[COMMITTEE PRINT]

# ENERGY TAX PROVISIONS

# 7B

## SUMMARY OF WRITTEN STATEMENTS ON THE ENERGY PROPOSALS

PREPARED FOR THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

AND THE

CONGRESSIONAL RESEARCH SERVICE

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## INTRODUCTION

This is the seventh (Part B) in a series of pamphlets prepared for use by the Senate Committee on Finance during its consideration of the energy tax provisions of the House bill (title II of H.R. 8444).

This pamphlet (Part B) presents a summary of the written statements submitted to the Finance Committee on the proposed energy program. The public hearings were held on August 8–12 and September 8–9 and 12–15, 1977. The Administration testified on August 8–9 and on September 15. The Administration's position on the energy tax provisions of the House bill are included in each area in other staff pamphlets (Nos. 2–6); and are therefore not covered in this pamphlet. (A summary of the public testimony was presented in Part A.)

The summary of statements is organized by topics, and covers the comments on the provisions of the House bill (H.R. 8444), the Administration energy tax proposals, plus comments on the general energy situation and other suggestions related to the energy program.

The summary was prepared with the assistance of the staff of the Congressional Research Service: Robert L. Bamberger (project coordinator), Carl E. Behrens, Frances A. Gulick, David M. Lindahl, Gary J. Pagliano, David E. Guskee, Duane A. Thompson, and John W. Jimison.

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## I. Overview of Energy Situation and General Comments

*Hon. Robert Byrd, U.S. Senator, West Virginia*

Feels that action is required now if we hope to have viable alternative energy sources in place by the 1980's when they may be needed to supplement our dwindling supplies of oil and natural gas. Indicates that we must proceed with the development of alternative energy resources to provide for an increased supply of energy, to protect our country from any interruption in our oil supply, and to conserve crude oil and natural gas. Views now as an opportunity to establish the basis for a well-funded, integrated, alternative fuels program, further development of mass transit, and to modernize existing rail systems.

*Honorable Edward M. Kennedy, U.S. Senator, Massachusetts*

Opposes all of the following individual and business energy tax provisions as unnecessary, inefficient, unfair, wasteful and complicated tax subsidies, and as being directly contrary to the tax reform and simplification legislation which Congress will soon consider. Estimates that the following credits will cost the Treasury a total of $8 billion by the end of 1984, or over $1 billion annually:

(1) Residential insulation tax credit;
(2) Residential solar energy equipment tax credit;
(3) Residential wind energy equipment tax credit;
(4) Tax credit for electric automobiles;
(5) Business energy tax credits;
(6) Tax credit for waste recycling equipment; and
(7) Intangible drilling and development cost deduction and percentage depletion deduction for geothermal resources.

Believes the House bill, which is designed to deal in a major way with the whole energy area, can be "seriously faulted" for failing to deal with the major existing tax loopholes involving energy—intangible drilling deduction and the percentage depletion allowance for oil and gas and other minerals.

*National Petroleum Refiners Association*

Supports the broad objectives of the Administration's National Energy Plan but doubts that it can meet the stated objectives. Believes that the interaction of economic incentives in the marketplace is the best means of encouraging efficient use of energy. Believes that any taxes which place goods at a cost disadvantaged on the world market should be eliminated from the bill.

*National Business Aircraft Association, Inc., John H. Winant, President*

Believes that the National Energy Act should include provisions to encourage the development of new energy supplies as well as encourage energy conservation.

*United Auto Workers*

Feels that energy goals can be realized without resort to tax credits that would reduce government revenues without any assurance of their effectiveness in meeting energy goals. Urges that "tax gimmicks" be scrapped in favor of strengthening mandated energy conservation.

*American Hotel and Motel Association*

Believes that the United States should develop all available oil and gas resources by allowing the companies doing the exploration sufficient price incentive to justify the risks and to afford them the opportunities for research and development. Recommends pricing incentives that would encourage exploration and development of new oil and gas reserves.

*James W. Cumpton, Stamford, Conn.*

Categorizes proposed tax and price controls as de facto "partial socialization of American owned domestic oil and gas," as inflationary and a depressant on the economy.

*National Rural Electric Cooperative Association, Robert D. Partridge, General Manager and Executive Vice President*

Expresses skepticism about advisability of trying to modify energy consumption patterns by means of proposed amendments to the tax code. Believes any artificial pricing mechanism, such as proposed by the Administration and in the House-passed bill, is an unfair method of allocating scarce natural resources and its effectiveness is unproven.

*Albert A. Bartlett, Professor of Physics, University of Colorado*

Submits that exponential growth in consumption of fuels is insupportable even for large resources such as coal. Suggests that resources can be used and be made to last forever if consumption rates decline instead of increase. Asserts that a decline of 1 percent per year in world petroleum consumption would allow petroleum to last forever.

*W. Gibson Jaworek, Consulting Energy Economist*

Contends that U.S. energy policy should be focused directly to unlocking unconventional oil and gas resources, particularly shale oil. Does not believe government-funded research and higher-risk private investment will be sufficient to relieve future energy supply constraints.

*PPG Industries, Pittsburgh, Pa., J. E. Burrell*

Indicates that concern is that the proposed energy act advocates the allocation of current fuel supplies rather than the development of additional energy alternatives. Believes that stated objectives of the energy bill should include goals for the increased production of oil, natural gas, nuclear energy, solar, and other energy sources; and these goals should be achieved without regulating fuel supplies.

