EXECUTIVE SESSION

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THURSDAY, OCTOBER 18, 1979

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

The committee met, pursuant to recess, at 2:30 p.m., in Room 2221, Dirksen Senate Office Building, the Hon. Russell B. Long (chairman of the committee) presiding.

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

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The Chairman. Can we get back to business? Maybe we can wrap this thing up.

Gentlemen, as far as I am concerned it is up to the committee members. What do you think, Mr. Shapiro, what do you want to know as a guide from the committee?

Mr. Shapiro. The committee having made tentative approval of the reconciliation list, I think what you are left to now are the items not on that list that the senators would like to bring up.

Senator Dole. We have a final vote on the --

Mr. Stern. The vote on Senator Dole's motion to extend to petroleum, coke and pitch the 10 percent energy tax credit through 1982 is now 11 to four, so the amendment is agreed to.

The Chairman. Senator Gravel, you might want to discuss that item you think is very important.

Senator Gravel. We have one sheet prepared on Tax Exempt Bonds. Essentially, what this sheetis, we contacted bond counsel to try to get a feel as to what is happening in the bond market. What we picked up is a variance from what Treasury has been stating. I think you have to realize the bond market in tax exempt has been ever-increasing and obviously the rates, if anybody looks at it, will recognize they have not been going up.

We have had two extremely large expansions in the tax exempt bond area. One was for pollution-control equipment which we are financing, that gargantuan undertaking; and the other was with housing mortgage bonds, and that has been expanded rapidly in the last couple of years. Neither one has had a detrimental effect or has stopped people from financing schools and what have you.

The second paragraph there -- I will read it: -- "The tax exempt bond market has consistently expanded in volume year by year, without affecting interest rates on the tax-exempt bonds. The interest rates on tax-exempt bonds is not tied to the volume of bonds issued, but to the cost of money generally. Treasury and Federal Reserve System do more to affect the interest rate on tax-exempt bonds than any content in the market itself."

In the last paragraph, "The market for tax-exempt bonds is not a close market with limited volume all its own, but it is a market like other markets which interacts with markets for other financial assets. The Treasury appears to view this market as closed with a finite possible size in spite of historical effort to the contrary."

So, I wanted to enter that into the record with respect to the use of these tax-exempt bonds as a facility.

I would like to now -- Mr. Chairman -- just go to the chart and explain something which I think is very critical, because it involves a decision we made in Alaska.

Up until now, large hydro developments in the United States have been funded by the Federal Government. In my capacity as chairman on another committee, I initiated a new kind of proposal to create revolving funds where, if a State felt it had a good hydro program, why wait 30 or 40 years for a track record for the Federal Government funding these projects--and it takes 30, 40, 50 yeaers to fund a large hydro?- I want to set it up. If it makes economic sense, why can't you go to the economic marketplace?

In this particular case we were able to pass into law, Congress passed in 1976 a law creating a special kind of revolving fund to do this right now. We will be making an announcement on this shortly.

The State of Alaska is prepared to go for a private sale in this regard, to build one of the largest hydro developments in the country. They are about to go to this. The bond counsel we are dealing with tell us they can't do this if we don't have tax exempt; so it means that we won't be able to do it. We will have to come back through Treasury and every year compete with everybody else for an appropriation in order to get these bonds.

Why is it that we Alaskans are so bullish on hydro? For the same reason other States are. Senator Ribicoff knows from his own State, but there is a phenomenon that we have not experienced in the United States: We are two or three years away from the big dams this country built, of being paid off.When they are paid off we will have an interesting phenomenon. We will be charging rates for energy, and the TVA and in the Columbia River Basin area up here, but all of a sudden the bonds will be retired and you could drop it down to 10 percent, literally. Here is what happens: This column is Cost, $1.2 billion, $3 billion, $4 billion. The next ten years in our particular project to build it -- it took ten years to build the project -- during that 10-year period of construction your line of inflation is constant, or relatively constant, and it goes up like that.

The moment you complete the facility, the construction period is completed and in place, then you now have your hydroelectric project producing power. The cost of that power almost remains constant, just slightly up, because the only thing that is affected by inflation at that point is the operational cost, and that is 10 percent of your total cost. So your operational cost follows inflation, but it is very minor. You have your debts you are paying, which is a constant. The minute you finish -- I used 20 years, arbitrarily -- 10 years for construction, 20 for financing -- the minute you pay off your bonds, if you own the hydro-facility and you went out and financed it, your cost of energy comes down to 10 percent.

We see this constant phenomenon here in two places in the United States: the TVA area and the Northwest area, Oregon, Seattle, the State of Washington; they have considerably less energy cost than anybody else in the United States, and it is because they ahve experienced up to this point -- they have experienced the constant. It has been corrupted by nuclear, but it has been constant for hydro.

The rest of the nation has gone like this (indicating), following inflation. You want to compare this to other things we are doing in the bill.

We are going to create various types of conventional power facilities, whether gasification or what hav e you. The phenomenon that happens there is that you have a shorter construction period; but in the plant your debt is probably arbitrarily picked, 50 percent. It could be a little less.

Let's say, if it is 50 percent, your debt remains constant for that period of time; it does not increase or suffer inflation, but your operational cost, the cost of your fuel to fuel that conventional plant, does follow the normal line of inflation.

So what happens up here, your operational cost expands; your debt is carried forward and at the time that you retire your plant that is not the dam -- the machines wear out, the process wears out -- you still have to buy fuel to fuel the plant, but now you have to build a new plant.

So I left the five-year margin, but you are building the new plant up here at a new, highly inflated cost, which is probably two or three times what the first plant cost.

Then you start the same cycle, marching on up with an increasing operational cost and a constant debt for the next 20 or 25 year period.

So you see, once you make the investment in hydro, which is made on a competitive basis, you have immediate benefit juxtaposed to inflation, and then you have a windfall benefit to the consumers who then, because this literally goes on for perpetuity, 100 years or more -- so that is the advantage of going hydro above all other possibilities.

We asked somebody to do some computations. We are spending $2 billion or $3 billion in other areas to put together a package that I am suggesting here, whichron hydro would probably be a little less than $2 billion. I would say it would do more good to place this country on a sound competitive footing in the world because if we could double -- here is the chart here -- we have almost 600 geigewatts in total electrical production in the United States; 49 of it comes from combustion engine turbines. This is internal combustion engines, six; 54 from nuclear; 400 is from fossil fuels, coal, oil and gas; 10 -- 54 is hydro, presently.

Now, the Corps of Engineers tells us we have a capacity to expand hydro by 153. You can take all of hydro, all of nuclear and probably all of combustion and you can now produce all that for hydro. So that if we do that, make that decision now, whenever we retire these bonds, and we are producing our product in this country and competing with other parts of the world who are not blessed with hydro, we have an advantage, because our people are buying energy at generically a cheaper rate than anybody in the world.

This obviously is our motivation in Alaska. We have two projects that have been approved by the Congress; they will fly privately if we get tax exempt; if we don't get tax exempt, we will come to Treasury and wait in line for the next 20 years to get them on line, to get them built, is what it will take.

So, to us, this seems logical: give us tax exempt; we will go finance them in the public market, build them right now and begin to enjoy the benefits.

