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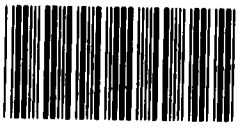

HSE02300

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

Dear Mr. Chairman:

Subject: Proposed Oil Backout Legislation (EMD-80-B-6)

Your letters of April 2 and June 2, 1980, respectively, requested our comments on H.R. 6930, 96th Congress, and H.R. 7341, 96th Congress, bills to expedite the conversion of oil and gas burning powerplants to coal or other alternative fuels. The principal sections of these bills are similar, and each is entitled the "Powerplant Fuel Conservation Act of 1980." Our comments relate to both bills, and rely principally upon our previous consideration of oil import reduction options and reviews of efforts to convert to coal. Our previous consideration of these topics noted significant potential for oil savings which could be achieved by utilities within 10 years.

The proposed Powerplant Fuel Conservation Act would (1) strengthen Federal coal conversion authority, (2) provide substantial Federal grant funds for conversion, and (3) reduce oil imports. As we have noted in many previous reports, the Nation is both politically and economically vulnerable to imported oil disruptions and we believe it should move to develop energy alternatives which would reduce our dependence on foreign oil sources. A balanced program consisting of conservation, renewable energy sources, conventional oil and gas, coal, and synthetic fuels should be implemented.

The conversion of oil consuming boilers to coal has been recognized as a method of reducing oil imports since the early 1970s. However, utilities have not been reducing their oil use as much as might be expected when considering the technical and economic considerations of conversion. In addition, the regulatory programs designed to achieve impressive reductions in oil use are accomplishing their mission at a very slow pace.

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Since 1974, an aim of Federal policy has been to expand coal use to replace oil imports and declining production of domestic oil and gas. However, the key statutes which implement this policy, the Energy Supply and Environmental Coordination Act of 1974 (P.L. 93-319) and the Powerplant and Industrial Fuel Use Act of 1978 (P.L. 95-620), have resulted in few conversions of coal capable powerplants. As of March 1980, final prohibition orders issued under the 1974 law were in effect for only 23 coal capable units of 12 companies; a number of these companies had independently planned to burn coal. The Department of Energy believes that conversion actions under the Fuel Use Act will also be lengthy, primarily due to the required regulatory process.

INCENTIVES FOR CONVERTING COAL CAPABLE BOILERS FROM OIL TO COAL

The principal benefit of providing grant funds to utilities under Title I of the proposed Act would be to accelerate conversion to coal and thereby generate earlier cutbacks of oil imports than was expected under the current regulatory program. However, the initial goal of saving 400,000 barrels of oil per day may not be reached by 1985 due to the regulatory approvals required for converting coal capable boilers back to coal. Yet, without this type of program the pace of conversions would be even slower, and some of the conversions would probably not be completed. The time required for obtaining state approval for rate changes to cover the costs of conversion, for reaching agreement upon the method to attain acceptable air emissions levels, and for design and installation of air pollution control equipment could easily delay some conversions past the target date.

We are also concerned with the entitlement features of subsection 103(g), of Title I. All applicants appear to be entitled to grants if the requirements of the proposed act are satisfied and if the cost estimates and other information in each utility application are verifiable. This provision provides no discretion to the Secretary to distinguish among the applicants on the basis of the contribution to the savings of oil and gas that a particular conversion would make. It is difficult, particularly in a time of inflation, to estimate the total liability of the Government under such an entitlements program.

In addition, the necessity of providing grant funds to utilities which have already converted to coal or to those which are in the process of converting to coal is questionable. In these situations, the utilities with sufficient financial resources have already decided that the conversions are economically advantageous. Providing grants in such cases appears to be unnecessary. Moreover, providing grants for all applicants who satisfy the minimum requirements of the act who have not yet converted may not be desirable. This requires a large block of Federal funds to be available within a short span of years. If all of the necessary funds are not appropriated, providing some grant assistance for every acceptable project could dilute the overall effectiveness of the program, because fewer dollars would be available for assisting companies with the most effective conversions.

These questions of fund allocation could, to some degree, be accommodated by permitting the Secretary of Energy to make deliberate choices among those powerplants which require Federal assistance for conversion. This flexibility could be achieved by providing the Secretary of Energy with discretionary authority to approve grant applications based upon the utility conversion information required under subsection 103(e). When approving grant applications, the Secretary should show preference for those plants which are unlikely to be converted voluntarily without Federal assistance, and which would attain the greatest oil savings. Also, we believe that subsection 303(c)(2) should provide that any authority under the act to make grants, as well as enter into contracts, obligating the United States to make outlays may be exercised only to such extent as may be provided in appropriation acts.

Providing Grants for General Reduction of Oil and Gas Use

We believe the Federal grant program which would be established under Title II should have a sharper focus. As described under Section 203, the grants could conceivably be used for a wide range of activities such as adding new generating capacity, retiring oil boilers early, improving transmission efficiency, conservation programs, or any other activity which could be construed as reducing oil or gas use. With such general provisions, it is not possible to make a reasonable estimate of the potential fuel savings, or to determine if the fuel savings will be primarily oil or natural gas.

At the end of this decade, the Fuel Use Act's prohibition on utility natural gas use after 1990 could cause a rapid switch from gas to oil in existing powerplants. While such a switch would bring utilities into compliance with the prohibition on the use of natural gas, it could also negate oil savings resulting from previous conversions from oil to coal. Thus, the 1990 gas use prohibition carries the potential for causing an increase in U.S. residual oil requirements. We are including this topic in our current review of Federal efforts to convert oil and gas-fired boilers to coal or other alternative fuels.

The results of our review should provide a further basis for evaluating proposals such as H.R. 6930 and H.R. 7341 as well as an assessment of the effectiveness of the Powerplant and Industrial Fuel Use Act of 1978. We also plan to address the environmental considerations of displacing oil and gas as a boiler fuel. The study should be completed early next year. In addition, we are reviewing several specific aspects of coal conversion at the request of the Chairman, Senate Committee on Energy and Natural Resources, including the derivation of the various lists of coal capable powerplants which could be converted to coal and the financial assistance required by utilities for converting coal capable powerplants. This work is due to be completed in several weeks and a copy will be forwarded to your Committee.

Records Maintenance

We believe that records maintenance provisions of subsection 304(e) of the bills are not sufficiently [illegible] to assure an effective audit and program evaluation. We support the following substitute language:

> "(e) Records.--(1) Each recipient of Federal assistance under this Act, pursuant to grants, subgrants, contracts, subcontracts, loans or other arrangements, entered into other than by formal advertising, and which are otherwise authorized by this Act, shall keep such records as the Secretary shall prescribe, including records which fully disclose the amount and disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is

given or used, the amount of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.

"(2) The Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall, until the expiration of three years after completion of the project or undertaking referred to in subsection (1) of this section, have access for the purpose of audit and examination to any books, documents, papers, and records of such recipients which in the opinion of the Secretary or the Comptroller General may be related or pertinent to the grants, contracts, subcontracts, subgrants, loans or other arrangements referred to in subsection (1)."

Sincerely yours,

Signed Elmer B. Staats

Comptroller General
of the United States

bc: Mr. Peach, EMD
Mr. McCullough, EMD
Mr. Boland, EMD
Mr. Elsken, EMD
Mr. C. [illegible], EMD
([illegible] -242 and CC-80-331)
[illegible]
[illegible] Sylander, OP
Mr. Heller, OCG
Mr. Garvey, OCR

Adams/ap--7/1/80