## II. Residential Conservation Tax Incentives

### *A. Residential Energy Credits*

*Hon. Edward M. Kennedy, U.S. Senator, Massachusetts*

Cites study prepared by Stanley S. Surrey, Paul McDaniel, and Joseph A. Pechman, which claims that the insulation tax credit in the House-passed energy bill should be rejected because it is:

(*1*) *Inefficient*, as the credit will not encourage many people to insulate their homes who would not insulate them anyway;

(*2*) *Inflationary*, because the supply of insulation is limited, and increased demand will only push up the price;

(*3*) *Inequitable*, since well-to-do homeowners will receive far greater benefits than low-income homeowners;

(*4*) *Complex*, as the tax return and the IRS audit process will become even more confusing and more complicated than before; and

(*5*) *Expensive*, because the Treasury will lose $500 million a year as a result of the proposed tax credit, with no corresponding public benefit.

*Joint statement by Garry DeLoss, Environmental Policy Center; Pamela Deuel, Environmental Action; Jonathan Gibson, Sierra Club; Jeffrey Knight, Friends of the Earth; Philip Mause, Attorney for Environmental Defense Fund; William K. Reilly, The Conservation Foundation;* and *Edward Strohbehn, Natural Resources Defense Council*

Express support for tax credits for residential energy conservation and solar energy improvements.

*Technology International, Inc., Stephen M. Munson, President*

Recommends that the tax credits available to individual house owners for solar and wind expenditures should also be extended to geothermal energy heating and cooling systems. Supports proposal by the Senate Finance Committee in the 94th Congress to give credits for 40 percent of the first $4,000 of expenditure and 25 percent of the next $6,400 for a total maximum credit of $2,000.

*Air-Conditioning and Refrigeration Institute, G. R. Munger*

Believes that air-source and water-source heat pumps should be added to the list contained in H.R. 8444 of "other energy-conserving component(s)" receiving a tax credit for expenditures made between April 20, 1977 and December 31, 1984. Claims that the electric heat pump has about the same utilization efficiency of a fossil-fuel direct combustion furnace. States that since a heat pump's first costs are higher than a conventional system's, a tax credit would make the heat pump more competitive.



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*York Division of Borg-Warner Corporation, D. L. Rittgers, Residential Product Marketing Manager*

Recommends that heat pumps be eligible for the proposed 20-percent residential conservation tax credit. Feels the tax credit would provide significant incentive for the consumer to purchase a heat pump which will become more economical as fossil fuels become more scarce and expensive. Suggests that the "add-on" heat pump, which can be attached to any existing form of heating apparatus, should be considered as part of the "heat pump" definition, since their use in the replacement and modernization market could mean significant energy savings.

*Canvas Products Association International*

Recommends that awnings be included by the Committee as an energy saving device eligible for the tax credit program for energy savings home improvements. Notes that studies conducted by the American Society of Heating and Air Conditioning Engineers indicate that awnings can keep homes 8 to 15 degrees cooler. Also, mentions tests by the Small Homes Council that show awnings can reduce air conditioning bill by 25 percent.

*National Rural Electric Cooperative Association, Robert D. Partridge, General Manager and Executive Vice President*

Supports proposed tax incentives for residential insulation and conservation but believes they should be modified to make them available for lower income persons.

*National Wildlife Federation, Louis S. Clapper, Director, Conservation Division*

Strongly supports the 20-percent tax credit on first $2,000 spent on home insulation, available through December 31, 1984, as passed by the House.

### B. Residential Solar and Wind Credit

*Hon. Edward M. Kennedy, U.S. Senator, Massachusetts*

Cites a study prepared by Stanley S. Surrey, Paul McDaniel and Joseph A. Pechman, which asserts that the proposed solar energy tax credit for residences should not be adopted because:

(1) The technological problems blocking solar energy development cannot be solved by tax credits for purchasers of home equipment;

(2) Solar energy heating is currently much more expensive than alternative sources of energy;

(3) Only well-off individuals are likely to benefit from the credit;

(4) Tax returns and the IRS audit process will be further complicated by the credit; and

(5) The credit will cost over $100 million a year by 1983.

Indicates that as technological problems are solved more people will buy solar equipment and cost to the Treasury will be even more. Believes that funds should be spent on research and development to improve technological efficiency instead.

Maintains that the wind energy credit is also inefficient, inequitable, expensive and complex and should be rejected.

*National Swimming Pool Institute, Robert H. Steel, Executive Vice President*

Urges expenditures allocable to swimming pools be included as eligible for incentive credits, when used as an energy storage facility in solar systems heating and cooling the primary residence. Argues that this could have major impact in commercializing the solar energy industry. Indicates there are already some 1.3 million permanent in-ground residential swimming pools and as many as three or four million large above ground pools, which could serve as storage systems.

Recommends elimination of language discriminating against swimming pools used as an energy storage medium.

*National Wildlife Federation, Louis S. Clapper, Director, Conservation Division*

Urges an increase in the residential solar tax credit to 40 percent of the first $1,500 spent for solar and wind energy equipment. Endorses concept of a two-part tax credit on grounds that encouraging solar hot water heating would significantly encourage and expand overall solar system application and production.

*Andrew Egendorf, Weston, Mass.*

Protests exclusion of solar heating credits for swimming pools. Recommends inclusion of such credits "in the limited circumstances of solar heating being the sole heating source, and further that the solar panels be installed in a fashion which performs the complementary function of cooling the residence."

Argues the conservation case for such credits on the bases that:

(1) Installation of solar units as *exclusive* means of heating pools saves whatever fuel would otherwise have been used;

(2) Installation of collecting panels *on the residence* itself acts as insulator, and thereby saves air-conditioning costs;

(3) Any business given the solar-heating industry helps improve the overall product by causing more such businesses to come into existence; and

(4) Without such credit, experimental nature of solar-heaters, and their high cost, will preclude many persons from risking the purchase price at this time; once another heat-source has been installed, few switch-overs will be made without some financial incentive to do so.

*Jeff A. Schepper, Rutgers College, New Brunswick, N.J.*

Recommends a full 100-percent tax credit for the installation of all solar power based energy suppliers so that initial cost to the individual or firm that converts to solar power would be zero. Feels that the House bill provisions are inadequate and should not be restricted to homeowners.

