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EXECUTIVE SESSION

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SEPTEMBER 18, 1979

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

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

Present: Senators Long, Talmadge, Gravel, Bentsen, Matsunaga, Baucus, Boren, Bradley, Dole, Packwood, Danforth, Chafee, Heinz, Wallop and Durenberger.

The Chairman: The hearing will come to order.

As I understand it, we are going to have two votes. We have two votes scheduled for 10:45 and I would hope at least we can lay down before us the agenda that the staff has been working on, which I think that we can at least look at and it might help very much to get us moving along on a lot of decisions that we are going to have to make.

The final results on the Talmadge shale ool credit was eight yeas and eleven nays. The amendment did not carry.

Now, we have before us an outline of decisions that the staff feels that we need to make and these are issues that Senators have expressed an interest in voting upon and the

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1 audit decisions that we would like to make as rapidly as we
2 can. I think most of the Senators would like to move this
3 bill, and I share that view.

4 I would think that in today's session, because the staff
5 is still working on the information that has been requested
6 with regards to the windfall profits tax, that is what we hope
7 it will yield and also what we would hope the effect of various
8 amendments listed under item one would cost in terms of revenue
9 and what we would hope they would gain in terms of the
10 production.

11 I doubt that we could very well vote on that this morning.
12 I think most people will want the information that they are
13 requesting.

14 Perhaps we could make some decisions in the items that
15 come below there with regard to the alternative source of energy
16 including syn fuel and conservation credits and perhaps the
17 business investment credits. There are some Senators who feel
18 that they would like to know, as they have indicated here,
19 about how much we expect the tax credits and the deductions to
20 cost us in terms of revenue on the theory that they would like
21 to vote for enough taxes to pay for what we hope to do, and not
22 much more than that.

23 Senator Dole?

24 Senator Dole: Well, I would just say that the Republicans
25 on the Committee -- in a bipartisan spirit, I might add -- have

1 been trying to meet on a regular basis. We had a meeting
2 yesterday afternoon. We hope to meet again each morning before
3 our session in an effort to see if we can agree on certain
4 principles in certain areas and make it easier for the Chairman
5 and everyone else to know where we may be as a group of eight.

6 We will make the information available, not in a partisan
7 effort, but in an effort to reach some common understanding
8 before the Committee session to save time before that period.

9 We would like, very frankly -- I know the Chairman and
10 other members would -- to move this bill very quickly once we
11 start and get it on the Floor and get it behind us and get into
12 conference and hopeful move on to something else.

13 We do agree that there is still information needed as far
14 as the tax itself is concerned, and there is some agreement on
15 our side that that should not be the first item to consider,
16 that we might take a look at some of the other areas.

17 I think Senator Packwood, for example, is prepared in a
18 limited way, to discuss one of his proposals as far as tax
19 credits are concerned, and we will be working with the Joint
20 Committee staff and with members on both sides trying to help
21 the Chairman expedite the process.

22 The Chairman: Thank you, Senator.

23 Mr. Shapiro, what can you suggest to us by way of making
24 some project on the bill?

25 Mr. Shapiro: The staff provided the proposed amendment

1 because I think it is helpful to the members to see all the
2 various items encompassed that would make up the various bills.

3 Staff has been asked to prepare a lot of material with
4 regard to revenue estimates. In the case of the windfall
5 profits tax, we have not completed the work. We are requesting
6 the Committee if they will pass over the windfall profits tax
7 for the time being so staff can continue their work, and the
8 consultants the staff is working with, to provide the Committee
9 the information they want and need for the basis of their
10 decision on the windfall profits tax.

11 If we can go down further, we are not necessarily
12 recommending what areas the Committee should go to next. We do
13 know, for example, that in the last discussion there was a
14 considerable amount of interest in committee to deal with oil
15 shale or unconventional gas. There are some Senators that are
16 revealing comprehensive proposals, dealing with them all in one
17 package, some items Senator Danforth discussed at the last
18 session.

19 We also know that Senator Packwood has a very major bill
20 that deals with the individual and business conservation
21 credits and has been requesting energy savings estimates that
22 the Department of Energy is preparing.

23 I do not think they have completed it yet. However, the
24 Senator has his proposal pretty much outlined, as I understand
25 it. We do have estimates on almost all of it that has been

1 provided. The Committee may want to review either one of those
2 two areas for a starting point.

3 I am not sure which is the best. It would have to be an
4 area that the Senator would like to start on.

5 Senator Packwood: You also, Bob, are prepared to
6 distribute a summary of Senator Packwood's credit proposals, as
7 I understand it. I have a copy of it.

8 Mr. Shapiro: Yes.

9 Senator Packwood: Mr. Chairman, I can tell you what I am
10 prepared to do. Most of the proposals I have -- and this is
11 co-sponsored by 14 other members of the Finance Committee plus
12 myself -- fall into items two, three and four, alternative
13 energy sources, individual conservation credits, and business
14 energy investment credits. They do not include everything that
15 is in there, but they would fall into those categories, and I
16 would be prepared ---and I will have, Bob -- some energy
17 estimates, realizing that they are very spongy. I am not sure
18 that anybody can rebut them. All I can say is these are the
19 best estimates that I can get from a variety of sources, some
20 of which are very, very favorable in terms of cost per barrel.

21 But I realize that the Joint Committee does not want to do
22 energy projections and it depends really on whether you get
23 your projections from the Solar Society or General Electric or
24 the Department of Energy. They will vary widely.

25 I am prepared to go on a number of items in two, three,

1 four. I would have no objection to taking them in the order
2 that they are there -- oil shale and unconventional gas and on
3 down, if that is the Chairman's preference.

4 I agree with Senator Dole and Mr. Shapiro that we should
5 for the moment skip the windfall profits tax and start looking
6 at alternatives, add up what they cost, and see if we can
7 produce that much from the tax.

8 Senator Dole: Jack, are you ready on alternatives to oil
9 shale.

10 Senator Danforth: Yes, I am ready on alternative energy
11 sources, Mr. Chairman. I would like to read my proposal into
12 the record.

13 An alternative energy production credit would be allowed
14 for the producton of a "unit of energy" (boe) equivalent to the
15 energy content of a barrel of oil. The credit would be allowed
16 for production from facilities placed in service after 1979 and
17 befoer 1990, but only if the energy produced exceeds that
18 consumed by at least 50 percent, i.e., 1-1/2 boe produced for 1
19 boe consumed. The credit would be nontaxable and
20 nonrefundable.

21 Eligible energy sources. The credit generally would apply
22 to energy produced from any source except oil, gas, nuclear,
23 wood, coal, hydro, or alcohol fuel mixed with gasoline.
24 However, the credit would be available in the case of processed
25 coal that yields a synthetic gaseous, liquid, or solid fuel.

1 It also would apply to the production of ocean thermal power,
2 and to gas produced from unconventional sources (Devonian
3 shale, coal seams, and geopressured brine).

4 Amount of credit. The amount of the credit would be \$3.00
5 per boe, adjusted for post-1979 changes in the GNP deflator.
6 The available credit would be offset in proportion to Federal
7 grants or tax-exempt financing. In addition, the proposed
8 Energy Security Corporation would take the credit into account
9 in considering actions with respect to any alternative energy
10 sources eligible for the credit.

11 Phase out. The credit would phase out as the price of
12 imported oil (including any applicable import fees, et cetera)
13 increased from \$23.50 to \$29.50, adjusted for post-1979 changes
14 in the GNP deflator, or it would terminate at the end of 1999.

15 Effective date. The credit would be effective for energy
16 production after 1979 from facilities placed in service after
17 1979 and before 1990.

18 Revenue effect. Fiscal year revenue losses of \$9 million
19 in 1980, \$32 million in 1981, \$246 million in 1985, and \$905
20 million in 1990.

21 Mr. Chairman, last week we addressed the question of a
22 specific credit, \$3 a barrel, for oil-producing shale, and the
23 question was raised at that point, why shale? Why pick out one
24 particular credit for energy? Why not just provide a \$3 credit
25 for whatever will do the job rather than specifying a

1 particular process?

