

EXECUTIVE SESSION

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WEDNESDAY, SEPTEMBER 19, 1979

United States Senate,  
Committee on Finance,  
Washington, D. C.

The Committee met, pursuant to notice at 10:20 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Ribicoff, Nelson, Gravel, Bentsen, Moynihan, Baucus, Boren, Bradley, Dole, Packwood, Chafee, Heinz.

The Chairman: This Committee will come to order.

Mr. Stern: Mr. Chairman, the first item you asked to be brought up today was the nomination of Mr. Askew to be Special Trade Representative before you returned to the crude oil tax.

Senator Packwood: Wait a minute. I would like to look at the transcript of yesterday, Mr. Chairman, and I want to listen to the cassette. I want to go over what he said about homosexuals and the fact that, given the choice, if that is what he said, that he would have no hesitancy of firing, or not hiring, any of them, and I do not want that nomination to go to the Floor until I have had a chance to look at it.

The Chairman: Very well.

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1 Senator Ribicoff: I think that we could still vote whether  
2 we were for Askew or not and then hold up the reporting out.  
3 Without a Special Trade Representative, of course, when it goes  
4 to the Floor it will be a determining factor.

5 Senator Packwood: That is fine with me. I have not even  
6 had a chance to look at the transcript.

7 Senator Ribicoff: I think, you know, unless others feel  
8 that way.

9 The Chairman: I think that what Senator Ribicoff is  
10 suggesting -- and if Senator Packwood agree -- that is a good  
11 approach. We can vote on it. I would hope that we could vote  
12 on it with the understanding that we would not call it up until  
13 you are satisfied about the matter.

14 All in favor, say aye. .

15 (A chorus of ayes)

16 The Chairman: Opposed, no?

17 (No response)

18 The Chairman: The ayes have it.

19 Now, what is the next item?

20 Mr. Stern: Now you are back on the crude oil tax, Mr.  
21 Chairman. The pending matter was Senator Packwood, who raised  
22 it at the end of yesterday.

23 Senator Packwood; I am ready. I have a variety of  
24 analyses and charts. Have they been passed out yet?

25 Is that what you are passing out, Mike?

1 All right.

2 I might say while these are being passed, you are going to  
3 get a chart entitled summary analysis of the bill and in the  
4 righthand column you will see the cost per barrel savings on the  
5 last page, the sources of those estimates.

6 I would be the first to admit that I cannot conceivably --  
7 certainly I would not risk my political reputation on saying  
8 that those are exactly right. On the other hand, I think that I  
9 can fairly say that nobody else can dispute them. The  
10 methodology that I am willing to go through as to how we got  
11 there, and the Joint Committee has been briefed as to how we got  
12 there. It is a fair methodology.

13 How we got deep well heat pumps or solar energy, and you  
14 say how many are going to be installed in the year 1980 or  
15 installed in the year 1990. I do not think anyone can  
16 rationally tell you how many.

17 If production goes up and it becomes a fashion and fad, it  
18 can be ten times the estimate.

19 The per barrel savings I think are probably a closer  
20 estimate. They should not change rapidly, except in some new  
21 technology areas like solar and geothermal and wind where I  
22 expect the per barrel savings would go down as the technology  
23 became much better.

24 As soon as they are all passed out, you will have two  
25 charts, two papers. One is a three-page summary of revenue

1 losses, barrels per day savings, and the other dollar per barrel  
2 savings, and the other is a summary of the points that the bill  
3 covers, a two-page summary starting off with I, individual wind,  
4 solar and geothermal. Then it goes through what the bill  
5 provides.

6 The bill was introduced Monday. We have copies of the bill  
7 also, although that is not here in front of us right now. If  
8 everyone has them, I will start, Mr. Chairman, and go down and  
9 with staff's help, explain what we have got.

10 The Chairman: All right.

11 Senator Packwood: We want to start out first, not with the  
12 chart, but with a two-page summary of what the bill provides and  
13 you will see starting off with I, individual wind, solar and  
14 geothermal, and you go (a) through (h).

15 Senator Ribicoff: Would you wait until we get the piece of  
16 paper?

17 Senator Packwood: I am sorry.

18 There are two papers. The wide one gives you in column --  
19 figures, savings and costs. The other is a two-page paper.

20 Senator Ribicoff: I have got it.

21 Senator Packwood: That is it.

22 It starts off with I and says individual, wind, solar and  
23 geothermal. Then you will see (a) through (h), the things that  
24 it provides in the area.

25 Again, these are individual, not business credits and that

1 is what that portion of it provides.

2       Then if you want to compare that to the columns, under  
3 Residential (a) solar, wind and geothermal, that is items (a)  
4 through (h) on your chart. If you follow me on the one that has  
5 the columns on savings, Column B, conservation, that is the same  
6 as II(a) on the explanatory sheet, which is raising to 50  
7 percent the conservation credit; (c) the heat pump, which  
8 includes the deep well water heat pumps because they appear to  
9 be more efficient than the electrical resistance. That is the  
10 one explained as II(b) on the chart, the two-page chart.

11       The last one that relates to residences is (d), primary  
12 residence test. What I did there, I know it is a matter of  
13 controversy. Two years ago in the energy bill we said it will  
14 not apply to a second residence. It seems to me, if the purpose  
15 is saving energy, then it should not matter that you happen to  
16 have a vacation residence and a principal residence if the  
17 concept of the tax credits is right, and you are trying to make  
18 an offer to people that they cannot refuse and get them to  
19 convert from oil or gas. We should not penalize them because  
20 they happen to convert a house that they have in the mountains  
21 that they use in the summer.

22       Now, the residential credits would go to a 50 percent credit  
23 on the solar energy, wind energy, geothermal energy, from  
24 raising it from the present credit of 30 percent on the first  
25 \$2,000, 20 percent on the next \$8,000.

1 The reason we did that, especially, it is brought out in  
2 the book, "Energy Future," for the average person, that is going  
3 to replace, especially in the area of solar hot water, heat,  
4 they are going to replace their present gas burner or oil burner  
5 or electric hot water heater. It blows up, it runs out, and  
6 they have to get a new one.

7 The solar one is more expensive, and they have got to see a  
8 pay-out on it in four, five or six years or they are not going  
9 to do it and we want to encourage them to do it. It is one of  
10 the reasons we also added a provision in here that you can lease  
11 these.

12 Interestingly, in California where they have led us in  
13 solar credits, a good many companies have gone into the business  
14 of leasing solar equipment, and the tax credit is available  
15 either to the lessor or lessee, not oth. You cannot have a  
16 double dip.

17 What it does is encourage people to rent these, lease them,  
18 because there is some misgiving about will they work and if  
19 they do not work, you are not stuck with an immense capital  
20 investment. It is working out very well in California.

21 Senator Ribicoff: Mr. Chairman, Bob, I tell you what is  
22 bothering me about the way we are going at this, respectfully.

23 First, I think that Senator Packwood has got something, and  
24 I would feel that I will be with him almost all the way on this.  
25 His point is well taken.

1           Our objective here is really not a tax objective but an  
2 energy objective one way or the other, either save energy or  
3 produce more energy.

4           I am troubled, Mr. Chairman, over the fact that in addition  
5 to the Packwood proposals, I have before me a proposed agenda  
6 for the Senate Finance Committee mark-up on energy and there are  
7 a multiplicity of proposals and unquestionably most of them are  
8 good.

9           But what we do not know is before we are through before the  
10 Banking Committee and the Energy Committee and the Finance  
11 Committee over how much money we are actually going to bring in  
12 by way of taxes, whether you want to or not, you are almost  
13 forced to go on the double track setting off the amount of  
14 revenue brought in and the amount of revenue that will be lost  
15 by these different proposals.

16           I do not know how we can make these decisions.

17           Finally, we are going to have to have a reconciliation of  
18 the Finance Committee before we are through. It is obvious if  
19 we go by taking this proposed agenda, by the time we get down  
20 through item II, we will use up all possible sources of  
21 revenues.

22           I am wondering on a method here before us, instead of the  
23 specific amounts, whether we can be voting on whether we accept  
24 or reject the various proposals. Somewhere along the line the  
25 staff should do, I think, what Senator Packwood has done, and I

1 would say that very few have, is indicate the revenue lost, the  
2 rate of oil saved, the cost of alternate sources of energy. We  
3 are going to need that, but we do not know how much we are going  
4 to raise.

5 Are we going to go for a windfall profits tax? Will it  
6 encompass the House proposal or less?

7 Are we going for third tier oil and other incremental or  
8 tertiary oil? Do we put it on there? Will we be using the \$88  
9 billion in synthetic fuel or, as it seems now, only \$20 billion  
10 of synthetic fuels?

11 Are we going to have an Energy Security Corporation? Are  
12 we not, or just an energy mobilization board?

13 Is the government going to be building these plants, or  
14 will private industry with special tax credits? We will not  
15 know that.