Alaska is one of the most high-cost energy areas in the United States; it will always be because we are so far from the market. We have people that are 100 miles from Prudhoe Bay that pay $2.50 for a gallon fuel oil. Then a bottle of propane is $126 for the first bottle of propane. This is over 100 miles from Prudhoe Bay.

This can be overcome.

One project in Alaska will provide us with 70 to 80 percent of all our power. That means then our oil and gas which is shipped out of the South 48 forces out what we don't consume. So it is still a net plus to the national economy and we are building it where the hydro is best built. The low-lead hydro and the concern of Senator Ribicoff -- Senator Nelson, rather -- he just has hydro on existing sites. That does cover most of it, but there are a lot of possible new sites, and the reason why these are not brought into the picture is because it offends some environmentalists, and that is unfortunate, because there is a formula that guarantees there will be very little adverse environmental impact. you cannot build a small hydroelectric plant, 25 megawatts or less, further than 25 miles away, the formula is that. So if it it is 10 megawatts, normally the economics would require it has to be within 10 miles of the community.

In places like Connecticut and Rhode Island, where you have a grid system, you have a very dense population, so if you have a nine feet you can build a five megawatt hydro plant with nine feet of water.

So, if you can spot these areas without being very offensive, you build these off-the-shelf hydro facilities. They plug right into the existing infrastructural lines that are there, and you just add more hydro to capacity.

The New England area is suffering from high cost of imported fuel to power diesel. They are not as good as Alaska, but they are about as good in the country as any other hydro facility.

Senator Ribicoff. I think the problem, Mr. Chairman, that you have here is while we are using the tax mechanism, we are really talking about energy. We are not the Energy Committee, but in many ways you are doing more for energy in this committee than the Energy Committee is doing.

The problem that has been raised here, you are dealing with the method of developing energy that we know about, we have had experience about. We are talking about exquisite types of energy, like solar and wind and tides, that we have had no experience with on a massive, large-scale basis.

To me, I think the least important factor of what we are doing is cost. The most important factor is, how do we produce energy for the basic future of our society? I am not concerned whether Alaska is going to get a benefit, or Louisiana is going to get a benefit. I think the basic objective is what decisions are we making that will help the energy problem anywhere in this nation, that either in conservation or production.

The proposal we have adopted, the Nelson proposal on existing dams, my understanding is there are about 3,000 additional sites in this country that can be used for new dams that will produce energy and save about again as much as the Nelson proposal. That is worth doing.

To the extent that you are using hydro in Alaska, to that extent the oil and gas produced in Alaska can be sent to other places in the United States, so we have to look at this country as one vast pool, and I want whatever we can develop anywhere in the United States to be used for the benefit of all the people in the United States. I think this makes a lot of sense and we in the Committee from where we sit ought to encourage the development of more energy.

I can't get excited about the doubts raised by the Treasury Department. If there is a limited amount of available tax exempt bonds, then we are going to have to make the decision in the States and in the Country which is the most important priority, and today the most important priority is energy; and if that is the most important priority, I would just as soon have tax exempt bonds be used for that purpose, because without our economy going and doing some cushioning on inflation, I am sure the studies are being made by the senator from Texas who is chairman of the Joint Economic Committee, and the work that I do on the International Trade Subcommittee, indicates that the greatest cause facing us today in inflation is the high cost of oil.

So that is a problem we are facing today, and I think our decision is a very important one, and I hope we would go along with the proposal to use industrial development bonds for the development of new sites.

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The Chairman. How much additional cost would it take to vote this amendment? How much would that cost?

Mr. Shapiro. 1.7 billion above what the committee agreed to this morning with regard to the Nelson proposal. The Nelson amendment allowed the use of industrial development bonds for the hydro facilities to the extent it was limited to 25 megawatts and also existing dams. Senator Gravel would expand that to allow it to be used for all hydro not limited to 25 megawatts.

Senator Gravel. May I explain that. What I would propose would be that we would take what the committee had done with the Nelson proposal and I thought as a result of the committee's action we were down to $1 billion in cost for the Nelson proposal. That is 25 metawatts.

Mr. Shapiro. 1.4 was the Nelson proposal.

Senator Gravel. We could add to that all new small hydro which would be anything 25 megawatts or less. The figure I have, cost of that is 100 million. Then added on to that would be the, for the two Alaska dams, three large dams, would be 300 million so that would be 1.4 plus 300 that would be 1.8 is the figure I would come up with. I think it should be noted they had most of the large hydros, all of them that were built in the Tennessee Valley area and also in the Northwest were prior to '72. It was in '72 that the Treasury switched signals on us and as a result of that switch of signals is why we can't build our hydro with tax exempt bonds.

This is government. We have created a power authority in Alaska to do this. So this is government. This is not the private sector.

Mr. Shapiro. As I understand it and I did not realize you canged your proposal, the dams under 25 megawatts, new dams, the Nelson amendment allotted for existing dams. The new dams would cost 100 million. Second, proposing to allow the use of industrial development bonds for two dams in Alaska that we understand would cost approximately $300 million for the use of IDB's with those two dams so it is increased to 400 million above the Nelson proposal.

The Chairman. Are you now talking about something that would increase 400 million over the Nelson?

Mr. Shapiro. Four hundred million above what the committee agreed to this morning.

Senator Gravel. That was gobbled up, that 150 megawatts of potential, that is in the nation.

Senator Bentsen. If you talk about using industrial tax free bonds for these two dams in Alaska, are you also talking about the ten percent nonrefundable energy credit? Is that involved in this?

Mr. Shapiro. No. They would get whatever they can get under present law and they would not get that. We are talking about here only the use of industrial development bonds for the two dams in Alaska.

Senator Bentsen. Let me ask you this, these bonds, these dams are not going to be built in that period of time, is that correct? By 1990?

Senator Gravel. We assumed this could be under construction.

Senator Bentsen. If we don't have the industrial bonds?

Senator Gravel. That is right. We will be coming back to the government for an appropriation is what we will be involved with.

Senator Dole. Does Treasury support this? I wouldnot think so.

Mr. Lubick. You are correct. We are concerned about the expansion. Once you start breaking these lines it is going to be impossible to hold them and they are there for very good reaons. Essentially I think, Senator Ribicoff, you remember back in 1969 the growth of industrial development bonds was imperiling the state and local government in their ability to finance their normal governmental activities. Their normal state and local activities, police, sewer, and education.

Senator Ribicoff. I would say between 1969 and 1979 you have a new world and a new United States of America with altogether different problems. The problems that we had in 1969 were the halcyon days in comparison. Now we are up against the wall on what we do for energy and I think to start being confined to a theory is out of the window. I think all theories have to be redone and we have to rethink it and we have to do different kinds of proposals.

The Chairman. Let me see if it might be some possibility of trying to come together, maybe compromise on this. Now, you say that it cost $100 million to do the part that would, that involves the small locations around the country?

Mr. Shapiro. Under 25 megawatts.

Senator Ribicoff. There are some 3,000 of those available, Mr. Chairman.

The Chairman. If we take that part and then suppose we take now, if we take that and I assume Alaska will be eligible for that along with everybody else, if we take that and let Alaska have one of these new dams ---

Senator Dole. There should be a limit on what we do for Alaska. I have been going along with thirty or forty billion but there should be a limit somewhere.