## III. Transportation Tax Provisions

### A. Auto Fuel Inefficiency Tax

*National Wildlife Federation, Louis S. Clapper, Director, Conservation Division*

Recommends that the gas guzzler tax be strengthened to encourage additional automobile fuel economy by either narrowing the "window" between the current DOT fleet mileage standards and the imposition of this tax, or by extending the first increment, low-level tax across the "window". Also urges application of the tax to recreational vehicles. light trucks, and vans.

*United Auto Workers*

Opposes the gas guzzler tax. Cites International Trade Commission (ITC) study which concludes that the gas guzzler tax would not add to fuel savings generated by EPCA. Prefers direct approach to EPCA, which compels manufacturers to meet conservation goals, to a taxation policy which would penalize family car purchasers and limit consumer choice.

Objects to any attempt to restore auto rebate to bill. Believes rebate would result in windfall sales to imported cars. Cites ITC study which estimates that rebate would increase car imports by 300,000 units per year.

*Joint statement by Garry DeLoss, Environmental Policy Center; Pamela Deuel, Environmental Action, Jonathan Gibson, Sierra Club; Jeffrey Knight, Friends of the Earth; Philip Mause, Attorney for Environmental Defense Fund; William K. Reilly, The Conservation Foundation; and Edward Strohbehn, Natural Resources Defense Council*

Urge the committee to strengthen the gas guzzler tax by closing tax exemption "window" and applying the tax to any vehicle not meeting fleetwide standards under the Energy Policy and Conservation Act of 1975: Recommend that light-duty trucks be covered by the gas guzzler tax; propose earmarking the revenues from the gas guzzler tax for public transportation programs.

### B. Standby Gasoline Tax

*National Rural Electric Cooperative Association, Robert D. Partridge, General Manager and Executive Vice President*

Objects to increase in gasoline tax as unfair and unnecessary if mandatory mileage performance standards are placed on automobiles.

*United Auto Workers*

Opposes the proposed standby gasoline tax. Believes tax would be too small to significantly affect conservation and doubts that consumers will respond to threat of a tax not in effect. Expresses concern whether revenues would be fully rebated, and cites Massachusetts Institute of Technology study showing that increased energy prices would reduce real income of poorest tenth of population seven times more than that of richest tenth. Supports concept of funneling gasoline tax revenues to public transit, but feels support of public transit should be a separate program not tied to generation of energy tax revenues.

### *C. Other Transportation Tax Provisions*

*Hon. Edward M. Kennedy, U.S. Senator, Massachusetts*

Urges rejection of the House-passed tax credit of $300 for purchase of new electric motor cars because electric cars are being purchased as fast as they are being built. Contends that electric cars are energy inefficient because they must rely on electricity from a utility which must first burn fuel, transport it by wire and store it in a battery; and that each of these stages loses energy. Asserts that a logical energy program would not give a tax credit to electric cars but it would put an exise tax on them like the one put on inefficient automobiles powered by gasoline.

*Joint statement by Garry DeLoss, Environmental Policy Center; Pamela Deuel, Environmental Action; Jonathon Gibson, Sierra Club; Jeffrey Knight, Friends of the Earth; Philip Mause, Attorney for Environmental Defense Fund; William K. Reilly, the Conservation Foundation; and Edward Strohbehn, National Resources Defense Council*

Recommend repeal of the deduction for State gasoline taxes.

*Motor Vehicles Manufacturers Association of the United States, Inc.*

Supports repeal of excise tax on intercity buses. Believes repeal will make additional capital available for investment in energy saving vehicle equipment.

*American Trucking Association, Bennett C. Whitlock, President*

Recommends inclusion of truck energy-saving add-on equipment in list of qualifying properties eligible for additional 10-percent investment tax credit for business energy investments. Urges exemption for radial tires from the investment credit useful life limitations. Recommends additional 2-percent investment tax credit for purchase of diesel-powered equipment for trucks weighing from 19,501 to 33,000 pounds.

*First Paratransit Corporation, G. Richard Wyckoff, Jr., Vice President*

Urges exemption for taxicabs from the federal excise tax on gasoline, or institution of a government supported user-subsidy program for utilization of taxicabs by the poor and elderly.

*National Business Aircraft Association, Inc., John H. Winant, President*

Opposes any increased taxes on noncommercial aviation. Cites conservation efforts within business aviation community. Challenges whether proposal to raise excise tax on aviation fuel is really moti-

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vated by concern for conservation given estimate energy savings would be "negligible." Recommends that to insure availability of petroleum supply for aviation, that Federal policy mandate utilization of alternative fuels where possible until such a time as a petroleum substitute is available which can be used in general aviation.

*General Aviation Manufacturers Association, Edward W. Stimpson, President*

Opposes any attempt to reinstate additional 4-cent tax on general aviation fuel that was rejected by the House. Indicates that 75 percent of general aviation travel is for business and commercial purposes, that general aviation consumes only seven-tenths of 1 percent of the total fuel used in transportation, and 6 percent of the total fuel used in aviation. Cites GAO report which stated that proposed tax increase would have no significant effect because general aviation fuel consumption is relatively small.

*Highway Users Federation, Peter G. Koltnow, President*

Notes that ride sharing is effective conservation measure, and recommends an investment tax credit for employers for capital costs of starting and operating vanpooling program.

## IV. Crude Oil Tax and Rebate

*Hon. Mark W. Hannaford, Member of Congress, California*

Claims that the combination of unfavorable market conditions on heavy California crude and a fixed entitlement penalty for all crudes regardless of quality has caused a curtailment of production in California that must be replaced by imported crude at nearly three times the price. Favors the institution of a variable tax rate based on oil classification as a mechanism by which the inflexibility of the entitlements program can be circumvented. Predicts that failure to include this provision would result in further large-scale curtailment of production.

