

EXECUTIVE SESSION

- - -

WEDNESDAY, OCTOBER 17, 1979

- - -

United States Senate,

Committee on Finance,

Washington, D.C.

1 The Committee met, pursuant to notice, at 10:30 a.m. in
2
3 room 2221, Dirksen Senate Office Building, Hon. Russell B.
4 Long, Chairman of the Committee, presiding.

5 Present: Senators Long, Talmadge, Byrd, Nelson, Gravel,
6 Bentsen, Moynihan, Baucus, Boren, Dole, Packwood, Danforth,
7 Chafee, Heinz, Wallop and Durenberger.

8 The Chairman: Let's call the meeting to order, please.

9 Just for starters, whatever we do, one can see it is going
10 to be complicated. There will be complaints about the
11 complexity.

12 I would like to ask Mr. Shapiro that you talk to your
13 associates, people with whom you are working, and consult with
14 the people over in Energy and Treasury, in so far as you people
15 can find some way to simplify some of this so that it will be
16 easier for people to comply with it, easier to get whatever
17 advantage that they are supposed to have and make it a more
18 feasible and practical bill, reduce the complexity if you can.
19 Bring us some suggestions along that line. I think it would

1 help if you could generate some that would work. It would help
2 to make it a better bill.

3 Mr. Shapiro: You are referring to the windfall profits
4 tax and the way the various tiers are and see if we can do some
5 simplification measures to bring this back to the committee.
6 We will take a look at it for you.

7 Mr. Stern: Mr. Chairman, yesterday the one major item in
8 the low income assistance part that you passed over was the tax
9 credit for residential heating oil. We would like to recommend
10 that you start with that this morning.

11 Senator Dole: I think we did that because Senator
12 Durenberger had expressed an interest in the tax credit. We
13 did not vote on whether to limit it to home heating oil.

14 Mr. Stern: The one thing you voted on was that you were
15 going to have some program for people above the food stamp
16 limit. The proposal was heating oil. This has been written up
17 on the sheet called "Possible Heating Oil Tax Credit" which you
18 have in front of you.

19 Mr. Shapiro: The heating oil tax credit proposal is
20 essentially the proposal that Senator Moynihan has in his bill.
21 The staff wrote it up so the Committee could see the various
22 aspects of it.

23 What Senator Moynihan is proposing is a nonrefundable tax
24 credit that essentially would be computed by multiplying the
25 dollars that are spent each year by a homeowner for heating oil

1 for a principal residence by certain predetermined percentages.
2 The percentage would be derived from a formula which reflects
3 the extent that there are increases in the price of home
4 heating oil above the increases that would have occurred
5 because of inflation. The increase in home heating oil above
6 the increases that would have been caused if it were just
7 indexed as a result of inflation.

8 On the hand-out sheet that you see there under the column
9 called "Rationale" gives you an example of how Senator
10 Moynihan's proposal would work.

11 If you assume in 1978 that the heating oil price was 50
12 cents a gallon, that the increase in the consumer price index
13 is 20 percent between 1978 and 1980, for example, then the
14 heating oil price rose only at that rate, only at 20 percent.
15 Then, in 1980, that 50 cents would increase to 60 cents, 50
16 cents plus a 20 percent inflationary increase; 20 percent
17 times 50 plus 10 cents. Then you would have a 60 cent price.

18 In 1980, instead of home heating oil costing 60 cents as
19 the result of increasing inflation, the actual price was \$1.00,
20 the home heating oil would price 40 cents more than the price
21 plus inflation.

22 The purpose of the credit would be to provide a credit
23 which would equal that portion. For example, 40 percent of
24 that increase, if that were to be the percentage the people
25 would want of the excess of 40 percent times that 40 cent

1 increase. The difference between \$1.00 and 60 is 40 cents
2 times a percentage, which would mean that approximately 16
3 cents on each dollar spent would be available for a credit. On
4 this particular example, if that homeowner bought 1,000 gallons
5 of gas, he would get a credit equal to \$160.

6 Essentially, the point being made here is the credit would
7 be based on the increase in the price of home heating oil above
8 inflation. The actual computation would be made by multiplying
9 expenditures. In other words, the \$1,000 that is spent by the
10 homeowner times a percentage, in this example, 16 percent,
11 which would give you \$160.

12 You would need a special rule in the case of renters.
13 What is being suggested there is instead of requiring landlords
14 and renters to make some determinations that could be very
15 complex in the determinations, the Internal Revenue Service
16 would put out a table or set a percentage of rent that would be
17 available for each renter to use as his percentage.

18 That would simplify the program but renters would be
19 eligible for home heating oil credit.

20 The Chairman: I just want to make this suggestion now.
21 We are not going to have anybody in Louisiana, as far as I know,
22 benefitting from this. Few, if any; maybe none, but I am for
23 it, and I hope that it will do some good.

24 I would hope that we would avoid having this area become
25 an area of tax abuse. That being the case, I think the best

1 way to do it would be to have the people who sell this fuel oil
2 deliver a receipt to their customer. That makes it pretty
3 clear on the face of it what the customer is entitled to claim
4 as a deduction or credit in this case.

5 Really, if he handles it right, it would be a matter of
6 good will. He could hand this to his customer and say, "Look,
7 this is worth \$100 to you. You are entitled to take this
8 credit if you are making less than \$22,000. Here is your
9 receipt; this is worth some money to you."

10 I am told in some areas they are having difficulty in
11 collecting their bills because the price has gone up so much.
12 They say, if you pay me, I will give you a receipt and you can
13 deduct it and this is worth money to you. If you do not pay
14 me, you cannot deduct it because you did not pay it.

15 The same thing would be a matter of sort of good will
16 between the landlord and his tenants. He has to figure out
17 what he paid in fuel oil and then as I understand it, each one
18 of his tenants -- if he uses fuel oil he has to have a record
19 of that -- each one of his tenants, he can give them a receipt,
20 if they are entitled to take a credit based on a certain
21 percentage of their rent.

22 To handle it the way it ought to be handled, a matter of
23 good will toward all of them, it will tend to ingratiate them
24 with their customers, or tenants, as it may be; a receipt they
25 could keep with their papers, just as an employer mails you a

1 withholding receipt at the end of the year, just stick that
2 with your tax papers.

3 If they do that, this ought to be pretty easy to
4 administer and keep down abuse.

5 Senator Dole: Mr. Chairman?

6 The Chairman: Yes, sir.

7 Senator Dole: I think that there is some question, I
8 think Senator Wallop had some question, whether it ought to be
9 limited to heating oil. We discussed it in our meeting this
10 morning.

11 I understand the more you add, the less the benefit, and
12 maybe heating oil is in a unique position.

13 Senator Wallop is here. I think he wanted to speak to the
14 propane. I do not know what it would cost, if you add those
15 who use propane. I am not sure whether the information is
16 available. The cost of propane has gone up almost the same way
17 heating oil has gone up.

18 Senator Wallop: Mr. Chairman, I think a case can be made
19 that it has gone up faster. It is a more expensive fuel.

20 We have very few people who use home heating oil. Almost
21 all of our rural people use propane, almost without exception.
22 It is a rather extraordinary thing.

23 In my own house, I went from 14 cents to 49 cents over a
24 period of 18 months.

25 Senator Moynihan: Would you repeat that?

1 Senator Wallop: Fourteen and a quarter to forty-nine.

2 Senator Moynihan: There may be grounds of inequity on
3 that. Does anybody else have a view?

4 Senator Wallop: Admittedly I had a better than average
5 contract. I signed a longterm one. It would have been higher.
6 The change would not have been that much. It has gone up quite
7 nearly 50 percent.

8 Was that your experience, Lloyd?

9 Senator Bentsen: That is our experience. We do not have
10 many people, obviously, in that category; I suppose you do not,
11 either when we related to the other numbers we have been
12 talking about on heating oil. But I would think you would find
13 throughout the north in the rural areas, particularly the
14 Midwest, you would find more utilization there of LNG or
15 propane.

16 Senator Wallop: If it had not, in fact, it would seem the
17 formula that Senator Moynihan has devised would not be eligible
18 for it. I think really it is something that merits
19 consideration by the Committee.

20 The Chairman: Could we have some estimates of what that
21 would amount to, the propane thing? Can Treasury help us with
22 that?

23 Senator Dole: I think personally it would qualify since
24 it is in the same unique position as heating oil.

25 Do you have information on price increases on propane,

1 Bob?

2 Mr. Shapiro: We have some tables here and they do not
3 indicate a very large increase. This is only the early part of
4 '79. I do not know what is the recent experience.

5 Even in these tables on oil, for example, it does not have
6 the big increase. For example, the average for 1977 in
7 residual oil is 46 cents per gallon. The average, so far, for
8 '79 is 57.7. That is before the increase that happened in
9 June.

10 Looking at the comparable data they have here, I must say
11 this is the wholesale price for propane. It says, "In 1977, it
12 is 25 cents per gallon and so far in 1979 it is in the range
13 that would get it at the same amount." It may be that propane
14 has increased just like oil has recently.

15 Since this table only goes up to May --

16 Senator Wallop: I do not understand what you mean.

17 Mr. Shapiro: Senator Dole asked us if we do have any of
18 the price increases.

19 Senator Wallop: What do you mean by a range of some
20 amount, 25 cents?

21 Mr. Shapiro: It is showing here that for 1977 the average
22 is 25 cents. For some reason, it is the January through May
23 prices. They are less than the January through May prices both
24 for '77 and '78.

25 Senator Dole: Are there any other fuels that we have

1 overlooked where the price has jumped dramatically?

2 Mr. Shapiro: The problem we have right now is that this
3 table is a monthly energy review, September, 1979 edition. It
4 only has it up through May. A lot of the price increases have
5 happened since May because of the big increases that happened
6 in oil in June. Even oil, as I was indicating, the price is 46
7 as an average in '78; 49 cents in '79. It is up to 69.1 cents
8 in June.

9 It does show a big increase in oil in June. Even then, it
10 does not take some increases that have happened since then.

11 Senator Wallop: I know I have some dealers who would be
12 more than halfway delighted to find some 21 cent propane.

13 Mr. Shapiro: Do you see the chart?

14 Senator Wallop: I am looking at it. I have no idea on
15 what that is based. It certainly does not reflect the
16 experience of my people.

17 As a matter of interest, if I were talking here, just call
18 a local distributor and find out exactly what it is. I am not
19 trying to get something we do not deserve. I think most people
20 would recognize -- I think Senator Durenberger says his
21 experience is not that different.

22 Mr. Shapiro: Keep in mind that htis is only May. We have
23 had some increases since then.

24 Senator Wallop: I cannot quarrel with it. I just cannot
25 believe it.

1 Senator Durenberger: My experience has been that propane
2 has gone up about, along with home heating oil in our state, up
3 to the 49 cent level and the recent experience has been it is
4 probably up in the low 60s right now, where home heating oil is
5 up at 82 to 85. For a period of time, it has been following
6 the home heating oil price. Now it is somewhat under it.