Senator Gravel. What have you done for Alaska?

Senator Dole. I don't see anything wrong with the first part. That compromise.

Senator Gravel. You are slightly misled, Senator, because what you did for Alaska on oil was no more than what you did for Kansas and of course it is more expensive to operate in Alaska so you really have not done anything for Alaska on that so I hope you are not of the view you have done anything special for Alaska.

Senator Dole. Tax exempt financing for all generating facilities. We might be able to burn wheat straw in Kansas.

The Chairman. I sug gest we do this in two parts. One let us set $100 million for small dams. Will all those in favor ---

Mr. Lubick. If I could suggest one thing. And Senator Gravel had asked me because I had mentioned that there are more efficient ways to subsidize these things and I talked with Senator Nelson about that too rather than tax exemptions because as we indicated about 29 cents out of every dollar is, just does not go for the project and if you really want to subsidize these things it can be done through the granting of a tax credit for a portion of the interest cost on a taxable bond that is issued and even if it is issued by a municipality it can be made a refundable credit. So you can have it for both taxable and tax exempt issuers and all of the money that you are devoting to this particular subsidy will go to the person issuing the bonds, none of it will be siphoned off into the hands of wealthy taxpayers that are investors.

But all of it will go for reducing the interest cost to, cost to that issuer and that means that you can accomplish exactly the same purpose at a cost that is perhaps 25 percent less than this route.

The Chairman. Did we ever put that into effect? You have been advocating that for years but has it ever become law?

Mr. Lubick. That is something different. This is not the taxable bond option. This is a credit for the interest. Not a taxable bond with an optional benefit refund either to the borrower, to the lender the way Senator Danforth proposed.

The Chairman. I will ask the same question, have we ever done what you are asking? Is that a part of existing law?

Mr. Lubick. It has been done in the housing area, Senator Long.

The Chairman. Do you find appeal in that, Senator Ribicoff?

Senator Ribicoff. I think we should follow the Nelson formula for existing dams and use the same formula for new sites. I think it gets complicated and I think it is cleaner and the private sector is involved in it and private investors, we should encourage it instead of just continung with grants from the government.

The Chairman. Let me ask the committeeif we can vote. Let us vote on the $100 million item. Small dam sites. It would cost 100 million for the life of the program.

Senator Nelson. Let me say a word. I did say yesterday to Mr. Lubick that if they would show me a proposal, I would like to check it with the people who designed the proposal I introduced saying they felt this is what it would take to get them going. If it covers the same amount of money or less and all work, I would be happy to offer it as an amendment on the floor. We are all agreed upon it which the Chairman could take and we could resolve it that way. On this one point.

Senator Dole. You would have a budget problem. You may have a budget problem on the floor.

Senator Nelson. Why?

Senator Bentsen. It would be subject to a point of order on loss of income.

Mr. Lubick. It would seem to me it would not be because it would be replacing a more expensive method of financing the same thing. It seems to me it should be a cheaper way to do it.

Senator Dole. Is there something in the budget for it? To replace something in the bill?

Mr. Lubick. An amendment to the bill to substitute a credit for the tax exempt financing. Presumably it would be cheaper in the net cost of the bill.

Senator Nelson. Let us leave it this way. I would like to look at whatever suggestion Mr. Lubick has. And he will check it with the Parliamentarian and if it costs less or the same amount I would be glad to offer it. If it is subject to a point of order I won't offer it. I am talking about my proposal. I am not talking about anything else.

The Chairman. Let us vote first on the $100 million for all small dam sites across the country.

Senator Gravel. Could I explain one thing on that? Since we have such a sparse population we won't get the advantage of all the sites that are there because it is a small hydro. You won't be close enough to the communities that you will generate that much power so you are going to take the potential that we have and of course we will wind up being discriminated against because of our sparse population.

The Chairman. You can't tell how it is going to come out until you see how the votes go so let us vote first on the $100 million part of it that would take care of these new locations for small dams. All in favor say aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

It is carried.

Now, we can vote on the Gravel part about ---

Senator Bentsen. If I may comment on that. I think that Senator Ribicoff makes a very major point when he says we are in a common pool and so far as the utilization of energy in this country and if we can get one part of the country, be it Alaska, Kansas, Connecticut or Texas to use less oil than it is using now. If you can get a substitute such as hydroelectric power then I think we have all benefitted by that.

Our balace of trade has. The more available oil, the more coming down to the lower 48. This proposal has merit. I don't look on it as just something for Alaska. I think it helps all of us.

Senator Dole. I don't think that is the point. I don't have anything against Alaska. I voted with Alaska and other states when they voted to exempt state royalties from the tax and I urged at that time, one of the arguments made was to use to build an industrial base for an undeveloped state. That is why they did not want to tax those royalties. I think what some of us question is whether or not this is, whatever the intent may be, whether we are not really helping somebody shelter some income and helping those who want to get into the private utility development and I don't know why we have to single out one plant in the state of any state.

We are working on a project in Kansas for wheat straw combustion and it probably, we could probably benefit, we could probably find some private developers if they could use tax exempt financing it would displace oil and with relatively clean and renewable energy source, so if that is the argument we should put all nonoil generating facilities should be tax exempt financed, put them all in there and then we really adress the problem but of course the revenue cost might go out of sight.

If money is no object, then that would not be an important factor. We are already having as I understand it some hearings on the house side on tax exempt housing bonds. I think there is a bill in to try to bring that into line with Ullman and Conable I believe. That might be a time to consider whether or not we should really get into more tax exempt financing rather than without any hearings, add a whole new concept to this legislation.

The Chairman. We have voted and I was here when the committee voted for the Nelson amendment so we got committed to the principle and we had a lot of support. It was not my idea but it had a lot of support in the committee and we have extended that to some new dam sites, these small dams, and the problem here is we have to vote on it and, Senator, the other part of it was we do something for Alaska.

I could go along with you to put in one Alaska dam.

Senator Gravel. I will obviously compromise. I will take out the Bradley Lake. That is already on the appropriation's scale. We have money appropriated.

The Chairman. What would that cost if we just went for one of them?

Senator Gravel. The big one can't be financed without it. We have already been told by counsel.

The Chairman. What is the difference now? What is the difference in the cost, the two would be 300?

Mr. Shapiro. If they are comparable in size ---

Senator Chafee. One is ten times bigger than the other. Which one will you choose?

Mr. Shapiro. 95 percent of the revenue is in one.

Senator Gravel. The reason obviously I would choose the large one but there is another reason too. The smaller one already has government appropriations flowing to it right this very second and the big one we already spent Federal monies on the core drilling and will continue to appropriate it if we don't go this way.

All I am saying is if we get tax exempt, the state legislature has already authorized the state to go forward to sell private bonds to do the Phase 1, $25, $30 million. They will do it now.

The Chairman. The state has been authorized to do it?

Senator Gravel. Right, and our bond counsel tells us we can't do it unless we have tax exempt. If we don't have tax exempt we couldn't do it.

The Chairman. If the state builds a dam and sells power are those bonds taxable?

