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CONTACT: Janet Anderson

REMARKS OF SENATOR BOB DOLE

SOUTHERN REPUBLICAN CONFERENCE
Orlando, Florida

Saturday, November 19, 1977

One of the difficulties that Republicans and Democrats alike have found in dealing with the President's energy proposal is that it is not an energy proposal at all, but a tax proposal. I think you have heard that enough to be a little tired of it by now, and I won't keep pressing the same point.

I do want to discuss some of the difficulties we encounter as a result of this misnamed piece of legislation. Because in order to justify calling a tax bill an energy proposal, the Carter Administration has had to stretch the truth and rely on its imagination in some very specific areas.

In order to justify a proposal which contains no real provision for increasing domestic energy production, the President has misrepresented the situation of our domestic energy producers.

He has said, for example -- and he may believe it, for all I know -- that if we let the market determine the price of natural gas, it would cost consumers $70 bill between now and 1985.

This is simply not true. If he knows it is untrue, and says it anyway, that is irresponsible to say the least. If he says it and believes it, that is even worse. Now you sit in the Senate, and you try to deal with this and you're confronted with trying to decide whether the President is dishonest or ignorant. That is not an easy choice.

There are not proposals at all today which call for the deregulation of all natural gas. So the President is raising an issue that doesn't exist in order to attack the energy industry. All we would like to do is deregulate natural gas discovered in the future. The economics of exploration are such that there will be very little new natural gas discovered unless we make it financially possible and sensible to look for it. But when we try to talk common sense on the point, we get this business about $70 billion coming out of the consumers' pocket and going into the pockets of the energy industry.

When we are trying to talk about simple, demonstrated facts, and the administration is spinning out an irresponsible fantasy to defend a bad proposal, it tends to limit the discourse.

The President says the oil companies would have "the highest incentive in the whole world" to find new oil. I don't know where that places our people in relation to Kuwait or Saudi Arabia -- but the fact is that there are no such incentives in the proposal. So it's a recapulation of the problem with calling a tax bill an energy bill. We listen to the President, and then we look at his proposal. And we wonder if everybody is talking about the same material. Maybe things got mixed up in the mail. I'd like to see the bill the President is talking about -- the one with all the incentives in it-- instead of the one Jim Schlesinger brought up to us.

Let me just address myself for a moment to the bill we have in front of us -- whose ever bill it is. The problem with it can be summed up easily: It uses taxes to force conservation, instead of using the market to permit production.

The House passed the proposal with some minor changes, and some major arm-twisting by Tip O'Neill and Lud Ashley. The rules under which the House operates are far more constraining than those of the Senate. So there was much less opportunity for them to be critical of the bill.

When the Senate got the bill, we broke it up into five parts, and we have treated each of them separately.

THE SENATE BILLS

The first of these is called "conservation". It would require utilities to coordinate a mass program for home insulation, and would mandate energy efficient standards for large home appliances by 1980. There are alos provisions for loans and grants to low and middle income people for weatherization of their homes. There is a tax rebate incentive for home insulation -- which has stampeded insurers into the market and raised the price of insulation beyond what it would have been without the incentive.

UTILITY RATE REFORM

The second of the Senate bills deals with reform of the rate-making procedures of the utility industry.

Up until now, this area has been almost exclusively reserved for state regulatory agencies. The House bill would end the practice of charging large electricity consumers less per unit of energy as their consumption rises. The bill also requires utilities to charge lower rates for electricity consumption during off-peak hours.

The Senate rejected the House approved bill and substituted a series of studies. The sentiment in the Senate was that it would be a terrible mistake to allow the federal government to preempt state authorities on electric rates.

The most significant amendment in the Senate bill is the so-called life line rate amendment offered by Senator Hart. This amendment would require utilities to provide to the aged, the minimum amount of electricity necessary to meet their essential needs at the lowest per-unit cost that the utility charges. While the Conference is leaning toward doing away with most of the House provision, the life line amendment has yet to be discussed.

NATURAL GAS

The third bill deals with the pricing policies for natural gas.