16 I am wondering, to save a lot of time and a lot of work,  
17 and also act responsibly, whether we should not formulate a  
18 method here in which we can withhold the final adoption of a  
19 proposal and as to what it will entail, until we know the other  
20 side of the ledger.

21 I throw that out to you, Mr. Chairman, for your  
22 consideration.

23 The Chairman: I think that the Senator has a good point.  
24 In other words, can you just give me, Mr. Wetzler, what is the  
25 revenue cost, the estimated revenue cost, of this amendment --



1 oh, let us say in 1980, 1985 and 1990, just give us an idea of  
2 what it would cost across-the-board.

3 Mr. Wetzler Well, in 1980 the residential credits would be  
4 about \$1.5 billion and the business credits would be about  
5 \$1.7 billion.

6 In 1985, the residential credits are about \$2.5 billion.  
7 The business credits are about \$4.5 billion, for a total of \$7  
8 billion.

9 The Chairman: How much revenue do we estimate that taxes  
10 are going to bring in at that point?

11 Mr. Wetzler: The net revenue?

12 The Chairman: Just take the House bill, talking about net  
13 figures.

14 Mr. Wetzler: In the House bill, the net revenue from  
15 windfall taxes is \$10 billion a year in '85 and in '90, so that  
16 this would be a tax cut of \$7 billion.

17 You might add to that yesterday's credits, about \$1 billion  
18 in 1985, as much as \$2.5 billion in 1990, so you probably want  
19 to add that.

20 Senator Packwood; You do not have to add that because they  
21 are offset. You are not allowed to take the credit and the ones  
22 in my bill. It is an either/or, so it is not a cumulative cost  
23 vis-a-vis mine.

24 The Chairman: Well, now, the House -- I urge, and this  
25 Committee has urged, that out of the net revenues that are

1 raised by this tax that the Budget Committee should not claim  
2 those revenues for general purposes but leave us the latitude to  
3 vote for tax credits like this. Let us recommend, and let the  
4 Senate work its will.

5 Now, the Budget Committee did not go with us on that. They  
6 have a resolution out there where they take not only the  
7 increase that is beside the tax that would apply to the  
8 increase price. That is the difference between gross and net.  
9 They take all the difference between the net and the gross for  
10 general revenue purposes, and then they proceed to claim \$2  
11 billion of what we can raise with this tax in 1980.

12 Now, if you just take the House bill, assuming that we just  
13 go along and vote, the same as the house bill, tell me what we  
14 would have under the House bill and let us take the \$2 billion  
15 out and see how much, if this amendment is agreed to, that we  
16 would have left. That is what I am concerned about.

17 Mr. Wetzler: In fiscal year 1980, the House bill raises  
18 \$2.8 billion. Now, when we get to the windfall tax --

19 The Chairman: That is net, right?

20 Mr. Wetzler: Net revenue.

21 We are going to suggest to you some technical changes  
22 because we think that the House bill causes the refiners to pay  
23 the tax too quickly, more than they are really capable of doing  
24 it. We are going to suggest to you that you have them delay the  
25 payment for a few weeks. That would greatly reduce

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1 your collections in the first fiscal year.

2 The Chairman: How much would it cut down?

3 Mr. Wetzler: It would reduce it down from \$2.8 million to  
4 \$2.3 million, this delay in payment. It is, more or less, a  
5 technical amendment.

6 The Chairman: All right. If we do that -- I am not sure  
7 if we can. Maybe we cannot, even though we want to, even though  
8 you think it is right.

9 If they put that resolution out there, that does not leave  
10 us much in the first year to work with. How do you estimate  
11 that?

12 Mr. Wetzler: That would give you \$300 million to work with  
13 if the resolution has \$2 billion.

14 Mr. Shapiro: You also have to take into account that the  
15 House bill includes a significant tax on Alaskan oil that the  
16 administration has, since that time, proposed to modify that  
17 provision to reduce the revenue pick up on Alaskan oil.

18 The Chairman: All right.

19 If you take the administration recommendation on Alaskan  
20 oil, where does that put you?

21 Mr. Wetzler: If you take the administration's  
22 recommendation on heavy oil and on Alaskan oil, together that  
23 would reduce the fiscal '80 figure by \$500 million or \$600  
24 million so you would get down to roughly \$1.5 billion.

25 The Chairman: If you do all of that, now mind you, that is

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1 something that I would assume we would do all the time. I would  
2 assume that we are probably going to take the administration  
3 recommendation on Alaskan oil that the House did not take.

4 If you take that and then if you take the \$2 billion that  
5 the House is claiming, that the budget is claiming in the  
6 resolution out there, that is lower than the House figure. The  
7 House is paying all of that, is that not right?

8 Mr. Shapiro: Yes, but the House claims about 2.8 and the  
9 Senate Resolution claims \$2 billion.

10 The Chairman: All right.

11 Senator Nelson: Do I understand correctly the Budget  
12 Resolution requires this Committee to make up \$2 billion? Is  
13 that what you are talking about?

14 Mr. Shapiro: The Budget Resolution requires the Finance  
15 Committee to raise a net revenue of \$2 billion from the windfall  
16 profits tax, net. If you want to spend credits in the literal  
17 reading of the Budget Resolution requiring you to raise in  
18 excess of \$2 billion to cover any of your credits so that the  
19 net revenue increase to the Treasury would be \$2 billion.

20 Senator Nelson: Apart from all of that, why did I have in  
21 mind the figure \$1.4 billion? I thought that is what it was.

22 Mr. Stern: That was on the spending side, Senator Nelson.  
23 They assumed two things.

24 On the revenue side, you would raise \$2 billion. It is not  
25 only with windfall profits, but whatever you are going to enact

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1 this year would raise \$2 billion, and on the spending side, you  
2 would cut \$1.4 billion below present law programs. Those were  
3 two separate numbers, one on revenues and one on spending.

4 Senator Nelson: All right.

5 The Chairman: So, you see.

6 I think we ought to leave that part of it out for the time  
7 being. That is not relevant to what we are talking about here.

8 What we are talking about here is that the Budget  
9 Resolution claims \$2 billion of the net tax that we can raise by  
10 putting taxes on here in this committee. All right?

11 Now, the house has 2.8 in their bill, but the staff is  
12 telling us that if you take the 2.8 they say that the effective  
13 dates do not make much sense and if you make the adjustment that  
14 you ought to make for the effective dates, you only have 2.3.

15 They are further telling us if you take the  
16 administration's own recommendation on Alaskan oil which they  
17 think makes sense, that you will lose nother \$500 million and  
18 you would be down to \$1.8 billion. Is that not right?

19 Mr. Shapiro: It is in that range. It is in the range of a  
20 little bit below that \$2 billion.

21 The Chairman: All right, now.

22 If you make those assumptions and you start right out  
23 without enough money for us to give anybody a tax credit --

24 Senator Packwood: Mr. Chairman?

25 The Chairman: Yes, sir.

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1 Mr. Packwood is on the Budget Committee. Maybe he can help  
2 us.

3 Senator Packwood: I know that. I know what we are up  
4 against with the Budget Committee. We are going to have, by the  
5 time we finish, not only with what I propose but when we get  
6 down to the windfall profits tax talking about stripper, small  
7 producers and what not. We are going to have to make a lot of  
8 choices.

9 Many of the things I have may have to be dropped. If I had  
10 a choice I would rather drop the business credits.

11 I have a feeling that I could convince somebody in business  
12 about the value of these investments before I could convince a  
13 homeowner about the value of these investments. We are going to  
14 have to take some choices. If we take the taxes off stripper  
15 wells, will that produce X numbers of barrels of oil at \$12 a  
16 barrel, as opposed to a residential conservation credit at \$15 a  
17 barrel?

18 How long will the stripper wells produce as opposed to the  
19 conservation? Those are all choices we will have to make. We  
20 will have to balance it, because my hunch is we are going to be  
21 done with everything we want to do, maybe, before the Energy  
22 Committee is ready to tell us how much money they need for the  
23 trust fund.

24 I think that all we can do is go through these and say, if  
25 we had the money, does it look like it is worth the investment?

1 It is not worth it if it is going to cost us \$130 a barrel or  
2 \$110 a barrel and does not show any likelihood of coming down.

3 I also understand when we get down to the end, despite the  
4 fact that all of these credits might indeed reduce our imports  
5 by 1.5 barrels or 2 million barrels a day, if we do not have the  
6 tax revenue to pay for the credits, they have got to be dropped,  
7 or else we have to take a look at other sources of revenue.

8 I do not think we are talking about that at the moment.

9 The Chairman: How much did you say the first-year cost of  
10 the Packwood amendment is, 1980, fiscal year 1980?

11 Mr. Wetzler: In fiscal year 1980, there is one provision  
12 of Senator Packwood's amendment that really does not affect the  
13 energy savings significantly but will have a big, adverse effect  
14 in fiscal year 1980 when you have one provision in the bill that  
15 says you can claim your home insulation credit on the last  
16 year's tax return, and you can get an immediate  
17 refund.