Mr. Lubick. If the state sells the bonds for public use, they are already exempt but if a single nonexempt person agrees to take more than 25 percent of the electricity then it is not for public use and it is not exempt.

Senator Gravel. What he means there, Mr. Chairman, is you cannot sell it to the power companies and therefore you can't use tax exempt. It is just the issue we went through with Senator Byrd. If the government itself consumes it, fine, but if the government turns around and sells it to other public -- and in our case we have co-ops in addition to municipally-owned power companies ---

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The Chairman. Can you tell me what you estimate the cost to be if you limit this to one dam in Alaska?

Mr. Shapiro. There is one large dam.

The Chairman. Assume you take the large one.

Mr. Shapiro. Fifty-nine percent of the money.

Mr. Lubick. You could follow Senator Ribicoff's suggestion, of following priorities and eliminate industrial.

Senator Gravel. We just had a statement from bonds counsel that one does not esclude the other. The inference there is that the market is limited; the people will buy these bonds. If they don't buy them, we can't build it.

Sentor Ribicoff. When I was talking about priorities -- I think the State will start listing its own priorities and what it considers the most important. I just think back, if you did not have TVA, you did not have hydro in the State of Washington, and Oregon and that area, the position of this country now, when it comes to energy--and I also think ahead to what has been added to the overall American economy by TVA and those hydroelectric dams in Washington and Oregon and the Northwest -- so we are talking about really developing the United States,and there is a lot more development we can have in the United States.

Whatever enriches Alaska -- I am not concerned about a single senator or a single individual, a single town -- but is it good for the United States of America? And I think it is, and the problem we find ourselves in now -- I never discussed wthis with Senator Gravel, but I think he is on the right track -- there is an awful lot of wealth in Alaska and it is all coming to the top. We ought to develop that, and the whole country will develop by what is going on in Alaska.

Senator Chafee. It seems to me a peculiar way we are going about our business, to suddenly plunge into this new situation which is greatly enlarged over what we were talking about with the Nelson situation. None of us are opposed to doing what is good for the country. I think we all agree on that, but we just have no concept of what this really means. It is sketched out here; it looks like a marvelous thing, no floors to it. If it is so good as all that, I can't understand why they need tax-exempt bonds to carry it on. Tax-free bonds, it seems to me, Mr. Chairman, with the effect it is going to have on the revenues, with the whole question of the tax-exempt bonds under some fire, certainly -- I believe it should be under fire likewise -- I just don't think we should get into a very broadening of the tax-exempt bonds situation at this time without really knowing what we are doing.

The Chairman. Let's call the roll.

Senator Dole. Can we find out how much Federal money has gone into this dam in the first place?

Senator Gravel. We authorized, or appropriated, $5 million. About $3 million of that has been spent, over $3 million. Bradley Lake -- I forget -- it is less than $1 million. Bradley Lake is authorized for construction and will probably be under construction in 16 months, for Phase I. If it has to go all the way, it would would be under construction in 1983-84, probably '84, so that is the Federal money that has been spent already.

What will happen if we go ahead and do not provide tax-exempt status, of course, they can't sell the bonds to go do it, so the Treasury -- this year our appropriation will be somewhere around $25 million or $30 million.

The Chairman. What do you estimate it will cost to build a big dam?

Senator Gravel. $2.9 billion, $2.6 billion. The Corps' estimates now with Bradley Lake is $176 million. So this year's appropriation from our Appropriations Committee, our tax dollars from Louisiana and elsewhere, is going to be somewhere around $25 million or $30 million.

Senator Ribicoff. Suppose this is voted, then we don't have to appropriate any money from the Treasury?

Senator Gravel. No, because you see we are going to make a public announcement shortly, the 24th of next month, at our port authority meeting.

Senator Ribicoff. Are we talking, Mr. Lubick, of $400 million cost as against the eventual Federal expenditure of $2.5 billion; is this what we are talking about? If they started the appropriation process with an ultimate price tag of $2.5 billion, and now it will be built with tax-exempt, without any appropriation, at a revenue loss to Treasury of $400 million, it would seem to me we are getting a pretty good deal here.

Senator Gravel. That is what I am pleading for, to let us do it privately. We are not buidling dams in this country because we have not been able to get the appropriations, and because of environmental quarrels. We solved the environmental quarrels by and large because we have good environmental laws. What we are saying is, rather than appropriate the tax dollars from everybody else -- and you are right, if it is such a good deal, you should be able to go out and finance it -- that is what we are saying: We can finance this privately; all we need is tax-exempt to be able to finance it.

This is what counsel tells us. If I could do it without asking you for one vote on this, I would love to do it.

Senator Bentsen. Who tells you you can sell $2.5 billion worth of revenue bonds?

Senator Gravel. A company out of Texas, First Southwest, who are our financial advice organization, a very reputable firm.

Senator Bentsen. That is quite a lot of money, $2.5 billion.

Senator Gravel. There is no question; but, of course, it is there; it is an unusual site.

Senator Bentzen. If you did not sell them, we have not lost any revenue.

Senator Gravel. It does not cost you anything; it is the finest site left in the United States for this megawattage you are talking about; two dams in place, one 600-foot arch concrete dam, the other is gravel with concrete faced dam, but the flooding, because it is such a narrow gorge, you are only flooding one lake, as created it is 26 miles long, 1,000 feet deep and only a mile wide; and the other one is a little larger than that, so the impact is very, very small. There are no fish that go up this river, because at this point it is so rugged.

Senator Dole. Can we find out more about what we are doing here?

Mr. Lubick. We will try to look into it this evening.

Senator Gravel. We really had a lot of meetings with Treasury. We have had a lot of meetings with Treasury, and I hope they are not telling us this is new to them. We have been negotiating this for two years.

Senator Dole. We have not been negotiating it.

Senator Gravel. But Congress already has authorized for Phase I, already has authorized Bradley Lake, over 10 years ago.

Senator Chafee. There are lots of things authorized.

Senator Gravel. It is funding, ten years ago, and SISNA has been kicking around for over ten years, so it will take 40 to 50 years to bring it on line; that is why we are prepared to go private. You can make the case this is complicated; it is not complicated; we are appropriating your tax monies from people in Kansas now to these tax projects.

All I am saying is, give us tax-exempt status like you are doing for all the dams in the rest of the United States. All the rest of the small dams in the United States, you are giving them tax-exempt status. The small hydro that will be created, 25 megawatts, in Kansas, right now, by what we voted on, has tax-exempt status. All I am saying is, we have a site that is most unusual; it is going to have 1,400 megawatts, and all we want is the same tax-exempt status that your small dams are going to enjoy.

Senator Heinz. I have a question: Maybe this is a good thing to do. I honestly don't know, but it it is a good thing to do, why isn't it a good provision for any Federally financed dam such as Toxiland (phonetic) Dam in Pennsylvania? And why if it is so good for Alaska, why sin't it so good --

Senator Chafee. What is the size of Toxiland Dam?

Senator Heinz. $1.5 billion.

Senator Gravel. We could turn around and if it is authorized -- are you authorized for construction now? Are you getting appropriations? Fine. I have no problem.

The reason I compromised already, Senator, is that in order to keep the small hydro, because of " the environmental impact which I think is minimal" I backed down to just two authorized sites. I would have preferred to see happen what you are talking about happening, that if we have other hydro sites in the country that should be funded, we should do it.