7 There is a substantial increase.

8 I wonder, Mr. Chairman, if I could not respond to Bob
9 Dole's question about other fuels. Maybe I could give you a
10 picture of what may not be a typical northern state.

11 Minnesota has approximately 1.2 million residences, or
12 households. Here is our heating source: natural gas, 622,500,
13 about half, a little over half, use natural gas. 395,000 use
14 oil. 72,000 use propane. 29,700 --

15 The Chairman: Propane is what percent?

16 Senator Durenberger: 72,000 out of 1.2 million.

17 The Chairman: 395,000 use oil?

18 Senator Durenberger: Use oil, right.

19 The Chairman: Propane?

20 Senator Durenberger: 72,000 use propane.

21 The Chairman: All right.

22 Senator Durenberger: I am running these figures.

23 The Chairman: All right.

24 Senator Durenberger: 30,000 use electricity.

25 16,500 use coal and about 6600 use wood out of the total.

1 Now, the only argument I want to add to it, the reason I
2 wanted to make an argument for propane, I wanted to make an
3 argument for electricity generated by oil, but I know that this
4 runs into a variety of administrative difficulties.

5 My basic concern for my state of Wisconsin, for North
6 Dakota, for Montana, for Washington and a few other states is
7 the escalation in the price of Canadian natural gas.

8 Just in the last 12 months the price of Canadian natural
9 gas ---which I would say the northern third of my state is
10 totally dependent on -- went from \$2.40 per mcf to \$3.40 per
11 mcf. It will go up to \$3.68 as soon as Canadian gas conforms
12 with Mexican gas. All of that is conforming with the imported
13 oil price equivalent.

14 If there is any way for us to find an administrative
15 technique to provide tax credit relief for those who are
16 dependent on imported natural gas at a price that is so
17 substantially higher than domestic natural gas, I sure would
18 like to be able to do it.

19 Very few of these people in my state have the alternative
20 of either home heating oil or natural gas. From time to time,
21 they are switching back and forth from one to the other
22 depending upon the price.

23 It does affect principally the northern third of my state
24 and I think it probably affects most of the northern tier
25 states the same way.

1 The Chairman: Is there any further discussion? Mr.
2 Sunley?

3 Mr. Sunley: I would like to describe the experience just
4 briefly for you. It was in the administration, considering a
5 home heating oil credit. We ultimately rejected it.

6 It might be helpful for the committee to know what I seem
7 to view as the fundamental issues that stumble on this one.

8 The first issue you face is whether the amount of the
9 credit will vary by year and level of consumption in heating
10 oil a flat dollar amount. You have chosen to let the credit
11 vary by your actual amount of consumption.

12 As Senator Bentsen pointed out yesterday, this is really
13 kind of contrary to our fundamental energy policy, that we want
14 to decontrol oil so the consumers face realistic prices in that
15 consumption. It is the kind of decision that OPEC points to
16 and says the United States is not serious about facing an
17 energy problem. You are still subsidizing the use of oil.

18 Therefore, there was a serious concern whether we wanted
19 to propose a credit that would hae this adverse effect.

20 Second, even if you have a flat amount of credits so that
21 anyone who uses this heating oil gets some flat credit, it does
22 not vary by how much consumption they use. It will still delay
23 switches to alternative fuels.

24 As Senator Durenberger just said, people switch back and
25 forth, in Minnesota, between fuel oil and natural gas. We like

1 people to use natural gas at this time.

2 You are proposing possibly a 16 percent reduction in the
3 cost of home heating oil. It encourages them to use oil and
4 not to use natural gas.

5 Again, to the extent that it delays switches to
6 alternative fuels, it again causes fundamental problems.

7 I think you have a potential here for a serious
8 landlord-tenant conflict. We never did figure out, within the
9 administration, how to make this thing apply to renters in a
10 fair way.

11 Some renters have leases which cover utilities. They may
12 be protected by a three-year lease this winter. It is the
13 landlord who is going to be bearing the higher home heating oil
14 cost, yet you are going to provide a credit, as I understand
15 it, for the renters.

16 Obviously, other renters pay their utility bills. In
17 fact, they have to bear the higher cost of the heating oil.

18 At least in this mechanism which you are describing today,
19 it seems to me that a landlord may want to switch to natural
20 gas just as Senator Durenberger has described. It would be
21 the economic thing to do.

22 And he, let us say, is paying the total cost. He has the
23 tenants, are set in rental contracts, with a fixed amount per
24 month. They are not paying the utilities.

25 The landlord wants to switch and use a cheaper fuel and

1 yet that means he is denying his tenants a credit of some
2 percentage of the rental payments.

3 I think that probably will be unacceptable.

4 When it comes to the administrative problems for the
5 moment, let me not even address 1979 because I think, Mike, you
6 want to discuss 1979 separately.

7 Mr. Stern: You can suit yourself. This does assume that
8 you do have a credit in 1979.

9 Mr. Sunley: Let me hold 1979 briefly for a moment, then.
10 Obviously there are problems of, do we know how much we
11 actually spend for home heating oil? The Chairman has
12 suggested that the dealer supply the customer with information
13 of what they actually spend. I can tell you I do not know how
14 much I spent for heating oil this last winter.

15 Even once I know how much I bought, if I run a business
16 out of my home I have difficult allocation problems.

17 At least the staff suggestion, which is a little different
18 from what the Chairman just mentioned, asking the Treasury to
19 tell each landlord on a rough average figure, in each region --
20 presumably each region of the country -- surely heating oil is
21 a small component of the rent in southern California where you
22 may only heat three weeks a year, and a much larger component
23 of the rental payment in Minnesota, Wisconsin.

24 I do not know exactly how Treasury can provide these key
25 factors for each landlord. Surely it must vary by the type of

1 housing, whether the place is insulated, whether the place you
2 are renting in a furnished apartment or unfurnished apartment,
3 whether the gross rent includes utilities or is net of
4 utilities.

5 Presumably the allocation that Treasury is supposed to
6 make here has got to be very confusing. Each renter would have
7 to figure out what percentage of his rent qualifies as a base
8 for their tax credit.

9 With respect to 1979, the Committee should be aware that
10 the forms are printed. There are no blank lines for any energy
11 credits that Congress may choose to add sometime this year. We
12 have done a lot of thinking overnight in working with the Joint
13 Committee staff to see what might be done for 1979.

14 The best we have come up with is that you fill out your
15 1040 form or 1040A form and then you go over to the Post Office
16 or the bank and you pick up a new form that will be available
17 there because there is no way we can get it stuffed into the
18 packages that are mailed to the taxpayers.

19 This form -- you start out with your tax before credits
20 and then you have to compute that whole last part of the form
21 again, because this is a nonrefundable credit. Therefore it
22 comes before the earned income credit, it comes before the
23 credit for your withheld taxes.

24 Since he has to recompute that whole last part of his tax
25 return and mail it in, I cannot guarantee you that this will

1 not delay when refunds get out.

2 I surely cannot guarantee you that even with the best
3 efforts of the IRS to publicize the new credit and give
4 information out that the IRS is not going to be subject to
5 considerable criticism of taxpayers not knowing that they are
6 eligible for this credit, particularly renters who have no
7 idea whether the landlords heat with natural gas or home
8 heating oil.

9 We have, as you might see, some problems.

10 The Chairman: I think you made as strong a case as can be
11 made against the credit, Mr. Sunley. I suspect that by the
12 time we get through working it out -- I do not mean the
13 Secretary of the Treasury but the President of the United
14 States -- will go right into the areas and say, "Look what we
15 did for you. We did something to help with your problem. We
16 got you this credit, which will help."

17 I have no doubt he will remember to say that when he is in
18 New England or upstate New York.

19 Senator Moynihan?

20 Senator Moynihan: I just want to say, Mr. Chairman, to
21 Mr. Sunley's legitimate point, is this a subsidy for
22 consumption? Let us remember, this President decided to
23 decontrol oil -- something he let a lot of people think he was
24 not going to do and he doubled the fuel bills of an awful lot
25 of people to the point that a true impact on the family budgets

1 of over half of this country, a genuine impact, average fuel
2 bills will be up about \$1,200 a year.

3 It is a very small credit, redistributing some of this
4 windfall tax. It will not encourage consumption one bit. It
5 seems to me it is equitable. I hope we do it.

6 The Chairman: All we are talking about at the moment, I
7 take it, is whether we want to try to apply this to propane.
8 Is that right? That is the amendment we are talking about.

9 Senator Dole: Right. I checked in Kansas just now. It
10 is up to 45 cents a gallon.

11 Mr. Shapiro: That is the retail price. We have been
12 talking about the wholesale price. I understand the
13 information is being checked again so that the same basis would
14 be used on the wholesale price.

15 The Chairman: Let me ask you, can you handle that, Mr.
16 Shapiro, the same way that you handled the oil thing?

17 Mr. Shapiro: I think you could. I think you would want
18 to use the same formula.

19 The Chairman: These dealers would then give the people
20 the receipt the same as they would if they were selling the oil
21 and they would use it on their return. How much would that
22 increase the cost of the program?

23 Mr. Shapiro: We do not have an exact figure. There is
24 not that much propane that is being used. We do not think it
25 would increase that much. We would have to get an estimate for

1 the committee. I just do not think it would increase it
2 significantly at all.

3 The Chairman: Let me tell you what Senator Durenberger
4 told us: it will increase this 20 percent. I am not against
5 it. It sounds as though it will make a difference.

6 Senator Danforth: Mr. Chairman, how much money are we
7 going to spend for these tax credits?

8 Mr. Shapiro: This particular home heating oil,
9 approximately 575 million for fiscal year 1980.

10 Senator Danforth: 575 million for one year, and then over
11 --

12 Mr. Shapiro: We are assuming over an eleven-year period,
13 in the range of \$10 billion to \$11 billion for 1979 through
14 1990.

15 Senator Danforth: Now when we talk about propane and so
16 on, are we talking about adding on to that \$10 billion to \$11
17 billion, or are we talking about diluting?

18 Mr. Shapiro: As I understand it, the committee is talking
19 about adding on to it, although it may be 20 percent in several
20 states, I think in other states it is a very low percentage, so
21 I do not know whether it would be a 20 percent increase across
22 the board. We just do not have that information yet.

23 Senator Danforth: \$10 billion to \$11 billion on just oil
24 alone. Is that the figure we were at yesterday or the day
25 before, \$10 billion or \$11 billion?

1 Senator Moynihan: Approximately \$10 billion a year.

2 Senator Danforth: How much is the whole estimate? I must
3 have missed this. What is going to be the whole low-income
4 assistance program?

5 Senator Moynihan: We tentatively agreed to \$30 billion.

6 Senator Danforth: \$30 billion?

7 Senator Moynihan: Those are Danforth figures.

8 Senator Danforth: To the extent that we increase this,
9 does that come out of the poor people, or is it just an
10 additional?

11 Senator Moynihan: An additional, a small sum. It seems
12 to me a comparable situation.

13 Senator Dole: We could revise the formula, maybe reduce
14 the max.

15 Senator Moynihan: With a little experience. We are only
16 enacting this bill -- maybe I could take this up, Mr. Chairman.
17 I think the period should extend to 1982 which is the period of
18 all our low-income numbers so that we would be deciding on the
19 second phase.