18 It will double up the revenue loss in fiscal 1980 and that  
19 provision alone is about \$800 million in the fiscal year. You  
20 could, if you wanted to, achieve much the same concept by sort  
21 of delaying that for a year.

22 Senator Packwood: I would be willing to delay it, although  
23 I will tell you where I got that idea.

24 You will recall, Mr. Chairman, about two or three years ago  
25 when you and I and a few others sponsored the political tax

1 credit and you were trying to figure out some way to get the  
2 money back right now, and you thought about maybe a voucher that  
3 you could take down to the bank and you came up with an idea of  
4 simply amending your tax return.

5 That is where I got this idea for amending it. It gives  
6 you an immediate tax loss now, because people can file an  
7 amended return now.

8 The Chairman: Well, the number one problem that I find  
9 with the amendment is paying for it. It is a big tax cut by way  
10 of tax credits.

11 I do not see how we are going to pay for it. But the same  
12 problem is going to face us when we get down even with the  
13 low-income people. How are we going to pay for them?

14 The same problem is going to face us when we look at the  
15 proposals to provide more favorable treatment on newly-discovered  
16 oil or tertiary oil and to the various other things that the  
17 Senators might want to suggest.

18 So I am dismayed to hear the staff tell us what they knew  
19 all the time, I guess, but what I did not really understand in  
20 the beginning, and that is, if you take what the Budget  
21 Committee has in their resolution out there and I am not  
22 proposing to change it. I do not know if we could change it if  
23 we asked them to. And if you look at some assumptions that are  
24 really here, we have an assumption that we have a bill before us  
25 that assumes we are going to make a lot of oil out of Alaska. I



1 do not think we are going to make it after you hear what the  
2 argument is.

3 Not for my amendment, not for the amendment from the  
4 Senate, just from the amendment that the Administration is  
5 asking for, which makes sense, and then I do not know what we  
6 are going to do about these effective dates.

7 In other words, if we vote the effective date which, from  
8 the staff point of view, is the only fair way to do business,  
9 and you do it -- does the Treasury agree with you about those  
10 effective dates, by the way?

11 Mr. Shapiro: Let me tell you the problem. The House bill,  
12 the original proposal was, you would pay every 15 days or every  
13 other week to pay the windfall profits tax. This is the payment  
14 of the windfall profits tax.

15 As you know, the tax is imposed upon the producer, but it  
16 is paid by the producer. After the Ways and Means Committee  
17 reported the bill out, we had a number of refiners, especially  
18 small refiners, come to the staff and go over the problem.  
19 Apparently it had not come to their attention until a little bit  
20 later and it was not clear to the staff. Their problem was that  
21 they had to pay the tax, because they are the first purchaser,  
22 well before they even get paid by who they sell to.

23 They may even have to pay, in some cases, even before they  
24 know exactly how much they have to pay.

25 What the case is, we are saying that the windfall profits

1 tax is imposed upon the producer, the one who produces the oil,  
2 but it is actually paid by the purchaser who, in most cases, is  
3 a refiner. Here we have case under the House bill that the  
4 refiner has to pay the tax well before the refiner gets his  
5 profit from whoever the refiner sells it to. In many of the  
6 case, before the refiner may actually know exactly how much that  
7 tax is because of the paperwork that is needed.

8 The Chairman: Does Treasury agree with you on that?

9 Mr. Sunley: Yes, we do.

10 The Chairman: Do you agree that this bill should be  
11 amended?

12 Mr. Sunley: That seems reasonable. It does seem  
13 reasonable to allow that delay in payment.

14 The Chairman: Well, now, I am not voting on it now. I am  
15 just trying to get the problem out here before the committee,  
16 but if I understand what you are telling me, if you look at one  
17 -- if you just look at a couple of things that the Treasury  
18 supports, which the administration supports, and which the staff  
19 says that makes sense, that we ought to do the Alaskan oil plus  
20 the payment dates.

21 Then you relate that to the Budget Resolution. We do not  
22 have any money to tack in the tax credits to begin with here.

23 Mr. Shapiro: You are right, Senator. It takes you down to  
24 1.8. I will point out that the staff had discussed this with  
25 both the staffs of the House Budget Committee, the Senate Budget

1 Committee and CBO to point out the problem of payments and those  
2 problems, the types of problems we are discussing right now, the  
3 Budget Committee staff was aware of, and I must admit that is  
4 one of the reasons why the Senate Budget Committee went down to  
5 \$2 billion from the \$2.8 billion.

6 In other words, they recognized that you will reduce some  
7 of it from the Alaskan oil, the payment schedules. So the  
8 Senate Committee took that into account, evidently. They are  
9 not taking it into account in the spending.

10 If you recall, the Finance Committee recommended to the  
11 Budget Committee that you have no pick up from the windfall  
12 profits. It would be on a net basis that you intended either  
13 this committee or the Congress would spend the revenues for  
14 energy purposes. That was not taken into account.

15 The Chairman: Basically what we are talking about is the  
16 Budget Committee is not claiming for general purposes, part of  
17 it. If you just take these two things into consideration, they  
18 are claiming all of it, all of it.

19 So that we would not have any money for the credits at all,  
20 even for the poor.

21 Now, I do not know. I find myself thinking, the only way I  
22 can vote for any of this is to say, well, if we can find the  
23 money to pay for it, we will go along with it.

24 Senator Packwood: Mr. Chairman, I will say again what I  
25 said before. I do not think it makes any difference if you

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1 start with this or if you start with tax credits for the poor,  
2 or if you go back to exempting tertiary oil. I think we ought  
3 to go through and say what do we have that we think is worthwhile  
4 and then, a week from Thursday or two weeks from Friday or  
5 whenever, we have what we consider to be our committee  
6 conciliation, whatever the estimates we have on the revenue  
7 projections, the differences we have seen in the last two weeks  
8 on how much revenue that we are going to have from the increase  
9 in the income tax level, the corporate profits tax -- I do not  
10 mean an increase in the tax, but the amount of revenue from the  
11 increases in the price of oil. We are talking about over \$100  
12 million difference.

13 Then we start knocking off the things that we think are the  
14 least worthwhile.

15 The Chairman: You are suggesting the same thing Senator  
16 Ribicoff was saying. It sounds to me --

17 Senator Packwood: I do not think we have any choice but to  
18 do what Abe is saying. As much as we would like to say,  
19 business, we will give you a credit for co-generation, we look  
20 at it and by 1990 it costs \$300 million and say we do not have a  
21 \$300 million credit, too bad.

22 The Chairman: So basically we would be saying here, here  
23 is something that we would like to do and if we can find the  
24 revenue to pay for it, we will try to do this. This is what we  
25 will do if we can find the revenue to pay for it.

1           If we cannot find the revenue -- right now, we do not see  
2 it -- then we will have to reconcile, which means we are not  
3 going to be able to do all of that. We will do such as we think  
4 we can afford.

5           Senator Packwood: I do not see that we have any  
6 alternative but to go that way.

7           Senator Nelson: I just want to say, Mr. Chairman -- I just  
8 want to endorse what Senator Ribicoff said. I co-sponsored  
9 Senator Packwood's measure, and I have advocated it in the past  
10 and voted for in the past many things in it, but I am going to  
11 be one of those, I think, who votes for the total revenue  
12 package that the President is asking for.

13           I do not think a majority in here will do that.

14           I am not going to vote. I do not believe in any of these  
15 exemptions.

16           However, if it comes out with less money, that does affect  
17 my priorities. There would be things including some proposals  
18 of my own that I would have to drop, if we do not have the  
19 revenue in here to pay for them.

20           I want Senator Packwood to know that. I do not treat  
21 equally ever single item in the bill that I co-sponsored.

22           Senator Packwood; I do not either, Gaylord. Between the  
23 two of us, as I said earlier, instead of cutting all the credits  
24 back 25 percent, I would rather keep the residential ones to 15  
25 and cut out business. You can make a better case to business to

1 do this on an economic standpoint than you can to a homeowner.

2 Senator Bentsen: I would agree with the Senator, and I was  
3 originally a co-sponsor with him.

4 The Chairman: Would you say that again?

5 Senator Bentsen: If I may. I withdrew my co-sponsorship  
6 as I saw the final cost on this. If we are talking about it  
7 now, subject to what we finally see as revenues and balancing it  
8 off against other priorities that would be discussed, then I am  
9 very sympathetic, because I think he has put together a very  
10 worthwhile package.

11 The Chairman: Well, now. If we agree with this, we are  
12 going to do it then, I take it, with the caveat that Senator  
13 Packwood and Senator Ribicoff have made that this will have to  
14 be subject to a reconciliation where we try to look at this plus  
15 the other parts and see if we can squeeze it in.

16 Would you mind, from the staff point of view, can the staff  
17 give us -- maybe you should put it on the blackboard here --  
18 show us the cost of this, especially -- I am particularly  
19 concerned about the big cost items on your estimate.

20 Well, I guess what the Senator has here is a good way to do  
21 it, 1980, 1985, 1990. It may be that the staff has the figures  
22 that are there. Does that show a revenue loss?