2 So we had the vote on shale and my understanding is that
3 it did not prevail, and therefore, the proposal that I have now
4 would include shale. It would do exactly the same thing for
5 shale that Senator Talmadge's would have, but it would also
6 extent to any alternative energy source and would provide the
7 same \$3 credit for that, with the exception the problem that we
8 faced in trying to devise this amendment, what do you do with
9 an alternative source of energy that is already in use, already
10 economical? Do you provide a credit for that, too.

11 If something is already being done, why should the
12 taxpayer's money be spent to provide an incentive for something
13 that already is economical?

14 Therefore, the theory was to try to devise the credit
15 which would provide an incentive for those kinds of energy that
16 are not now being done.

17 The effect of the \$3 credit would be to increase, as far
18 as the producer is concerned, the market value of his produce
19 from the world price, about \$22 now, increase it about \$5.50.
20 That is the effect of that \$3 credit.

21 So that the effect of that is it will provide an incentive
22 for something that could be profitably sold, not for the \$22
23 world price, but could be profitably sold for \$27.50.

24 This particular amendment has been fashioned to exclude
25 two forms of energy. It would exclude wood. It would exclude

1 wood, and I think that certainly both of these exclusions are
 2 debatable and something the Committee should address. It would
 3 exclude wood on the theory that, as I understand it, wood is
 4 now in use, that it is now economically being used,
 5 particularly by paper companies, as a source of energy. It
 6 would also exclude gasohol. It would exclude gasohol on the
 7 theory that we have already taken care of gasohol. Nothing
 8 wrong with it. It is fine, but we have already provided
 9 separate tax incentives for gasohol and therefore, nothing
 10 additional would be needed under this particular amendment.

11 This would include shale. This would include -- what
 12 else, Bob?

13 Mr. Shapiro: It would include biomass, coal liquefaction,
 14 gas --

15 Senator Talmadge: If the Senator would yield at that
 16 point, as I understand it, biomass is an agricultural wood
 17 product. Now, what does it do? Does it include biomass, or
 18 exclude it?

19 Actually, the only short-range alternative we have is from
 20 wood and agricultural products or anything else that would
 21 ferment. I agree with the thrust of the Senator's amendment,
 22 but I think it should include biomass, because the other items
 23 that we are talking about in this bill, shale, gasification,
 24 liquefaction, is a long lead time, years and years.

25 I can envision a tremendous amount of progress being made

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1 in developing alternative sources of energy in this country,
 2 biomass and agricultural and wood products. Those plants would
 3 be small. They would be near the site of the energy source and
 4 could be placed in operation in a matter of months.

5 I do not know whether the Senator has read the article that
 6 was in this morning's Washington Post, but there was a long
 7 article in there about what they are doing in Brazil. They are
 8 mandating the automobiles to upgrade on pure alcohol down there
 9 and, of course, with a very minor modification, our present
 10 automobiles can run on alcohol.

11 That is the one alternative energy source that we can have
 12 in being in a matter of months. All of these others are long
 13 lead-time, and I think that we would be really derelict in our
 14 performance of duty if we did not try our dead level best to
 15 stimulate the one alternative energy source that is short
 16 term, and that is biomass.

17 Senator Danforth: The revenue effects of the amendment as
 18 it now exists are fairly modest, \$9 million in 1980; \$32
 19 million in '81; \$246 million in '85; \$905 million in 1990. It
 20 is my understanding that if wood were included, it would
 21 substantially increase the cost of it, and that wood is already
 22 -- there are plants that already use wood.

23 Senator Talmadge: I agree, but if the Senator would yield
 24 further, I do not think we should provide a tax credit to
 25 someone who goes out and gets wood and throws it on their

1 furnace, but if they are going to pelletize this wood, if they
2 are going to gasify the wood, liquify the wood into alcohol,
3 then I think they ought to get the tax credit.

4 The Senator is absolutely correct. Some plants are now
5 using wood very efficiently and reducing the cost of operation
6 just by merely using waste wood and so on.

7 But if someone processes the wood into a pellet, or
8 something of that nature, or gasifies wood, that can be done,
9 or reduces wood to alcohol, then I think they should be
10 entitled to the credit.

11 Senator Danforth: Do you have a comment on that, Bob?

12 Mr. Shapiro: Pelletized wood.

13 Senator Danforth: Between a paper company burning wood,
14 every scrap it has, whatever it has on hand for its own
15 purposes, and in not getting a credit, under those
16 circumstances versus taking stumps or whatever and pelletizing
17 it, or liquefying it, or whatever is done, in that sense.

18 Mr. Shapiro: The amendment, as I understand it, that you
19 have proposed for the Committee would include all biomass
20 except the wood. That is where Senator Talmadge has his
21 references, that the biomass would not include the wood. I
22 would assume that one of the decisions the Committee has to
23 make, what extent you encourage industries to do something that
24 they are not already doing, to do it more efficiently, to save
25 energy.

1 Many of these companies are already doing a lot with wood.
2 The question is, can they do more?

3 Much of this amendment goes to things that are not in
4 large production right now, not being done. I think that is
5 one of the reasons why the estimate started very low and then
6 they built up, hoping to get more involved in later years.

7 To the extent that industries can do something more
8 efficient which would provide a large energy savings then the
9 question would be to look at the relative cost in the wood
10 area. They are already doing something; the question is
11 whether it is cost-effective.

12 That is a decision the Committee has to make.

13 Senator Wallop: Mr. Chairman, I would like to ask Senator
14 Talmadge, there is a difference between wood as pelletized or
15 put into a variety of combustible forms as wood and what is
16 biomass. I think the Committee could draw a distinction
17 between that and the difficulty could be resolved.

18 Senator Talmadge: It deals with processing the wood
19 further. You can pelletize wood, make it competitive with
20 coal, and it is almost completely free of pollution.

21 That is the process where you dehydrate it and pelletize
22 it.

23 There is a further process that you can make wood out of
24 alcohol, of course. Of course, you can use these various
25 agriculture products, and the agricultural product can be

1 anything that can be fermented, grain, waste agricultural
2 products. The same thing is true of wood.

3 I have killed on my farm probably a thousand hardwood, a
4 thousand years old. That is known as tree standing
5 improvement. My object was to try to eliminate the competitive
6 woods, to permit pine to grow. I started that almost 30
7 years ago, but we have found now that his waste wood that I
8 killed has a value. It can be pelletized, or it can be reduced
9 to alcohol and you can use alcohol in the engines, anywhere
10 from 10 percent to 100 percent, engines presently operating in
11 this country. You cannot use 100 percent alcohol, but you can
12 modify that engine at a cost of \$200 to \$300 and use 100
13 percent alcohol.

14 The Governor of Mississippi drove from Mississippi to
15 Washington on 100 percent alcohol. When Henry Ford first
16 designed his Model T car, his idea was to operate on alcohol
17 but he found out that gasoline was cheaper and when Senator
18 Packwood pointed out last week, when we were discussing this
19 matter, a gallon of alcohol will give you two-thirds of the
20 mileage of a gallon of gasoline.

21 When we have waste products in this country, or products
22 of little or no commercial value at the present time, if we can
23 substitute for imported energy that costs us \$22.50 a barrel,
24 it is high time that this government started to try to do
25 something about it.

1 Senator Danforth: I am persuaded by the eloquent
2 presentation of Senator Talmadge and would be happy to accept
3 his modification.

4 The Chairman: Are you including pelletized?

5 Senator Danforth: I would include process. If a
6 distinction can be made in drafting -- and I am sure it can --
7 between just burning the raw product, on the one hand, and
8 either pelletizing or fermenting.

9 Senator Packwood: Let me ask one question. Oregon, of
10 course, is a significant timber product state. One of the
11 provisions of the bill as introduced, that I have, relates to
12 co-generation where they are burning wood waste product, not
13 palletizing them, making gas out of it. They are burning it
14 and generating steam and heat for the use of electricity in the
15 factory and converting over from natural gas or propane and I
16 would not want the incentive to do this to be written out
17 simply because we were not gassifying the wood first, or
18 pelletizing it, when indeed we are using and burning it to make
19 a substitute for natural gas, or oil.

20 Senator Danforth: You could offer that separately. I do
21 not think that I would, myself, want to include it in this
22 amendment, because that would seem to me that that was
23 something that was already being done.

24 Senator Talmadge: If the Senator would yield at that
25 point, while I am sympathetic to your objective, I think that

1 can probably be one with an investment tax credit and a
2 production tax credit. Then he could get an investment tax
3 credit for his alteration rather than a production tax credit.