Currently there is a federal ceiling of $1.46 per thousand cubic feet of natural gas sold in interstate commerce. Intrastate gas, which is not regulated, sells between $2.00 and $2.25per Mcf. The Administration's bill calls for extending federal regulations to intrastate gas. Also it proposes to raise the ceiling price on gas to $1.75. Right now, the intrastate market is an example of the free market system working. Consumers are not getting ripped off and this part of the market fared well during the shortages of last winter. If the Administration proposal were enacted, the intrastate price would come under government control and there would be no incentive for exploration for the intrastate market, and so there would be shortages there as there are in the states where the price is regulated.

Lowering prices and extending federal congrols will do nothing to bring on new supplies of gas. Neither will they prevent shortages of the kind we experienced last winter. Instead, theywill broaden the shortages.

COAL CONVERSION

The fourth bill concerns itself with the problem of getting industry to switch from oil and gas to coal.

The Conferees have agreed on a version very close to the Senate Bill. Basically there will be a regulatory scheme which would require all new industrial and power plants to use coal. A plant could be exempted for environmental reasons or lack of a reliable coal supply.

I do not expect this provision to result in a massive new switch to coal. The utilities are already switching because coal is simply more economical. And, in fact, the utilities have no new oil-fired base load plants on order.

TAXES

The last of the bills is the tax bill, one that I have been working on nearly everyday since the beginning of September.

To give you some idea of how far apart the Senate and House are on this bill, consider that there are some 215 provisions in the bill that we have to discuss and only 53 of those items are the same in both bills.

Let me concentrate for a minute on two of the provisions of the tax bill, because I think they are particularly bad and I think that we should all be aware of what they will mean to us if they become law.

CRUDE OIL EQUALIZATION TAX

The Crude Oil Equalization Tax would artifically raise the price consumers pay for oil produced in this country by taxing oil up to the world level. When a refiner bought a barrel of old oil from a domestic well, he would pay $5.60 to the producer, $7.70 to the government as a tax, and then he would proceed to refine his $13.30 barrel of oil.

New oil, presently sold for $11.20, would also be taxed to $13.30.

With domestic production presently at 7.9 MMB/D, revenues from this tax would come to $15 to $18 billion per year with no commitment after the first year as to how the money would be spent. That is a lot of money for the Administration to play with as it sees fit.

The Crude Oil Equalization Tax, if enacted, would be the largest peacetime tax impose in the history of this country. Neither during the hearings nor during the executive sessions was there a kind word for the Crude Oil Equalization tax. It is opposed by such diverse groups as the AFL-CIO, the Chamber of Commerce, and the Consumer Federation of America .

The President hasn't attacked these groups for opposing his tax, however, he has only attacked the energy industry.

Let me tell you how the figures work out under this tax. The tax, allegedly designed to reduce consumption, would cost $47 a barrel of oil. This does not compare favorably with the President's statement that it costs less to save a barrel than to buy one.

GAS GUZZLER

Under the Energy Policy and Conservation Act (EPCA), there are already stiff penalties for producing a fleet of new cars that tends towards gas guzzlers. This provision merely is to make sure that the auto companies will obey a law already on the books.

I have heard from G.M., Ford, and Chrysler, and all three assure me that they have every intention of meeting the requirements of the EPCA. I see no reason to tax consumers to help them comply with the law.

Moreover, the Administration itself has calculated that doubling the fines of the EPCA would provide the same incentive as the gas guzzler tax. They would both produce an estimated 175,000 bbl/day savings above that expected from the present EPCA. Since the auto companies have said they are going to satisfy the law anyway, it would probably do no harm to double the fines under EPCA. If we believe the Administration, this will save another 175,00 bbl/day. If we believe the auto companies, they will not be subject to the fines anyway.

OTHER MEASURES

Before I leave the tax bill, I would just like to bring your attention to two of the most useless items in the bill as far asenergy savings is concerned.

One is a House provision that would eliminate the income tax deducation for state gasoline taxes. This would cost the taxpayers 7.5 billion dollars over the life of the provision and both the Administration and the Congressional staff concur that it would save negligible energy.

There is also a Senate provision that would give people a tax credit for being over 65. I don't want to argue the merits of this provision as social legislation. I only want to say that it will cost the Treasury 9.6 billion dollars and will not result in any energy savings at all.

Now why have these bills run into so much trouble in the Senate? Where has the Administration gone wrong?

