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Statement of
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Subcommittee on Fossil and Synthetic Fuels
House Committee on Energy and Commerce
On Energy Emergency Preparedness



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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to present GAO's views on the effects of the proposed fiscal year 1983 budget, energy reorganization, and program changes on the Nation's preparedness to deal with oil import disruptions. Our conclusions are based on extensive work in the emergency preparedness field, including a report on effective organization for contingency planning issued last March, a comprehensive evaluation of the emergency preparedness program published last September, and the report update you requested which is being publicly released today.^{1/}

My testimony today can be summarized in one sentence. Except for recent efforts to expedite the fill rate of the Strategic Petroleum Reserve (SPR), the United States is no better prepared to deal with a major oil disruption now than it was during the 1973 oil embargo and almost all other energy emer-

^{1/} "The Department of Energy's Reorganization of Energy Contingency Planning Holds Promise--but Questions Remain," EMD-81-57, Mar. 4, 1981; "The U.S. Remains Unprepared for Disruptions in Oil Imports," EMD-81-117, Sept. 29, 1981; and "The Effects of the Fiscal 1983 Budget, Energy Reorganization, and Program Changes on U.S. Energy Emergency Preparedness," EMD-82-45, Mar. 9, 1982.

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gency preparedness efforts are in various states of disarray.

As of March 8, 1982, there were 243 million barrels of oil in the SPR, and the Reserve's rapid growth over the past year has clearly benefitted national security. As pointed out in my testimony before this subcommittee last week, however, the fill rate for the SPR in fiscal year 1983 and the years ahead will be slowed by capacity limitations, unless alternatives not now in DOE plans such as leasing temporary storage are considered and implemented.

The question of appropriate size of the SPR cannot be considered in isolation. The size issue is directly related to assumptions about possible energy emergencies and the adequacy of other emergency preparedness measures. If the SPR is our Nation's only significant insurance against an oil import disruption, the argument for a larger reserve is strengthened. But, if other well-developed emergency plans exist, the argument for the currently planned 750 million barrel or an even smaller reserve are strengthened. DOE continues to study options for changing the current 750 million barrel stockpile and now promises the results of its study by May 1, 1982.

Our September report, and our followup report, document in detail the missed opportunities and current inadequacies in energy emergency preparedness. In the September report, we recommended steps in five basic areas where contingency planning can be used to mitigate the effects of shortfalls. These are:

-- Use of public and private oil stocks along

with surge oil production to directly offset a shortfall;

- Switching from oil to gas, coal, or electricity to replace oil with other fuels;
- Lowering demand for oil temporarily to make smaller supplies stretch farther;
- Instituting an emergency oil distribution mechanism to ensure that important activities are maintained; and
- Effective cooperation with other oil consuming nations to minimize the effects of a disruption world-wide.

Our September report emphasized that to be truly effective, contingency programs had to be fully developed, tested, and ready for quick implementation.

DOE's fiscal year 1983 budget submission reduces or eliminates planning efforts in many of these areas. Specifically, DOE has no plans to:

- develop a surge oil production capability
- develop a Strategic Petroleum Reserve drawdown policy,
- institute a private oil stock management program, or
- develop voluntary and mandatory demand restraint programs.

Efforts in fuel switching and international emergency preparedness would be substantially curtailed. Additionally, few resources will be devoted to developing allocation or emergency tax/rebate systems that could be used to counter oil price

increases and help insure oil availability. Some emergency system is needed since previous oil allocation systems have been discarded.

DOE sees this narrowing of energy emergency planning as a positive step which will rely on unfettered markets to counter disruptions. In their response to our September 1981 report, DOE stated that they intend to rely nearly exclusively on the market mechanism to adjust to market disruptions.

The proposed fiscal 1983 budget has been reduced from more than \$10 million to somewhat more than \$5 million and from 94 to 72 staff years. In our view, the issue is not fewer staff years or a lower budget, but how those staff years are used and ~~whether the nation can rely, as DOE believes,~~ almost totally on the market mechanism to the exclusion of other practical initiatives. It is interesting to note that the oil industry also sees the wisdom of a mix of measures. The National Petroleum Council, a DOE advisory group largely made up of oil industry representatives, noted the value of having such a mix of contingency plans in their April 1981 report.