20 Senator Danforth: If I could ask a question, why is it
21 that any kind of energy that goes up at a price higher than the
22 cost of living is not covered?

23 Senator Moynihan: There is no reason in principle. The
24 reason in practice is the forum that has gone up to the point
25 of doubling in the consequence of a Presidential decision with

1 respect to oil price and we are here putting a tax on oil and
2 redistributing those taxes in various forms.

3 Senator Danforth: As far as the people are concerned,
4 their interest is not whether it is a Presidential decision but
5 what has happened to whatever they are burning.

6 Mr. Stern: What happened, in fact, the amount was really
7 quite small, about \$5 for an average credit in the case of
8 natural gas and electricity. When this was considered in the
9 Democratic Caucus, they simply decided it was not worth having
10 a credit that ws that small.

11 Senator Moynihan: When we looked at the actual increases
12 in other realms, they are so small as to be insignificant. The
13 experience of oil is that the price is doubled.

14 Mr. Stern: No one had raised propane. In the case of
15 natural gas and electricity, the credit was very small.

16 Senator Danforth: Wood.

17 Mr. Stern: I do not think that was discussed.

18 Senator Danforth: What did we do two years ago on the
19 deductibility of state gasoline taxes?

20 Mr. Shapiro: That was repealed.

21 Senator Danforth: Why was it repealed?

22 Mr. Shapiro: Essentially it was two reasons. One is the
23 simplification measure. The second was for budgetary purposes.
24 The argument on the Sentae Floor was budgetary purposes.
25 Another argument used in the Committee was for energy purposes,

1 but a combination of simplification, needing the money for
2 budget and energy.

3 Senator Danforth: Why do not all of those arguments apply
4 at least as well to this?

5 Senator Moynihan: People have to heat their homes. They
6 die if they do not.

7 Senator Danforth: Well, without this credit people are
8 going to die.

9 Senator Moynihan: No. What we are doing here is
10 recognizing that a very considerable economic hardship has been
11 placed upon low-income people as a result of a national policy
12 decision and we are trying to ease it somewhat.

13 Senator Nelson: On these figures, as Senator Bentsen has
14 always made this argument, you take the figures of Canadian
15 cost of gas and you take the cost of gas ten years ago. That
16 was about 40 cents a thousand. It is now almost \$4.00 a
17 thousand.

18 Oil was \$2.00 a barrel seven or eight years ago. It is
19 now \$20. They have each gone up ten times in a relatively
20 short span, and I think in the long pull your energy costs are
21 going to flatten out and equal out.

22 Senator Gravel: Mr. Chairman?

23 The Chairman: Senator Chafee, and then Senator Gravel.

24 Senator Chafee: I wonder whether Mr. Shapiro could tell
25 us what was done as far as domestic use of natural gas when we

1 decontrolled natural gas two years ago?

2 Mr. Shapiro: There has been no special tax provision
3 applied to that. That was done through the Energy Committees.

4 One of the things that they did as far as a part of it,
5 incremental pricing which passed most of the increases along to
6 businesses, as some of the residential uses, benefitted from
7 incremental pricing.

8 Senator Chafee: Under that, those who use natural gas in
9 their residences were protected from the increase in price of
10 natural gas as the result of deregulation. The incremental
11 price was placed on industry, was it not?

12 Mr. Shapiro: That is correct.

13 Senator Chafee: In effect, it was a subsidy to the
14 natural gas, those who used natural gas for home heating.

15 Mr. Shapiro: That was the basic reason why it was done
16 that way.

17 Senator Dole: It does not work that way in principle, I
18 do not think.

19 Senator Chafee: The only reason I raised it, a special
20 consideration was given, in that instance, to those who used
21 natural gas for home heating at that time.

22 Senator Dole: There is no objection to adding propane, is
23 there?

24 Senator Gravel: No, not at all.

25 The Chairman: Without objection, propane will be added.

1 Senator Gravel: Mr. Chairman, how will these be computed?
2 Let us say a poor taxpayer, if he does not compute out his
3 deductions, how will he get this?

4 Mr. Shapiro: What is expected, as Senator Long indicated
5 earlier --

6 The Chairman: Why do you not have somebody -- maybe you
7 could say what you want, on the board -- Mr. Stern could put it
8 on the board so everybody could take a look at it and they
9 could see how this would work for somebody who is entitled to
10 it.

11 As I understand it, a person would not get any benefit out
12 of it if the family income was over \$22,000. Is that correct?

13 Mr. Shapiro: Yes.

14 Mike is going to put on the board the example in your
15 hand-out sheet so you could follow as to how it would work in
16 practice.

17 Senator Dole: We have not agreed on it.

18 Senator Gravel: The question I was asking, Mr. Chairman,
19 maybe they could answer it verbally. That may help. But if
20 the person uses the short form in filing his taxes, he will be
21 able to get this credit?

22 Mr. Shapiro: The credit will be available to all
23 taxpayers. What they would have to do is file an additional
24 form, since the Internal Revenue Service has already gone to
25 press with their forms and would not be able to get this one

1 in, because they would not know whether it passes until we
2 finish conference. You would have to have a separate form. It
3 could be called the 1040H and they would have to pick it up
4 either at their Post Office, their bank, or other distribution
5 place and tax preparers would have them.

6 If you were eligible for this credit, you would fill out
7 the form and you would have the amount of your taxable income
8 that you would have to pay if you did not get the credit,
9 subtract the amount of the credit, you would have to file that
10 form, 1040H or whatever it is called with your tax return, a
11 separate for for 1979 that would have to be picked up
12 elsewhere.

13 After 1979, it could be part of the package that is
14 submitted, or however the Internal Revenue Service chooses to
15 handle it administratively.

16 As far as some of the problems, the taxpayer has to
17 determine how much oil was purchased that year. The Internal
18 Revenue Service is to tell them what the percentage credit is.

19 For example, the way this is being posed, you get the
20 credit on the difference between the increase in home heating
21 oil above inflation, so the price increase above the
22 inflationary price.

23 The Internal Revenue Service would make that determination
24 and would make available the percentage that is applied against
25 the purchases. For example, if the taxpayer in the home

1 purchases \$1,000 worth of oil or propane per year, the
2 percentage is a 16 percent credit. Then the taxpayer is
3 eligible for a credit of \$160.

4 Senator Gravel: Has it not been the practice of the
5 Committee over time in our simplification efforts to try to
6 include everything in one kind of very brief form because the
7 tendency of the people in the lower economic spectrum is not to
8 do all these computations that you are talking about in order
9 to get this.

10 Senator Moynihan: May I say here that we are going to
11 show how the number is derived, but the tax credit is one
12 multiplication.

13 You take your bill and you multiply it by a fixed number,
14 and that is it.

15 Senator Gravel: You take your bill -- the people have to
16 keep all their bills for home heating oil all year long in one
17 particular place and that is where they do their computation.
18 There is a bit of a bookkeeping situation. It is certainly
19 complex in terms of what we have tried to do in the tax
20 structure to simplify it.

21 The Chairman: From what you have got in this little sheet
22 you have given here, it is a lot simpler than what Mike has on
23 the board up there. As I understand it, it is more like Pat
24 Moynihan was talking about. That would be, you would simply
25 take your heating bill, if you are using oil, and you would

1 just multiply it by 16 percent and you are entitled to that
2 much credit except it cannot exceed some particular figure.

3 What would it be?

4 Mr. Shapiro: \$200 would be the maximum.

5 The Chairman: It could not exceed \$200.

6 If you spend \$1,000 on oil for heating, multiply it by 16,
7 \$160 and that is it.

8 Mr. Shapiro: You have two figures, the total amount you
9 pay for oil or propane, and that would be supplied either by
10 the distributor or by the records being kept.

11 The second, the Internal Revenue Service would provide the
12 percentage that is based on the increase above inflation. All
13 the taxpayer would have to do, in Senator Moyhnihan's proposal,
14 is take those figures and multiply them together.

15 The Chairman: Let me ask you, does that percentage vary
16 area by area, one percentage for New York and another
17 percentage for Minnesota?

18 Mr. Shapiro: There will be one percentage that would be
19 for all taxpayers.

20 The Chairman: Nationwide?

21 Mr. Shapiro: A nationwide percentage.

22 Senator Gravel: You do have this problem -- correct me if
23 I am wrong, Mr. Shapiro ---you could have one person on one
24 side of the street in New York, or in Buffalo, who would be
25 getting a tax credit for heating his house and the person on

1 the other side of the street doing it with natural gas and not
2 getting a tax credit. This causes geographic fissures in our
3 soceity as a result of the kind of heating plant you have. Not
4 only is it going to be geographically advantageous to New
5 England or the Eastern Seaboard, but also it is going to be
6 disadvantageous to individuals right on the same block --
7 neighbors.

8 One would get a credit and the other one will not,
9 depending on the system you would have.

10 The Chairman: If someone is heating with electricity,
11 then he is paying a high price for that heat ordinarily but he
12 elected to do it that way. That is how he wants to do it.

13 Senator Gravel: Let him pay for it, though.

14 The Chairman: Now, if he is using coal, he does not get
15 it. If he is using wood, he does not get it, but if he is
16 using oil or propane, he does not get it.

17 Senator Gravel: Why should we have this great human
18 kindness because one is using oil when we do not express that
19 human kindness in respect to other forms of energy? It is
20 preposterous.

21 The Chairman: We have not been involved in the fight over
22 natural gas. Other committees have been involved. We will
23 participate out there on the Floor. That has been a
24 hard-fought battle in the natural gas area.

25 There are regulations, and in administering the program,

1 they try to give the person who is using it for home heating
2 the break. They try to put the burden over on industry so the
3 home owner gets the break.

4 That is what other committees did, and we participated as
5 Senators out on the Floor, but we did not have jurisdiction
6 over that.

7 Now, here is a bill over which we do have jurisdiction.
8 We look at the situation. The suggestion is made for these
9 people who are going to have a big increase in their bill, we
10 ought to do something for them. We start out by doing
11 something for the poor; we do that through the state
12 governments. The people who are not poor, but in the lower
13 middle income, the lower half, they get a break.

14 This is the suggestion.

15 Senator Heinz?

16 Senator Heinz: Mr. Chairman --

17 Senator Gravel: \$22,000 in New England is not a poor
18 person. \$22,000 in Erie, Pennsylvania is not a poor
19 person.

20 Senator Heinz: I am not voting for or against it. I want
21 to get some information.

22 Senator Gravel: I was just making a point to the Chairman
23 on that. If you are talking about poor people, first off, I do
24 not think it will help the poor people because they are not
25 going to do the mathematical computations. Two, you are

1 causing divisions in our society. If you live on one side of
2 the street and you have blue eyes and you happen to have hooked
3 on* and still have an oil-fired furnace, you have a credit, and
4 the guy, Charlie, cross the street who is brown-eyed and is on
5 natural gas, he does not get a credit.