23 Senator Packwood: It does in the lefthand column. In some  
24 cases, I have no estimates yet. Those are left blank.

25 The Chairman: Well, in the first year and also in the

1 fifth year, the big cost is a conservation item.

2 Senator Packwood: Also the big saving.

3 The Chairman: Yes.

4 I wish Senator Bradley were here. He was here a few  
5 minutes ago. He had an idea about the conservation.

6 Is that mainly insulation that we are talking about there?

7 Mr. Shapiro: Yes, essentially insulation for the  
8 homeowner.

9 The Chairman: Right.

10 Senator Packwood: It is essentially insulation, but it  
11 would include weather stripping, storm windows, flue dampeners,  
12 but if you were to break out the cost, the bulk of it is  
13 insulation.

14 The Chairman: Over here on the spread sheet of the second  
15 page, here are some items in parens. Are they revenue gainers?

16 Senator Packwood: No, that means those columns, space  
17 heat, solar and wind, 1990, \$970 million figure. That \$970  
18 million is broken down between those three below it, process  
19 heat, space heat and wind.

20 Those parens should not have not have been used. That is a  
21 misleading thing. They are not revenue-gaining, but they total  
22 to \$970 million.

23 The Chairman: Biomass. We had geothermal and biomass on  
24 the amendment we voted yesterday and those are substantial  
25 items.

1 Do I understand that that would be the same figure even  
2 after the Danforth and the Talmadge amendment were agreed to?

3 Senator Packwood: It would, because you cannot double dip.  
4 You cannot take that production credit and this conservation  
5 credit.

6 The Chairman: I mean is this an additional cost, over and  
7 above what the cost of their amendment was?

8 Mr. Shapiro: When we did this, we had assumed -- I do not  
9 think we understood that one feature of Senator Packwood's bill.  
10 With regard to the business credits, what he is suggesting now,  
11 if you got the production credit you would not get this.  
12 However, we are dealing with these separately because we do not  
13 know what the Committee's action will be.

14 We are putting together estimates on production. We do not  
15 know the bill's components. We gave the estimates  
16 yesterday in regards to Senator Danforth as if everyone is going  
17 to take that and then when we did the estimates for Senator  
18 Packwood's not knowing what the Committee action would be on  
19 production, we then gave the estimates as if this would be what  
20 this Committee would be doing.

21 What Senator Packwood is saying, if someone in geothermal  
22 took the incentive for the construction or the adjustment tax  
23 credit, they would not be eligible for the production credit.  
24 We have two different credits: one to build the facility, the  
25 construction credit. The second is the production credit.



1 Yesterday the Committee agreed to the production credit.  
2 Today they are talking about the construction.

3 The Chairman: Now, the big item here, the conservation,  
4 has to do mainly with insulation. No later than last night I  
5 saw a program that indicated with regard to fiberglass or most  
6 insulation we are not going to have enough materials to do what  
7 is already to supply the demand that there is right now.

8 In other words -- incidentally, it is the same point  
9 Senator Dole was making a year ago or two years when we had the  
10 Crude Oil Equalization Tax with us.

11 What is the Senators' reaction to that situation where they  
12 say well, the way it is going now, there is no supply and demand  
13 now. You will just be given a tax credit over and above what  
14 they would presently receive. They would do it anyway.

15 In fact, they have already placed the orders. It is  
16 already in the mill.

17 What is your reaction to that, Senator?

18 Senator Packwood: Correct me if I am wrong on this  
19 particular estimate. It was based on the estimates of  
20 productive capacity, was it not?

21 That is what you told me, as I recall, when you and I  
22 talked on the phone.

23 Mr. Wetzler: Senator Packwood, it was based -- first of  
24 all, you take the revenue loss from the people you expect to be  
25 doing it in the absence of the credit and you assume increase in

1 demand in response to the credit, but the increase in demand is  
2 limited by the available capacity.

3 Now, our understanding is, there are several different  
4 kinds of insulation. The biggest one is fiberglass and they are  
5 pretty near to capacity. Other types of insulation materials,  
6 like cellulose, which for a smaller fraction of the market do  
7 have room for expansion.

8 In the longer run, over a period of several years,  
9 industries can expand capacities. The issue is mainly a problem  
10 in that the capacity issue is a problem in the next few years,  
11 but the estimators have taken that into account in doing the  
12 estimates.

13 Senator Packwood: So that the conclusion that we have  
14 here, both the cost and the 1990 370,000 barrel savings a day is  
15 above what we would expect if we had no credit, that the  
16 production would not expand to that extent in the non-fiberglass  
17 area without a credit?

18 Mr. Wetzler: The estimators assume that there will be some  
19 increase in the use of insulation in the initial years, that is  
20 mainly in areas other than fiberglass over the longer run. It  
21 is in all areas, over the longer run, the industry can expand  
22 capacity.

23 Senator Packwood: You lost me there.

24 Mr. Wetzler: If you look at the estimate for 1990, that  
25 does include an assumption about expansion of capacity by the

1 industry. The estimate for 1980 assumes that whatever  
2 additional purchasing of insulation is induced by the credit  
3 occurs in the cellulose area, not in the fiberglass area.

4 Senator Packwood: I was talking about the 1990 area.  
5 There we are presuming that 370,000 figure ten years down the  
6 road. We then have the time to expand the capacity.

7 That figure is induced by the credit.

8 The Chairman: Let me just adjust myself to the biggest  
9 item here, which is a matter --

10 Senator Bentsen: We have a vote.

11 The Chairman: Just one second.

12 I want to help achieve the objective. The question is, how  
13 is the best way to achieve it?

14 Senator Bradley, for some time, has been explaining to me  
15 his thought that you ought to try to find a way where the  
16 utility companies would pay to make these homes and businesses  
17 energy-efficient and then they would add the cost of it to their  
18 rate base.

19 Now, if you could do it that way, you would not have to do  
20 it with tax money.

21 I think the Senator's approach was just give us a small tax  
22 credit to put our stamp of approval on it. It would not cost  
23 much, a very minor cost, just to say, we do think this is a  
24 good idea. And he would then hope to get the Energy Committee to  
25 go along with that same approach, or some other committee.

1 Tell us about your idea about that, Senator.

2 Senator Bradley: That is correct, Mr. Chairman. In the  
3 home conservation area, really there are three obstacles to  
4 overcome. One is that the people do not perceive the supply of  
5 energy that is there. Second, they do not have the technical  
6 skills to get at that supply. Third, they do not want to face  
7 the financial hassles or the hassles of trying to locate  
8 installers and making sure that they are installed in the right  
9 way.

10 Most of the suggestions in the conservation area have  
11 addressed the financial hurdle only, which is what tax credits  
12 address, grants address. What I have tried to address in my  
13 bill is, in addition to delivery mechanism, assuring a way that  
14 you can get installed in the homes of American consumers quality  
15 conservation equipment, and there are three actors in my  
16 program: the utilities, the government, and a new entity,  
17 private conservation companies.

18 The idea is to assess in a general area the amount of  
19 potential saved energy, gas, electric, oil, and the government  
20 enters into a contract to pay the energy conservation company  
21 per unit of saved energy, a specific amount -- say ten mills per  
22 kilowatt of electricity.

23 Then with that contract, the private energy conservation  
24 company goes to the private capital markets, obtains front-end  
25 financing and goes into a region and installs conservation

1 equipment, installs it on a systematic, organized basis, house  
2 to house, and is paid only for results, thereby harnessing the  
3 marketplace and the incentive of making a profit that is based  
4 only on saved units of energy for a pervasive installation of  
5 equipment, and there is no charge to the consumer.

6 The way it is paid is ultimately utilities will pay into  
7 the federal fund, which will then pay the conservation company.  
8 Then the utilities pay only the value of savings to that utility  
9 that occurred in that year due to the conservation equipment.

10 For example, a utility is considering a new power plant. A  
11 new power plant will produce kilowatts of electricity at about  
12 ten mills per kilowatt, for example. Instead of buying a new  
13 capacity and a new power plant and nuclear coal at ten mills a  
14 kilowatt, instead of purchases, saved energy, energy that has  
15 been saved by the private energy conservation company,  
16 facilitated by government.

17 This mechanism addresses not just the financial hurdle,  
18 which it certainly does to the consumer, because he gets it for  
19 relatively free, but also it addresses the delivery mechanism  
20 which enhances quality control delivery.

21 That is my idea. The thought of a tax credit, there are  
22 two ways that you can go here and I would prefer to discuss it  
23 at some length. The tax credit to a utility or to the private  
24 conservation company --

25 The Chairman: Let me suggest that we go over and vote and

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1 come back and soon as you can. Thank you very much.

2 Senator Bradley: That was about as brief as you can make  
3 it.

4 (A brief recess was taken.)