*National Rural Electric Cooperative Association, Robert D. Partridge, General Manager and Executive Vice President*

Opposes crude oil equalization and rebate plan as no more than a regressive sales tax which discriminates against not only lower income families but also those who are more dependent on petroleum-based products, as are citizens in rural areas. Points out that the 25 million people served by NRECA electricity are generally both lower in income and more petroleum dependent. Questions assertion that price effect will be only 7 cents per gallon; feels that it may be as much as a 15-cent increase. Sees "no way to perfect this tax." Urges consideration of other alternatives, for example, S. 2073.

*Highway Users Federation, Peter G. Koltnow, President*

Opposes the crude oil equalization tax. Feels that the tax: (1) will not result in significant conservation; (2) fails to provide needed capital for domestic energy development; and (3) would create geographic inequities, particularly in the South and West.

*Motor Vehicle Manufacturers Association of the United States, Inc.*

Opposes the crude oil equalization tax. Does not believe the tax would stimulate supply. Considers proposed rebate to amount to a transfer of wealth from industrial users to citizens which could very likely be spent by individuals in energy-intensive manner. Opposed to home heating oil rebate, believing that rebate would be a disincentive to conservation, particularly when combined with per capita rebates.

*United Auto Workers*

Indicates support for the crude oil equalization tax and rebate, but notes that UAW support for tax is wholly contingent upon inclusion of rebate. Expresses concern that expiration of tax in 1981 may lead to imposition of decontrol. Would be opposed to any proposals to divert rebates from individuals to mass transit and general tax relief; believes these programs should be funded separately and not be tied to an energy tax.

*The Associated General Contractors of America*

Claims that domestic crude oil equalization taxes will dramatically increase the prices that contractors would have to pay for oil derivatives, especially diesel fuel, gasoline, and asphalt. Feels this would unfairly increase the costs of fulfilling contracts negotiated prior to the implementation of the taxes and jeopardize profits.

Notes that asphalt is a non-energy derivative of petroleum which is used for construction. Estimates that the equalization tax would cause the price per ton of asphalt to rise to approximately $115 per ton by 1980, as compared to an average 1980 price per ton of approximately $90 without the tax. A request that higher asphalt prices would have no effect upon energy conservation indicates that exemption of asphalt under price and allocation controls is a precedent for exemption of asphalt from the crude oil tax.

*National Asphalt Pavement Association*

Points out that the tax on all forms of petroleum products, especially asphalt, is not taken into account in the legislation, and that the legislation, even though the Administration claims that the taxes would ultimately be returned to the consumers, does not make any provisions for the return of these taxes to the users of nonenergy-related petroleum products, such as asphalt.

Maintains that taxation of non-energy products such as asphalt would result in increased costs of road construction and maintenance which would have to be absorbed by Federal, State, and local governments and may generate a loss in jobs associated in road construction.

Recommends the following alternatives:

(1) the exclusion or exemption of non-energy petroleum by-products, such as paving and roofing asphalt, from the crude oil equalization tax; or

(2) expansion of the proposed rebate system to compensate the governmental purchaser for his increased costs on such products, with rebates being restored to the particular agency, department, or fund affected.

*Joint Statement by Garry DeLoss, Environmental Policy Center; Pamela Deuel, Environmental Action; Jonathan Gibson, Sierra Club; Jeffrey Knight, Friends of the Earth; Philip Mause, Attorney for Environmental Defense Fund; William K. Reilly, The Conservation Foundation; and Edward Strohbehn, Natural Resources Defense Council*

Support the crude oil equalization tax as proposed in S. 1472 as an effective mechanism to price oil at its true replacement value and simultaneously capture windfall profits. Endorse the per capita rebate concept; but strongly opposes any attempt to provide a plowback credit against the equalization tax. Expresses opposition to creation of any type of energy production trust fund with equalization tax revenues.

*National Petroleum Refiners Association*

Argues that imposition of crude oil equalization tax would not provide effective incentive for the replacement of oil and natural gas. Claims that the equalization tax would not provide refiners and petrochemical manufacturers with adequate investment capital to increase manufacturing capacity. Predicts that effect of the tax will be to raise the cost of domestically refined petroleum and petrochemicals to levels above world parity, thus rendering them non-competitive in the world market, and that the resulting increase in product imports would lead to increased reliance on foreign energy sources, would endanger jobs in the domestic refining and petrochemical industry, and would increase costs to the consumer.

*American Public Power Association*

Opposes crude oil equalization tax because it will not only increase oil costs, but tend to increase alternative fuel prices as well, thus requiring an increase in electricity rates to consumers.

*Gulf State Utilities Co., Floyd R. Smith, Chairman of the Board and Chief Executive Officer*

Believes crude oil equalization tax is discriminatory considering that consumers of oil-generated electricity for home heating will pay tax while consumers of oil directly for home heating will get the tax rebated.

*Clark Oil and Refining Corporation*

Opposes a continuation of unwarranted and excessive preferential treatment to certain "small" refiners to the extreme competitive injury of other refiners and their customers, including branded independent dealers, unbranded independent dealers, and other wholesalers. Suggests that if "small" refiners are at a competitive disadvantage, hearings should be held concerning the regional and national costs, the competitive impact on the industry, and the requirement for continued special treatment for certain companies. Urges Congress to reject continuation of excessive benefits for a very small segment of the refining industry. Believes that Senate action to exempt small refiners is premature and will short circuit FEA action.

Argues that no additional exemption (such as the one from the equalization tax) should be considered by Congress while special benefits for small refiners are pending, including offshore reserves, exemptions from the Clean Air Act, and cargo preference exemptions. Maintains that to do otherwise could lead to further cost advantages which will threaten the stability of the refining-marketing segment of the industry and will threaten the competitive viability of those not benefitted. Claims that the cost impact of the small refiner bias and special relief will result in substantial loss of tax revenue for the Administration's energy plan. Assets that the impact of the small refiner tax relief is regional in character and would benefit only 14 percent of the consumers in the country. Contends that Government subsidy through the small refiner has been abused and that legislating a uniform schedule of exemption from the equalization tax does not recognize the difference that exist between small refiners.

