The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

A 1979 GAO Energy Report - A Template for the Future?

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With the dramatic increase in oil prices over the last decade, and even more dramatic dive since July, the perception for urgency regarding long term energy change is on a roller coaster ride of its own. As former Sec. of Energy James Schlesinger sums up "Americans have only two modes when it comes to energy - complacency and panic". Unfortunately, as financial deleveraging grabs center stage, we have shifted to full complacency mode, while simultaneously our long term energy situation is deteriorating rapidly. Changing our energy mix and more importantly, how we use it, has been relegated to the sidestage, as concerns about credit, jobs, and 401ks override. After all, crude oil is under $70 per barrel, and gasoline is cheap and plentiful. What's there to worry?

Below is an energy report from the General Accounting Office presented to Congress in 1979, (hat tip *energymaven*), followed by my own conclusion. After reading the GAO report (pdf warning), it becomes clear, almost painfully so, that we have missed a generation of opportunity.

This is the front of the 1979 GAO report. Click for larger image.

U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
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DIRECTOR, ENERGY AND MINERALS DIVISION
BEFORE THE
SUBCOMMITTEE ON ENERGY AND POWER
OF THE
HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
ON STANDBY ENERGY CONSERVATION AND RATIONING PLANS

Mr. Chairman and Members of the Subcommittee:

We welcome the opportunity to be here today. Our testimony today is based on

--the results of GAO work over the last two to three years in the energy conservation area as summarized in our recent report to Congressional Committee and Subcommittee Chairmen having responsibilities over energy programs (EMD-79-34),

--some observations included in our recent report on the energy and economic effects of' the Iranian oil shortfall (EMD-79-38) and,

--the results of our initial analysis of the energy conservation contingency plans and gasoline rationing plan submitted to the Congress on March 1 by the Department of Energy (DOE).

LACK OF NATIONAL ENERGY CONSERVATION PROGRAM

Before discussing the conservation contingency and gasoline rationing plans, let me spend a few moments addressing the Nation's continuing reluctance to develop an effective energy conservation strategy. Our reliance on crude oil imports has increased substantially in recent years and could reach 12 or 13 million barrels per day (B/D) by 1985. The current Iranian oil situation, which once again has jarred our complacency, is still only one of a series of events which underscores the importance of moving forward in the energy conservation area.

The world is likely to continue to experience periods of tight supply and upward pressure on prices in the next few years. The time is approaching when crude oil production capabilities will peak. While we now are faced with the need for quick actions to meet the problems created by the Iranian oil shortfall, we also must face up to the reality that we cannot continue to rely on short-term crisis management in the energy area and that now is the time to get our energy conservation act together.

We believe a strong, coordinated national energy conservation program cannot only mitigate the adverse impacts of future Iranian-type situations, but more importantly it would reduce the likelihood of oil embargoes being used as a weapon against the United States. Further, a strong conservation program is also needed to allow an orderly transition to renewable resources. Our February 13, 1979, letter to the Chairmen of Energy-Related Committees and Subcommittees highlighted the following three overriding problems which, in our opinion, must be solved before the Nation will achieve any significant level of energy conservation:

--A lack of specific planning and direction from the Government in the energy conservation area. In our June 30, 1978 report (EMD-78-38), we concluded that the Federal Government had not developed an overall energy conservation strategy for the Nation. While DOE generally agreed with our position, no strategy has been forthcoming.

--The absence of an aggressive, coordinated effort by the Government to conserve energy in its own operations and facilities. We have issued a series of reports on various Federal in-house conservation programs which show the lack of commitment by the Administration to aggressively pursue energy conservation within the Federal Government.

--The failure to develop, and have approved by the Congress, emergency energy conservation and gasoline rationing plans. While the Administration submitted such plans earlier this month, it took over 3 years to develop them.

We are concerned with the Administration's apparent failure to place any level of priority on the development of the contingency plans. As we pointed out in our earlier Iranian report, while we may be able to manage with the loss of Iranian oil production, there is virtually no more slack left in the system. The loss of any other major oil supplies could be devastating, particularly in view of the state of our preparedness to deal with supply interruptions. Recent events regarding the Iranian situation illustrates this point.