5 The Chairman: The Committee will come to order.

6 Now, let me just suggest that, having had a chance to visit  
7 with the Senator from Oregon on the way over to vote, that to  
8 try to fix it so that we will not march so far up the hill that  
9 when we turn around and look at the reconciliation and have to  
10 start marching down the hill, we will have to march as far back  
11 down, that we would withhold the conservation item now and let  
12 Senator Bradley present his idea about the conservation which  
13 might be a good alternative, where you do not have to finance it  
14 with tax money, and we can come back to it and consider it again  
15 later on.

16 Senator Packwood: That is fine. I am agreeable to doing  
17 that, Mr. Chairman. I want to ask the Joint Committee if I  
18 understand the revenues that are available. We have a  
19 commitment of raising \$2 billion, is that correct? A net \$2  
20 billion?

21 Mr. Shapiro: The Budget Committee has proposed you raise  
22 it. That is not only from the windfall profits. You have to  
23 raise \$2 billion net from revenues, somehow.

24 Senator Packwood: The revenue effect on the House-passed  
25 bill in 1980 is roughly \$2.5 billion, so you subtract \$2 billion

1 and you have \$500 million left, if that is the way we choose to  
2 raise the money.

3 Mr. Shapiro: About \$800 million. The House bill has about  
4 \$2.8 billion in that range.

5 Senator Packwood: For '81, it is 6.8 , if I am looking at  
6 these figures right, and in '82, 10.3.

7 Mr. Shapiro: In that range.

8 Senator Packwood: Are we required to raise roughly \$2  
9 billion per year?

10 Mr. Shapiro: It is only this fiscal year that we are  
11 talking about. It only deals with this fiscal year.

12 Senator Packwood: Assume we have \$2 billion a year,  
13 it is really in this first year where we have our -- I do not  
14 want to say \$2.5 billion, but a relatively slight amount from  
15 the windfall profits tax in each of these.

16 Mr. Shapiro: That is correct. We have two problems. One,  
17 you have the small amount of revenue in the first year, and then  
18 you have a Budget Resolution. The Budget Resolution does not  
19 impact upon you.

20 Senator Packwood: Thank you.

21 Senator Ribicoff: Mr. Chairman, if I may impose on Mr.  
22 Shapiro and his excellent staff, is to come up with some  
23 thoughts and proposals and alternatives about where you could  
24 raise \$2 billion outside of the windfall profits.

25 It looks to me as though we are talking about that is a

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1 bullet we may have to bite before we are through, and we want to  
2 know some alternatives that we might address.

3 The Chairman: Do not show it to us now.

4 Senator Ribicoff: I think that is something that you ought  
5 to have it in your pocket, take it out once in awhile and have  
6 people sneak a look.

7 The Chairman: Thank you, Senator.

8 Tell us the minimum you would be willing to settle for at  
9 the time being. I am sure you want solar, the wind and  
10 geothermal.

11 Senator Packwood: Especially in the residential. If you  
12 look at all of the studies on the potential, it is almost  
13 unlimited. It is the homeowner who needs the incentive. That  
14 would be item A on summary analysis of S. 1760.

15 The Chairman: If we could settle for that we would have a  
16 good item there and that way -- would you do the same thing on  
17 the business part, or would you settle for the residential part  
18 of it?

19 Senator Packwood: I would start with the residential part,  
20 leaving out conservation and for the moment, we can get back to  
21 business when we have a reasonable -- as we are starting to move  
22 down the road. There are some things later on, when you get  
23 down to alcohol fuels, I think that has some potential from an  
24 alcohol standpoint where the revenue loss is not too great. But  
25 talking, at the moment about page 1, I would settle for the



1 residential, laying aside the conservation.

2 The Chairman: Senator Moynihan?

3 Senator Moynihan: Mr. Chairman, let me say first, I would  
4 hope somewhere along the line we could talk a little more about  
5 our theory here in terms of how we expect people to behave and  
6 how they would behave if we do this, if we do not, because I  
7 have a general proposition that I would like to bring before the  
8 Committee.

9 There is something bizarre about the behavior of a nation  
10 which provided most of its energy sources through coal up until  
11 about 20 years ago and then switched to oil and natural gas as  
12 they became available in larger quantities cheaply and finds  
13 itself running out of oil and natural gas and no longer cheap  
14 and not easily found, and instead of reverting to an earlier,  
15 and not distant and unremembered past, but 1955, goes forward  
16 into ever more exotic ---and in my mind suspicious -- solutions  
17 that are proposed, because they bring up unknown problems as  
18 against the path that had problems, which are known.

19 I think there is an act of avoidance here.

20 Senator Packwood: Let me respond to that.

21 Senator Moynihan: I do not suggest that you are avoiding  
22 it. I am saying, are we sure?

23 Senator Packwood: Let me respond as to why.

24 It was heavily influenced by Professor Stoebel's book as to  
25 the amount of production we might get out of coal in the optimum

1 circumstances between now and the year 2000 and with credits as  
2 opposed to what we might deal with credits in the area of  
3 conservation and solar.

4 Absent that argument for the residential fund, I think the  
5 likelihood for most people of burning coal, or the use of coal  
6 -- not utility generation of electricity, but in the home, is  
7 going to be relatively slight, and there I want to encourage  
8 sources -- these are really small-scale, low technology. That  
9 is what is designed, house by house, to encourage.

10 Senator Moynihan: Let us be sure, as we steal our national  
11 soul to face this crisis, that the one thing we put out of mind  
12 automatically that anybody should live with the inconveniences  
13 of the intolerably tolerable lives which were lived by people in  
14 1950. As we all know, life was not worth living.

15 The second point I would like to make, only to reserve this  
16 because the Senator knows of my affection and respect for him,  
17 that conservation is, in fact, a home-owner's measure. The  
18 country does not -- the population of home-owners is about, I  
19 think, a little more than half, I think, of people in the  
20 country. We are talking here of a \$5,000 grant, in effect, to a  
21 family that might do something if it is in the national interest  
22 to do it, and the family interest as well, that there is a  
23 dollar advantage. They might reasonably do it on their own.

24 We are giving \$5,000 to people here. That is a big credit.

25 I just say I would like to reserve the fact that there are

1 people who live in apartment houses, people who rent. We will  
2 have to find some equity for them as well.

3 I am sure Senator Packwood understands.

4 Senator Packwood: As a matter of clarification, the  
5 credit, the maximum allowable against which you can take the  
6 credit of conservation is \$2,000, a \$1,000 credit. You are  
7 right as to the solar, wind, geothermal, heat pumps and the  
8 other; that is a \$10,000 base upon which you can take a 50  
9 percent credit.

10 Senator Moynihan: We could say that we have to deal with  
11 apartment dwellers and renters further down in our  
12 consideration. Can we do that, Mr. Chairman?

13 The Chairman: Yes, sir.

14 Let me recognize the Senators at the rate you have put your  
15 hands up.

16 Senator Bradley had his hand up first; Senator Baucus had  
17 his hand up; Senator Matsunaga; and Senator Heinz. I will  
18 be glad to hear all of you; I want to get you in order.

19 Are there any more who want to be heard at this point?  
20 Senator Chafee. All right.

21 Now, Senator Bradley.

22 Senator Bradley: Mr. Chairman, I want to follow up on  
23 what Senator Moynihan has said, and Senator Packwood. Certainly  
24 we have to consider the apartment dweller and there are things  
25 that we can do to consider the apartment dweller and the plan

1 that I hastily explained earlier does consider the apartment  
2 dweller.

3 I think that co-generation could also be argued to consider  
4 the apartment dweller.

5 Let me make the broader point on whether we want to move  
6 from centralized sources of production to decentralized sources  
7 of production, and I think that we have to have both and I think  
8 that was the conclusion of Energy Future and, before that, the  
9 conclusion of the Ford Foundation and all those important  
10 institutions that we look to for leadership in thinking in this  
11 country, whether right or wrong, have concluded that.

12 Let me tell you a personal experience during the recess  
13 where I went to the Soviet Union and spoke with three of their  
14 top energy people, the Oil Ministry, the Gas Ministry and the  
15 Electric Ministry.

16 The Electric Ministry, the Minister talked about what he  
17 was doing in nuclear, how he was shifting from oil to nuclear,  
18 what he could do with coal but the problems that existed with  
19 low grade coal. And I posed a question to him, what are you  
20 doing with solar?

21 His response was, well, we have a few big generators in  
22 the mountains in the Caucasuses but we cannot seem to generate  
23 enough electricity centrally to meet our needs. And I thought  
24 that was peculiar.

25 I asked him, what do you do with decentralized sources,

1 photovoltaic research? We do not do anything.

2       It troubled me until I realized that, in the Soviet Union,  
3 bread is centralized, everything is centralized. Here we have a  
4 burgeoning technology that we can assist in its growth that will  
5 help us -- not the total answer, but help us -- in our energy  
6 problem and will also provide us the source of expert revenue  
7 and in the long run strengthen the dollar and in the long run  
8 reduce the pressures on inflation that come from an  
9 international deficit.

10       So I strongly suggest that we have to begin to look at  
11 decentralized technologies, not as exotic, but as an  
12 opportunity, and address the problem, how do you get them out  
13 there quick enough to help and these other assorted issues that  
14 are related to solar development.