6 The Chairman: It does not have anything to do with the
7 color of his eyes.

8 Senator Gravel: It is a coincidence that his eyes are
9 blue or brown and it is just as much a coincidence that you
10 have oil or natural gas. That is the point I am making.

11 Senator Heinz: Mr. Chairman?

12 Senator Baucus: Mr. Chairman?

13 The Chairman: Senator Heinz?

14 Senator Heinz: I would like to ask a couple of questions
15 not relating to the personal characteristics of the beneficiary.

16 My understanding is that Senator Moynihan's tax credit
17 will cost \$11 billion. Is that right?

18 Senator Moynihan: Over ten years.

19 Senator Heinz: Over ten years.

20 Senator Moynihan: An estimate. We propose to put this in
21 place, like our other benefits for individuals.

22 Senator Heinz: At any one point in time, how many people
23 are estimated to be claiming this credit?

24 Mr. Shapiro: What we he now, for the first year there
25 would be approximately 9 million people using the credit.

1 Senator Heinz: Nine million people will be using the
2 credit.

3 Mr. Shapiro: Households, I am sorry.

4 Senator Heinz: Households.

5 What do you estimate the average credit to be?

6 Mr. Shapiro: On that basis, it would be an average of \$62
7 using nine million households.

8 Senator Heinz: \$62 using nine million households.

9 Is that the households eligible, or is that the households
10 that in fact, will participate?

11 Mr. Shapiro: Households that will participate.

12 Senator Heinz: Just on heating oil.

13 Mr. Shapiro: The heating oil, and those families that
14 would be \$20,000 to \$22,000. Not the households above the
15 phase out. There is a phase out between \$20,000 and \$22,000.
16 Nine million households does not include those households whose
17 incomes are above the phase-out level.

18 Senator Heinz: In terms of people who participate, they
19 either have to use heating oil -- now, with the amendment,
20 propane?

21 Mr. Shapiro: That is correct.

22 Senator Heinz: That works out to \$62 per household?

23 Mr. Shapiro: That is correct.

24 Senator Heinz: Thank you.

25 Senator Byrd: Mr. Chairman?

1 The Chairman: Yes, sir. Senator Byrd, then Senator
2 Baucus.

3 Senator Byrd: Regardless of what is done about the tax
4 credit for 1980 or '81, it seems to me that the Treasury has
5 raised a very important point with regard to 1979. Is it, in
6 fact, going to be practical to give a tax credit along the
7 lines that we are discussing? The best I can gather from what
8 Treasury says, it appears to me that it will not be practical
9 in so far as 1979 is concerned.

10 What is the staff's view on that?

11 Mr. Shapiro: It does raise administrative problems. What
12 the staff has been asked to do is present a proposal to the
13 committee where it could be made available. We are not
14 suggesting it would not present administrative problems. Any
15 time you make something available and then have a special form
16 that is printed late, and they would have to go to other places
17 to get the form, and it would have to be made available.

18 Senator Byrd: They would not even know about it? How
19 would they know to go to the Post Office to pick up 1040H?

20 Mr. Shapiro: Depending on when the Congress passes the
21 legislation and when the forms are mailed out, if it were early
22 enough a notice could be sent to each taxpayer in the materials
23 that are sent.

24 I do not know that that can be done. It depends on the
25 timing and it depends on the administration's mailing,

1 subscription.

2 It is pretty close to November right now, and the bill
3 will not get to the Floor until November. By the time it is
4 passed, it will be December.

5 It seems to me that the Committee ought to give
6 consideration to the problems that will be created and whether,
7 in fact, the people that we are trying to help will be helped
8 in 1979.

9 The Chairman: It can be done, can it not? It can be done
10 if you want to do it. Is that not right?

11 Mr. Shapiro: It can be done. There will be
12 administrative problems.

13 The Chairman: It will not be that complicated. If a
14 fellow is filing his own tax return they will stuff something
15 in there and say you may be entitled to a tax credit for
16 heating oil and if you are, you will have to get the form 1040H
17 and fill that one in.

18 If you are one of those people who goes to a tax preparer,
19 to an accountant, H&R Block or Sears or whoever does that,
20 those people have that 1040H form right there and they will ask
21 you, how did you heat your home? Did you do it with fuel oil
22 or propane?

23 If you did you have a credit coming. We will use the
24 1040H. I happen to have it right here.

25 He will fill that one out, and that will be it.

1 Most people's returns are prepared by somebody. For those
2 people, it is not going to be any problem. In my part of the
3 country, it is not going to be a problem anyway because
4 precious few people use heating oil. Practically nobody.
5 Maybe if you use a little propane.

6 99 percent of the people will not be claiming it, so in
7 the areas where you have the high heating costs they will be
8 claiming it. You will have the form, and you will have it up
9 there.

10 You know, you will have it in Virginia. You will have the
11 form there in Norfolk, places like that. They will have it and
12 they will just put it in.

13 Mr. Baucus?

14 Senator Baucus: Mr. Chairman, I would like to figure out
15 some way to work out some of the regional discrepancies that
16 Senator Gravel is talking about. Let me give you a couple of
17 examples how the supplies to the northwest, the northern tier
18 states.

19 In my state of Montana, 60 percent of the households
20 utilize natural gas. Only 12 percent heating oil, about 12
21 percent propane. The rest is assorted and mixed.

22 The trouble is natural gas prices, because we are so
23 dependent on Canada for natural gas, are increasing at the same
24 rate that heating oil prices have increased in the northeast.
25 For example, in 1978, the percentage increase to retailers

1 for consumers over the prior year was a 12 percent increase; in
2 '79, an increase over the prior year of 23 percent. In 1986,
3 it is going to be about an average of a 30 percent increase
4 over the prior years in gas prices and they are going up.

5 The reason they are going up is because Canada as well as
6 Mexico -- in this case, Canada is pegging its price of natural
7 gas to number two heating oil, which is going up because of an
8 OPEC decision so in a real sense, natural gas prices are going
9 up because of OPEC more than they are because of any other
10 legislation that Congress has passed, or not passed, in the
11 last several years.

12 I am wondering if we could find some way to take care of
13 Minnesota, Montana, and some of the other states which are so
14 dependent on natural gas, particularly where the prices are
15 going up at the same rate -- in fact, higher than heating oil.

16 The problem is that staff tells me on a national basis,
17 natural gas prices have not increased that much more than the
18 rate of inflation. This gets to the old problem of national
19 averages versus regional experience. I do not know.

20 But if we could figure out a way in some sense -- I do not
21 know what it would be. I am not asking for perfect justice,
22 but rough justice in our region of the country. That would be
23 a lot fairer.

24 Senator Gravel's point is certainly well taken with
25 respect to our part of the country.

1 Senator Durenberger: If the Senator would yield?

2 Senator Baucus: Certainly.

3 Senator Durenberger: I do not think it would be that
4 difficult. In a lot of this kind of computation, it can be
5 done by the gas companies involved. It is not a burden on
6 owners, renters, or those claiming the credit. Also, the areas
7 served are well-defined and I do not know if the numbers are
8 that large, Mr. Chairman.

9 I indicated the total natural gas users in Minnesota are
10 622,000. Of that, only 60,000 in the northern third of the
11 state use, or have to use, Canadian natural gas.

12 We are not talking about large numbers of people, but we
13 are talking about large discrepancies within a state. In my
14 state, people using Canadian gas are paying 50 percent more
15 than the people in the southern two-thirds of the state to get
16 the same btu's. What we are doing if we do not give them some
17 kind of break is forcing them away from natural gas, which we
18 want them to use, into a more expensive alternative. The only
19 other alternative is oil.

20 I do not think it would be difficult to accomplish. There
21 is not a mix between domestic and Canadian users. The utility
22 areas are well-defined.

23 Senator Gravel: It should be kept in mind that you may
24 have a bad year in natural gas and a light year in the price
25 increase of fuel oil. You may have a bad year in fuel oil and

1 not natural gas.

2 Right now, we are facing a bad situation on fuel oil, but
3 all energy has gone up. If the goal is to track all energy so
4 btu gas is paid, do you pay the same thing as you would pay
5 equivalent btu of heating oil? That is what we hope to get the
6 nation to. We have gotten away from that since '54 because we
7 skewed the price of natural gas cheap. This is going to
8 insulate it into the tax structure.

9 The Chairman: Here is the problem you are going to have
10 if you are going to apply it to gas, it seems to me. All over
11 the whole country we have had policies which have helped to
12 hold the price of gas down for the household user. In my part
13 of the country, for example, we are selling a lot of gas for 30
14 cents a thousand or less, being put into the pipelines, and
15 that is being used to help hold the price down for people all
16 over the country which is about 10 percent of the price you
17 are talking about paying up on your end.

18 Senator Baucus: No, about 100 percent. We are paying
19 \$3.43.

20 The Chairman: The gas that we are putting into the
21 pipelines in Louisiana is 30 cents a thousand. It is less than
22 10 percent of what you are paying up there on your end.

23 Of course, that cheap gas is helping to hold the price
24 down. If we try to apply this credit to natural gas and you
25 include the word natural gas on here, for every person who has

1 the benefit of that credit, you are going to have 50 of them up
2 there complaining, wait a minute. Why do they take care of
3 that man's gas, give him a break, and do not do it for me?

4 And you will have -- I can just picture it on my end, all
5 these people talking about why do you do it for those people up
6 there in Minnesota or Montana? Why did you not take care of us
7 down here in Lousiana, our gas, because their price has gone up
8 too.

9 It looks to me like if you are going to extend it to
10 natural gas, everybody here will spend more time explaining why
11 this particular person did not get the benefit when somebody
12 else did. It will drive us out of our minds, once we put the
13 word "gas" on that form.

14 For example, mind you, as far as I am concerned, I am not
15 expecting any benefit out of this. I am just asking to be
16 permitted to survive, not to have to go and try to explain that
17 to every constituent I have got why, when it says gas on the
18 form, he is not entitled to participate.

19 Senator Durenberger: Let's call it the imported natural
20 gas.

21 Senator Gravel: How do I explain to the Eskimos up in the
22 northwest part of Alaska that pay, and have been paying for a
23 number of years, over \$1 a gallon for home heating oil, over
24 \$100 for a bottle of propane, and whose per capita income is
25 \$3,500 to \$4,000, how do I explain to them all of a sudden now,

1 by and large, they are not going to do these computations. How
2 do I explain to them?

3 The Chairman: I am willing to do something about the
4 Alaskan situation.

5 Senator Gravel: We did it.

6 The Chairman: We will try to take care of Alaska.

7 Senator Gravel: We fixed it so these people will not be
8 able to acquire any wealth to help pay for the high cost of
9 energy because there will not be anybody up there interested in
10 exploring their lands. We have already taken care of them.

11 All I want to do now, I want to explain to them, now that
12 we have taken care of them, why is it that we want to hand out
13 a check to these other people when it is just as cold for an
14 Eskimo as it is in Buffalo.

15 It hurts. It is cold. It is cold.

16 I submit we do not have them dying wholesale because it is
17 cold.

18 Senator Baucus: Also --

19 Senator Gravel: It is colder in Montana, many parts of
20 it.

21 Senator Baucus: How do we explain in Montana why New
22 Englanders get a tax credit for their increased utility costs
23 while Montanans do not?