4 Senator Packwood: In the bill I have that includes
5 credits for co-generation, they are greater than the investment
6 tax credit. I am impressed with what Senator Ribicoff has said
7 over and over. Anything that we can do to encourage people to
8 convert from oil, if it is at all reasonably cost-effective, we
9 ought to do.

10 The Chairman: Gentlemen, there is a vote going on on the
11 Senate Floor. We can either vote now and come back, or we can
12 vote in the Senate. There will be two votes in the Senate. Do
13 you want to vote on the Danforth amendment before we go?

14 Senator Dole: Does that cover all of it, the Danforth
15 amendment?

16 Senator Packwood: It does not cover all of two that I
17 have.

18 Senator Dole: Oil shale.

19 Mr. Shapiro: There are some other proposals that I think
20 Senator Danforth covers, A, B and D. One thing that I think
21 Senator Talmadge in your discussion just now, you were
22 referring to gasohol. I understand gasohol is not included in
23 Senator Danforth's proposal, if you want that included.

24 Senator Talmadge: He modified his amendment.

25 Senator Danforth: It would not include gasohol.

1 The Chairman: Let me just say this, gentlemen. I do not
2 think you need to have gasohol in this context.

3 The reason that I say that, in Louisiana, the state
4 legislature passed a law that parallels the Dole amendment. It
5 said, you do the same thing about the state tax that the
6 Federal government does about the Federal tax. When you add
7 all that up, that is a state tax of 7 cents, so you add that to
8 the Dole amendment and that works out to be about \$1.10 subsidy
9 for a gallon of alcohol produced for energy put into this
10 gasoline.

11 Some people came to see me just before I came back up
12 here. They said they are ready to put the plant on order. They
13 can order a plant in Brazil, where they showed me a picture of
14 the Brazilian plant. They can put it on the ship and send it
15 to us immediately.

16 They are looking for somebody to guarantee a loan. We do
17 not have jurisdiction over that.

18 Their point of view is it is commercial feasible with the
19 flexibility of the Federal government, what the states would put
20 into it. There would be a \$40 million plant right now. They
21 contend that is everything that can be put together in
22 Louisiana and everything they can get out of the river, too,
23 because obviously you would not want to use your best grain;
24 you would want to use your low quality grain.

25 And they really make the point that all we really need --

1 if you put the state money behind it and other states are doing
2 it -- what other states are doing it?

3 Senator Dole: We are working at it in our states. I do
4 not know how many states have done it.

5 The Chairman: Take the subsidy Louisiana is putting into
6 it, and other states are expected to follow suit. If you will
7 look at the interests that the states have shown, plus the
8 interest of the Federal government, all we really need now is a
9 loan guarantee to get on with it.

10 Senator Talmadge: We have a loan guarantee bill in our
11 committee. The Senate also -- this project was really started
12 in the Agriculture Committee; the emphasis in the Congress, in
13 the farm bill of '77. We provided, at that point, four pilot
14 projects to be set up and with the Federal guaranteed loan of
15 \$60 million.

16 Those projects now are working successfully.

17 The Senate agreed six weeks ago, agreed to raise that loan
18 guarantee to a half a million dollars. I do not think they
19 have it both ways, a loan guarantee plus a tax credit.

20 Really, the only subsidy we provided to date, as I
21 understand it, we held with the Curtis amendment, repealed the
22 Federal gasoline tax. Louisiana has repealed the state tax on
23 gasoline in Louisiana.

24 That is really not a subsidy. That is repealing the tax.

25 What I think we need to do thus far, ever since 1973, this

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1 Congress has talked about doing something and has done nothing.
2 The only short-range solution we have got is alcohol.
3 Long-range we have a multiplicity of things embraced in Senator
4 Danforth's amendment, and I support every one of them. We have
5 to go in every direction that there is.

6 And this loan, according to the experts, can provide 12
7 percent of the energy needs in this country.

8 The Chairman: The Treasury might want to react to this
9 amendment.

10 Mr. Lubick: Senator, we have not had a lot of time to
11 look at it. At first it appeared to me taht there might be
12 some severe -- some administrative difficulties in the IRS's
13 making this calculation in energy comparisons. We have had
14 some very quick discussions with some people from the IRS and
15 it may be that we can work out something, some way of
16 describing standards, that will be administrable.

17 Generally speaking, Senator Danforth's amendment does
18 include the areas where we had specific proposals. We are
19 concerned with the tie-in to the Energy Security Corporation.
20 If we have to do a lot of pro rating, that may be difficult as
21 well, so that we would suggest our original proposal.

22 If you are going the Energy Security Corporation route,
23 you ought not to get the credit and the two should be kept
24 separate.

25 I would also like to consider when you are voting some of

1 the items that are included, we think the Security Corporation
2 has a responsibility to deal at various levels of technological
3 advance and various ways. Could we talk a little bit about it
4 when you get --

5 The Chairman: Yes, sir.

6 I suggest that we all go vote and come back.

7 (A brief recess was taken.)

8 The Chairman: All right, gentlemen.

9 Now, let me just get this one thing straight with Mr.
10 Lubick from Treasury.

11 Now, as I understand it, we are voting on this without
12 reference to whether we are going to have an Energy Trust Fund
13 or whether we are going to have a corporation. We are just
14 voting on whether we are going to have a tax credit, and most
15 of us, almost all of us -- it is something that the Senate has
16 voted for on other occasions.

17 Is that not right, Mr. Lubick?

18 Mr. Lubick: A good deal of it, Mr. Chairman, but not the
19 pellitized wood.

20 In checking during the period while you were out to vote,
21 Mr. Smith has talked back to the Department of Energy and I
22 will let him address this as well, but that is what gives us
23 the most problem, Senator Danforth, because it appears that
24 that process is already economic and already one that is in use
25 and it seems to us extending it to that sort of process is not

1 going to be cost-beneficial in terms of production of energy,
2 nor would the incentive encourage a significant amount of that
3 which is not already economical and being done.

4 Generally speaking with the rest of your proposal, we find
5 it sufficiently close to ours, so not to be upset.

6 That is pretty high praise from us.

7 Senator Danforth: It is the first time. I am going to
8 get the transcript.

9 With respect to the synthetic coal, we would not suggest
10 that his credit would do much. We think that it is going to be
11 necessary for the government to participate rather heavily in
12 the construction of these facilities.

13 We do think that it is important that we divorce the use
14 of the tax credit route from the use of some other governmental
15 subsidy. We think that it is very hard to pro rate these
16 administratively to measure how much support you have got and
17 to change the credit that way. And so that we would think that
18 the persons involved, the taxpayers, ought to choose one route
19 or the other, which is the way that Senator Talmadge's bill
20 went the other day.

21 If they want to go the tax credit route, that is fine. If
22 they want to go some other government subsidy, then they ought
23 not to get the tax credit.

24 Senator Danforth: Mr. Chairman?

25 The Chairman: Yes, sir.

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1 Senator Danforth: Taking the second point first, the
2 suggested amendment provides that in addition the proposed
3 Energy Security Corporation would take the credit into account
4 in considering actions with respect to any alternative energy
5 sources eligible for the credit.

6 It seems to me that it would provide more flexibility to
7 let the Energy Security Corporation, if there is to be one, to
8 do whatever it wants to do rather than try to make that decision
9 now.

10 Mr. Lubick: There are two points here. The previous
11 sentence says the available credit would be offset in
12 proportion to Federal grants or tax-exempt financing. I am not
13 quite sure how you offset it. Do you mean dollar for dollar?
14 Do you pro rate the credit down if you have gotten a certain
15 part of your financing?

16 Second, is for the Energy Security Corporation to take the
17 credit into account, is going to require a considerable amount
18 of presence on this part. If it says, we are going to help you
19 build a synthetic solvent refined coal plant, but we are not
20 going to give you as much money as we think you are going to
21 need to build it because you are going to get some credit down
22 the line, then maybe you will not get the plant built.

23 So it is going to be, I suppose you could say we will
24 build the whole plant, but maybe you will have to repay, forgo
25 the credit, or something like that. That gets to be difficult

1 to do.