15       Senator Packwood: What Bill says here, I think he and I  
16 are talking about the same thing, though. We want to start down  
17 this path now. We do not want to give the American public the  
18 impression that if we pass a 50 percent solar credit we solve  
19 our problems by December 31, 1980.

20       Senator Bradley: You face the same problems with solar as  
21 you face with conservation that I talked about earlier. You  
22 have a financial hurdle, then you have a hassle hurdle, which is  
23 who do you call if you want a solar collector? How are you sure  
24 the guy knows what he is doing.

25       Should you install it on the south side instead of the

1 north side of the house? You do not know.

2 A lot of people I know have had bad experiences. Again,  
3 the problem the delivery system as well as the financial hurdle.

4 The Chairman: Senator Baucus?

5 Senator Baucus: Following up on the last two speakers, I  
6 am wondering whether Senator Packwood would amend his proposal  
7 to include passive solar systems? I suggest that basically I  
8 feel that some of us have missed the boat on passive solar.

9 That is what Bill is talking about. It is pretty hard to  
10 centralize development of passive solar.

11 Senator Packwood: We talked about this earlier. I would,  
12 so long as you draw the definition of passive, so it is clearly  
13 understood by the IRS.

14 Senator Baucus: I know that is a problem. It seems to me,  
15 to do something to provide some type of incentive in the proper  
16 sense of the word in passive solar development. We have to try  
17 it to work out something.

18 Senator Packwood: Clearly, this is a good example, so  
19 everybody can understand what we are up against. The passive  
20 system would be intelligent siting of your house to face south  
21 so the sun shines through the windows. That is good,  
22 intelligent, passive solar planning.

23 The IRS might say, why the hell should that get any credit?  
24 All you are doing is building a house. We have to define what  
25 we mean so that indeed it gets into the bill.

1 Senator Baucus: I agree. It seems to me we should  
2 encourage it. Historically, housing construction has not  
3 utilized the passive systems available.

4 The Chairman: Senator Matsunaga?

5 Senator Matsunaga: Mr. Chairman, in further response to  
6 the question raised by Senator Moynihan, I might point out that  
7 what we have proposed in the Packwood amendment is not a shot in  
8 the dark.

9 We have asked him for a tax credit for installation of  
10 proven technology, for example, in the case of solar  
11 photovoltaic cells, we have had the technology with us for over  
12 20 years. We supply the satellites with photovoltaic cells.

13 The thing that has been keeping us from using it here on  
14 earth is high cost. Certainly we have had some real  
15 breakthroughs.

16 The Sandford Research Institute, for example, recently  
17 announced that a technology has been developed for mass  
18 production wherein the cost of the cell would be reduced by as  
19 much as 90 percent. And I am sure that most of you here saw the  
20 demonstration on the Capitol grounds where one solar  
21 photovoltaic manufacturing company put on a demonstration of a  
22 one bedroom unit completely powered by solar photovoltaic cells,  
23 and I had the thrill of telephoning Hawaii and announcing to the  
24 Mayor of the Island of Kawai that DOE had given a \$1.8 million  
25 grant to one of the hospitals there for experimentation and

1 development in solar photovoltaic cells over a telephone powered  
2 by solar photovoltaic cells.

3       The only thing that was connected to the telephone was  
4 a panel of solar photovoltaic cells, 16 of them. All we had to  
5 do was expose it to the sunlight and it was clear as a bell, so  
6 the technology is already here, and I think that by giving the  
7 credit, which we propose in areas such as Hawaii and California,  
8 Florida, even Louisiana, down south, I think that we are going  
9 to find many, many homeowners will take advantage of this.

10       When the state first offered a tax credit for solar water  
11 heaters in Hawaii, for example, in the first year they had over  
12 6,000 -- within the first year, over 6,000 installed and the  
13 results were unbelievable -- as much as 60 percent savings on  
14 the electric bill with solar photovoltaic cells.

15       We hope that Hawaii will become energy self-sufficient, at  
16 least in the production of electricity by the year 1990, and we  
17 are well on our way.

18       I might point out that Laurence Livermore Laboratory  
19 already has an electric motor vehicle powered by solar  
20 photovoltaic cells. You recall, Mr. Chairman, when Secretary  
21 Schlesinger was here and I asked him a question that I was told  
22 by a President of the solar photovoltaic that in my lifetime I  
23 would be driving -- especially because I was from Hawaii -- I  
24 would be driving an electric motor vehicle powered by solar  
25 photovoltaic cells and what do you think? I asked Secretary

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1 Schlesinger and he said, Senator, I think he was wishing you a  
2 long life.

3 There already is such a vehicle and I hope that those who  
4 will visit Hawaii, I will drive them around in my solar  
5 photovoltaic cells.

6 I do have figures here from the same Laurence Livermore  
7 Laboratory which indicates a tremendous allocation of power from  
8 direct solar photovoltaic. By the year 2000, five quads -- one  
9 quad, as you know, is 180 million barrels of oil saved; wind  
10 power, five quads; biomass, eight quads.

11 This is by the year 2000. By the year 2020, solar power  
12 would save us ten quads and wind power twenty quads and biomass  
13 fifteen quads.

14 This is by the normal operation of what industry foresees,  
15 but if we were to give the incentive, as we propose in the  
16 Packwood-Matsunata-Ribicoff-Nelson amendment I think we are  
17 going to be able to double that. I thought I would bring that  
18 out, that we are dealing with something real.

19 Senator Bentsen: Mr. Chairman?

20 The Chairman. I have Mr. Heinz down to be heard next, and  
21 Mr. Chaffee, and Mr. Bentsen, if you want to be heard, I will  
22 put you down then.

23 Senator Bentsen: That is fine.

24 The Chairman: All right. Mr. Heinz?

25 Senator Heinz: Thank you, Mr. Chairman. Three very brief

1 items. I hope they will be brief.

2 I would like to inquire of Senator Packwood or of his staff  
3 a little further about under I(a), solar, wind, geothermal, the  
4 way in which passive solar designs, which obviously for the most  
5 part, but not exclusively, is going to effect new construction,  
6 is taken into account here, what the assumptions are.

7 Senator Packwood: Pardon me, but could you ask that again?

8 Senator Heinz: My concern is with intelligent passive  
9 solar design, the greatest room for the implementation of which  
10 is in new construction.

11 Between now and the year 2000, assuming two million housing  
12 starts, which will include, if you add in mobile homes, it would  
13 be far more than two million a year. You are talking about 40  
14 million housing starts, 40 million units, in some cases, of very  
15 substantial housing.

16 You are talking there for about a considerable amount of  
17 energy to use to either heat or cool those houses. Therefore,  
18 my question is, what are the assumptions about your solar  
19 incentive program with respect to passive solar, particularly as  
20 it respects new construction.

21 Senator Baucus: I can answer that question right now,  
22 frankly. This was brought to my attention this morning.

23 My understanding is that Congressman Gore has done a lot of  
24 work here. His studies show there are very great, significant  
25 savings.

1 Senator Heinz: Very insignificant.

2 Senator Baucus: Very insignificant.

3 Senator Heinz: Over a one million barrel equivalent here.

4 Senator Baucus: I am getting that information today.

5 Potentially there is a lot there.

6 Senator Heinz: You do not have to have a very  
7 sophisticated study, 40 million units of houses, if you assume  
8 20 barrels a year displacement, which is a conservative number,  
9 multiply it out, 400 million barrels a year, divide that by 365  
10 and you are over one million barrels on the average, over a  
11 20-year period per day.

12 Senator Bradley: It is a little more complicated than that  
13 because you have to try to define what Senator Packwood asked  
14 for, which is the definition of passive solar.

15 Senator Heinz: I agree. It is extremely complicated.

16 Senator Bradley: For example, say you put a dappled glazed  
17 glass over a water bag and you have a vent at the bottom and  
18 you have an interior screen that closes off at night and hot air  
19 comes out at the bottom and rises in the room. Are you going to  
20 give a credit for the water bag and the screen and the wall and  
21 the vent?

22 Senator Heinz: The Senator is entirely correct, and my  
23 question is, how does Senator Packwood's amendment address, or  
24 not address, this issue.

25 Senator Packwood: Initially it did not address passive for

1 the very problem that you are suggesting. That is why I said  
2 earlier to Max, if he could draw it up in a fashion. There are  
3 great differences of opinion. Using example II, you face your  
4 house south, proper siting -- if you just faced it south and did  
5 not change anything else, you could make an argument that that  
6 is not passive solar.

7 Senator Heinz: Then, Bob, the answer to your question is  
8 it is really not in here.

9 Senator Bradley: Mr. Chairman, may I suggest --

10 Senator Baucus: Tentatively, we can work out this problem.

11 Senator Bradley: To answer your question, the  
12 administration has proposed a passive solar credit. Maybe we  
13 should let the administration define what the passive solar  
14 credit is.