To me, it is clearly in the national interest, but I compromised down. I have been beaten over the head with my compromises.

Senator Heinz. How many other sites are there?

Senator Gravel. In the balance of the country, I don't know.

Senator Dole. One, or 10? Why would you single out one part of the country and not put them all in?

Senator Gravel. I would not single out. Like I say, I compromised back to accommodate, and now I am hit by you gentlemen on the compromise. If you want to swap, fine.

Senator Dole. Give us how many sites there are by tomorrow morning and what it would cost, and what other facilities, non-oil-generating facilities, we could include.

Senator Gravel. We can do that. Let me give an example of why that would be important. I would support that. We have right now -- these are figures I am reading off the sheet; there may be changes -- we are subsidizing coal to about $1 billion; we are subsidizing gasahol for $2 billion; geopressurized gas for $1.5 billion; tar-sands for $200 million.

I asked for some quick computation. This is only one part of the subsidy, the $3 production credit that we have, and comparing that just to shale and translating that into electricity, so you get: shale, 5.6 mils per kilowat; and hydro would be 5.4 mils watts per kilowat. That is hydro. That is probably there next to perpetuity, and when it is paid off you come down to almost nothing, and this would follow on that other line, so it is cheaper just coming out the box to do this.

The Chairman. It seems to me we can have a good debate, and everybody can make a lot of good debating points, but I don't think it will change any votes.

I would like to suggest we go ahead and vote on the matter and let the chips fall where they may. It is a long way from the Senate Finance Committee to a bill being on the President's desk, and I am beginning to feel like the distance is getting longer, rather than shorter, so I would just like to vote on it.

Senator Baucus. As far as I am concerned, I personally do need more information. I don't know what is going on. I can't understand, if we give Alaska, why we don't do it for every other more than five megawatt sites in the country, and if we are losing fewerederal dollars under this approach than by the appropriations process, I don't understand why Treasury does not support it, and obviously they are not, so something doesn't mesh with me.

The Chairman. I am not trying to argue anybody out of a vote; but I would like to vote to just see where we stand.

Call the roll.

Mr. Stern. Senator Tälmadge?

(No response.)

Mr. Stern. Senator Ribicoff?

Senator Ribicoff. Aye.

Mr. Stern. Senator Byrd?

(No response.)

Mr. Stern. Senator Nelson?

(No response.)

Mr. Stern. Senator Gravel?

Senator Gravel. Aye.

Mr. Stern. Senator Bentzen?

Senator Bentsen. Aye.

Mr. Stern. Senator Matsunaga?

(No respone.)

Mr. Stern. Senator Moynihan?

(No response.)

Mr. Stern. Senator Baucus?

Senator Baucus. No.

Mr. Stern. Senator Boren?

(No response.)

Mr. Stern. Senator Bradley?

(No response.)

Mr. Stern. Senator Dole?

Senator Dole. No.

Mr. Stern. Senator Packwood?

(No response.)

Mr. Stern. Senator Roth?

(No response.)

Mr. Stern. Senator Danforth?

(No response.)

Mr. Stern. Senator Chafee?

Senator Chafee. No.

Mr. Stern. Senator Heinz?

(No response.)

Mr. Stern. Senator Wallop?

(No response.)

Mr. Stern. Senator Durenberger?

Senator Durenberger. No.

Mr. Stern. Mr. Chairman?

The Chairman. Aye.

In any event, it will remain in doubt. Four ayes and four nays. Let that matter ride.

Senator Nelson. I under-tand you do have a river, so we won't have to appropriate any money to create a river.

The Chairman. Now, I assume we are talking about just the one dam, right?

Senator Gravel. Right.

Senator Dole. You didn't say which one.

The Chairman. He will take the big one.

Senator Ribicoff. Mr. Chairman, I am told by my staff that Senator Moynihan is giving me a proxy vote to vote "aye" on the Gravel proposal.

Mr. Stern. On the Sisna Dam.

The Chairman. Now, what else do we have, we need to decide here?

Mr. Shapiro. Now, you finished the residential credit and unless there are other amendments, we now have the DiConcini amendment.

The Chairman. Tell us a bout that.

Mr. Shapiro. Your letter -- Mike is bringing your copy there-- the letter he sent to you. This is a provision that was agreed to on the Senate floor last year but was dropped in conference.

It is an evaporating cooler. It is a cooling device, and they want an energy credit for it, an additional energy credit.

The revenue effect of that is, it is a residential credit rather than business, and it would be eligible for the additional 15 percent credit. Fiscal Year 1980, it has a revenue effect of approximately $19 million, and for the entire period its revenue effect is $381 million through 1985, which is the period in which the residential credits apply. But it was agreed to by the Senate last year on the Senate floor, but it was dropped in conference.

The Chairman. I am told that the cost until 1982 would be $166 million.

Mr. Shapiro. $166 million, but if you make it available for the entire period that the residential credits apply, it would be $381 million.

The Chairman. That is why I think if we want to vote, I think we should make it to 1982 and give them -- Mr. Lubick?

Mr. Lubick. It sounds like an air-conditioner to me. I find it hard to see why we should be voting credits for an air-conditioner.

The Chairman. Evaporative cooler, very effective, "S. 157 includes evaporative cooler, very effective energy saving device among those items for which the residential credit is now allowed."

Now, do we have anybody here who really understands this device and how it works? Senator DeConcini asked me that we consider this.

Senator Bentsen. You use this in dry climates where they drip water through them.. Is that what we are talking about?

Mr. Shapiro. We understand it is.

The Chairman. Is it supposed to be much more efficient than the ordinary cooler?

Mr. Shapiro. One of the major concerns that the conference had when you dealt with it last year was that it was more for air-conditioning, that it was rotated with the heating, and that is one of the reasons it was dropped, because of the additional revenue consideration, and it was not a heating device; it was a cooling device.

Mr. Lighthizer. Jack Nutter has some ideas.

Mr. Nutter. It is a large metal box that fits on the top of an individual's house, a big metal box. It has straw pads on it and that is water that goes down under the pads,and a big fan inside the box blows the cool air into the house. Because in dry climates the water evaporates off the pad and cools it, and it is used in the summertime in lieu of an air-conditioning unit.

Mr. Lubick. These are generally devices that are used because people will pay the price. It seems to me you are just subsidizing through the credit things that people would be buying anyway.

Senator Heinz. I was called to the phone. I gather we just had a vote on Senator Gravel's amendment. Is that just on one dam in Alaska? Would the clerk record me as voting "no"?

Mr. Shapiro. This is for the 15 percent residential credit.

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Senator Bentsen. How much would it cost us?

Mr. Shapiro. Nineteen million for the first fiscal year you make it eligible for this entire period of the residential credits -- Congress passed the Act last year. You made the 15 percent residential credit available through 1985. If you make this item available for the entire period, it would be 381 million. If you would get an early cutoff, 1982, it would be 166 million.

The Chairman. I will withhold that amendment. I might want to offer it. I will withhold it at this point.

Senator Heinz. Mr. Chairman, could I call up other amendments? If so, Mr. Chairman, I would like to reoffer a revised version of the stripper oil exemption for retailers that we discussed this morning. The amendment is the same except we have reduced the 50,000 barrels to 25,000 barrels. I understand the revenue loss is very, very small.