2 Senator Danforth: My view is not to tie the hands of the
3 Energy Security Corporation, but to provide it with maximum
4 flexibility. I went to the briefing at the White House last
5 night. The President made a point of saying -- and I think he
6 is quite right -- that he wants the Energy Security Corporation
7 to be able to make decisions without having Congress constantly
8 looking over its shoulder and trying to decide what it should
9 do and what not do.

10 So my view is rather than block it out, provide the
11 credit. That is our decision; that is a tax decision.

12 Then, in the event that the Energy Security Corporation
13 believes, with respect to some specific project, that it wants
14 to do more, that would be its prerogative.

15 Mr. Lubick: Could it require the taxpayer to repay all of
16 the credits in addition to being not eligible for the credit?

17 I think you are going to get into some difficult
18 situations.

19 Senator Danforth: I do not say why you have to spell it
20 out.

21 Mr. Lubick: I am not asking to have it spelled out. I am
22 asking whether it would be included.

23 Senator Danforth: They would get the credit. Anything
24 over and above that that the Energy Corporation wanted to do.
25 What is wrong with that?

1 Mr. Lubick: They will be operating up front to get the
2 thing built. The credit will not come in until it is in
3 production.

4 Senator Danforth: Right.

5 Mr. Lubick: If the Energy Security Corporation reduces
6 the upfront incentive, you may not get the thing built.

7 Senator Danforth: Is that not a decision which it would
8 have to make?

9 Mr. Lubick: My only question was, is taking away the
10 credit, if that is appropriate, in exchange for granting the
11 upfront financing within the ambience of what is permitted by
12 your amendment.

13 Mr. Shapiro: If I understand what you are suggesting, if
14 the grants that they receive account for half of their
15 financing, they would only be entitled to half a credit. You
16 are, in a sense, pro rating it, and the Energy Security can
17 take that into account, or any other program with respect to
18 any money they provide.

19 What Mr. Lubick is suggesting, if they provide anything to
20 the grant program or the Energy Security Corporation in any
21 sense, you lose the entire credit.

22 You are suggesting, on a proportional basis?

23 Mr. Lubick: That is what the second sentence of this
24 paragraph does. The third sentence is a direction to the
25 Energy Security Corporation, which I suppose you could do

1 anyway, to take the availability of the credit into account.

2 But I am not quite sure how we offset the credit in
3 proportion to Federal grants. Do you do, as Bobby said, if
4 half of the financing was provided by the corporation, you
5 would get half the credit?

6 I am not quite so sure how you measure these things. If
7 you have a loan guarantee, how does that offset the amount of
8 the credit? What proportion of the financing is the loan
9 guarantee?

10 In a sense, there might be 100 percent. You could not get
11 it without the loan guarantee.

12 Senator Danforth: That is a good point. It would make
13 more sense to delete that second sentence, provide for the
14 credit. That would be more simple and straightforward.

15 Mr. Shapiro: You are suggesting to provide for the
16 credit, even if the grant program -- what is happening, the
17 third sentence, what it says, the Energy Security Corporaion
18 should recognize that they are getting a tax credit and that
19 would be taken into account, to the extent that the money they
20 wanted to provide by way of grants.

21 This is not a loan guarantee. This is just a grant
22 program. If the Energy Security Corporation provides any
23 grants to the extent of that, then the credits are reduced.
24 For example, I said before, if they provide one-half of the
25 cost of the program.

1 Senator Danforth: That is what Mr. Lubick thinks cannot
2 be administered. My response to that, if that is right, which
3 I do not know if that is correct, then you just deleted then a
4 lot of the credit, which is a credit on production.

5 Mr. Lubick: Of course.

6 Mr. Shapiro: You are saying allowing the credit, even if
7 they get grants?

8 Senator Danforth: Yes. And then allow the Energy
9 Security Corporation to tailor its grant program as it would
10 anyway.

11 Mr. Shapiro: Here is what you are saying, if I understand
12 it. If what Mr. Lubick is suggesting that it would be a
13 problem from an administrative point of view to decide to
14 proportion, to say they get the entire credit, then the Energy
15 Security Corporation would take that into account. The fact
16 that they get in the entire credit is to how much the grants
17 are that they provide.

18 Mr. Lubick: You have two problems mixed up here, one is
19 the tax-exempt financing and I think that is on a different
20 status, and I would be inclined to leave it the way you have it
21 here. But as far as the grants, are you talking to direct
22 grants as opposed to loan guarantees or alternative forms of
23 assistance?

24 Senator Danforth: What I am saying is that the Energy
25 Security Corporation, as I understand it, if there is to be an

1 Energy Security Corporation, is to be given the broadest
2 possible charter to do whatever it wants to do in order to
3 produce alternative sources of energy, and that is to be a
4 decision which it can make.

5 I think that this is probably a surplusage.

6 Mr. Lubick: What I find troublesome about that, again, to
7 get the job done, while it is easy to say that the Energy
8 Security Corporation shall take it into account, unless the
9 Energy Security Corporation is entitled to require, as a
10 condition of its financing, and it may not do it. It may
11 decide that the credit is necessary, unless you contemplate
12 that the Energy Security Corporation could say, we are going to
13 provide you with the full financing and we think that is enough
14 to get the job done. You do not need the credit.

15 And therefore --

16 Senator Danforth: Do you know any precedent for doing it
17 that way, waiving a tax credit?

18 Mr. Wetzler: There is a similar provision in the Natural
19 Gas Act where you can either get tax credits or deregulation,
20 but Congress never enacted the tax credit. That is the only
21 precedent that I am aware of.

22 Mr. Lubick: I do not know of one offhand.

23 Senator Danforth: It seems to me, the reason I am
24 hesitant, practically it may be great. It just seems to me
25 that there is a little bit of hesitation in providing the

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1 semi-independent, or an independent, corporate entity with the
2 power to waive a tax credit. I even wonder if that is
3 Constitutional?

4 Mr. Lubick: They are not waiving the tax credit. They
5 would be requiring as a condition of assistance that the
6 taxpayer do it, I think. That is a very different proposition.

7 In a sense, I suggested that, in effect, the tax credit be
8 an alternative to the Federal financing and you had indicated
9 that you did not want to make it compulsory. I am simply
10 suggesting that at least it ought to be made permissive.

11 Senator Danforth: Permissive, that the Energy Security
12 Corporation could --

13 Mr. Lubick: Negotiate that sort of arrangement.

14 Senator Danforth: What do you think?

15 Bob, is there any problem in establishing that kind of
16 precedent?

17 Mr. Shapiro: We have not had a precedent that I am aware
18 of. I do not know the effect.

19 Senator Danforth: Is there any problem, in effect, of
20 delegating the waiver of the tax credit to an independent?

21 Mr. Lubick: Senator Danforth, Mr. Sunley just pointed out
22 some precedents where there are Federal loan guarantee programs
23 under which the loan guarantee is granted only if the borrower
24 renounces the use of tax-exempt financing.

25 In a sense, that is similar.

1 Senator Danforth: Let me say it is all right with me. I
2 am willing to accept it but I would just like to think about
3 it.

4 Mr. Shapiro: Let me add another thing. This is a
5 question of jurisdiction as well. I think it may be difficult
6 or questionable for this committee to put in their own
7 reference to what the Energy Security Corporation should be
8 doing. That is not within this Committee's jurisdiction.

9 In other words, the other Committee that has the authority
10 over setting up the corporation and dealing with its powers
11 would have control over what rights it should have.

12 Senator Danforth: What is your recommendatsion?

13 Mr. Shapiro: What you could do, one of the things that
14 Mr. Lubick was concerned about was the administrative aspect to
15 delete the reference to grants and to have the portion with
16 regard to the financing. If that is what you want, that would
17 leave -- then the corporation could determine how much in
18 grants they would want to make, knowing there is a credit that
19 is available.

20 Mr. Lubick: I do not think that is going to work. What I
21 was suggesting ---and I think this is within the jurisdiction
22 of the Committee to say, that the credit can be waived by the
23 taxpayer as a condition of receiving assistance pursuant to a
24 Federal grant or loan program.

25 Mr. Shapiro: I thought there was a reference to the

1 Energy Security Corporation had the right to establish
2 conditions. The taxpayer can always waive a credit.

3 Mr. Lubick: The Energy Security Corporation would be
4 establishing the conditions but they are inapplicable unless
5 the taxpayer assents to them. In that sense, the taxpayer is
6 the one who is actually waiving it, but he is doing it in order
7 to secure the benefits of some other program that he desires.

