to the news media. Many people are not aware, however, that we have not

singled out LNG to the exclusion of other energy supplies, nor have we singled out safety as the only major issue confronting LNG use.

We have devoted far more resources to evaluating the policies and problems confronting nuclear power and coal than we have to LNG. And, while our report on LNG safety was certainly visible and widely publicized, we have issued in recent months two other reports addressing other key constraints to importing and using LNG.

In December 1977, we issued a report* to the Congress in which we took a hard shot at the Administration's failure to implement a comprehensive and effective LNG import policy that clearly stakes out the role LNG should play in our energy future.

In mid-July of this year, we issued another report** to the Congress that addressed the problem of the lengthy regulatory review process for LNG import proposals.

We initiated a study of LNG safety issues because (1)we felt it was a logical extension of the work we had already been doing in the LNG area and (2) since LNG is an important energy supply and may become increasingly so, we felt it was an appropriate time to address the safety implications of continued and possible increased LNG storage and transportation.

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* "The New National Liquefied Natural Gas Import Policy Requires Further Improvements" (EMD-78-19, December 12, 1977).

**"Need to Improve Regulatory Review Process for Liquefied Natural Gas Imports" (ID-78-17, July 14, 1978).

Our principal conclusion and recommendations regarding LNG storage and transportation related to

--locating large storage facilities in remote areas;

--assessing on a site-by-site basis existing large storage facilities in urban areas, and requiring necessary actions for safety purposes;

--requiring much higher standards than are presently used if new storage facilities are still to be built in urban areas;

--restricting transportation through densely populated areas unless delivery is otherwise impossible; and

--requiring improved safety training and security in storage and transportation.

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I covered considerable ground today, from summarizing our views on oil and gas accounting and DOE's energy reporting requirements to giving you a flavor for other work we do. Let me stop now and field any questions you have.