Does that solve everybody's problem?

The Chairman. What is the estimated revenue loss for this, if you do it that way?

Senator Heinz. The maximum it could be if you assume there are only 12 people, 12 retailers in this position, it would be in the neighborhood of $13 million a year. That is the maximum. That assumes they all have maximum production. I only know of 11 small producers, small integrated retailers that are in that situation.

Senator Bentsen. Would the Senator elaborate on what he is trying to accomplish here?

Senator Heinz. Lloyd, because of the way we referenced the independent stripper exemption which you supported, there is independely produced stripper oil which is sold by, for example, the Quaker State Refining Company in Pennsylvania, which does not qualify because they own some retail outlets. If they did not have the retail outlets they would be entitled to the one thousand barrel per day independent stripper exemption but because they have some retail outlets, some filling stations, they don't. I am told there are a total of all of 11 people like that that will be cut out of the independent stripper exemption.

The reason they are cut out because of the referencing is we had reference to the ---

Senator Bentsen. Refer to the definition.

Senator Heinz. Yes.

Mr. Chairman, is there any objection to that?

The Chairman. Now how do you feel about that, Lloyd? All in favor, say aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

(Chorus of nays.)

The Chairman. I guess we will have to have a roll call

Mr. Stern. Senator Bradley.

(No response.)

Mr. Stern. Senator Boren.

(No response.)

Mr. Stern. Senator Baucus.

Senator Baucus. Aye.

Mr. Stern. Senator Bentsen.

Senator Bentsen. Aye.

Mr. Stern. Senator Gravel.

(No response.)

Mr. Stern. Senator Nelson.

Senator Nelson. Nay.

Mr. Stern. Senator Byrd.

(No response.)

Mr. Stern. Senator Ribicoff.

Voice. No, by proxy.

Mr. Stern. Senator Talmadge.

(No response.)

Mr. Stern. The Chairman.

The Chairman. Nay.

Mr. Stern. Senator Dole.

Senator Dole. Aye.

Mr. Stern. Senator Packwood.

(No response.)

Mr. Stern. Senator Roth.

Senator Roth. Aye.

Mr. Stern. Senator Danforth.

(No response.)

Mr. Stern. Senator Chafee.

Senator Chafee. Nay.

Mr. Stern. Senator Heinz.

Senator Heinz. Aye.

Mr. Stern. Senator Wallop.

Voice. Aye, by proxy.

Mr. Stern. Senator Durenberger.

(No response.)

The Chairman. In any event we have six ayes and four nays. We will have to hear from the absentees. It is agreed to but let the absentees record themselves.

Now, Senator Roth wanted to bring up a matter.

Senator Roth. Mr. Chairman, for the past four weeks we have been concentrating this committee, this committee has been concentrating on big oil independents, conservation tax credits, and the poor. The one major group that has gotten very little attention is the working people of this country. I must say I am one that feels that the working people, the one who pays the bill, should not be left out in the cold.

They are facing increased heating bills, they are facing higher gas prices, they are facing inflation, and they are also facing very massive tax increases. So oil price decontrol will produce two types of windfalls. I think it is important to recognize that, one for the producers, one for the Federal government.

The windfall profits tax addresses the oil producers windfall but unless we act, unless we act to help the working people, the Federal government will gain billions of dollars in windfall profits from the increased revenue resulting soley from decontrol.

So I propose, Mr. Chairman, that we ought to delay the already high social security taxes that are scheduled to increase substantially in 1981. As you well know, the tax rate will go up from 6.13 percent to 6.65 percent. The wage base will jump to $29,700. My am endment is a very simple one. It would freeze the tax rate at 6.13 percent and the wage base at $25,900 reducing the social security tax by $387.

Mr. Chairman, I would like to quote a CBO study that supports a payroll tax cut. It says since the inflationary effects in the increased burden on low income households are two of the most critical costs of decontrol, it is important to consider alternatives that might offset them. One such option would be to use the additional tax revenue from decontrol to reduce such taxes.

A reduction in social security taxes would be relatively easy to implement and would lead to lower rate of price increases. I might point out, Mr. Chairman, Doctor Heller, on numerour occasions but again today in effect said that the

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payroll tax cuts are tailor-made to fit the needs of an economy badgered by both inflation and recession. For that reason, I think we should give serious serious consideration to freezing the social security taxes that otherwise would go into effect in 1981.

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The Chairman. Let us hear what Treasury's reaction to that matter is. I was aware the Senator was going to offer this amendment but I have not had a chance to focus on it and there are people I want to consult with about the matter before --

Mr. Lubick. Mr. Chairman, I think the President has already stated that at the present time he is opposed to general tax cuts and that at an appropriate time one of the areas he would want to look at as a primary source of study is the social security system, also that it involves more than simply cutting the rates of tax because we have the whole problem of the integrity of the trust fund.

Remember that the legislation that was enacted was designed to maintain that integrity, and it seems to us it is not appropriate at this time in this bill to go into these questions.

The Chairman. Let me suggest, Senator, that I would like to discuss the matter with Senator Muskie, also Senator Nelson, who, I believe, at the time we put this tax up there, was the one who said we should keep the social security fund sound and that we should provide the money with the payroll tax to pay for it.

I think Senator Nelson might have made a suggestion, at the time, that we avoid putting the tax up this high. I would like to talk to him and to Senator Muskie, and maybe I could have some of the Democrats meet with me and we could focus on this.

I am glad to see that Senator Nelson is here. I would like an opportunity to at least think about this matter and to talk about it some before we vote on it. I am not asking that you delay it indefinitely. Perhaps we could vote on it tomorrow.

Senator Roth. Mr. Chairman, I am willing to wait until tomorrow to raise the issue again. I would like to point out a couple of factors, however. We have already taken action and I have strongly supported the idea to help the working poor in 1981. So that there is no budgetary problem. We have that right. As a matter of fact, as you may recall, we put that out on the Senate floor last year on another tax matter, thanks to your leadership.

But I think it is very important to recognize that this committee has already gone on record on a program to help the working poor in 1981. I think that was right. But I think the working people, too, have some problems and that they are entitled to careful consideration and some relief now.

The Chairman. The Senator from Kansas.

Senator Dole. I want to support what has been said by the distinguished Senator from Delaware. I would hope that there could be some agreement by the committee to support Senator Roth's efforts. I am one of those who voted against the last tax increase in social security because I felt that it was excessive.

I just suggest now that, as I understand, this would come from the additional revenues generated in taxes, not specifically from the windfall profits tax but from that 170-some billion to 200, 300, 400 billion dollars Mr. Sunley talks about from time to time, in addition to the windfall profits tax, a lot of revenue, and it might be a good idea to help those referred to by Senator Roth.

The Chairman. Let me ask how much tax reduction this would be if we voted this Roth amendment. That is, in 1981 what will be the difference in cost?

Mr. Shapiro. I have not checked with Senator Roth but our figure is approximately $11 billion for the fiscal effect to maintain both the base and the rate in 1981.