*Gary Western Co.*

Concedes that the crude oil equalization tax would obviate the necessity for the crude oil entitlements program because it would equalize the cost of old, new, and imported oil, would reduce energy consumption, and would eliminate the burden of administering the entitlements program. Claims that most small refineries are marginally profitable and that the loss of the small refiner bias would undoubtedly force many of these refineries to shut down. Predicts that independent marketers would be forced to obtain their supplies from more distant sources and thus incur greatly increased transportation costs. States that another consequence of refinery shutdowns would be the loss of many jobs in the impacted areas.

## V. Tax on Industrial Use of Oil and Gas

*Hon. George Ariyoshi, Governor of Hawaii*

Urges that Hawaii be exempted from oil and gas use taxes since the State has been exempted from the regulatory requirements of S. 977.

*National Rural Electric Cooperative Association, Robert D. Partridge, General Manager and Executive Vice President*

Opposes excise tax on utility use of oil and natural gas. Points out that NRECA cooperatives have a generating capacity of approximately 2,300 megawatts produced by gas and 800 to 900 megawatts produced by oil. Indicates that replacement and conversion of these plants would cost between one and two billion dollars, with a major impact on certain regions: For example, cost of conversion for Texas alone would be at least $400 million (not counting costs of purchasing power, even if it is available) while plants would be shut down from 19 months to 2 years; and costs of the excise tax for the Chugach Electric Association serving part of Alaska would be $32 million in 1985 alone and would raise rates by 53 percent. Notes that there is little likelihood that conversion or replacement would be feasible in Alaska, yet the co-op would be subject to the tax.

Believes tax is unnecessary since ESECA already authorizes FEA to order conversions to coal. However, if the proposed tax is adopted, suggests it not be imposed until after 1983, that plants of 100 megawatts or less be exempted and that there be complete consistency between imposition of a use tax and mandatory conversion standards and exemptions states that "to find one's self exempt from mandatory conversion but subject to a use tax seems unconscionable."

Recommends that any use tax imposed upon the use of natural gas as a boiler fuel be tied to the price of residual fuel oil, as is done in the House bill, rather than to the BTU equivalency price of No. 2 distillate.

Feels that the proposed rebate plan for user taxes imposed is "somewhat inequitable" as applied to rural electric companies. Indicates that there could be cases where the rural electric pays a use tax to the investor-owned utility through increased rates, the utility receives a rebate for conversions which is only rebated to the purchaser over the life of the plant, yet the rural electric brings its own plant on line in 1990 or shortly thereafter. Under such circumstances the rural electric system is paying for a plant it will not use. Notes that the investor-owned utility also has the option to take an additional investment tax credit or rebate, an option not available to the rural or municipal system. If conversion is needed, believes that a more direct approach should be used, such as grants, low-interest loans and guaranteed loans.

*Gulf State Utilities Company, Floyd Smith, Chairman of the Board and Chief Executive Officer*

Opposes oil and gas user taxes. Argues that use taxes will not provide any incentive to convert to coal and nuclear more rapidly than at present, but will increase utility tax burden and thus cause electricity rates to rise more rapidly than in their absence.

Opposes rebate provision in H.R. 8444 because it would substitute for the regular 10-percent investment tax credit. Would prefer that only the additional 10-percent energy credit be affected by the rebate option.

*Motor Vehicles Manufacturers Association of the United States, Inc.*

Opposes the industrial users tax. Believes price decontrol would achieve same goal of balancing BTU costs of petroleum and natural gas while making additional revenues available to producers for increased exploration and production. Argues that user tax fails to distinguish between use of oil and gas as boiler fuels, and as process fuels utilized in operations for which there is no other clean substitutable fuel. Contends that the user tax will therefore contribute to rising manufacturing costs and inflation.

Objects to proposed threshold of 500 billion Btus, taking issue with implication that firms using less energy have either fewer opportunities to shift from oil and gas or deserve special treatment. Believes imposition of both user tax and crude oil tax will result in double taxation with the user tax resulting in additional costs over and above world crude price.

*American Public Power Association*

Urges exemption of peaking and intermediate load combustion turbines and combined cycle units unable to burn alternative fuel from users tax. Also, requests exemption for facilities prohibted from using coals by Federal or State air pollution requirements.

*American Hotel and Motel Association*

Advocates safeguards to prevent utilities that do not choose to convert to coal from oil and gas from passing on user tax costs to their customers.

*National Petroleum Refiners Association*

Argues that imposition of user taxes on oil and natural gas would not provide effective incentive for replacement of oil and natural gas. Supports exemption from the user tax for feedstocks and nonconvertible process users of oil and natural gas, and standby uses of oil and gas. Also supports exemption of non-marketable by-products from the tax. Prefers economic incentives for conversion based on free market pricing, rather than upon oil and natural gas taxes.

*Lone Star Steel Company, Max R. Dodson, President and Chief Executive Officer*

Claims that Lone Star could not substitute other fuels for process uses of natural gas. Contends that payment of user tax would jeopardize financial capability of utility to proceed with plans to switch to coal-fired electricity by 1983, and would threaten tubular goods production relied upon by oil and gas producers. Suggests that for administrative ease, user tax be eliminated or applied solely to boiler fuel uses; feels it would be fruitless job to categorize all process uses and determine possible substitutability.

*PPG Industries, Pittsburgh, Pa., J. E. Burrell*

Opposes users tax to force conversion from oil and gas to coal. Urges that non-substantial uses, such as feed stocks and process fuels, be exempt from the user tax.