8 Mr. Bradley: Mr. Chairman?

9 The Chairman: Senator Bradley.

10 Senator Bradley: I would like to make two comments about
11 the amendment.

12 First, why are we locked into the \$3 figure if the purpose
13 is to make alternative sources of energy competitive? It is
14 possible that a source might need only a \$1 or a \$2 credit, and
15 if you give it a \$3 credit, that source gets a windfall.

16 So I would suggest taht we say up to \$3, and you track it
17 with the cost of oil, and if it takes \$1 to make it
18 competitive, there is no need to give it \$3.

19 Mr. Shapiro: This amendment does not say up to \$3, but it
20 has the effect of phasing down the price of oil. For example,
21 you have a phase-out provision that says, as the price of oil
22 increases from \$23.50 to \$29.50 that \$3 is phased out.

23 Mr. Bradley: It says the amount of the credit would be \$3
24 per boe.

25 Mr. Shapiro: That is correct.

1 Mr. Bradley: Maybe you do not need \$3 per boe to make it
2 competitive with oil.

3 Mr. Shapiro: To that extent, you are right. What you are
4 talking about is not the price of oil phasing out, but the
5 price competitiveness of the substitute.

6 There has to be some determination as to what is needed.
7 It is difficult for us to make a draft for the Committee to
8 make a decision as to what price is needed to make it
9 competitive. The phasedown is easy. You look at the price of
10 oil, but you have to take the price effectiveness of the oil
11 and alternative substance and determine what it would need to
12 make that competitive.

13 Mr. Lubick: Senator Bradley's point is the one that I
14 made before the vote. In many of these things, flexibility --

15 Senator Bradley: A vote?

16 Mr. Lubick: Not a vote here, on the Floor.

17 Senator Heinz: I would like to ask Senator Bradley a
18 question.

19 Why does it distress you to pay \$3 a barrel if somebody
20 makes a profit on that?

21 Senator Bradley: The purpose is to use national resources
22 to the most efficient end in displacing foreign oil.
23 Therefore, if you have a source of energy that can be
24 competitive with oil, displaced oil with a \$2 credit, why give
25 them the extra dollar when you could take that extra dollar and

1 give it to another source of energy that could displace greater
2 quantities of oil.

3 Senator Heinz: There is another way of looking at it and
4 that is the first question is, is it likely that we are going
5 to displace all foreign oil with a \$3 tax credit? The answer
6 is obviously no, even through the year 2000, and then the
7 question you have to ask yourself is, what is it worth to us to
8 displace one barrel of foreign oil, to genuinely displace it?

9 We have had a lot of information, a lot of people who say
10 it is probably somewhere well over \$10. Therefore, that leads
11 me to the conclusion that it does not make any difference
12 whether someone makes a little more money or less money off a
13 \$3 a barrel tax credit, because we would be willing to pay \$10
14 a barrel, even \$9 a barrel profit for someone if that resulted
15 in displacing another barrel of oil.

16 Senator Bradley: Let's take the situation where you lock
17 yourself into \$3 --

18 Senator Heinz: Could you answer my question, though, how
19 that is a legitimate way of looking at it?

20 Senator Bradley: It is my view that the purpose is not to
21 prevent people from making profits. The purpose is to allocate
22 resources most efficiently.

23 Senator Heinz: Or is the purpose to displace the
24 importation of oil?

25 Senator Bradley: If you want to be very specific, I think

1 the purpose is to use resources most efficiently in displacing
2 vulnerable supplies of oil. If you want to be very specific, I
3 do not think it makes any difference. Oil coming from Mexico
4 is a little more secure than oil from the Persian Gulf. It is
5 a greater threat.

6 If you want to be specific, it should be the displacement
7 of oil that comes from an area where there is a vulnerable
8 supply.

9 My point is simply why spend three when you can do the
10 same thing. This is locking into your tax credit from '79 to
11 '99. Assuming in that period of time, for example, people buy
12 solar collectives. That could displace oil-fired hot water
13 heaters. Assume because a lot of people buy those collectors,
14 to do that, the price comes down, but it comes down to a level
15 after a \$2 subsidy is sufficient. Why do you give \$3?

16 How are you going to most efficiently use government
17 revenues?

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Senator Talmadge. Mr. Chairman, first, everytime we spend \$3 on tax credit we will save \$19.50 on a barrel of imported energy. The present price is \$22.50. And that does not include the import fee, as I understand, or does it, Bob?

Mr. Shapiro. There are no import fees right now.

Senator Talmadge. How much is it with the import fee now?

Mr. Shapiro. Okay, as of now there are no import fees. The price of oil is somewhere in the neighborhood of \$22.

Senator Talmadge. So \$22.50 includes the import fee.

Mr. Shapiro. There are no import fees as of now. They have been suspended.

Senator Talmadge. They have been suspended?

Mr. Shapiro. Yes.

Senator Talmadge. So there is no import fee?

Mr. Shapiro. Right.

Senator Talmadge. Everytime we spend \$3 on a tax credit we save \$19.50 that would otherwise go to Saudi Arabia or Iran or Kuwait or some other country. And in addition to that the jobs would be in the United States of America and not in some foreign country. It would also have a tremendous effect on the devaluation of our dollar.

There are two things now causing our dollar to become rapidly worthless. One is inflation, and the other is the \$60 billion that we are spending for imported energy overseas.

Now I want to address myself to the amendment that is

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pending before our committee at the present time. And that is Senator Danforth's amendment to make available the \$3 tax credit for every alternative choice of energy. I was looking at the estimated cost, assuming they are correct here. He estimates that the cost will be \$32 million in 1981. That is just exactly what tax credit would be, or a little less.

We are importing now between eight and nine million barrels a day. So a \$3 tax credit would be somewhere between \$24 and \$27 million for a million barrels. So the estimated loss in revenue that we are talking about is \$32 million by 1981. That will be slightly more than the tax credit would be on ten million barrels. We are talking about one day's supply out of 365 days.

All right, now let us go to 1985. The estimated loss in revenue then would be \$246 million. We are talking about nine day's supply out of 365 days.

Let us go now to 1990. That is 11 years in the future. The estimated loss there on your tax credit is \$905 million. So we are talking about 30 day's supply. Energy independence? No. It is about seven percent of energy independents based on present imports, not what we will be importing by 1990. Possibly at that time it will be twice as great.

So we have to go far beyond that, gentlemen, if we are going to do anything about energy independence. That is the reason that I tell you that it is so important that we give a tax credit for wood and agricultural products. Because there is

your opportunity to do something.

I can visualize with that strong boost thousands and thousands of small plants throughout the United States near the source of supply that can use waste products at the present time.

In Louisiana what will it be? In Hawaii what will it be? It will be your sugar cane plumbing. That is what you call biogas . And you can make alcohol plumbing. You can do it very effectively and very efficiently, in Louisiana or wherever you waste hard wood. You are cutting thousands and thousands of feet of timber in Louisiana. What are you doing with the tree tops? You are leaving them in the forest. What are you doing with your waste worthless hard wood? You are leaving them in your forest. What are you doing with your agricultural waste products? Nothing.

Anything that can be fermented, gentlemen, can be made into alcohol. So it is high time we try to do something. Now this amendment without wood, you are talking about one day's supply of energy, maybe, by 1980. You are talking about nine day's of energy, maybe, by 1985. You are talking about 30 days of energy, maybe, by 1990.

And that is based on the present imports of between eight and nine million barrels. And I am assuming by that time the imports, unless we make this country energy independent, are going to be double that, when we are talking about half of the figures

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that I gave you.

The Chairman. Senator Dole.

Senator Dole. First I would like to put in the record we had an early discussion on gasohol. I think we ought to raise that question here. Now 14 states we determined who have exemption on state gasoline tax as well federal exemption, going all the way from 9.5 cents in Arkansas to 6.5 cents in Oklahoma, 8.5 cents in Iowa, 8 cents in Louisiana, down to 1 cent in Maryland and Connecticut. There are about a dozen other states where the legislatures are looking at exemption from state tax. I would like to make this part of the record.