Senator Roth. Mr. Chairman, I would point out that the CBO said the net effect of it would be 8.6. I understand that the joint committee is working some figures based upon $30 oil, which is the realistic price, also with respect to 2-percent or higher increases. I would hope that for the purposes of the debate those would be ready no later than tomorrow morning.

The Chairman. I have discussed this with the Senator briefly. I would suggest that we defer voting on this matter until we meet tomorrow, and frankly I would like a chance to talk it over with some of the people who are concerned, such as Senator Muskie, on the Budget Committee, and Senator Nelson and vote on this sometime tomorrow.

Is there something else to bring up at this point?

Senator Heinz. I would like to bring up an amendment which, I believe, the committee adopted the year before last. That is, there would be a 10 cents per gallon refundable income tax credit, the same way we had a 40 cents per gallon credit for alcohol produced from coal and mixed with gasoline.

My understanding is that this was something the Senate agreed to either in committee or on the floor in the last energy bill and it got dropped in Congress. It preserves, in effect, the one-to-four ratio that, I believe, the committee was sympathetic to previously.

The 10-year revenue loss on this, $140 million through 1990, is not a lot of money and it partially addresses what I believe to be a rather serious inequity when it comes to the rather substantial biomass gasohol tax that the committee voted yesterday.

Senator Dole. That would apply the same treatment we applied the last time it passed this committee --

Senator Heinz. That is correct.

Senator Dole. -- on the suggestion of Senator Ribicoff at that time.

Senator Heinz. That is correct.

Senator Dole. So you would not have that $15 a barrel subsidy; it would be reduced by --

Senator Heinz. It would be reduced by 75 percent.

Senator Gravel. What would be the subsidy in this case?

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Senator Heinz. A ten cent per gallon refundable income tax credit on gasahol made from coal. We voted yesterday, Mike, I think you may have been here but I don't know for sure, a 40 cent per gallon refundable tax credit for gasahol made from biomass, both wood and nonwood and everybody is in agreement that we should encourage gasahol.

The problem is that gasahol from coal of which we have a great deal will be I think overly penalized by being totally left out. It is cheaper to produce gasahol from coal but I don't think anybody can overcome the $16 a barrel refundable tax credit that was voted yesterday so I am trying to narrow the spread a little bit.

Senator Gravel. We voted yesterday a $16 a barrle.

Senator Heinz. $16 a barrel refundable tax credit for gasahol made from ---

Mr. Shapiro. T he estimate is approximately 140 million from 1980 to 1990. What happened with the committee decision on the energy bill last Congress was that you did not make this credit available for any gasahol made from gas. You included coal. On the Senate floor, Senator Percy proposed an amendment to delete that provision from the committee bill and the argument that he made was he did not want gasahol made from any nonrenewable resource so the committee excused oil and gas and the Senate floor excluded coal so the committee did agree to it and the Senate floor eliminated it from the bill.

The Chairman. The Senate floor eliminated it on the idea that it is a nonrenewable resource.

Mr. Shapiro. That is right.

Senator Heinz. I think most of us recognize, Mr. Chairman, that we have a very abundant supply of coal. Technically it is nonrenewable but neither are we.

The Chairman. One thing I don't think we want to do here is to make such an attractive proposition on alcohol made from coal that it kills off the proposal that is in the bill for alcohol made from biomass and from farm products and things of that sort. I think we have as many farmers as we have coal miners and I don't think we want to vote to have one exclude the other.

Senator Heinz. Mr. Chairman, it still leaves a $12 a barrel advantage to alcohol made from gasahol made from biomass.

Senator Dole. It is the same formula we used two years ago in reprting similar amendments.

Senator Gravel. Is that the one that is consting $2 billion? Is that the whole gasahol deal, 40 cents? It is interesting if what you are saying is if I buy a gallon of gasahol I can then file for a 40 cents per gallon refundable credit?

Senator Heinz. That is right.

Senator Gravel. So if I live in Kansas and I buy some of his gasahol I can get 40 cents back on that?

Senator Heinz. That is right.

Senator Gravel. And that will cost $2 billion?

Senator Heinz. That was the decision the committee took yesterday.

Senator Dole. It applies to every state. You produce it in Alasaka -- it is not discriminatory. It does not apply to just one state.

Senator Gravel. It benefits those states that produce wheat.

Senator Heinz. Sugar beets.

Senator Gravel. Let us look at the percentage. How much will come from sugar beets and how much was going to come from corn and wheat and others? That was a voice vote yesterday, $2 billion voice vote.

Senator Dole. It was Senator Packwood's amendment.

Senator Gravel. I would like to get some information on it.

The Chairman. If I go along with you on this, will you join me in trying to hold the line against him? I am trying to get this package wrapped up.

Senator Heinz. I have one more amendment. Do you want to put it in? I may need your help on this amendment.

The Chairman. What is your amendment?

Senator Heinz. The other amendment is as follows. For some reason we have decided so far not to include for the energy tax credit coke ovens. Now, what a coke oven essentially does it takes coal and it transforms it into a very important fuel, two in fact, coke and coal gas that comes off from the coke oven.

To the extent we don't produce coal we either import coke or we import fuel oil to burn the blast furnances in lieu of coke and indeed a lot of fuel oil is being burned in blast furnaces in Pittsburgh and a lot of other steel places around the United States because it has become very expensive to build coke ovens and it has become expensive to build coke ovens principally because of environmental reasons.

The result is that coke ovens are going out of service and we are producing roughly six million tons less of coke I believe it is -- I don't have the figures with me -- which represents on an annual basis a tremendous amount of imported energy.

If the idea of the energy investment tax credit is to increase the substitution of domestic fuels for imported oil it would seem to me logical that we would include coke ovens in this, hopefully get some built rather than having them continually taken out of service. That is the other amendment. The cost is roulghly about $170 million a year for over ten years, 1.7 billion over ten years.

Senator Gravel. What was the other cost? Was that a one-shot deal or was that per year?

Senator Heinz. That was total. 140 million.

Senator Dole. For five years or ten?

Senator Heinz. Ten.

The Chairman. What is the Treasury position on the coke oven?

Mr. Lubick. Mr. Chairman, in last year's energy act you made a specific and conscious decision to exclude this from eligibility for the credit. As I understand it, there are no energy savings as a result of this. It is simply some relief for the steel industry. I think Mr. Blum is here and can explain why there are no energy savings from it.

Mr. Blum. It is my understanding from talking with extensively in the industry that most, that it would not construct a coke oven today as a new way of gasifying or otherwise liquifying coal, you would use existing coke ovens which have not been designed to produce a product that has energy value.

My understanding is the reason that was excluded in the 1978 Tax Act and there is language that says exempt coke ovens is that they are really not terribly useful for energy per se.

They have been designed to produce metalurgical coke or steel. Now that some of them are becoming obsolete for that use there are people who would like to use them to produce gas and other products in the hope they might be useful for some energy but it is not clear that is an efficient way of using the coal for trying to produce a product for energy.

Senator Heinz. Perhaps you could answer a few questions. Is it not true that if you don't produce coke domestically you either are using a blast furnace -- you use the imported coke or you use fuel oil? Is that not true?