*Kaiser Aluminum and Chemical Corporation, Cornell C. Maiser, President*

Recommends deferring imposition of the user tax by three years. Feels that few conversions can be implemented rapidly enough to avoid significant non-recoverable use tax liabilities.

Recommends a number of amendments to the user tax rebate provisions to foster further conservation of oil and gas and to soften potential economic dislocation. Specifically, recommends amendments to:

(1) Define qualified cogeneration facility in the law rather than leaving it to administrative discretion, and also including size limits and efficiency standards in the statute;

(2) Expand the definition of "alternative energy property" to include jointly-owned property and property constructed by utilities pursuant to long-term industrial contracts in order to increase the range of financing options for qualified investments;

(3) Reinstate the regular investment tax credit for those utilizing the user tax rebates since the taxpayer using rebates is complying with the energy policy goals;

(4) Permit both investment and tax carryover for at least five years to help match user taxes and energy investments; and

(5) Permit temporary reclassification to a lower tier, or exemption from use taxes, to provide administrative flexibility for special cases such as floods or to avoid local economic hardship.

*Pacific Gas and Electric Co., John F. Bonner, President and Chief Executive Officer*

Opposes the oil and gas use tax and urges that it should be deleted. Urges that, if the use tax is imposed, industries that cannot use coal because of lack of resources or transportation or other reasons be exempted from the tax. Notes that H.R. 8444, as passed by the House, permits some exemption from the tax where coal cannot be burned because of environmental restrictions, but that none is provided in the case of technological restrictions, unavailability of coal or adequate transportation facilities, physical site limitations that make the addition of coal-handling facilities impossible, or economic restrictions that make it not feasible to convert to the use of coal. Says that the coal conversion provisions of S. 977, recently approved by the Senate, exempt existing oil- and gas-generating facilities from converting to coal where such restrictions exist, and urges that similar exemptions be added to the user tax provisions in H.R. 8444.

*Freeport Minerals Co., William J. Byrne, Jr., Vice President and Treasurer*

Claims that Freeport's sulphur mines are located in areas that make conversion to coal from the present natural gas operation impossible. Says that H.R. 8444 provides the Secretary of the Treasury with authority to reclassify as an exempt use those plants or types of uses which offer no significant potential for reducing oil or gas use through conversion or conservation. Argues that H.R. 8444 as passed by the House "would subject Freeport to a lengthy and costly administrative procedure in order to gain an exemption which is, on its face, clearly warranted." Asks for a "specific legislative solution" to the problem created by the proposed user tax.

## VI. Business Energy Credits

*Hon. Edward M. Kennedy, U.S. Senator, Massachusetts*

Recommends rejection of the proposed business energy credits because: it is complex and will require tax engineers to determine whether investments meet the performance and quality standards to be prescribed in consultation with the Secretary of Energy; there is no coordination between other energy subsidy efforts and the new tax credit; it is inequitable because only available to a taxpayer who has sufficient income to use the full investment credit.

Urges rejection of proposed recycling investment credit as the wrong remedy for a situation which appears to discriminate against recycling as an energy-saving measure. States that to use existing loopholes to justify new loopholes is simply to compound the serious problem which already exists. Suggests alternative remedies could be to charge the full cost for business waste disposal, eliminate tax subsidies for percentage depletion and deductible development costs for virgin materials, provide direct subsidies for recycling efforts which are efficient, assign responsibility for administering subsidy to an agency with expertise in waste disposal.

*The Committee for Tax Incentives To Encourage Renewable Resource Use*

Urges inclusion of such specific renewable fuels uses as the following, as eligible for business investment credits to encourage conservation of, or conversion from, oil and gas or to encourage new technology: the use of corn cobs and stalks as a feedstock for gasification into low-BTU gas to fuel seed-drying ovens; the use of so-called 'ginning trash" (cotton stalks, leaves and other trash picked up in the cotton bale and separated out in the cotton-ginning process) initially for direct heat to dry cotton or gasified to run cotton gin equipment; use of corn and wheat waste as feedstock for gasification into low-BTU gas to drive farm irrigation pumps; use of almond shells as a feedstock for almond processing; use of wood (including waste and cut timber) for space heating, process heating and gasification.

*Motor Vehicles Manufacturers Association of the United States, Inc.*

Supports proposed business investment tax credit, but recommends that time limit for having eligible investments "placed in service" be extended from 1983 to 1985. Believes presently allowed five-year time frame may be insufficient given anticipated increase in demand for coal conversion facilities and related emission controls.

*American Public Power Association*

Opposes the additional 10-percent investment tax credit for investor-owned utilities on the basis that it discriminates against publicly-owned systems, to which it is not available. Feels that investor-owned utilities already have available more unused and deferred tax credits than they can use.

*American Hotel and Motel Association*

Indicates that the investment tax credit will greatly assist the hotel/motel operator in his efforts to improve energy systems on his property, but it does not provide for an investment tax credit when inefficient and obsolete systems are replaced with new equipment. Recommends that amendments be made in the Senate bill to provide additional investment tax credit for the replacement of inefficient equipment or systems or where substantial energy conservation can be accomplished. Asserts that the financing of these improvements must come from the cash flow of the property and from banking and insurance loan resources. Strongly urges the passing of the proposed additional investment tax credit for energy conservation improvements, including the investment in any new equipment, controls, thermal insulation, enclosures, and weatherizing. Prefers that the improvements qualifying for the investment tax credit include the renovation of existing systems and the addition of meters needed to monitor energy consumption. Maintains that the benefit of an additional investment tax credit would improve the economics of cogeneration.

*Air-Conditioning and Refrigeration Institute, G. R. Munger*

Recommends heat pumps be included in the list of qualifying property for the business energy tax credit. States the same reasons apply for business property as apply for residential property, namely, that the heat pump and the fossil-fuel direct combustion furnace have about the same efficiency and that the heat pump's power source, electricity, is versatile because it can be generated different ways.