15 The Chairman: Mr. Lubick wants to comment on that.

16 Mr. Lubick: Mr. Chairman, we had made a proposal with  
17 respect to passive solar in the House Ways and Means Committee.  
18 We presented some rather detailed specifications as to how it  
19 might work. These specifications were similar to an enactment  
20 in California under their tax. It was extremely complex, and  
21 the members of the Ways and Means Committee charged us to go  
22 back and review it.

23 And we are now working on a revision of the proposal to  
24 allow a tax credit for construction that results in overall  
25 energy savings as compared to a given building as to performance

1 standards. If we can achieve overall reductions in construction  
2 based upon energy usage, we think we can design a credit that  
3 will allow flexibility as to the various techniques of achieving  
4 it which would include passive solar or anything else.

5 Our objective is to get a structure constructed that is  
6 much more energy efficient. We hope to be able to come back.

7 Senator Ribicoff: If I may ask a question, I am at a loss  
8 to understand why do you not just require building codes to say  
9 how it should be constructed, facing south instead of north?  
10 Why do you have to give a tax credit?

11 People are going to build houses anyway.

12 What you saying, you have building codes now that tell you  
13 what should go into the house, heating requirements, electric  
14 requirements, plumbing requirements. Just put them in in the  
15 building codes energy requirements. People will build houses  
16 anyway.

17 Mr. Lubick: Essentially, Senator Ribicoff, that is a  
18 function which traditionally has been one of local governments  
19 and I am not sure that, while the Department of Energy will  
20 certainly encourage and work with and cooperate with state and  
21 local governments in developing these codes, I do not believe we  
22 are in a position to prescribe a uniform code ---nor should  
23 there be a uniform code.

24 Senator Ribicoff: Housing is competitive. People are  
25 competing to build houses to sell to the buyers. If it is

1 energy-efficient, do you not think architects and builders will  
2 be building houses that will have the sales argument, you buy it  
3 because it is an energy-efficient house? That would be a number  
4 one sales pitch.

5 Senator Heinz: Will you yield on that point?

6 Senator Ribicoff: Sure.

7 Senator Heinz: I wish that everybody was as far-sighted as  
8 you are on these things, but the fact is that I think,  
9 particularly with interest rates being where they are and where  
10 they are likely to remain that people simply look at what is the  
11 least financing cost that I am going to have and how can I have  
12 the lowest down payment and they are much more sensitive on  
13 those kinds of obvious, front-end costs, and the builder is in a  
14 market competing with those ostensible costs.

15 Frankly, I do not know what your experience has been, Max.  
16 Solar houses also look a little weird.

17 Senator Baucus: They do.

18 Senator Heinz: How would you like to buy a \$60,000 house,  
19 if you can find a new one that cheap, with no windows on the  
20 north side? That is good solar design. If you do not want  
21 windows on the north side ---try to convince your wife.

22 Senator Baucus: It is hard to design a code that is going  
23 to require all these savings. You may have your choice to build  
24 on the side of a hill. That saves energy in the long run.  
25 Aesthetically, it does not look very nice, so you have a lot of

1 aesthetic values that you have to balance out with the savings  
2 in energy. That is why it is hard to put in the code.

3 The Chairman: Senator Chafee?

4 Senator Chafee: Mr. Chairman, first I want to say --

5 Senator Heinz: Mr. Chairman, I am sorry we took so much  
6 time on that question. I had two other questions. But if I can  
7 come back to them later?

8 The Chairman: Go ahead and ask them. The problem is when  
9 we recognize a Senator and everybody wants to get involved in  
10 what the Senator says, it denies the next guy his chance.

11 Senator Heinz: I will try to be very brief, Mr. Chairman.

12 I want to ask Senator Packwood another question -- or maybe  
13 the Committee.

14 As I am understanding it, we are kind of passing over II,  
15 the business tax credits. I want to be sure that as we do this,  
16 we are conscious of what we are or are not doing.

17 In Section 48(L) of the '78 Energy Tax Act, it provided a  
18 10 percent investment tax credit for certain energy conversion  
19 and other investments. It currently runs through '82 and my  
20 understanding is, Senator Packwood originally just intended to  
21 extend that section through the year 2000.

22 And I would like to know, Mr. Chairman, whether we are  
23 consciously or unconsciously extending that or not extending  
24 that with the previous consensus position of the Committee. I  
25 would urge the Committee to extend it. It is on the books; it

1 makes sense.

2 It will be on the books through '82, but I think if we want  
3 to achieve something with it, we should not just limit it to  
4 '82. Perhaps the administration has a point of view.

5 Mr. Lubick: We would urge you to defer decision on that,  
6 Senator Heinz, for the reason that these credits were adopted at  
7 a time when prices were controlled and kept down.

8 One of the objects of decontrol is to make it more  
9 economical to adopt these conservation techniques and we suggest  
10 that the combination of the credits that have already been  
11 adopted plus the new economic necessity for energy conservative  
12 measures and construction is perhaps going to solve the problem.

13 In any event, if it does not, there is time enough to  
14 review the situation, so we would urge that you not foreclose  
15 the situation through the year 2000.

16 We think that the laws of economics are going to do a lot  
17 in this area together with the credits that have been adopted.

18 Senator Heinz: Mr. Chairman, I do not wish to get into a  
19 lengthy debate. I would like to take the issue up with the  
20 Committee at the appropriate time, today or tomorrow or the next  
21 day.

22 Finally, Senator Chafee is going to offer an amendment, I  
23 think, in a minute, to which I will want to add something which  
24 I think will be okay with him.

25 Senator Chafee: Mr. Chairman, my amendment had to deal

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1 with the residential conservation. As I understood the ground  
2 rules we are working under, you kind of set that aside until  
3 things could be worked out with Senator Bradley and Senator  
4 Packwood, so I will hold up on that and see how things work out.

5 I would say this, Mr. Chairman. Although my amendment does  
6 go to residential tax credits, I think it is very important that  
7 we bear in mind what Mr. Luoick said, that the very economics of  
8 an individual making conservation efforts by himself, it seems  
9 to me, are going to prompt many of these things to take place  
10 absent a tax credit.

11 None of us thinks that oil is going to \$26 a barrel very  
12 soon. Anything we might do otherwise is costing the government  
13 money.

14 Somehow, we have to balance that in our deliberations here.  
15 I am not saying I have the answer. I certainly think that we  
16 have to apply some kind of reasoning along that line to each of  
17 these credits we consider.

18 Thank you, Mr. Chairman.

19 Senator Heinz: If you would yield?

20 Senator Chafee: I have yielded.

21 Senator Heinz: I would just like to ask you, you are not  
22 going to offer your arrangement on wood-burning stoves?

23 Senator Chafee: I was going to wait. I thought that was  
24 the arrangement that we had here, just to delay until Senator  
25 Packwood and Senator Bradley got together.

1 Senator Bentsen: I have a question of Senator Packwood.  
2 He knows of my interest -- and I know he shares it -- of savings  
3 through heat pumps in homes and I want to be sure -- we worked  
4 on the air-to-air heat savings there, that we have the well  
5 water heat pump also included.

6 Senator Packwood: They are specifically put in. You were  
7 the one who brought it to my attention. Then we looked at the  
8 research that both the Department of Energy -- I forget which  
9 university.

10 Senator Bentsen: The University of Alabama. Two-thirds of  
11 the energy used, if you replace electrical resistance systems,  
12 the TVA says you say some 11,650 kilowatt hours.

13 Senator Packwood: It is specifically in the bill.

14 Senator Bentsen: Good.

15 The Chairman: Senator Moynihan wanted to say something  
16 here. He is not here.

17 Is there any more discussion?

18 Senator Dole?

19 Senator Dole: We discussed earlier -- maybe Senator  
20 Packwood pointed it out. I think that we ought to know how  
21 broadly this amendment applies so it is not misinterpreted by  
22 anyone who might be writing about it. It would cover any  
23 effort, whether swimming pools or greenhouses, or any other  
24 area, based on the theory that you are saving.

25 You might also be encouraging more utilization. Did you

1 address that earlier, Bob?

2 Senator Packwood: I did not address that earlier, but I  
3 see Senator Ribicoff is gone. That is one of the reasons we  
4 have included, or deleted, the primary residence credit. If  
5 somebody has a second home and if what we are trying to do is  
6 save energy, and if, indeed, the tax credit works and the  
7 assessments are right, they might convert to solar in their  
8 second home, and they would not otherwise, and we would put it  
9 in.

10 California's experience -- the figure is 47 percent of  
11 their solar installations have been in swimming pool. You say  
12 to yourself, I understand the political downside, including a  
13 swimming pool, it looks like a rich person's toy. But if,  
14 indeed, what are trying to do is save energy, and if the credit  
15 will work to convert from gas and oil, then it should be left  
16 in.