24 Senator Gravel: How do you explain to the New Englander
25 across the street from another New Englander that Charlie here

1 gets a tax credit and Joe cannot get a tax credit?

2 Senator Chafee: Mr. Chairman, Senator Gravel keeps
3 raising that point about the people across the street from
4 each other, one who has gas and one who has oil. The point is
5 we are here because we decontrolled the price of oil and
6 therefore, the price of oil has risen at a very precipitous
7 rate.

8 That is what we are trying to take care of.

9 The people who heat with natural gas, natural gas, the
10 price of it is subject to decontrol. It is not completely
11 decontrolled until 1985, as you know. That is a separate
12 subject.

13 We all agree we are for the decontrol of the price of oil.
14 Now we are going to take care of some of the people who have
15 been steeply hit by that, people who are using gas and are not
16 affected by the decontrol of the price of oil.

17 Senator Gravel: We have people who are steeply hit, too.

18 Senator Baucus: If the Senator would yield at that point

19 --
20 Senator Chafee: Your point about the price of gas in the
21 northern tier states there being tied to the price of OPEC oil
22 there is a valid one. It makes some sense.

23 Senator Baucus: That is what has happened.

24 Senator Chafee: I do not understand the point that the
25 Senator from Alaska constantly is making. He chose New England

0000071003

1 in his last illustration, two people across the street. How
2 can we explain to one that the other -- well, it is very
3 simple. They will understand.

4 Senator Gravel: It will not be simple when you have to
5 explain it. I will tell you. When you give a tax credit to
6 one person on one side of the street and the other guy on the
7 other side of the street does not get it -- you can go ahead
8 and try and have fun at it.

9 Senator Chafee: That is a risk I am very willing to
10 undertake.

11 Senator Baucus: I am not asking you to take his reason.
12 Just take mine.

13 Senator Talmadge: Mr. Wallop?

14 Senator Wallop: This whole dialogue brings up something
15 that I think we are losing sight of. One of the purposes of
16 decontrol was to bring to the attention of the public, and the
17 American people, true cost and a worldwide concept of energy.

18 For us to engage in some kind of a means by which we are
19 going to pay more but we are going to pay more but we are going
20 to give you a lot of it back is to miss the point of trying to
21 create a conservation ethic in somebody's head about the true
22 cost of energy.

23 I do not like paying this a bit. The only reason I
24 brought up the propane, I really do not like the tax credit I
25 get at all, but you have to be sensible and equalize when there

1 are cases of apples, and not apples and oranges. I wonder if
2 our real job is not to take care of the poor. I think
3 everybody agrees that they are victims of fifteen years of bad
4 policy, that they were led to believe it was all right and that
5 energy was endless and could be supplied and could always be
6 subsidized.

7 Those who are productive in the world, earning money, it
8 is difficult, it is hard. It hurts. It is supposed to. This
9 puts us on a realistic basis with the rest of the world and
10 what they have to function with and functioning in their lives
11 of making economic judgments.

12 Frankly, we are going to have to shift around to provide
13 tax credits for people who can pay, but will have to give up
14 something else -- a motor home, or an extra week-end on the
15 shore, or something, is the whole point of decontrol in the
16 first place. It was to do two things: to free up capital for
17 the exploration and production of domestic resources and to
18 create, in the public's mind, the sense of urgency of the
19 energy crisis we are facing.

20 If we do nothing but alleviate it and alleviate it
21 endlessly out to people who will pinch but who can afford it,
22 I think we are making a mistake and do not think we are
23 achieving the goals as quickly as they ought to be achieved in
24 terms of what this whole exercise is about.

25 The Chairman: Mr. Moynihan?

1 Senator Moynihan: Mr. Chairman, let me respond in the
2 spirit that Senator Wallop speaks, which is reasoned and
3 moderate and sensible, to say yes, the large purposes of this
4 legislation are what he described, but there is also a question
5 of social equity here.

6 We have taken one measure after another. We have been
7 involved in a huge transfer of wealth from those people who use
8 oil to those people who own oil and there are many more of the
9 former and it is something that does not set well with a
10 democracy, but we are doing it because of the economic
11 constraints he properly described.

12 We have, however, decided ---and we have also taken, in
13 terms of conservation measures, provided incentives for rather
14 exotic phenomena, solar panels and things like that which will
15 be the gadgetry of the upper middle class, you may be sure, and
16 we have looked after, in a legitimate way, the dependent
17 persons on the Social Security and welfare system and this is a
18 proposal simply to provide working Americans a little extra, a
19 little something to ease the blow. It cannot be perfectly
20 adjusted. We do not know how to do that.

21 Natural gas will not work. Propane, I think, we can add.
22 But it does not do much. It just says to a large number of
23 people, the people who work in factories and mines and pump gas
24 for a living and drive those oil trucks, it says it is a little

25 Senator Wallop: May I respond? I agree with what you are

1 saying. The point I was trying to make was not by way
2 of lowering this tax but if there was not, in fact, a better
3 way to spend this money. I hear what you are saying. I know
4 where you are trying to go, but where there are people, such as
5 any Senator, most people -- it is going to bite. It hurts a
6 little bit to pay that extra, but we will get along.

7 But if we could find some lower limit on there to ease
8 this blow -- I do not disagree with the idea of easing it, but
9 you are not going to ease it by subsidizing people out of any
10 concern for what their energy bill is.

11 Senator Durenberger: Mr. Chairman, I would like to bring
12 this to a vote if we can. I just want to respond quickly to
13 Sentor Moynihan: natural gas will work. We have just chosen
14 not to make it work because we do not see some of the social
15 equity, or the funds are so small that we think we will
16 dissipate other areas of greater need.

17 The Senator from Montana and I are simply trying to make
18 the argument that the same basis of social equity, whatever it
19 is that applies to middle distillates, home heating oil,
20 propane gas, applies to Canadian imported natural gas, because
21 it is tied directly to the world price of oil via the Canadian
22 and Mexican gas deals.

23 Administratively it is very simple. It is not hard to
24 define the people who are eligible. It is a matter of just
25 finding a name so that people in other domestic gas states are

1 not confused.

2 The Chairman: Senator, if you want to do business that
3 way then you have to get involved in what we do down in our
4 part of the country. For example, we are in there right now to
5 let us have as much of that Mexican gas as we can get. They
6 are charging \$3.60 for it. Louisiana said we will pay any
7 price. Whatever price you agree to, we will pay the price. We
8 will sell gas for 30 cents a thousand and buy it for \$3.60, or
9 whatever it takes to buy the gas because we need the gas.

10 We see our gas being taken away from us to deliver to
11 somebody else. We are not crying about it, except that we know
12 we are going to be needing gas.

13 All right. We will pay the price to get it, the same
14 price you are talking about. We say, give us all you can let
15 us have at that price and we will mix it with whatever we have
16 and we will try, the lower prices we have within the state. We
17 will do the best we can to protect the consumer, but we need
18 the energy.

19 We will pay for it ourselves and we are exporting four
20 btus for every one we keep in the state.

21 We cannot very well explain in our part of the country how
22 we are willing to pay the price and not asking for any
23 advantage and then proceed to go vote to say, but on the other
24 hand, if you are paying that price somewhere else, we will just
25 give you the tax credit so you will get a tax advantage, and we

1 do not.

2 Senator Baucus: Mr. Chairman, on that point, why would it
3 not make sense that Louisianans would get the same treatment as
4 would northern tier residents? That is combine the total price
5 to Louisiana consumers?

6 The Chairman: Senator --

7 Senator Baucus: Above inflation.

8 The Chairman: Senator, that would be so complicated we
9 would never figure it out.

10 Perhaps what we buy out of Mexico winds up being about 5
11 percent of what the fellow was paying. By the time you get
12 through mixing it with the price and come out on the far end it
13 gets so complicated it would mean so little, it would not be
14 worth fooling with. It just means complexity, to confuse the
15 guy and make him mad.

16 The Chairman: Yes, sir.

17 Senator Dole: I am wondering, Mr. Shapiro, whether we are
18 hung up on trying to define fuel. Could we not just go back
19 and change the formula and base the credit on what we tried to
20 base the credit on yesterday, degree days, some formula of that
21 kind where you take care of the Montana problem, Minnesota
22 problem, and also cover heating oil within the formula.

23 Now, we cannot put in natural gas, we are told. Since we
24 cannot put in natural gas we deprive some who have had big
25 increases -- in fact, I am told that Montana, for example, has

1 had a big increase in energy expenditures of \$200 or \$300 in
2 the past few years.

3 Is there some way we could go back to the formula, the one
4 we had yesterday or some modification of that to do essentially
5 the same thing as Senator Moynihan wants to do but somehow
6 bring in ---base it on fuels, base it on another formula?

7 Mr. Shapiro: You mean put it in the form of tax credits?
8 There may be questions raised as to whether or not you have
9 formulas that come out that affect people differently. It is
10 whether or not it is constitutional. It depends on how we put
11 it together.

12 You can clearly say that everybody who heats their home
13 with a certain type of fuel are eligible, but to pick out
14 people that may be treated differently based on certain
15 formulas, they have to set the formulas together. I am not
16 sure of that.

17 Another alternative you can consider, it provides less
18 revenue, is if you are having a question as to what kinds of
19 fuels to have, do not say the fuel -- anyone who has increases
20 in energy above a certain level, then it causes more
21 administrative problems. If you include more people into it,
22 it just means that each family would get less. So more people
23 would be involved with any particular family getting less, but
24 you will not have that controversy as to which fuel is
25 involved.

1 Senator Wallop: There is one other thing, Mr. Chairman,
2 we can consider, rather than the trageted relief, Senator
3 Moynihan suggests people who are affected by this -- everybody
4 in America is affected in one way or another by it -- this
5 would be an appropriate time to give everybody a general tax
6 cut instead of for their fuel oil.

7 Then you would really hit the working people you are
8 talking about.

9 Senator Dole: We will have a proposal like that later on.

10 The Chairman: Well, if you are going to try to put
11 natural gas in here, then you are going to have to go back and
12 look at electricity. People use electricity and are paying
13 more than any of them because you are taking the oil and the gas
14 and using that to generate electricity. You have to go for
15 those people and then you have to say well, hold on just a
16 minute. The coal price might have gone up. Put the coal
17 people in.

18 Not only do you very much dilute what you are talking
19 about, you get so far away from where we started out it just
20 tends to say, well -- what Senator Wallop says. Let's have a
21 general tax cut and be done with it.

22 Senator Moynihan: Mr. Chairman, may I say that I would
23 like to suggest that we extend this to 1982 which would have
24 the same period of time as our other low-income provisions and
25 then why do we not vote and see whether we agree.

1 We can always rethink it, of course.

2 Senator Danforth: Mr. Chairman, may I just ask, are we
3 still talking about \$30 billion all told, not something more
4 than \$30 billion?