While our report goes into the details and effects of the reduced program more thoroughly than I can cover in this statement, I would like to illustrate the effects of the proposed reductions in one area of emergency preparedness--international contingency planning and American relationships with the International Energy Agency.

The role of DOE, and especially its Office of International Affairs, in IEA matters has been substantial. In fiscal 1982,

DOE allocated approximately 18 staff years to IEA matters--12 of which came from the Office of International Affairs. The Department of State provided 5 staff years.

The fiscal year 1983 budget would abolish International Affairs, reducing IEA-related staff by more than 50 percent. While the functions, staff, and budget of other DOE offices would be transferred under a reorganization, only the functions --but no money or staff--of International Affairs would be transferred. Furthermore, a proposal to increase State Department staff dedicated to international energy matters by 20 staff years and incorporate all DOE international activities was rejected, and no additional staff will be assigned.

The Office of International Affairs staff have been particularly important in the nuts-and-bolts operations of the IEA. They have been responsible for preparing U.S. position papers on various topics coming before the IEA Governing Board, coordinating those papers with other U.S. agencies, and generally providing the principal staff support for the U.S.-IEA relationship.

The budget proposal asserts, "The international activities which are important to our international commitments and energy security will be conducted as stated by the President and transferred to the Commerce Department." However, the Office of International Affairs' functions concerning the IEA have been substantial, and it is at best unclear if U.S. obligations to the IEA can be fully discharged under these circumstances.

Our present report also covers the proposed energy reorganization to the extent possible without a formal administration

reorganization plan. From what we were able to gather from the budget and in interviews with DOE and Department of Commerce officials, emergency preparedness would be transferred to the Department of Commerce. Commerce officials informed us that the energy emergency functions of DOE would probably be combined with similar non-fuels strategic materials functions now performed by Commerce. The combined organizations are slated to be the province of an Assistant Secretary for Strategic and Emergency Planning reporting to the Secretary/Deputy Secretary. Just how energy preparedness would fit into this structure has not been resolved.

Because the organizational question is still open, it is difficult to analyze what problems might be created by the new structure. However, our previous work on appropriate organization for emergency preparedness revealed key factors needed in any contingency planning structure to ensure effective planning. Such planning requires centralizing the function in a single office; vesting adequate authority in those responsible for emergency preparedness; making available adequate staff to carry out the program; and finally, giving the entire area the high priority it deserves.

Centralizing contingency planning in one office makes it easier to monitor plan development, guarantee that the programs will complement each other, and assess whether the programs taken together will adequately deal with projected contingencies. Centralization also helps avoid problems of timeliness in plan preparation and quality control. DOE responded to the need for

centralization when it consolidated contingency planning under the Assistant Secretary for Environmental Protection, Safety and Emergency Preparedness. It is important that centralization be maintained under any reorganization to promote effective coordination.

The priority given any particular program is, of course, largely in the eye of the beholder. DOE officials have stated that emergency preparedness is a high priority. However, we have noted the elimination of a number of emergency planning areas, the de-emphasis of others, and the slow progress in developing contingency plans. This may reflect DOE's concept of appropriate priority; however, we believe that the Nation is not progressing fast enough toward adequate emergency preparedness.

Given its current approach, the prospects for DOE developing a sound emergency preparedness program are slight. No comprehensive or even individual response plans in any contingency planning area have been completed since our review of emergency planning in 1981. The activities planned for fiscal year 1982 will do little to improve preparedness.

Our work has convinced us that the Nation needs a balanced energy emergency program, one which judiciously blends primary reliance on private oil markets with Government programs. Such a program would greatly limit the serious economic damage which oil import disruptions can cause. To illustrate how serious these effects can be, a recent study on the Strategic Petroleum Reserve pointed out that a 3 million barrel per day import shortfall in 1984 would cost the economy

over \$200 billion, 15 percentage points more inflation, and 2.5 million jobs.^{1/} On the basis of DOE's performance to date and its plans for the coming year, we question whether energy emergency preparedness is receiving the priority it deserves.

^{1/} Subcommittee on Energy and Power, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, "An Evaluation of the Strategic Petroleum Reserve," Washington, D.C., GPO, June 1980.