The U.S. has commited itself to reduce oil consumption this year by five percent, or about one million barrels of oil per day, as part of the International Energy Agency's response to the Iranian oil situation. But, there was no plan in place to achieve such a reduction. At this point, a wide range of possible actions are being considered. We were not able to obtain, from DOE, information on the specific proposals being considered because they are under consideration by the White House. Thus, we cannot respond to your specific request to comment on how DOE will manage the five percent cutback.

In our earlier report, however, we did comment on a number of possible actions which may be implemented including voluntary energy conservation measures as well as a number of actions designed to substitute coal, natural gas, and nuclear power for crude oil. Based on the information which has been available, we have reservations about the likelihood of achieving the energy savings which DOE has estimated for voluntary energy conservation. In addition, the possible fuel substitution measures being considered will require that many institutional and administrative barriers be overcome, which likely would limit this contribution for the next 6 to 9 months. (Attachment I contains a more detailed discussion.)

While we certainly would not play down the efforts needed to meet this current contingency, the fact remains that there are no DOE plans which could be implemented quickly if this country or our allies should suffer further supply interruptions. While we must deal with the current crisis, over the longer term emergency planning efforts should be focusing on the question of "What actions could be undertaken to deal with various levels of supply shortfall such as a loss of Saudi Arabian oil, or a loss of all OPEC oil?" The Nation cannot afford to be ill-prepared in the face of these potential threats.

STANDBY ENERGY CONSERVATION AND RATIONING PLANS

The Energy Policy and Conservation Act (EPCA) required DOE to prepare, for the Congress' approval by June 1976, standby energy conservation plans and a standby gasoline rationing plan. Once approved by the Congress, these plans would be available for implementation during a severe energy supply disruption or to fulfill U.S. obligations under the International Energy Program whereby member nations have agreed to share the burden of a future embargo or shortage situation.

The standby conservation plans finally submitted by DOE to Congress on March 1 consist of the following three measures:

--Weekend gasoline sales restrictions.

--Building temperature restrictions.

--Advertising lighting restrictions.

DOE estimates the total oil savings from these three measures to be 610,000 B/D. To implement and enforce these measures for a 9-month period would cost the Government about $16.4 million.

Our analysis of these three proposed measures indicates that while the plans have the potential for helping manage a future petroleum shortage, the extent to which the plans are enforceable or will achieve the level of savings DOE predicts is unclear. Also, implementation of the plans likely would impact adversely on certain industries. (Detailed comments on these plans are included as Attachment II.)

Regarding the proposed gasoline rationing plan, DOE recognizes, and we concur, that rationing is a very expensive measure to be used only in an extreme gasoline shortage. There is no such thing as a "perfect" rationing plan, as tradeoffs must be made to balance off (1) equity and (2) administrative workability and costs of implementation. In essence, rationing would be a $2 billion program designed to reduce long waiting lines at gasoline stations. It would not result in any gasoline savings, but would simply allocate available supplies among end users.

In its development of the plan, DOE has, in several instances, decided on provisions which are easier and less costly to administer over alternatives which might result in more equitable distribution of ration allotments. DOE is relying on the "white market" to correct any imbalances that may occur. Two instances which stimulated a number of adverse comments during the public comment period pertain to

--making gasoline available for commercial use, and

--matching up ration allotments and physical supplies of gasoline in all States.

Changes DOE made from an earlier version of the plan will result in commercial firms as a whole receiving fewer ration allotments than under the previous version. Public comments received on the provision strongly opposed the change, and DOE recognizes that firms will end up purchasing over $12 billion of additional ration allotments on the "white market." However, DOE believes the plan will be significantly easier and cheaper to administer.

DOE is aiso relying on the "white market" to match up the physical supplies of gasoline with ration allotments in all States. Because DOE plans to issue ration allotments based on a nationwide average, but will initially distribute supplies of gasoline based on historical State usage, nine States will initially receive ration allotments 10 percent or more higher than their supplies of gasoline, while 10 States will receive initial supplies of gasoline 10 percent or more higher than their ration allotments.

The "white market", however, will be a costly program for drivers in certain States. Drivers in States with historically higher than average gasoline consumption will purchase excess ration allotments at $1.22 per gallon from drivers in States with lower than average consumption rates.