And secondly, I think Senator Bradley has a good point. I mean there ought to be some flexibility in the credit if it costs less to produce a barrel of oil equivalent, in some alternate source a barrel is worth it probably should not have a tax credit. If the barrel of oil is worth \$25 then it costs \$27.50 for shale oil, it seems to me that the tax credit ought to be \$2.50. It still has the same incentive if you are going to talk about equality.

There ought to be some way. Could you not have a flexible credit? Could you not have some flexibility in the credit and still not take away any incentive from anyone looking at alternate sources?

Mr. Shapiro. You are talking about having a credit depending on the cost?

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Senator Dole. Well, certainly if it cost less for the alternative source for a barrel of oil, I do not know why you would have a credit. You would have more profit.

Mr. Shapiro. One of the problems that you tend to have in a situation like that is that you have got to be careful of the situation where if you have a bearing credit depending on the cost, there may be an incentive there not to be as concerned about being efficient because if your costs the Federal Government will give you a greater subsidy.

Senator Dole. We are talking about a limit of \$3.

Mr. Shapiro. But if you know you have \$3, you try to be as efficient as you can because as you maximize the credit that goes as profit to you. Whereas if you know you have \$3 of ceiling, you have no incentive to keep your cost down because you will be subsidized up to the \$3 level.

Now I understand your point. I am just not sure how to get around that problem.

The Chairman. It may be that if you let somebody make some money, and it may be it. But frankly, I find myself thinking well, we ought to hope somebody does. Good, that is what the system is supposed to be all about. Some fellow takes a chance, invests his money and gets all excited about something. If it proves to be right he makes money. And if we actually get the word about making some enormous bonanza out of this, I do not have any doubt that long before 1990 comes around we are going

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to repeal it.

Cut back on him. We have got lots of reformers around here. A Senator from an oil state can put taxes on somebody. I would think that in view of the fact that this has a potential and if it does not work it is not going to cost much, the only item that looks that it will cost substantially is in the alcohol area. And they are the states that work harder than we do.

Apparently, for example, Louisiana and Iowa and Montana, they have gone to the Federal Government two for one already and said, "Well we will have to put something into it ourselves." So I think there is going to be some heavy bidding among the states to try to get the business and get the plants, decent jobs and decently benefit their farmers.

Senator Gravel. Mr. Chairman?

The Chairman. Yes, sir. Go ahead.

Senator Gravel. I have got one small problem. As I understand the purpose of this is two-fold. One, it has an economic motivation. The other is it has a defense motivation. The defense motivation is that we want to have a guaranteed source of energy that we control.

The economic motivation is that we want to displace foreign oil.

We had asked the question earlier to somebody from DOE that the advantage, the economic margin, was somewhere between 5 cents and \$1.50. Somebody says it is \$10.00. I do not know.

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I do not know if anybody knows. But that is an interesting question mark.

I would buy that, not just on the merits of it, except for one thing. The purpose of this amendment is to displace oil. Half of the oil we use is American oil. We sure do not want to displace that because if we go ahead and generate energy from another source and give it a \$3 tax subsidy in order to make it competitive to oil, we would be better off using more oil.

There is no advantage to doing that. In fact it would be a disadvantage in the world marketplace that we would be taking tax dollars from American citizens to put us \$3 of this in our energy which is used for our economic productivity. And so that would be a mistake.

So if you would find some way, maybe Bobby could speak this. If you could find a way that what we are doing here would displace foreign oil, then I would vote for it, or even with the unknown. But if you are going to displace American oil, then I do not think you want to vote to make our country \$3 more disadvantageous than the world marketplace.

Senator Talmadge. We are not going to displace anything we are 50 percent

Senator Gravel. If this is done in New Jersey, that is fine because New Jersey imports oil. But if this is done in Texas where you have got oil down the street and you are making a \$3 disadvantage, then the productive capability in Texas is

disadvantaged by \$3, and the American citizens pay for that.

So we do not want to do that. Because if it is cheaper to have gas, let us use gas if we have got it. If it is cheaper to use oil, let us use oil if we have got it. But what we do not want to do is be dependent upon somebody else's oil. So let us vector this on the displacing of a foreign barrel of oil. Otherwise, what you are saying is that we are going to give people from our tax treasury \$3 for producing energy when you could drill a hole in the ground and bring it in \$3 cheaper.

I would rather, as a consumer, pay the cheaper price for energy. I do not want to see us structure something that is going to cause us to pay \$3 more per barrel of oil equivalent than we have to. Is that unreasonable?

The Chairman. Mr. Danforth.

Senator Danforth. Well, Mr. Chairman, there are several points that I would like to address myself to. The problem is if that were the right approach you could never trace it. You could just never trace it. It is somewhat like Senator Metzenbaum in the allocation bill had an amendment where he was going to deny allocation for agricultural purposes if what the farmer was using his energy for was to produce soybeans that went into pet food or sugar that went into candy.

I just do not think you can trace out what the substitution is for.

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Senator Gravel. Excuse me, would you yield? Why can we not say with your amendment that these things apply if it displaces a barrel of foreign oil. So it means that most of these things would take place in the east coast where you are importing. And the least of these activities would take place in Texas unless it were truly economically comparative to oil or gas?

Senator Bentsen. Let me say that I really do not think that we are endangered by this. And I think Senator Talmadge, when he says you have something where you are importing almost 50 percent of it, I am really not concerned that the competition is going to be that tough. There is always going to be a place to put that Texas oil.

Senator Gravel. At the \$3 difference. And it would be the American taxpayers that would be subsidizing your competitor.

The Chairman. We fellows in Louisiana have to compete with that oil, too. And we are perfectly content to vote for it. I think the Senator from Texas is going to vote for it. Our people are complaining down there right now that with all the oil we produce they will not leave enough down there in Louisiana for us to drive our automobiles around. So that we would be delighted to have some alcohol.

Senator Matsunaga. I have a question on the offer of the amendment. Does your amendment include geothermal steam?

Mr. Shapiro. Yes, it does.

Senator Matsunaga. But it does not include the gas?

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The Chairman. . . The biomass, that does include the gas.

Mr. Shapiro. It does not include gasohol.

Senator Danforth. Pipe sands gas would be excluded.

Senator Matsunaga. I am talking about biomass.

Senator Talmadge. I understood you to modify your amendment to include that.

Senator Matsunaga. Oh, you are modifying it to include biomass.

Senator Danforth. Yes.

Senator Matsunaga. All right.

Senator Bradley. That includes wood, biomass?

Senator Danforth. Mr. Chairman, I have a couple of odds and ends to tie up. I think I am in agreement with Mr. Lubick, but I would like you to restate what you want.

Senator Dole. This only applies in this country. You cannot go overseas and do all of this.

Senator Matsunaga. I have another question, Mr. Chairman. Why after 1979, what about those who are able to go right into it? For example, well this is September. Why let people wait three months when they are able to go right into it?

Senator Danforth. Why not make the effective date of the statute?

Senator Gravel. I would like to make the effective date of when the bill was first introduced which would be April 20, 1977. The reason for that is that I talked to some people yesterday

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that have a plant in New York, that they are just on the verge of having great economic difficulty. And a lot of private people are getting out of the biomass area who probably tried it. So we are rewarding those that have not really used any initiative and those that are operating right now uneconomically they are going to have to close their plant down. There is no point in doing that.

If we are going to do something, let us help those that have stuck their necks out, are not making any money, and could now make it work, and are already built. There are about four or five companies that just bailed out of the biomass deal. And one company is left. They visited me yesterday, and they have something in Hempstead, New York. And it is just uneconomic.

They are just having some great difficulties. And they may have to change the contract or close her down. So the first energy bill relating to this subject, I do not know if it was here, Senator Talmadge, but it was on April 20, 1977, what harm would it be to give people who are producing from plants that were in existence, that are about to close if we do not move the date that I would hope that we could move the date back to that '77

The Chairman. Is the Budget Committee trying to make it retroactive, try to move the date back?

Mr. Shapiro. It increases the revenue loss in this fiscal year. It would not affect the previous fiscal year. In other words, it would be a retroactive provision, but it has

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its revenue effect this fiscal year.

Senator Bradley. I thought the Senator was just interested in allowing eligibility to be retroactive.

Senator Chafee. When the plants were constructed. It would not apply to the energy produced. It would just apply to when the plant was constructed.

