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

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SEP 5 1979

The Honorable Harley O. Staggers
Chairman, Committee on Interstate
and Foreign Commerce
House of Representatives

HS ED 2300

Dear Mr. Chairman:

This letter provides our ^{ze} [comments on H.R. 3671], 96th Congress], the "Energy Development and Management Authority Act," which would create a Government corporation to establish and administer a national program for the exploration and development of energy mineral deposits. As with the President's proposals and other bills now before Congress, this bill proposes to accelerate the development of domestic energy sources, particularly synthetic fuels, through the formation of a Government corporation. Attached for your information is a copy of our letter to the Chairman, Subcommittee on Synthetic Fuels, Committee on the Budget, United States Senate which discusses this subject. As agreed with your staff we first summarize our comments on the need for a synthetic fuels effort and a separate organization to encourage that development.

NEED FOR SYNTHETIC FUELS

While there is clearly a significant long-term energy problem, the most immediate and possibly most serious aspect of that problem involves liquid fuel. Furthermore, the experience of the past 6 years, while encouraging in some respects, has not reduced our vulnerability to intolerable oil price increases and supply disruptions. Our work in the energy area leads us to believe that the United States will never be able to produce conventional oil in anything like the quantities needed to substantially insulate ourselves from the OPEC-dominated world oil market. For that reason, alternatives to imported oil and synfuels should play a part in the national energy strategy.

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While synthetic fuel development is clearly an important and worthwhile national goal, we believe that conservation should take just as high or even a higher priority. These two emphases--synfuels to provide liquid fuels and feedstocks for the medium- to long-term, and conservation both now and throughout the future--seem to us to provide both the decisive action and the balanced program the Nation needs. We should also keep in mind that our ultimate goal should be to move to renewable energy sources. Synthetic fuel development and even conservation should be integrated into that long-term goal.

Another basic issue is whether we need a separate entity charged with synfuel development and conservation. The Administration's proposal would authorize a separate corporation. We believe that such an entity may be appropriate for synfuel development, but not for conservation. The Administration's suggestion to establish an Energy Security Corporation--with several modifications which we suggest in the enclosed letter--seems to be a responsible way to promote synfuel development. This is not the case with conservation because many of the actions needed are only appropriate to Government (e.g., setting mileage standards, reform of building codes, various forms of mass transit, etc.). Furthermore, charging one body with two so disparate functions would probably result in its doing neither very well.

H.R. 3671--AN ENERGY
DEVELOPMENT AND
MANAGEMENT AUTHORITY

H.R. 3671 would, among other things, establish a Government corporation to develop synthetic fuels. Other proposals such as the President's would develop a synthetic fuels industry through a variety of mechanisms such as loans, loan guarantees, price guarantees and construction of plants by the Government. In our view, every effort should be made to establish the atmosphere to encourage private industry to invest in and operate synthetic fuel plants.

Unfortunately, a synfuels industry will, at least in the medium-term, be expensive and we will not see significant synthetic fuel production until the late 1980s. Nonetheless, since oil supply problems continue and may become ever more serious in the 1980s, 1990s, and beyond, a national

commitment to reducing our dependence on imported oil is warranted.

Although H.R. 3671 is mainly designed to provide a Government corporation to accelerate synthetic fuels development, it provides for additional authority which is beyond the scope of powers being considered under the President's proposal and other bills now before the Congress. / This bill also includes authority for a Government corporation to:

- ✓ --Explore Federal land for mineral deposits, including oil, natural gas, geothermal power, coal and shale oil;
- ✓ --Develop and market materials derived from these deposits;
- ✓ --Acquire land under the power of eminent domain; and
- ✓ --Use any patented methods, formulas, and scientific information with the exception of information on pending patents.

✓ The corporation would thus compete with private industry. /

As mentioned previously, we believe a Government corporation which encourages private investment in synfuels is appropriate. Synfuels are not economically competitive with conventional energy sources and will not be so for the foreseeable future. Therefore, if private industry is going to get involved now, it is likely that the Government would help considerably through a program which includes loans, loan guarantees, and perhaps price guarantees and Government construction of plants. However, a Government corporation which also competes with private industry is another matter which requires further analysis.

GAO, in the past, has commented on the advisability of a Government corporation exploring for energy and minerals on Federal lands, and we have not favored the creation of a corporation to explore for oil and gas on Federal lands. This position has included concern that such a corporation would not be subject to the same degree of congressional control as noncorporate agencies. Our office has consistently taken the position that the public interest is best

served when congressional control over activities is exercised through annual reviews, affirmative action on planned programs, and financing requirements through the appropriation process. We believe that departures from this standard Government program or incentive approaches should be permitted only on a clear showing that a public interest goal cannot otherwise be reached.

Rather than the broad approach to Federal energy development taken in H.R. 3671, we suggest the Congress consider a goal-oriented approach targeted on synthetic fuel technologies which have a high likelihood of technical success. Since the bill does not contain specific energy production goals, it is impossible to determine if the proposed \$50 billion funding level is reasonable, particularly in light of the broad charter proposed for the corporation. We believe an energy production goal is required to relate the expected contribution to national energy goals. Such goals are essential decision-making information and provide the basis for judging the necessary expenditures.

In summary, while synthetic fuel development is clearly an important and worthwhile national goal, we believe that conservation should take just as high or even a higher priority. We should also keep in mind that our ultimate goal should be to move to renewable energy sources. Synfuel production today, however, is not generally competitive with conventional energy sources and therefore Government financial assistance and Government-sponsored programs seem appropriate. However, a Government corporation which would compete with private industry is another matter which requires further analysis.

Sincerely yours,

SIGNED ELMER A. STAATS

Comptroller General
of the United States

Enclosure