Questions of equity are raised here, since 11 States would each have to pay out $10

million a month or more to maintain their gasoline usage at 20 percent less than normal, while 10 States could cut their consumption by 20 percent and still be recipients of over $10 million a month from sales of excess allotments. DOE recognizes these potential imbalances, but believes that trying to correct them would place a much greater administrative burden on DOE and make the rationing plan more complicated and expensive.

Another provision in the plan pertains to the manner in which DOE will distribute ration coupons to the public. Earlier work by us revealed problems with DOE's plan to primarily rely on financial institutions for issuing coupons to the public. The current plan has little discussion of this very important aspect of the plan. (Detailed comments are included in Attachment III.)

Overall, we are concerned with the lack of priority DOE has attached to the completion of the standby conservation and rationing plans. While changes have been made in the rationing plan DOE inherited in January 1977 from the previous Administration, we question whether over 2 years were needed to accomplish the changes. The conservation plans have remained essentially unchanged since 1977, except for some additional energy and economic analyses accompanying the plans.

Once the rationing plan is approved by the Congress, at least 6 - 8 months more work will be needed for further development. DOE's past record of slippage does not speak well for the degree of priority we can expect to be awarded completion of work on the rationing plan if the Iranian situation should ease.

Mr. Chairman, this concludes our statement. We will be happy to answer any questions the Subcommittee miqht have.

Attachments I, II, and III are omitted, but can be reviewed on a PDF in the original document, found here.