*Medical Area Service Corporation, John S. Nolan, Counsel*

Points out the business energy investment credit will be a critical factor in encouraging additional investment in cogeneration property which could mean substantial energy savings. Believes that utilizing the cogeneration concept on a Medical Area Service Corporation (MASCO) power plant would produce the same amount of energy as a conventional plant, but would consume 7 million gallons or 33 percent less fuel each year. States, however, that changes in H.R. 8444 are needed to enable MASCO and other firms in similar circumstances to be eligible for the incentives and suggests the following: first, allow accelerated depreciation and the present investment credit for boilers and combustors installed in connection with cogeneration property, as outlined in Section 2061(f); and second, change the definition of the term "energy property" in Section 2061(b) to include cogeneration property installed in connection with or as a replacement for an existing facility, but only to the extent that the cogeneration energy capacity of such facility or its replacement exceeds the former cogeneration capacity of such facility.

*Technology International, Inc., Stephen M. Munson, President*

Points out that the additional 10-percent business energy tax credit approved by the House will apply only to alternative energy property used in connection with a building or industrial process in existence on April 20, 1977. Argues that it should also apply to new construction. Also recommends that the legislation should clearly name geothermal transmission pipelines under the proposed credit.

*Wheelabrator-Frye, Incorporated, Michael D. Dingman, President*

Urges that the definition of "alternative energy property" eligible for tax incentives be expanded to include equipment used to convert coal and other substances into synthetic liquid and solid fuels, in addition to the synthetic gas already specified. Also supports inclusion of equipment used to process solid waste for either direct use as a fuel supplement or for conversion into liquid or gaseous fuels.

*Air Products and Chemicals, Inc.*

Recommends that equipment for converting coal to chemical feedstocks be included in the definition of alternative energy property, and that definition also include equipment for gas clean-up and separation into usable fractions as eligible functions.

*Owens-Illinois, Inc.*

Recommends that manufacturers of solar energy equipment be allowed to write off production facilities within three years for tax purposes, as well as receiving a 20-percent investment tax credit for the facilities.

*Westinghouse Electric Corporation, Richard C. Niess, Manager, Commercial-Industrial Templifier Heat Pump Department*

Recommends that business investments in large heat pump systems, used for industrial and large commercial applications to provide process heating, service water heating and space heating, should be considered a government-approved conservation measure and should be given equal tax credit treatment with other approved conservation measures. Specifically, feels that heat pumps should be eligible for the proposed additional 10-percent tax credit to encourage business to invest in energy saving equipment.

## VII. Energy Development Tax Incentives

### *A. Geothermal Deductions*

*Hon. Edward M. Kennedy, U.S. Senator, Massachusetts*

Opposes proposed deduction for intangible drilling expenses and the 10-percent depletion allowance to geothermal steam for the following reasons:

(1) Because the new tax benefit is in the form of a deduction, its benefits will go primarily to very high income investors;

(2) The form of the new tax benefit makes it very unlikely that it will lead to any increase in available geothermal energy resources; and

(3) While taking significant steps toward market incentives for currently important energy resources—oil, natural gas, and coal—the bill takes no action to eliminate the unnecessary and unwise tax provisions as models for new "loopholes" for geothermal energy.

Recommends that if Congress wished to provide a serious incentive for geothermal energy, it should design a direct subsidy to pay bonuses for exploratory drilling, and not create a tax windfall for rich investors to conduct more development drilling.

*Geothermal Kinetics, Inc., Paul W. Eggers, President*

Supports passage of S. 1961, a bill to allow deductions for intangible drilling costs, and 22-percent depletion allowance. Argues that the geothermal industry is at a stage similar to that of the oil and gas industry 30 to 40 years ago, and needs the same types of incentives as those which "proved to be so succesful in spurring the development of oil and gas resources." Asserts that enactment of such incentives will make it possible to produce electricity from marginal and intermediate geothermal areas which otherwise will remain undeveloped for decades.

*Magma Power Co., Joseph W. Aidlin, Vice President and General Counsel*

Recommends the geothermal depletion allowance and deductions for intangible drilling costs as provided by S. 1961.

*Union Oil Company of California, Carel Otte, President, Geothermal Division*

Claims that geothermal energy is an exhaustible or wasting natural resources, and argues that it should be on an equivalent basis with other assets such as strip-mined coal, with which it is in competition for central station electric power generation. Supports S. 1961, which would achieve this equivalence.

*Technology International, Inc., Stephen M. Munson, President*

Urges that the 10-percent depletion allowance voted for geothermal steam in the House bill be increased to 22 percent. Urges that the depletion allowance not be considered a tax preference for purposes of the minimum tax.

Argues that geothermal resources should not be included within the scope of "oil and gas resources" in Section 465(c)(1)(D) of the Internal Revenue Code, which limits the amount of expenses that can be deducted to the amount of investment "at risk." States that the purpose of proposal would be to remove investment in geothermal development from the restriction created in 1976 tax reform act aimed at tax shelters. Asserts that "at risk provisions" of the tax code should not apply to the development of critical alternative energy sources while they are being developed and commercialized.

### B. Other Energy Development Tax Proposals

*National Coal Association*

Recommends provisions to enable coal producers to write off new coal mining equipment over a 12-month period, and to establish a price support program for synthetic fuels. Feels that 10-percent depletion allowance for coal should be raised to 15 percent, as is provided for shale oil. Indicates that faster write-offs for investment in coal conversion facilities should be established in order to accelerate demand for coal to be used as synthetic fuel.

*W. Gibson Jaworek, Consulting Energy Economist*

Recommends tax measures to increase conventional domestic oil and gas supply: (1) reducing tax liability for geological and geophysical efforts to locate new oil and gas supplies; (2) liberal amortization of investments in onshore drilling rigs and equipment; (3) deferred tax liability for investment and expenses for "wildcat" drilling; (4) disincentives for any of the above three activities conducted in foreign lands; and (5) disincentives for companies holding oil and gas leases, without drilling, for lengthy periods.