5 Senator Moynihan: No.

6 Senator Danforth: So in so far as we are talking about a
7 tax credit, we are talking about a total of \$10 billion for the
8 tax credit over the eleven-year period of time, right?

9 Senator Moynihan: That has been our goal.

10 Senator Danforth: In so far as we are debating propane,
11 natural gas, other things to be added, that attenuates the \$10
12 billion?

13 Senator Moynihan: That is right.

14 Senator Danforth: So it is not adding on to the \$10
15 billion. This is all. This is everything that we do by way of
16 tax credits. It must be made to fit within the \$10 billion.

17 Senator Moynihan: That is not for me to say. It is my
18 understanding.

19 Senator Danforth: That is what we agreed to the other day
20 when we agreed to the \$30 billion.

21 Senator Moynihan: I think that is what we agreed to. You
22 would have to ask other members.

23 Senator Danforth: There are three possible approaches:
24 one, we are increasing the \$30 billion --

25 Senator Moynihan: That is not my purpose.

1 Senator Danforth: Another is that we are further reducing
2 the amount that the truly poor get.

3 Senator Moynihan: That is not my person.

4 Senator Danforth: That the truly get, \$30 billion or \$20
5 billion. Your position is that it should be kept at \$20
6 billion but we are not going to reduce that even below \$20
7 billion to provide for all of these additional.

8 Senator Moynihan: That would not be my purpose, no.

9 Senator Danforth: The question is the \$10 billion that is
10 going to be used for persons who make up to \$22,000 a year,
11 that that is going to be used for the users of oil and propane
12 and now the question is whether natural gas it to be added to
13 that.

14 Senator Moynihan: I am just suggesting that we vote for
15 oil and propane, that we have a vote on oil and propane.

16 Senator Dole: If the Senator would yield?

17 Senator Danforth: Yes.

18 Senator Dole: There was some strange interpretation by
19 the Wall Street Journal this morning that the Republicans were
20 questioning the tax credit so we would not have to increase
21 taxes on oil companies. I do not know where that came from.

22 Senator Danforth: My position all along, Mr. Chairman,
23 has been the opposite of that. The administration's proposal
24 was \$24 million. Our view was that should be \$30 billion but
25 that it should be targeted to people who were in need and that

1 when you take the money, the \$30 billion, instead of giving it
2 the people who were poor and you take a third of it, that is
3 the issue here, taking one-third of that money and taking it
4 away from the people who are the really poor people and giving
5 it to people with incomes of up to \$22,000 that that is simply
6 deluding what the people who are poor should be getting.

7 The Chairman: I think your views on that are amply clear.
8 Why do we not vote on it?

9 We are voting on the Moynihan proposal to apply it --
10 which would include propane as well as include fuel heating
11 oil.

12 Mr. Shapiro: One thing I would like to clarify, what
13 Senator Moynihan said about 1982. This is consistent with the
14 other proposal, the calendar year and the other fiscal year.
15 '81 was chosen to compare that three year period.

16 Senator Moynihan: Fine.

17 Senator Dole: In the spirit of bipartisanship, there are
18 probably others who have an interest in this besides Senator
19 Moynihan:

20 Senator Moynihan: Yes.

21 Mr. Shapiro: The percent is not yet determined. It is
22 approximately 40 percent based upon what you had done for fuel
23 oil. In effect you added propane. It is my impression the
24 Committee wants to keep it in the same restraints of \$1
25 billion, so that 40 percent may come down a little bit. It is

1 expected much. That is still not a firm percentage yet.

2 The Chairman: Not an exact percentage. You would adjust
3 the percentage to try to make it work to the figures. Is that
4 what you would do?

5 Mr. Shapiro: We will wind up with the exact percentage.
6 We do not know what it is because you have added propane. The
7 idea is to have it fit within a \$1 billion revenue estimate.

8 Senator Moynihan: Mr. Chairman, may I make something
9 emphatic? Mr. Shapiro, for shorthand purposes, has been
10 referring to this sheet as something using my name. This is a
11 proposal that Senator Dole has made, Senator Ribicoff has made,
12 Senator Chafee has made. This is a proposal that I think a
13 majority of this Committee has made.

14 The Chairman: All of you who want to join as cosponsors
15 can put your name on it. I will vote for it, but I am not a
16 cosponsor.

17 Let's call the roll then and see how you will vote.

18 Mr. Stern: Mr. Talmadge?

19 (No response)

20 Mr. Stern: Mr. Ribicoff?

21 Senator Moynihan: Aye by proxy.

22 Mr. Stern: Mr. Byrd?

23 (No response)

24 Mr. Stern: Mr. Nelson?

25 Senator Moynihan: Aye by proxy.

1 Mr. Stern: Mr. Gravel?
2 (No response)
3 Mr. Stern: Mr. Bentsen?
4 The Chairman: Aye by proxy.
5 Mr. Stern: Mr. Matsunaga?
6 (No response)
7 Mr. Stern: Mr. Moynihan?
8 Senator Moynihan: Aye.
9 Mr. Stern: Mr. Baucus?
10 Senator Baucus: Aye.
11 Mr. Stern: Mr. Boren?
12 Senator Boren: No.
13 Mr. Stern: Mr. Bradley?
14 Senator Moynihan: Aye by proxy.
15 Mr. Stern: Mr. Dole?
16 Senator Dole: Aye.
17 Mr. Stern: Mr. Packwood?
18 (No response)
19 Mr. Stern: Mr. Roth?
20 Senator Roth: Aye.
21 Mr. Stern: Mr. Danforth?
22 Senator Danforth: No.
23 Mr. Stern: Mr. Chafee?
24 Senator Chafee: Aye.
25 Mr. Stern: Mr. Heinz?

1 (No response)

2 Mr. Stern: Mr. Wallop?

3 Senator Wallop: No.

4 Mr. Stern: Mr. Durenberger?

5 Senator Durenberger: Aye.

6 Mr. Stern: Mr. Chairman?

7 The Chairman: Aye.

8 Eleven ayes and three nays and we will let the absentees
9 record themselves. The motion is agreed to.

10 Senator Durenberger: Mr. Chairman?

11 The Chairman: Yes.

12 Senator Durenberger: May I move to add to the Moynihan
13 proposal imported natural gas for the tax credit proposal?

14 Senator Dole: What is that?

15 Senator Durenberger: Canadian and Mexican.

16 The Chairman: Let's vote on it.

17 Senator Boren: If I could ask a question first before we
18 vote on it, does the staff have any figures of what the
19 percentage increase in utility bills have been by type over the
20 last couple of years? I am in favor of helping anybody who has
21 had a very steep increase in price, but I just wonder if it is
22 accurate.

23 I know that heating oil has probably gone up more than
24 anything else. Have not some others gone up very substantially
25 at the same time?

1 We are really getting into inequities. It seems to me if
2 we want to ease it for anybody who has had a 50 percent
3 increase in the cost of other fuel, whatever, electricity, gas,
4 anything else, I just wonder, are we tracking along fairly in
5 terms of what the increases have been?

6 Mr. Shapiro: A little bit earlier we discussed some of
7 the increases that are published in the monthly Energy Review
8 put out by the Department of Energy dated September, 1979. It
9 gives you the wholesale price. We find in that that the
10 averages for example for oil has gone from a 46 percent average
11 in '77, 39 percent average in '78.

12 Senator Boren: Increase.

13 Mr. Shapiro: The average selling price is 49 cents. I am
14 talking about cents.

15 In June, 1979, oil was 69.9 cents per gallon. That does
16 not include the full impact of some of the increases since
17 then.

18 For propane --

19 Senator Boren: A 50 percent increase in the twelve-month
20 period roughly.

21 Mr. Shapiro It is in that range.

22 Senator Boren: In that range.

23 What is propane?

24 Mr. Shapiro: We do not have the exact percentages. For
25 example, the Kansas Gas Association, that shows us -- let me

1 say what the book says. The book shows that in 1977, the
2 average price was 25 cents a gallon for propane. In 1978, the
3 average price was 24 cents. It came down a penny.

4 In May of 1979 it was 24.2 cents.

5 What the Kansas Gas Association shows, in 1977 where the
6 average was 25 cents, Kansas shows 27 cents, or two cents above
7 the average. In 1978, where the average was 24 cents, Kansas
8 Association says 22 cents. It was two cents below the average.

9 Right now they say that the price is 36.5 cents.

10 Senator Boren: That has gone up. That is 50 percent to
11 60 percent.

12 Mr. Shapiro: That is right.

13 Senator Boren: What has happened to natural gas? Do you
14 have it broken down between imported natural gas and regular
15 natural gas? I know that natural gas utilities have had sharp
16 increases and electricity -- I think we need to know exactly
17 what has happened to all of these.

18 Mr. Shapiro: For 1977 the average price, cents per
19 thousands cubic feet, is 79 cents.

20 Senator Boren: For the consumer now?

21 Mr. Shapiro: I am sorry. This is the wellhead price.
22 Let me go to the consumer. they do not have an average here
23 for the consumer. I will just pick out the last month of the
24 year 1976. In December it was -- it is \$2.08 per thousand
25 cubic feet. In December 1977 it was \$2.30. December, 1978,

1 \$2.90.

2 Senator Boren: It went from \$2.37 to \$2.90. That is
3 about a 30 percent increase, right?

4 A 20 percent on all natural gas, composite?

5 Mr. Shapiro: Average retail price for natural gas sold to
6 residential customers for heating use.

7 Senator Boren: That would include both imported and
8 domestic, I presume?

9 Mr. Shapiro: I think it does.

10 Senator Boren: That is a sharp increase. That is a sharp
11 increase. That is what I am wondering. I am certainly not
12 objecting to anybody that is experiencing a 30 or 40 or 50
13 percent increase in what they have to pay, but it does not
14 really making any difference.

15 We are having to convert from natural gas to other forms
16 of generation to generate electricity in Oklahoma, for example.
17 That is going to cost more. The cost conversion will cost more
18 than the book value of all the utilities in the state right
19 now, something like \$6 billion or \$7 billion.

20 It seems to me -- I know the heating oil is in a crunch.
21 I am perfectly willing, but I think we ought to look at anybody
22 who has experienced a 30 percent to 40 percent increase. I do
23 not care what they use.

24 Those are the people who ought to have it eased. That is
25 the question I asked.

1 Senator Baucus; If I could add to that point, I supported
2 the heating oil, propane. That does not do much for my part of
3 the country but the people who use heating oil should get the
4 break. All I ask is what is fair. Heating bills are going up
5 due to OPEC. People who experience sharp increases in their
6 utility bills should get some help.

7 Senator Wallop: If I could ask staff a question on
8 Mexican gas, is there any instance where Mexican gas is
9 delivered directly to customers?

10 Mr. Shapiro: I do not know. Is there anybody here from
11 DOE who knows?

12 The Chairman: We should wait and try to find out.

13 Senator Wallop: Is there anybody from DOE here who may
14 not something -- or about this.

15 The Chairman: My impression about the Mexican gas is what
16 they are doing is using that to supplement the other supplies.
17 They just add that on to whatever gas they have available to
18 them.