17 Senator Dole: Does Treasury have any view on this?

18 Mr. Lubick: Senator Dole, it is impossible to dispute what  
19 Senator Packwood says. If you want to pay money to save energy  
20 everywhere we do it, we want to do it. It comes down to a  
21 question of how much you spend and what your priorities are, and  
22 in last year's act, we decided that the most important thing was  
23 to take the limited amount of money that we had to make sure  
24 that the primary residences were retrofitted to produce this  
25 conservation.

1 Now, if you feel that you have sufficient funds to move  
2 beyond that and that is your priority, then I think it is  
3 appropriate to act.

4 The Chairman: Let me discuss that for a moment.

5 You know, the Senator has some good logic to it. On the  
6 other hand, there is another side of it.

7 I happen to have a swimming pool in my home in Baton Rouge  
8 -- it is not much of a home, by the way; the ABC was wrong when  
9 they said that house was worth \$700,000. If anybody offered me  
10 \$50,000 for it, they would be an idiot.

11 It is an old farmhouse that was left there by some old  
12 people, a sweet, dear old couple who started out living in  
13 the hayloft of their barn, and then after awhile thought they  
14 could afford to build a home and ABC took a picture of that  
15 residence looking from a helicopter down on top of the roof.  
16 You do not know what the house looks like from the roof. If you  
17 took a picture of that house on the ground, you could see that  
18 even with a nice coat of paint on it, that house would sell for  
19 \$50,000.

20 Senator Heinz: Mr. Chairman, it has historic value.

21 The Chairman: The roof looked good.

22 The pool probably is worth as much as the home is. It cost  
23 me \$10,000 when I put it in. It does have a heater in it,  
24 but because of patriotism and the cost of oil, I cannot afford  
25 to use it anymore.

1 I guess I have a conflict of interest with regard to this  
2 matter because I would like to put a solar thing on there. I am  
3 not asking for a tax credit. That is one possibility of heating  
4 the water during the cool months and you could swim in the pool  
5 50 percent more.

6 As a practical matter, what we do is, as the water gets  
7 cool, we just put a cover on the top of the pool and that is it,  
8 until next spring. We just do not swim in the pool during the  
9 fall and spring, which we would otherwise, if the solar credit  
10 was available for it.

11 But I think that is sort of where we stand on swimming  
12 pools. Most of them are not being heated because the cost is  
13 prohibitive.

14 If you give a tax credit so people could swim in the pool,  
15 warm up with the solar heat, then, of course, I think they would  
16 turn to and put the solar units in so that you probably would  
17 not save much energy when you looked at the number of pools that  
18 people would heat if you had a 50 percent tax credit to heat it  
19 with.

20 Senator Heinz: Having already designated your house as a  
21 historic, national landmark, Mr. Chairman, what I would like to  
22 do is raise one issue at the appropriate time before we get out  
23 of here, because I need some work by the Treasury before we come  
24 back tomorrow. Let me know when I can do that.

25 Senator Dole: Going back to that, I do not have any

1 quarrel with what Senator Packwood has to do. I do not want  
2 somebody thinking we are sneaking something in later on for  
3 swimmers, tennis courts. I guess there is no end as to what you  
4 could do with it if somebody is going to pay half the cost.

5 Senator Packwood: I just want to say one thing on this.  
6 These estimates -- and again, I have spent the better part of  
7 two weeks trying to get them. I think they are as good as  
8 anybody can get, although I am not going to guarantee they are  
9 right.

10 In each of these estimates, they are supposed to be what  
11 will be saved by the credit or reduced by the credit above and  
12 beyond what otherwise would be done. So in the Chairman's case,  
13 if he has not been heating his pool at all, at all, and he puts  
14 in a solar heater, you have not saved anything. You have not  
15 converted.

16 Those figures on a second house or a swimming pool are  
17 additional savings from conversions. But I am with you as we go  
18 down this list.

19 If I were to look at second houses and the costs per barrel  
20 did not nearly come as to where it would come from conservation  
21 on primary houses, I would drop it out. On the other hand, if  
22 we had \$8 billion in credits each year and that whole \$8 billion  
23 could be justifiably used including second houses or swimming  
24 pools, and it would justify itself, I would include it.

25 The Chairman: Senator, I would like to vote for your

1 amendment. I do not want to be accused of having a conflict of  
2 interests. Would you mind dropping out that swimming pool,  
3 leave the swimming pool out of it.

4 Senator Dole: Yours or all of them?

5 The Chairman: Everybody's.

6 Senator Packwood: Mr. Chairman, I am not going to make an  
7 issue over swimming pools one way or the other. If you are  
8 going to drop it out, it is of no mind to me; it is fine.  
9 Again, California has had a success with it. A good portion of  
10 their savings have come on conversions. I just hate to drop it  
11 out at the moment until we get down to the place of saying how  
12 much money do we have, how much oil can we save.

13 The Chairman: I am thinking of Jack Anderson's column.  
14 Why do we not put out pools?

15 Senator Packwood: All right.

16 The Chairman: Pools are out.

17 Senator Heinz?

18 Senator Heinz: I would like to go on record regarding an  
19 amendment I am thinking of offering. The administration has a  
20 proposal for a tax credit for wood-burning stoves, as I  
21 understand it.

22 Senator Dole: Airtight.

23 Senator Heinz: Yes.

24 Now, my understanding was that Senator Chafee was going to  
25 offer the equivalent of that amendment and that he was going to

1 offer a 50 percent tax credit for up to \$2,000 of cost, which,  
2 of course, would be a maximum \$1,000 tax credit.

3 We have been doing some research on clean coal-burning,  
4 central heating and hot water heating units which are in fairly  
5 common use in England. 20 percent of the homes in England are  
6 heated with clean coal burning central heating combined hot  
7 water heating units.

8 If you are wondering what they look like, they kind of look  
9 like that (Indicating) and they work like that.

10 The Chairman: Show us over here.

11 Senator Heinz: The economics are that they cost, I gather,  
12 around \$1,500 plus inflation. They would use roughly four tons  
13 of fuel a year at a cost of between \$75 and \$85 per ton. The  
14 fuel is usually pelletized, anthracite -- as they call it in  
15 England, anthracite beans or peas or grains, pelletized coke,  
16 several brand names of which are sold in the U.K.

17 Looking at the economics of this, it would appear ---and  
18 these are conservative numbers -- checking with Senator Chafee,  
19 that for every one of these you put in which displaces a home  
20 which used heating oil for these purposes you would save about  
21 18 barrels of heating oil a year.

22 That means if you save 18 barrels of heating oil per year  
23 over the ten year useful life of these units, you would save 180  
24 barrels, and if the Federal subsidy was, let us say, on a \$2,000  
25 barrel installation, \$1,000 more than I understand that these



1 things cost, the cost would be \$5.50 per barrel saved. \$5.50 a  
2 barrel of oil is pretty cheap oil. We have not had that since  
3 1973 and I might also add for the record that these all meet,  
4 very easily, EPA's industrial emission standards of 1.2 pounds  
5 per million btu's of peat input and certain emissions not to  
6 exceed 0.13 of heat input.

7 They would appear to be quite clean, and very efficient.  
8 As you can see, they are not bad looking, either.

9 So I would like the Treasury to think about that. I would  
10 not want anyone to think that just because anthracite is  
11 produced in Pennsylvania that I am against this proposal for  
12 that reason, or that you should be either.

13 Mr. Lubick: We will take a look at it.

14 Senator Heinz: Thank you.

15 The Chairman: Let us just get down to be sure what we are  
16 voting on, how much we are voting on. I am concerned about the  
17 cost of it.

18 Would you give me the cost estimate of what we are voting  
19 on now? The Senator has narrowed the amendment down to meet the  
20 cost problem. Let's see where we stand on it.

21 Mr. Shapiro: The estimate we have now is in the range of  
22 \$75 million in 1980, so up to approximately \$50 million in 1985.

23 The Chairman: How much?

24 Mr. Shapiro: \$217 million in 1985, 1990, in the range of  
25 \$1.5 billion, \$1.6-something.

1 The Chairman: 1985?

2 Mr. Shapiro: 1990. 1985 is \$217 million.

3 Senator Packwood: That is including solar, wind,  
4 geothermal and the heat pumps, right?

5 The Chairman: Does that include heat pumps?

6 Mr. Shapiro: Not heat pumps. We were told that you are  
7 just including your I through VIII, (a) through (h).

8 Senator Packwood: All right.

9 Mr. Shapiro: At a 50 percent credit.

10 Senator Dole: (a) through (h).

11 Mr. Shapiro: On the two-sheet hand-out, I through II, III  
12 on page 1, (a) through (h), except it would not cover  
13 swimming pools.

14 The Chairman: Let's vote on that.

15 Senator Packwood: That is fine.

16 The Chairman: All in favor, say aye.

17 (A chorus of ayes)

18 The Chairman: Opposed, no?

19 (No response)

20 The Chairman: The ayes have it.

21 Now, I think we might as well stop at this point.

22 We will come back tomorrow morning at 10:00 o'clock.

23 (Thereupon at 12:20 p.m. the Committee recessed, to  
24 reconvene at 10:00 a.m. on Wednesday, September 20, 1979.)

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