One part of Attachment of III is of particular note. It is called

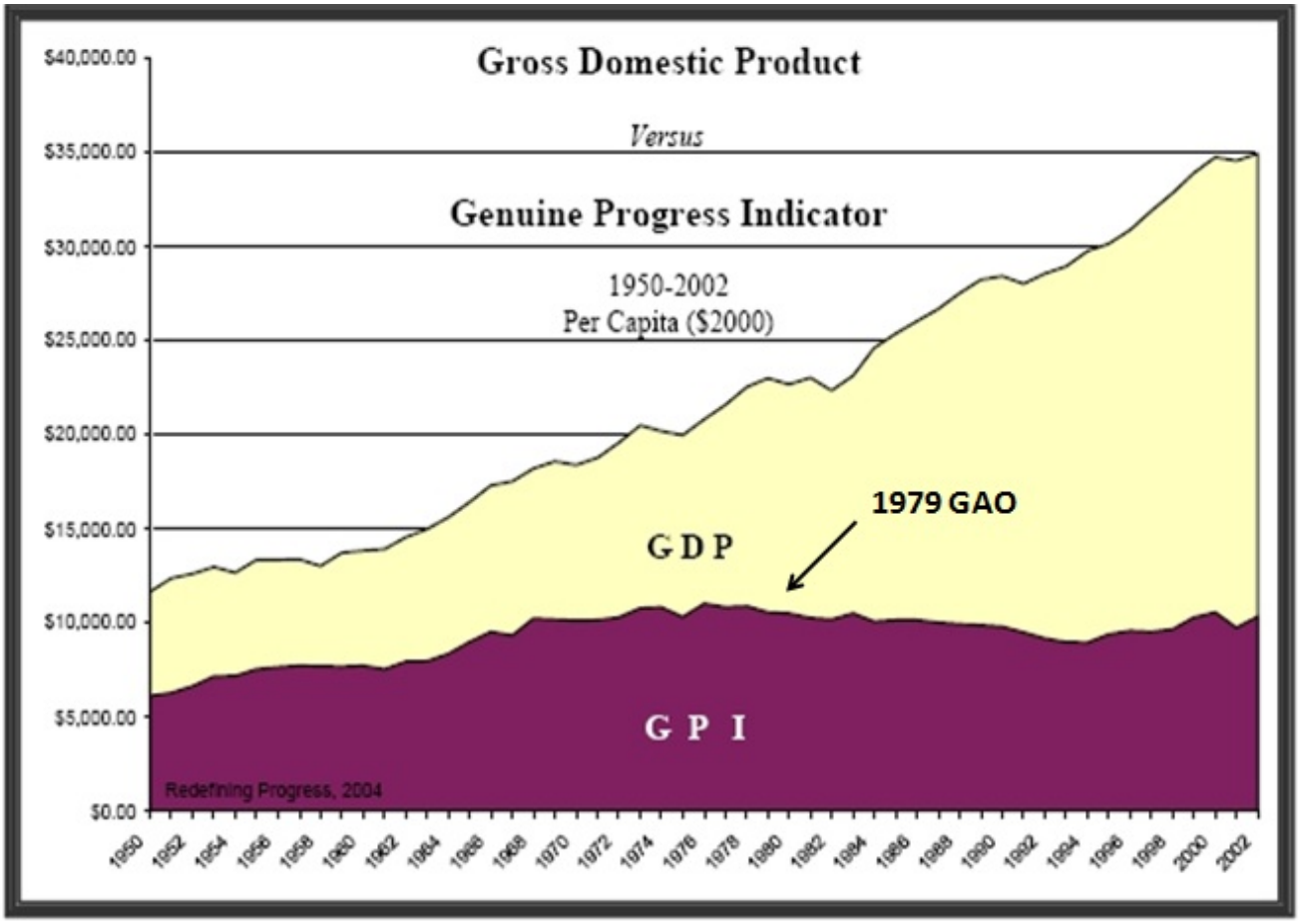
Alternatives to Rationing

DOE, in a section on alternatives to rationing in its regulatory analysis of the plan, briefly discussed the concept of a gasoline excise tax. The excise tax would raise the price of gasoline to the market-clearing level, thus balancing supply and demand. The proceeds from the tax would be rebated to consumers to offset the burden of the tax. According to DOE the excise tax could be achieved with much less administrative complexity than a rationing plan. As a result, an excise tax would be implemented more quickly, would cost less, and would require fewer personnel to administer.

DOE has not pursued the idea of an excise tax further because the EPCA explicitly precluded any plan from imposing a tax. (emphasis mine)

Since the writing of this government report, the USA has burned 193 billion barrels of oil, and the world over 750 billion. Irrespective of how much is left, it is certain that what remains is 750 billion barrels less than it was in 1979, and that the oil that is gone was incredibly cheap.

It's a good thing we used the oil wisely.



Our current economic goal is growth, conventionally measured by Gross Domestic Product. As has been oft written here (and many other places), GDP is a poor measure of actual 'growth' as it includes items such as crime and pollution as 'positive' and does not account for negatives such as loss of ecosystems, and declining human well being. A more holistic measure of 'growth' is the Genuine Progress Indicator (GPI), shown in contrast to conventional GDP in the above graphic. Note that it peaked in 1979, the exact year of this report, while conventional GDP has nearly doubled.

It is time that Wall St, Main St and our government come together in the current crisis to address something deeper and longer lasting than this quarters earnings or how our 401ks are faring. This (temporary) price drop in oil is perhaps one of our last opportunities to invest low cost fossil fuels into building appropriate renewable energy that will create jobs now, and put in place infrastructure for basic goods (heat, electricity, and food) for decades into the future. Perhaps more importantly, it is time Americans became accountable for our ends, instead of focusing on the means - this will require the tough but necessary choice of using less throughput, especially energy. Though it may 'seem' unimportant given the current world situation, I cannot forsee a better time to follow some of the GAO recommendations from what was the energy crisis dress rehearsal of 30 years ago. We were warned.

Why didn't we heed the warnings? The easy answer is that gas became more available and prices went down. But bigger picture, there are numerous psychological tendencies operating that interfere with immediate 'good' long term reduction in energy usage: (steep discount rates, biased belief systems, relative vs. absolute progress, and habituation/addiction)

Though these are inter-related, here are some oildrum posts giving separate basic overviews of

these phenomena:

Living for the Moment While Devaluing the Future (steep discount rates, impulsivity)
I'm Human, I'm American, and I'm Addicted to Oil (relative fitness and addiction/habituation)
Peak Oil - Believe it or Not (belief systems and biases)

A fifth, self-deception, is in progress. There is also the impact of technology on our brains

What COULD have happened differently in 1979-1980 or before, to circumvent the situation we find ourselves in with respect to energy? If you pinpoint that answer, would it apply today?