19 We are not getting it yet. When we do get it, we will
20 just add it into the gas they have available and they will
21 crank that into the rate structure.

22 My impression is that that will only be about 1 percent or
23 2 percent. I do not think Mexican gas should be in there.

24 Senator Wallop: That was the point I was making, Mr.
25 Chairman.

1 The Chairman: If we can get some, I do not think it
2 should be in.

3 Senator Chafee: Those Canadian users in Minnesota and
4 other people who take the direct pipeline shot from Canada and
5 the sole price of that gas based on OPEC -- a different thing
6 from the blended prices.

7 Senator Boren: We discussed this sort of a while ago, is
8 there any way of triggering. For example, we trigger
9 unemployment benefits. Is there any way to set a trigger?
10 Anybody who experiences a 20 percent or more, or whatever the
11 figure ought to be increase, in the average utility rate per
12 unit in a twelve-month period of time, that they would qualify
13 for a credit that would be figured on this basis.

14 Would that be impossible to determine?

15 I suppose you would have the rates for every utility.
16 They are all regulated.

17 The Chairman: What you have now in the case of gas -- I
18 am not talking about the Canadian gas situation, that is
19 something new. As far as 95 percent of all gas users are
20 concerned, they have the benefit of old contracts and the
21 benefit of thirty years of regulation that has been used to
22 hold the price down.

23 It will be a long, long time before the advantage that
24 they get by holding down the cost of the producer on the one
25 hand and trying to pass the cost increases along to the

1 industry as against the consumer on the other, before that will
2 all be phased down.

3 Senator Boren: What I am thinking about, if the customer,
4 Arkansas and Louisiana Gas Company who burned natural gas in
5 their home, if they have experienced a 30 percent increase in
6 rate. They are being hit as hard as somebody who has
7 experienced from propane or whatever.

8 The Chairman: Here is the situation. In Louisiana, their
9 costs -- this is average energy expenditure, household by
10 state, 1977 against 1979 estimated. Louisiana went from 590 to
11 783. That is an increase of 35 percent over a two-year period.

12 Arkansas, it would be 627 up to 826. That is an increase
13 of 25 percent.

14 Oklahoma. Let's see how you make out over there,
15 according to those figures. 603 to 785.

16 Senator Boren: What has happened in Massachusetts or Rhode
17 Island?

18 The Chairman: In that case you have a 20 percent increase
19 but the cost of living has gone up almost that much in the same
20 two years, too.

21 Senator Boren: What has happened in Rhode Island, for
22 example, or in New York?

23 The Chairman: In Rhode Island, it has gone up from 846 to
24 1300.

25 Senator Boren: It went up substantially more.

1 The Chairman: That is a very big increase.

2 New York has gone up from 738 to 1121 and keep in mind now
3 they are ready to have another big jump. In other words, they
4 have had a 50 percent increase and they are getting ready to
5 have another big increase. That is the kind of thing that the
6 Senator is trying to do something about.

7 Shall we call the roll on including Canadian natural gas?
8 I think --

9 Senator Danforth: Mr. Chairman, let me ask, if I might, to
10 be clear on this, this would come out of the \$10 billion? It
11 is not an add on?

12 Senator Durenberger: That is correct.

13 Senator Danforth: Can that be computed so that does that?

14 Mr. Shapiro: You can compute it, but I am not sure I know
15 the answers as to whether or not a homeowner in all cases knows
16 where his gas is coming from. It may be -- I just do not know
17 the answer.

18 Senator Danforth: That is not the question I am asking.

19 The question is if it is our understanding that when we
20 put on natural gas, if we do put on natural gas, that it would
21 come out of the \$10 billion that we have, in effect, allocated
22 for tax credits, as opposed to increasing the total amount of
23 tax credits?

24 Mr. Shapiro: I had the assumption that the percentage
25 that is applied against the purchases would be reduced to

1 accommodate that amount, so it would not be increasing
2 revenues. I do not know if the Committee is desirous of
3 changing that, but that was my assumption.

4 The Chairman: Call the roll.

5 Mr. Stern: Mr. Talmadge?

6 (No response)

7 Mr. Stern: Mr. Ribicoff?

8 (No response)

9 Mr. Stern: Mr. Byrd?

10 (No response)

11 Mr. Stern: Mr. Nelson?

12 Senator Durenberger: Aye, by proxy.

13 Mr. Stern: Mr. Gravel?

14 (No response)

15 Mr. Stern: Mr. Bentsen?

16 The Chairman: No, by proxy.

17 Mr. Stern: Mr. Matsunaga?

18 (No response)

19 Mr. Stern: Mr. Moynihan?

20 Senator Moynihan: No.

21 Mr. Stern: Mr. Baucus?

22 Senator Baucus: Aye.

23 Mr. Stern: Mr. Boren?

24 Senator Boren: Aye.

25 Mr. Stern: Mr. Bradley?

1 (No response)
2 Mr. Stern: Mr. Dole?
3 Senator Dole: Aye.
4 Mr. Stern: Mr. Packwood?
5 (No response)
6 Mr. Stern: Mr. Roth?
7 Senator Roth: Aye.
8 Mr. Stern: Mr. Danforth?
9 Senator Danforth: Aye.
10 Mr. Stern: Mr. Chafee?
11 Senator Chafee: Aye.
12 Mr. Stern: Mr. Heinz?
13 (No response)
14 Mr. Stern: Mr. Wallop?
15 Senator Wallop: Aye.
16 Mr. Stern: Mr. Durenberger?
17 Senator Durenberger: Aye.
18 Mr. Stern: Mr. Chairman?
19 The Chairman: No.
20 Yeas are nine and the nays are three. The absentees can
21 record themselves. The motion is carried now.
22 Senator Danforth: Mr. Chairman I would like to move at
23 this point that we include electricity for the same reasons,
24 given for natural gas, also to come out of the \$10 billion.
25 Senator Dole: Imported electricity?

1 Senator Danforth: All electricity. It is produced, some
2 of it from burning oil, from using gas.

3 Senator Wallop: We are in a splendid year for attendance.

4 The Chairman: Call the roll.

5 Mr. Stern: Mr. Talmadge?

6 (No response)

7 Mr. Stern: Mr. Ribicoff?

8 (No response)

9 Mr. Stern: Mr. Byrd?

10 (No response)

11 Mr. Stern: Mr. Nelson?

12 Senator Moynihan: No by proxy.

13 Mr. Stern: Mr. Gravel?

14 Senator Moynihan: No by proxy.

15 Mr. Stern: Mr. Bentsen?

16 (No response)

17 Mr. Stern: Mr. Matsunaga?

18 (No response)

19 Mr. Stern: Mr. Moynihan?

20 Senator Moynihan: No.

21 Mr. Stern: Mr. Baucus?

22 Senator Baucus: Aye.

23 Mr. Stern: Mr. Boren?

24 Senator Boren: Aye.

25 Mr. Stern: Mr. Bradley?

1 Senator Moynihan: No by proxy.
2 Mr. Stern: Mr. Dole?
3 Senator Dole: No.
4 Mr. Stern: Mr. Packwood?
5 (No response)
6 Mr. Stern: Mr. Roth?
7 (No response)
8 Mr. Stern: Mr. Danforth?
9 Senator Danforth: Aye.
10 Mr. Stern: Mr. Chafee?
11 Senator Chafee: No.
12 Mr. Stern: Mr. Heinz?
13 (No response)
14 Mr. Stern: Mr. Wallop?
15 Senator Wallop: Aye.
16 Mr. Stern: Mr. Durenberger?
17 Senator Durenberger: No.
18 Mr. Stern: Mr. Chairman?
19 The Chairman: No.
20 Senator Moynihan: Mr. Chairman, Senator Ribicoff should
21 be voted no by proxy.
22 Mr. Stern: Mr. Ribicoff, no.
23 The Chairman: Four yeas and nine nays.
24 As of now, the motion fails. We will let the absentees
25 record.

1 Senator Danforth: Mr. Chairman, it is my understanding
2 that the cost of wood has gone up very substantially recently.
3 Does anybody have the figures on that?

4 Senator Wallop: If you have seen that, you should see
5 what buffalo chips are doing.

6 Senator Danforth: Am I correct? The cost of wood has
7 gone up very considerably? It has, has it not?

8 Does anybody know? Is there anybody here from the
9 Department of Energy or Treasury or the Joint Committee who can
10 give me the answer to that?

11 Senator Dole: I have been to New Hampshire. I can give
12 you the answer. It has gone up, tripled.

13 Senator Danforth: Mr. Chairman, for all of the previous
14 reasons, and again on the assumption that it will come out of
15 the \$10 billion, I would like to move to include wood.

16 The Chairman: How about a fellow who is using his own
17 wood on his own property?

18 Senator Danforth: You could use the same formula, you
19 see. It has to do with the cost of wood versus the CPI.

20 Senator Moynihan: Mr. Chairman?

21 The Chairman: Yes, sir.

22 Senator Moynihan: Once again we find a pattern of
23 opposition to our proposal which is one which is look after the
24 upper middle classes and their charge is the poor. The people
25 who pay for wood in the overwhelming number are people in

1 suburban houses with fireplaces around which they gather for
2 festive evenings.

3 I have no intention of subsidizing the cocktail hours of
4 the rich.

5 Senator Danforth: Mr. Chairman since all those people
6 that Senator Moynihan was talking about make over \$22,000, they
7 would not be covered.

8 The Chairman: Call the roll.

9 Mr. Stern: Mr. Talmadge?

10 (No response)

11 Mr. Stern: Mr. Ribicoff?

12 Senator Moynihan: No, by proxy.

13 Mr. Stern: Mr. Byrd?

14 (No response)

15 Mr. Stern: Mr. Nelson?

16 Senator Moyihan: No by proxy.

17 Mr. Stern: Mr. Gravel?

18 (No response)

19 Mr. Stern: Mr. Bentsen?

20 The Chairman: No by proxy.

21 Mr. Stern: Mr. Matsunaga?

22 (No response)

23 Mr. Stern: Mr. Moynihan?

24 Senator Moynihan: No.

25 Mr. Stern: Mr. Baucus?

1 Senator Baucus: No.
2 Mr. Stern: Mr. Boren?
3 Senator Boren: No.
4 Mr. Stern: Mr. Bradley?
5 (No response)
6 Mr. Stern: Mr. Dole?
7 Senator Dole: No.
8 Mr. Stern: Mr. Packwood?
9 (No response)
10 Mr. Stern: Mr. Roth?
11 (No response)
12 Mr. Stern: Mr. Danforth?
13 Senator Danforth: Aye.
14 Mr. Stern: Mr. Chafee?
15 Senator Chafee: No.
16 Mr. Stern: Mr. Heinz?
17 (No response)
18 Mr. Stern: Mr. Wallop?
19 Senator Wallop: No.
20 Mr. Stern: Mr. Durenberger?
21 Senator Durenberger: No.
22 Mr. Stern: Mr. Chairman?
23 The Chairman: No.
24 One yea and eleven nays.
25 The amendment is not agreed to.

1 Well, should we turn to the next thing? We can probably
2 come back this afternoon also. We can talk about these tax
3 credits.