Senator Bradley. Right. I think that is a reasonable suggestion, particularly if you look at plants in Massachusetts for example, that produce energy from garbage.

The Chairman. Those who are already doing it ought to get the benefit of it. It seems to me as though it should be the tax credit applies to all these who were doing this, I would think. I do not know much is being done, as will be, but not much.

Senator Gravel. Here, too, if it does cost a little bit of money, it means something is happening.

Senator Chafee. That biomass definitely includes garbage, does it not?

Senator Danforth. Mr. Chairman, I think in that connection, we should reopen the wood question again.

Mr. Lubick. I would like to ask Mr. Smith from the DOE who has tried to get some information on the wood,

Senator Danforth. The question that Jim raised during the vote was that the possibility that pelletizing would exist just for the sake of taking advantage of the tax credit. What you are

suggesting was what? We are talking about the new plan. I think that you suggested that with respect to wood, it could cover all wood except that only where there is a new plant.

Mr. Wetzler. This whole amendment only covers new plants, although now new plant is going to be defined under Senator Gravel's amendment after April 20, 1977. If you include one type of wood but not another, you do run the risk of encouraging sort of unnecessary processing of the wood purely to qualify for the credit. So it seems you need wood to be either all the way in or all the way out.

Now we can give you the revenue effect on wood.

Senator Dole. Is it not April 20, 1977?

Mr. Wetzler. Is that not what Senator Gravel suggested? That was the effective date of last year's energy bill.

Senator Dole. What is the revenue estimate?

Mr. Wetzler. Now on the wood, this does not take into account the April 20th effective date. That might change the estimate. We have to look into that. But it would be about \$300 million by 1985, and about \$1.2 billion by 1990.

Senator Talmadge. That means you get results, does it not?

Senator Gravel. That is right. We want that.

Senator Danforth. Is that all wood?

Mr. Wetzler. That is all wood. We have no way of knowing how much you reduce that by limiting it to pelletized wood because we do not know the extent to which people could just, you would

in effect be giving people several dollar ---

Senator Danforth. You recommend including all wood, but how about the people who are just already burning scraps for their own plants? What would you do about that?

Mr. Wetzler. Well under the new plant rule you would have taken care of them. Now you will exclude all people who were doing it before April 20, '77. But I think Senator Gravel has a good point that if somebody was doing it earlier but it is not profitable, he presumably has as much right to the credit as somebody who is doing it and is doing it in a new plant.

Senator Heinz. I would like to ask question about what the wood is, in fact, used for? It is obviously different whether it is fueling a power plant or it is used ornamentally in a fireplace or looks or actual heating.

Mr. Wetzler. I assume that in drafting this the committee would give the staff leeway to make sure we could draft it to avoid that sort of situation limited to trades or business where the synfuel is really being used as fuel.

Senator Talmadge. Mr. Chairman?

The Chairman. Yes, sir.

Senator Talmadge. I think he has made a good suggestion on the draftsmanship. I do not think you want to give this type of credit to someone who is throwing in scrap wood and using it in this way. He can do that now. Many plants have done that, and are doing it economically.

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Now we do want these plants to convert, whether they are using gas or petroleum to wood. And some of them are doing it. I think we can take care of that, Senator Danforth, with a tax credit. That is, not with a production tax credit, but with a tax credit like we give everyone else on plant construction. We ought to encourage to do that with a construction tax credit and not a production tax credit.

What I think we want to do now is to get as many people as we possibly can in business of producing alternative sources of energy where it is not now economical. Georgia Tech is doing an outstanding job in trying to provide energy resources from wood and agricultural products.

Thus far to produce a gallon of alcohol from grain, assuming a \$3 value, is costing about \$1.34 a gallon. With wood they are doing at about \$1.20 a gallon.

Now I think that can come down with larger plant construction. There is tremendous interest in that. The experts who have been working in that field tell me that wood alone can displace as much as 12 percent of the energy needs in this country.

Prior to the time they developed coal in this country and also natural gas, wood was the source of fuel. That is what we used on the farm when I was a boy. We burned wood in the fireplace. That is how we heated our house. We burned wood in the stove. That is how we cooked our meals. We had kerosene lamps. That is what we used for light. And that was the first time we

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16 used fossil fuel, was with the kerosene lamp. Prior to that it was whale oil and so on.

Now what they have discovered with technology to do now was wood and anything that will ferment to make an alcohol product which can be used pure, 100 percent or diluted or any way you want it. And it is environmentally sound. You do not get the sulphur dioxide that you do from coal. You do not even get the sulphur dioxide that you do from petroleum. It is the most environmentally perfect fuel that we can possibly use. And a great deal of it can be made from waste products that we are now throwing away.

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The Chairman. The amendment has merit at this point. The the staff and the treasury can study it and see where they might find some unintended benefit that accomplishes nothing as has been discussed here. And I would think that the amendments that they would bring us, perfecting amendments, would take care of these minor points. And we could save a lot of time, I think, rather than try to find all of these little things that you might intend or might not intend to.

I do not want to cut anybody off. I want to apologize to Senator Danforth for cutting him. I am sorry. But I did not know what he had in mind. I was in error.

Senator Chaffee. Mr. Chairman, I have a couple of brief questions.

The Chairman. Yes, go ahead, Mr. Chafee. And then we will take Mr. Durenberger.

Senator Chafee. Do I understand this amendment? Is it production for energy that is for sale? It would not apply, for example, to a homeowner?

Well now let us move up to the person who is producing steam within their plant. It would not apply to them? Now let us move to the utility. The utility is generating electricity, they are currently burning oil. Now they work out that they can burn a form of garbage and wood. That would apply.

But it clearly would not apply to the manufacturer who is presently burning oil in his boilers to produce steam for power

Senator?

Senator Danforth. Does anyone have an opinion, like the Energy Department, on whether or not this would add anything new? What I do not want to do is to provide tax credit for something that is already being done and economical. So wood does increase the production of energy? Would it make it feasible to put in little hydro plants?

Senator Gravel. Perhaps I could answer that since I am chairman of the subcommittee. We have received reports that if we could get small hydro going we could probably double the hydro capacity of the nation.

The criteria of the small hydro is that it has to be close, obviously, to the source. You cannot get very far away. So that the potential could be very significant. You are talking about a 10 percent increase in energy productivity on a renewable resource basis.

The Chairman. Does anyone have something to offer?

Mr. Smith. We do not have any specific estimates on the impact on low hydro at this point. I would point, however, that the Department of Energy is conducting a grant program with respect to low hydro. Additionally, it would seem that the investment tax credit route would be the preferred way to incentivize this type of capital investment as opposed to production tax credit. But that may be more a matter of judgment.

Senator Danforth. Mr. Chairman, I would be prepared to

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We would not have both grants or loans or purchase guarantees and a production tax. What is wrong with the approach of having a production tax credit or synfuels?

Mr. Smith. Well the reason the administration did not propose one is because of the great uncertainty about the coal liquids and the other more exotic forms of synthetic fuels, and a belief that the answers to those questions that are outstanding would be more appropriately addressed to the Energy Security Corporation.

Consequently, we limited the tax credit to shale oil where we felt that we had a reasonable basis for projecting the cost of production, and felt that \$3 fell within the range of likely cost of production sufficiently as to go forward with it.

Senator Heinz. Do you think we have enough information?

Mr. Smith. At this juncture I do not think we have information to precisely establish a tax credit for the more exotic technologies.

Senator Heinz. You do not have any conceptual problem with that?

Mr. Smith. There is no conceptual problem, but we would be making more of a stab in the dark than we would be with respect to shale oil, for example, or some of the more conventional biomass technologies.

Senator Heinz. What would be the result from the treasury

point of view of having a tax credit of \$10, DOE, or for coal synfuel. And if it did not work you were not anything. If it did work, you get it.

Mr. Smith. I think the real question would be whether \$10 was the right number or whether it ought to be \$7 or \$12. If it were the right number then that might be an appropriate way to incentivize the industry as opposed to using the Energy Security Corporation with direct capital grants. But on the balance I think our approach in this area, particularly of uncertainty, is to use the direct capital grant.

Senator Heinz. How do you get to a right number.

Mr. Smith. Well you build several plants and operate them for some period of time.

Senator Heinz. The right number is based on cost?

Mr. Smith. It is based on cost estimate, yes, sir. The more experience you have, obviously, the more precise your cost estimates can be.