First in their attempt to deal with the conservation issue, they were insensitive to just how high the price of fuel would have to go before we would cut down our consumption. This is why the Crude Oil Equalization Tax is so outlandish. To affect demand by only a little bit, the government would have to accure an embarrassingly large amount of money. Once this is accepted, it is apparent that a tax program is the wrong approach to reducing demand. It is just too expensive.

I think the Adminsitration also was misguided when it decided to extend controls on gas. The intrastate marketplace works, and that should have served as a model for the Administration. Instead, they saw a source of gas that was beyond their reach under the present regulations. They decided that as long as shortages were going to occur anyway, they should be able to get their hands on this gas and evenly distribute the effects of future shortages.

I would have recommended just the opposite approach. They should have let the intrastate market alone, and offered incentives to bring on more new natural gas. I am talking about deregulation of new natural gas. This would have attracted new gas to the interstate pipeline and prices would only have gone up very gradually, over about five years, while old contracts at controlled prices gradually ran out.

The Administration is only creating the crisis of the '80's by the program they are advocating. If no new gas comes on in this country, we will satisfy our increasing demands by importing foreign gas at prices higher than anything we have yet seen. Consider a time in about five years when the East Coat is hooked on Algerian gas at $4.50/Mcf, when domestic gas elsewehre is only costing $2.25.

We are not regulating oruselves into a need for outrageouly high priced gas in this country, and we are buying ourselves into a dependence that will set us up for a potential boycott of gas in the mid 1980's.

We could be funding technologies in this country that would offer the alternative to OPEC oil should beagain be cut off. Instead, we are funding the construction of gas plants overseas that will be owned by foreigners. It is totally irrational.

We have yet to see the domestic gas pricing issue resolved. The problem of imported gas will be created if we make the wrong decision.

The third place the Administration went wrong is in its decision to do nothing about bringing on new supplies of oil. I know we have heard that they want to set a tier of new-new oil at the world price. I might remind you that they do not need legislative authority to do this. They could have done it last April if they had wanted to. If it will be so much of a boon for production, you would think they would have done it the day Carter took office.

If fact, this proposal to raise the price of newly discovered oil is a sham. It would offer no incentive for production. The law regulates the average price of oil in this country, and if new oil goes up, old oilmust go down. The net price increase <u>must</u> be zero. In fact, the Administration has already accomplished the necessary price decrease by artifically holding prices below the level allowed by law. If they realize that higher prices will mean incentives for production, why have they not at least let the price of oil rise to the level we had in mind when we passed the Energy Policy and Conservation Act (EPCA) in 1974?

Where do we go from here?

If many of the Administration's proposals make it through the conference, I foresee a return of energy legislation next year or the year after, in order to correct all the problems we are now causing. If the Administration tries to prove a point with American industry by forcing them to do things that are just uneconomical, I foresee lots of litigation, lots of bad feelings, and little progress being made in reducing our level of imports.

If the compromise legislation does in fact provide incentives for production of oil, if it does result in incentives for getting at our enormous reserves of gas now locked in geopressurized zones beneath the southern states, then we will get a breathing spell.

We hear about new sources of energy that will use the heat of the oceans, the strength of the tides, the light as well as the heat of the sun, and fusion as well. I have looked at the potential for these technologies and they are disturbingly far off. There is an enoermous amount of work to be done to make these inexhaustibles affordable.

Now, that is the proposal, and those are some of the difficulties with it. But to fully assess our energy situation, you have to go beyond this proposal and look at the whole international situation and how it affects our energy position.

At a time when our prestige in the Middle East might have been at an all-time high, we have been discredited and closed out of any meaningful dealings there. I can assure you that Israel was not the only nation to be shocked by President Carter bringing Russia back into the Middle East. It was a threat to Egypt, of course. But, just in terms of energy and the Middle East, I can assure you that Saudi Arabia could not have been pleased to have Russia re-injected into that arena. So we have to confront the OPEC nations in a weakened condition, with our diplomacy discredited and our whole middle eastern policy in a shambles.

That is the price we paid the Soviets for a SALT agreement which, in my judgment, is not going to pass the Senate.

I don't mean to get out of energy and into foreign policy, but I don't think you can divorce the two. Whether we are talking about the potential effects on energy prices resulting from giving away the Panama Canal, or our own reduced ability to exert our will internationally as a result of a bad SALT agreement, energy is a matter of international consequence.

NEWS from U.S. Senator Bob Dole

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