4 Senator Dole: Senator Packwood is not here.

5 Senator Wallop: Mr. Chairman, I would be prepared to talk
6 about the tax credit, the affirmative commitment number nine
7 and the staff proposals on that.

8 The Chairman: What?

9 Senator Wallop: The affirmative commitments section where
10 businesses which have made affirmative commitments to purchase
11 --

12 Mr. Shapiro: Senator Wallop is referring to the
13 reconciliation proposal on residential and business. He is
14 referring to the sheet that includes business credits, item
15 number nine on that.

16 Senator Dole: I wonder if we might wait until Senator
17 Packwood is present. I think there are some other matters.
18 The gasohol tax exemption is one that we could take care of.
19 The prohibition of subsidy of imported alcohol --

20 Mr. Shapiro: That is included in the list of
21 reconciliations. It includes all of those items.

22 The gasohol is one of the items that Senator Packwood had
23 and is also in the reconciliation as well.

24 The Chairman: What is the staff recommendation about the
25 gasohol tax credit.

1 Mr. Shapiro: The gasohol credit is to eliminate the
2 present exemption from tax. However, to replace that with a
3 credit. The reason for that, the reason you did a 4 cent
4 refund, as long as they used 10 percent gasohol, there is no
5 incentive for anyone to use more than 10 percent since they do
6 not benefit.

7 So what the recommendation is to eliminate what you did
8 last so you do not get an exemption up to 10 percent but to
9 give a credit that could go as high as 40 cents per gallon.

10 If somebody uses 20 percent alcohol, in effect they get 8
11 cents where today they only get 4 cents, to revise it and to
12 make it more of an incentive to use more gasohol.

13 Senator Dole: Also to not deprive the states of certain
14 revenue as you do it. With the tax exemption, as I understand
15 it, some states are losing road revenue funds.

16 Mr. Shapiro: Are you talking about the question of the
17 Highway Trust Fund aspect? Are you talking about the state
18 revenues because of its tax?

19 Senator Dole: I am talking about the trust fund.

20 Mr. Shapiro: This money does go into the Highway Trust
21 Fund so it would mean that it would come out of the Highway
22 Trust Fund. The question is, do you want all of it to come out
23 of the Highway Trust Fund, or 4 cents a gallon to come out,
24 rather than anything more than that?

25 Senator Dole: The only reason I raise it -- I will get

1 the acts. I saw a note in the Wall Street Journal last week
2 where the state of Iowa had lost \$11 million in highway funds
3 because of the gas tax exemption, the gasohol exemption we had
4 written into the law a couple of years ago.

5 Mr. Shapiro: You are talking about the one written in
6 last year. This has come under the Highway Trust Fund. Let
7 us look at the extent of that. It may be that it is intended
8 to apply. I see the point you are making.

9 Senator Dole: The states would like to have the benefit,
10 but not use the benefits.

11 Mr. Shapiro: This is not necessarily for the states. It
12 is from the Highway Trust Fund. It is not available for just
13 the rest, not necessary for state use.

14 The point is, does this take money out of the Highway
15 Trust Fund? What you did last year clearly did, but the credit
16 we are talking about now is a different version. I do not
17 think it should come out of the Highway Trust Fund.

18 Senator Dole: The Treasury supports this new approach?

19 Mr. Lubick: Senator Dole, yesterday the Senate Energy
20 Committee voted to provide \$650 million over five years to
21 increase production of gasohol through loan guarantees,
22 Federally guaranteed price purchase agreements. We think that
23 is the best approach to this problem.

24 As between the other two approaches, the exemption from
25 the Highway Use Fund and the 40 cent per gallon credit, we

1 think that this is much superior. It solves the problem you
2 were concerned about. It has a great simplification as far as
3 regulation is concerned and it gives a credit for varying
4 amounts rather than just drawing the line at a 10 percent
5 mixture.

6 If you have a higher percentage of alcohol in your
7 mixture, this will operate to give you a better subsidy. That
8 seems to make a good deal of sense to us.

9 Senator Dole: Also, it has been called to my attention
10 about Brazil. They may sell 120 million gallons of fuel grade
11 ethanol to certain dealers in this country. Would they be
12 eligible for tax credits, or should they be eligible?

13 Mr. Lubick: We believe that it is not appropriate to
14 differentiate between domestic and imported production. First
15 of all, we think there is a serious gap problem if we limit the
16 subsidy to domestic production, but secondly, from the energy
17 point of view, which is the justification for this, it does not
18 make much difference what the source of supply is.

19 If the alcohol that you are using for this purpose --

20 Senator Dole: You do not think that it will discourage
21 the growth of this infant industry, the gasohol, the domestic
22 efforts?

23 Mr. Lubick: We do not think so, if the subsidy is there
24 of 40 cents per gallon. It is a rather substantial, rather
25 substantial subsidy.

1 Again, as I indicated, we would prefer the direct approach
2 in line with the program voted by the Senate Energy Committee.
3 It seems to us that is rather a substantial incentive to do the
4 job.

5 The short of that, we think there should be the 40 cent.
6 If you are going to do it, rather than the exemption, the 40
7 cent credit against the excise tax is a better way and that
8 should apply for energy purposes no matter whether it is
9 domestic or imported.

10 Mr. Wetzler: Senator Dole, I think the problem you are
11 referring to, the fact that when you import a dollar's worth of
12 alcohol you only save about 60 cents worth of oil, so imports
13 of alcohol from Brazil would actually hurt our balance of
14 payments because you would end up, for each gallon you import
15 you would end up, as a result of the subsidy, you would end up
16 saving 60 cents worth of oil, importing a dollar's worth of
17 alcohol, and we would end up making the balance of payments
18 worth by 40 cents, which is actually the opposite result that
19 you are trying to achieve elsewhere in the bill.

20 The other side of the story, there is a possibility,
21 giving a credit only for domestic production may violate GATT.
22 We are looking into that.

23 You know, you might want to decide to exclude imports,
24 provided that it does not violate the new trade agreement.

25 Senator Dole: I am just looking ast the U.S. Department

1 of Energy, the report of the Alcohol Fuels Policy Review dated
2 June of '79, page 23: limit the exemption to domestic
3 resources. Section 221 of P.L. 39518 that grants the current
4 excise tax exemption explicitly limiting the exemption to U.S.
5 resources, but the subsidy should primarily benefit U.S.
6 farmers and those who recover U.S. waste. Therefore, the
7 legislation to extend the excise tax exemption will also limit
8 the subsidy to alcohol as made from raw materials grown or
9 waste materials produced in the United States.

10 That is the recommendation.

11 Mr. Wetzler: Our revenue estimate on that assumes that
12 you include imports.

13 Senator Dole: You have to recognize that Brazil is really
14 subsidizing efforts in that country. I am just trying to
15 protect the domestic infant industries.

16 Do you think that can be done?

17 Mr. Wetzler: I think the only possible problem with it is
18 the fact that we have to examine the -- you know, we are not
19 trade experts and we would want to check with the Finance
20 Committee's trade staff to make sure that limiting it would not
21 violate the new trade agreement. I think it might be
22 embarrassing if, you know, shortly after you ratify the new
23 agreement, you immediately adopt something that violates it.

24 So would you let us check into that?

25 Senator Dole; Oh, yes.

1 I think it is a question that is going to be raised by a
2 lot of Senators and others who have suddenly taken an interest
3 in the production of gasohol.

4 Mr. Shapiro: I think when you focused on gasohol
5 initially -- and this is last year and the beginning of this
6 year -- you only focused on the domestic aspect of it, and our
7 revenue estimates only take that into account.

8 I think it is only recently that the potential increase of
9 imported gasohol has raised the question that would increase
10 the revenues as well as raise the questions that you have put
11 up to the Committee.

12 The Chairman: Senator Chafee?

13 Senator Chafee: Are they through with the gasohol
14 situation?

15 Senator Dole; As I understand it, you will supply us with
16 some information.

17 Mr. Shapiro: Yes. We will look now into some of the
18 aspects of that and see to what extent that has GATT
19 violations.

20 The Chairman: Mr. Chafee?

21 Senator Chafee: Mr. Chairman, I am a little bit confused
22 about the revenue projections now, particularly in light of
23 what I understand we adopted yesterday, which was increasing
24 the escalation rate of the price of old oil 2 percent as
25 opposed to 1 percent. Now, that must yield incredibly vast

1 increased amounts for the revenues for this windfall profits
2 tax fund, does it not?

3 Mr. Shapiro: The way it is right now is it goes up to \$77
4 billion, so it is an increase of about \$12 billion, and the
5 Committee has allocated approximately \$5 billion by increasing
6 the poor up from \$25 billion to \$30 billion.

7 Senator Chafee: So does that mean that the difference is
8 available to be allocated somewhere should we so choose.

9 Mr. Shapiro: That is a question that we do not have the
10 specific answer. Let me tell you some of the variables in that
11 regard.

12 The Budget Committee, as we understand it right now, is in
13 conference desperately trying to get an agreement between the
14 two houses and one of their problems is the deficit. And they
15 are also looking at these revenue estimates and they may revise
16 their revenue estimates, as we understand, to increase the
17 amount of revenue from the windfall profits tax to reduce their
18 deficit.

19 If they do that, if they use the same assumptions the
20 Committee uses that increases the amount, for example, the \$2
21 billion, if they increase that to \$3 billion that they want you
22 to pick up windfall profits tax, that does not allow you, under
23 their guidelines to increase your assumptions and then use the
24 money elsewhere, because they are trying to use the money to
25 use the deficit.

1 So that is a problem that this committee has to reconcile
2 what the Budget Committee has.

3 The Chairman: Well, before it is over with, we just might
4 want to change that estimate again. We might just want to take
5 a look at how much the base will be increased because of what
6 is happening right now, these announcements that you are
7 reading in the news about these different countries raising the
8 price, and before we report the bill you might be able to get
9 better information from the Department of Energy and from the
10 companies just exactly what they are paying for oil. If that
11 is the case, it may be just by raising the base that you get
12 about \$5 billion extra, so that would cover the cost of what we
13 just voted in this Committee today.

14 Mr. Shapiro: We are looking at that right now, Senator,
15 and we are trying to collect that information. What Senator
16 Long has reference to is the fact that the estimates included a
17 \$22 base price for oil and that was the price that the
18 uncontrolled U.S. oil is currently selling for.

19 As of right now, we have indications that the oil is
20 anywhere between \$28 or \$31 and \$32, in that range, but we are
21 collecting information as to what are U.S. refineries paying
22 for stripper oil, or newly-discovered oil that is uncontrolled.

23 And once that information is collected, we will be able to
24 revise our estimates as regarded the base price.

25 The Chairman: Is there something you want to dispose of

1 right now?

2 Senator Dole: I do not see anything on the list that
3 looks easy here.

4 The Chairman: Why do we not come back in here, let's say
5 at 2:30, and go from there.

6 (Whereupon, at 12:15 p.m. the Committee recessed, to
7 reconvene at 2:30 p.m. this same day.)

8 ' - - -

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

00000021043