Senator Heinz. It should not be based on what we are willing to pay not to import a barrel of oil?

Mr. Smith. Well, in the final analysis it should have some relation to what you are willing to pay to advance the state of the art so that you can further reduce your dependence on imports down the road. That is, it should have some relation to reduce the import oil requirements.

Senator Heinz. At what point would you guess that

23 we will have enough information to be able to legislate a product incentive for coal synfuels?

Mr. Smith. I think that it will probably be the mid 1980's before you can have a high degree of confidence in the number. Again for that reason we feel that the Energy Security Corporation is the best vehicle to deal with that on a timely basis as we move through the 1980's. But we are not going to have any significant coal liquefaction or gasification facilities on line before the mid 1980's.

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Senator Heinz. Will we have any in situ oil shale on line by that time?

Mr. Smith. In situ, probably not, although there is some activity going on there. There is probably about 50 thousands barrels a day of shale oil production that we anticipate in 1985 which is probably the conventional retort type.

Senator Heinz. And we are the environmental problems of that could be overcome?

Mr. Smith. We are reasonably confident that they can be within the cost ranges that the \$3 tax credit would support. We have no assurance that \$3 is the right number for shale oil, but I think we have a higher degree of confidence in the numbers than we would expect in coal liquefaction or gasification simply because we have halting but nevertheless longstanding technology and development in those oil fuel areas.

We do not have any commercial plants in operation. We do

24 have a lot of small pilot plants that have not been tried and operated.

Senator Heinz. That is what puzzles me. In terms of synfuel coal, we have plants in various stages of design, indeed thanks to the DOE grant program. Now, I just want to understand just one point. You said, and you may want to clarify this, that you would not anticipate having a production tax credit for synfuels and coal until a commercial plant was built.

Mr. Smith. No, I did not say that.

Senator Heinz. That is not where we are with oil shale.

Mr. Smith. That is correct.

Senator Heinz. We are at the demonstration stage, the pilot plant stage. I would assume that one would begin to support the concept of a tax credit for coal synfuels as soon as pilot plants had a little bit of experience. It could be two years from now. It could be three years from now. We do not know.

Mr. Smith. It depends on how the Energy Security Corporation is implemented and what kind of speed it can give the plants in operation.

Senator Heinz. Mr. Chairman, I appreciate the chance to have this colloquy because I want it clearly understood that we should not really expect very much from this tax credit. I think, I do not quarrel at the moment with the Department of Energy on their methodology. I think it is internally consistent with them. I personally used a different methodology. I think

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it is important to point out that they seem to be saying, and I hope they will correct me if I am in any way putting words into their mouth, that when we get experience at the pilot plant level with coal synfuels, that it would then make sense to come back to this committee and take into account the cost differences there.

Senator Danforth. I think that we may be close to wrapping this up. We have it worked out with Treasury that the credit may be reduced with the consent of the tax payer. That is satisfactory to me.

Does this include gasohol?

Senator Dole. Leave it out.

Senator Danforth. Leave it out?

Senator Talmadge. I thought it was in.

I thought that you had modified your amendment to leave it in.

Wood and gasohol is the same thing. You can make alcohol out of wood or anything that can be fermented.

The Chairman. What do you want to do, Senator?

Do you want to leave it in or take it out.

Senator Danforth, I prefer to leave it out on the basis and see if we are going to cover it in other provisions.

Senator Talmadge. The only way it is covered now is on the excise tax, 4 cents federal and whatever the state levy is. There is no tax credit.

Senator Heinz. Mr. Chairman, would the Senator read that little slip of paper one time because I think it says something quite far reaching. I think you should read it, everybody.

Senator Danforth. This credit may be reduced with the consent of the tax payer as a condition for receiving benefits from the United States government.

Senator Heinz. As I understand that to mean, the purpose which is obviously a benign intent to make sure that nobody rips off the United States Government. Is that not the purpose? What is the purpose?

Senator Danforth. The purpose is to provide that the Energy Security Corporation would be able to condition grants to producers of synthetic fuel.

Senator Heinz. Then it is not the intent, absent any other subsidies from the Energy Security Corporation, it is not the Senator's intention to have this provision apply?

Senator Danforth. What you mean by United States government you mean the Energy Security Corporation or its counterpart?

Senator Heinz. As long as it does not mean that somebody a tax credit, is not getting anything from ESC, has to negotiate with the IRS for their tax credit because the IRS says you have got to negotiate with us.

with the tax credit is provide a government subsidy to private industry to get busy and produce an alternative energy.

Senator Dole. It is sort of an indirect subsidy. You have got a pretty big incentive there to get into the gasohol business. If you had the thing we did on the federal level plus what the states are doing, I do not think we ought to advantage any one over any other alternate source.

Then, I think we are going to give them a triple dip here or a double dip.

Mr. Lubick. It is already \$16.80 with the federal if you convert the excise tax exemption. If you add the \$3 you are at about close to \$20 a barrel subsidy per gasohol, which is a little much.

Senator Talmadge. What does it cost to produce it, do you have any idea?

Mr. Smith. Production costs now are, I think, on the order of \$1.25 to \$1.50 per barrel.

Senator Talmadge. That is exactly what I understand. Georgia Tech is producing alcohol from \$3 grain at \$1.34 a gallon. They are producing it from wood at \$1.20 a gallon. Repealing the excise tax means nothing on that.

Mr. Smith. But gasoline is \$28 to \$30 a barrel. I think the \$16.80 is adequate to provide a pretty high level of incentive and a lot of people are going into the business. The administration is proposing to make that exemption, the \$16.80 subsidy,

permanent in the sense of not cutting it in 1985: That should provide a very adequate incentive from my viewpoint in terms of the alcohol mixed with gasoline. The additional \$3 that would come from this proposal, we think, would be on the high side in terms of what the Federal Government's contribution to that subsidy or the subsidation of that product.

The Chairman. Let us just call the roll.

Senator Danforth. I would be willing to accept it under the terms of this amendment as you have modified it, but with the caveat that if there are some wrinkles in it that we have not considered that we can reopen it.

The Chairman. Let us vote on the Danforth amendment.

All those in favor say Aye.

(A chorus of Ayes.)

All those opposed say No.

(No response.)

Now I believe that we really ought to have a roll call on this because it a significant amendment. I would like to call the roll.

Mr. Stern. Mr. Talmadge.

Senator Talmadge. Aye.

Mr. Stern. Mr. Ribicoff.

(No response.)

Mr. Stern. Mr. Byrd.

(No response.)

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Mr. Stern. Mr. Nelson.

(No response.)

Mr. Stern. Mr. Gravel.

Senator Gravel. Aye.

Mr. Stern. Mr. Bentsen.

The Chairman. Aye, by proxy.

Mr. Stern. Mr. Matsunaga.

Senator Matsunaga. Aye.

Mr. Stern. Mr. Moynihan.

(No response.)

Mr. Stern. Mr. Baucus.

(No response.)

Mr. Stern. Mr. Boren.

(No response.)

Mr. Stern. Mr. Bradley.

(No response.)

Mr. Stern. Mr. Dole.

Senator Dole. Aye.

Mr. Stern. Mr. Packwood.

(No response.)

Mr. Stern. Mr. Roth.

(No response.)

Mr. Stern. Mr. Danforth.

Senator Danforth. Aye.

Mr. Stern. Mr. Chafee.

Senator. Chafee. Aye.

Mr. Stern. Mr. Heinz.

Senator Heinz. Aye.

Mr. Stern. Mr. Wallop.

(No response.)

Mr. Stern. Mr. Durenberger.

Senator Durenberger. Aye.

Mr. Stern. Mr. Chairman.

The Chairman. Aye.

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The Chairman. The amendment is agreed to.

Now tomorrow I would hope Senator Packwood wants to offer an amendment about business energy credits. And maybe we can vote on individual conservation credits tomorrow. And I would hope that all those that might want to confer with someone or get additional information would inquire the staff and hopefully we could get the information we want for this before we come in.

And I assume that we will meet at 10:00 tomorrow. That will give you time to hold a meeting. And maybe we could hold a meeting.

(Whereupon at 12:40 the hearing in the above-entitled matter was recessed, to reconvene at 10:00 a.m. on Wednesday, September 19, 1979.)