To encourage development of nonconventional sources, recommends: (1) tax credits for R.D. & D. against current corporation tax liabilities, including geological and related resource evaluation expenditures; (2) a "tax-free" period for operation of unconventional energy plants as designated by Secretary of Energy; and (3) tax preferences for corporate entities chartered for development of unconventional energy sources, with allowance for capital involvement by local, state and regional governmental bodies.

*Jeff A. Schepper, Rutgers College, New Brunswick, N. J.*

States that to encourage investment in and development of solar energy power producers, legislation should provide a 5-year tax moritorium on all profits made on the production and sale of such energy producers.

## VIII. Comments on Use of Energy Tax Revenues

*Hon. Robert Byrd, U.S. Senator, West Virginia*

Suggests that if the Committee should recommend enactment of a crude oil equalization tax or a gas guzzler tax, that consideration be given to utilizing any revenues from such taxes for three purposes: (1) to increase the domestic supply of energy through the development of an alternative fuels program; (2) to conserve energy through the development of fuel efficient mass transit; and (3) to assure adequate facilities to transport the nation's coal through the construction and modernization of rail systems. States that the revenues from the taxes should not be dispersed through rebates except possibly in the case of low-income individuals.

Indicates that options for use of such revenues include the following: accelerated program of research, development and demonstration of gasification and liquifaction processes for the production of synthetic fuels from coal; processes to assure that coal can be burned in an environmentally acceptable manner; development of geothermal energy, oil shale, wind energy and biogass energy; further development of solar energy, including application of solar technology by business, greater use of space heating and cooling, and encouragement of solar-generated electricity; development of mass transit options.

Notes that a recent nationwide poll indicates that 71 percent of the American people would support an increase in taxes to spur the development of alternative energy sources.

*United Auto Workers*

If enacted, proposes that revenues from gas guzzler tax be used to finance auto scrappage program in which government would offer a fixed amount (e.g., $300) for cars turned in to be junked. Believes program would accelerate replacement of fleet with safer, more fuel-efficient cars, would eliminate abandoned cars and provide recyclable materials.

*Joint statement by Garry DeLoss, Environment Policy Center; Pamela Deuel, Environment Action; Jonathan Gibson, Sierra Club; Jeffrey Knight, Friends of the Earth; Philip Mause, Attorney for Environmental Defense Fund; William K. Reilly, The Conservation Foundation; and Edward Strohbehn, Natural Resources Defense Council*

Opposes creation of any type of energy production trust fund with revenues from the proposed crude oil equalization tax. Proposes that revenues from the gas guzzler tax go for mass transit programs.

## IX. Non-Tax Proposals

### A. Auto Fuel Efficiency Standards

*United Auto Workers*

Supports Senate amendment to double civil penalties for noncompliance with EPCA and to establish minimum auto fuel economy standards.

### B. Oil and Gas Pricing Policies

*General Aviation Manufacturers Association, Edward W. Stimpson, President*

Recommends that allocation and price controls on petroleum products be eliminated.

*Highway Users Federation, Peter G. Koltnow, President*

Favors deregulation of motor vehicle fuel, including gasoline.

*Motor Vehicles Manufacturers Association of the United States, Inc.*

Supports FEA proposal for decontrol of gasoline prices.

*United Auto Workers*

Opposes price decontrol. Believes there is no evidence that decontrol would significantly increase production. Believes decontrol would result in windfall profits to producers.

*P.P.G. Industries, Pittsburgh, Pa., J. E. Burrell*

Believes that the only positive way to ensure adequate long-term fuel supplies is through decontrol of the pricing of new natural gas and oil along with aggressive production and development of nuclear and other energy sources.

### C. Utility Regulation Policies

*P.P.G. Industries, Pittsburgh, Pa., J. E. Burrell*

Is concerned over electric rate design and regulatory policies as stated in the National Energy Act, as confusing, vague and unnecessary. Supports electric utility rates based on "true cost of service for each class of customer" and administered by State regulatory bodies.

### D. Other Items

*National Coal Association*

Indicated that the coal industry, in order to meet projected coal requirements, would have to overcome staggering capitalization problems. Indicates that current capitalization of industry is $6 billion, and estimates that industry will need $20 billion to $25 billion to produce 1 billion-plus tons of coal. States that much of the low-sulphur coal reserves which could be combusted in compliance with air quality standards may not be mineable because of strict new surface mining regulations.

*Joint Statement by Garry DeLoss, Environmental Policy Center; Pamela Deuel, Environmental Action; Jonathan Gibson, Sierra Club; Jeffrey Knight, Friends of the Earth; Philip Mause, Attorney for Environmental Defense Fund; William K. Reilly, The Conservation Foundation; and Edward Strohbehn, Natural Resources Defense Council*

Support grant and loan program as recommended by Senate Energy and Natural Resources Committee.

*Associated Gas Distributors, James A. Wilderotter*

Recommends amendment to Emergency Petroleum Allocation Act for "as favorable treatment with respect to the allocation of feedstocks for the manufacturer of pipeline-quality gas as that provided for any other non-Federal user." Feels that petrochemical industry and other users are favored in allocation of petroleum feedstocks. Feels that synthetic natural gas (SNG) represents "crucial component" of winter heating season and cites excerpt from National Energy Plan which noted that SNG plants provided important margin of supply to residential users in certain regions. Argues that SNG production represents small portion of liquid petroleum feedstock usage. Cites FEA comment that expanded SNG production: (1) is environmentally feasible; (2) more thermally efficient than alternate fuels likely to be used if synthetic natural gas capacity is not expanded; and (3) would not seriously affect price or availability of naphtha to other users, including petrochemical users.

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