Mr. Blum. It is a question of the steel economics. The dominate economics in a coke oven is whether or not you want the coke. Your energy byproducts, the gases and tars that come out of the coke oven are secondary byproducts, they come out of the steelmaking operation. If the economics of the steel operation is shifted so it is no longer attractive to use those ovens to make coke, does not appear it is a good justification in the hope that the gas and tars that are produced may have energy value. I am not an expert on steel.

Senator Heinz. What you are saying is that coke may be a relatively high cost method of supplying energy for making steel. That is certainly true in part because to build a sufficiently pollution-free coke oven is extremeley expensive by virtue of a regulation. That to me is neither here nor there for the purposes of the dicsussion. It is also true that building a syn-fuel plant is extremely expensive way to provide energy.

What is the different? My contention is if in fact coke from a coke oven or gas from a coke oven, both of which do come from coke ovens, substitute for imported fuels particularly oil but I would also include imported coke, then it is to our advantage to have coke oven producing coke and coal and gas from those ovens. Now would you answer the question before that I asked earlier. Is it not true to the extent we manufacture coke that we do substitute for imports?

Mr. Blum. Insofar as the coke is a key ingredient of the steelmaking operation, the coke itself serve both chemical and energy roles. It serves as a reducing agent to take the oxygen out of the iron ore as well as to provide energy. If you want to get coal gas as a source of energy in the steel industry or any other industry, modern coal gas fire is what you would build rather than a traditional coal oven in part because of the pollution reasons and in part because you get a higher quality gas at a lower price.

The coke oven was designed to produce metallurgical coke, the other products are byproducts. It was never designed to produce those as a primary product.

Senator Heinz. That may all be correct. I am trying to get a yes or no answer to a question. To the extent that we produce coke -- I am not quarreling with anything you said -- but to me the extent we produce domestic coke is it or is it not true that the reality of the fact that we have a steel industry and enbody else who uses coke as far as I know there may be but I don't know of anybody in particular -- but is it or is it not true that that displaces imports? Yes or no?

Mr. Blum. It comes back to the question of what the coke is being used for.

Senator Heinz. Let us assume it is being used in a blast is-8

furnace.

Mr. Blum. The idle capacity showing up in the coke ovens is because people are not using the coke in the traditional role in steel. They are going to processes no longer using coke. Hence it is not clear, the idle capacity in the coke ovens necessarily if reused would displace imports. I am not enough of an expert on steel to be able to answer that question specifically.

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Senator Heinz. Why are we importing six million tons of coke? Why aren't fuel furnaces using oil?

Mr. Blum. I would assume it must be the economics; that is generally the reason.

Senator Heinz. Surely, it is economics, but if we are importing coke, which is used in the furnaces, and if we are using oil, why is it that if we produce more coke, and assume nobody is so stupid as to produce coke that is not going to used, why will it not displace the imported coke,an equivalent amount of imported oil?

Please explain that to me.

Mr. Blum. I am not enough of an expert in the steel industry to be able to answer that.

Senator Heinz. Mr. Chairman, I give up.

It seems self-evident to me, but I am missing something.

Senator Dole. What is the cost of that last amendment?

Senator Heinz. It would be $1.7 billion over the 10 year period through 1990.

Mr. Shapiro. The energy credit that is generally in the law expires 1982, so if you make that the same category as the other, it would be $1 billion for 1982.

Senator Heinz. Put it through for the same period.

The Chairman. What would it cost?

Mr. Shapiro. The credits that are in the law today expire in 1982, and add this proposal to the existing credits, which would make it a cost of $1 billion.

Senator Heinz. That is enough. I questioned that figure, that it would be that high in just two years. s there really a feeling that we would stimulate the building of that many more coke ovens that way?

Mr. Shapiro. The estimate has been high in the last Congress, too, when we were dealing with it. There is a general feeling that they are doing it, not that it would stimulate that much more, but the analysts say the credit would be available for a lot of what is being done anyway.

Senator Heinz. If that is true, why is coke production going down? Maybe we should get the justification for that $1 billion. It may be right, but it sounds high.

Mr. Shapiro. Another thing is, it also would include -- all these estimates now include the amendment that Senator Wallop proposed earlier; they met some of the contract rules on December 30, 1982, to be covered.

Senator Heinz. This, in effect, would cover a lot of facilities that would not come on line?

Mr. Shapiro. Right.

Senator Heinz. That makes it more understandable as to the cost. Let's make it applicable like anything else, Mr. Chairman. That is the package, Mr. Chairman.

Senator Dole. Can we vote on them separately?

The Chairman. Why don't we vote on the $1 billion item first?

Do you want to call the roll on it?

Senator Dole. Can we accept the other small one before we vote down the other?

Senator Heinz. Are we okay on the other?

The Chairman. Would you be willing to split the difference, Senator? Would you be willing to drop the $1 billion one if we take the other one?

Senator Heinz. Yes, for now, reserving my right on the floor.

Senator Gravel. I am not sure what we are voting on, Mr. Chairman.

The Chairman. I suggested the senator has two amendments; one has to do with making alcohol and the other has to do with coke, and the one that has the least burden on the cost is the one having to do with alcohol. The estimated cost is $140 million.

From the point of view of the budget, if the senator is willing to settle for $140 million, he can offer the other on the floor. I think that would be a very good proposition.

I suggest we go along with it.

All in favor say "aye". (Chorus of ayes.)

Senator Gravel. I have one question: I would like to get a breakdown as to how that alcohol works from the biomass area, the wheat area, and the various areas. I think for $2 billion we ought to at least know how it breakes out.

The Chairman. We will try to get you that.

Senator Gravel. Mr. Shapiro, do you have that?

Mr. Shaprio. $140 million, not $2 billion.

Senator Gravel. It goes into $2 billion, $2,142,000,000, as I read the figure.

Senator Dole. Remember, we will give you that along with the hydro information.

Senator Gravel. That is why I want to get that information together. I would like to be able to focus on this intelligently, so I can see where everything is going. Do you have that information?

Mr. Shapiro. I don't have it here. I will see if we can't get it.

(The information follows:)

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Senator Bentsen. If I could proceed, I would like unanimous consent to change my vote on the Heinz amendment. I did not know, and it did not come up as I was listening to the debate, the question of refineries being used; and I am concerned about the definition that we arrived at in 1975 of the independents, so if there is no objection, I would like to change my vote.

The Chairman. You can change your vote.

Senator Gravel. I would change mine, too, then. I maybe misunderstood it.

Mr. Stern. Senator Heinz' amendment -- I did not have you recorded, Senator Gravel. Do you vote no?

Senator Gravel. No.

Senator Wallop. If we are done with that, I was going to bring up another issue.

Senator Heinz. Was there discussion about that retail extension?

Senator Bentzen. Yes, sir.

Senator Heinz. What is the problem?

Senator Bentsen. The problem is one I took a look at; I realized it is a variation from the amendment it was a part of in 1975, and I am working out the compromise, and what the interpretation was, and definition f "independent" is, and therefore I want to stay with the one I worked on in '75.

The Chairman. Why don't you discuss it with the senator after we quit here? You can reach a better understanding now, and when we come back tomorrow.

Senator Wallop?

Senator Wallop. Mr. Chairman, there is a provision we have not talked about in the House that I think we should bring up, a matter of some importance.

In the House bill, percentage depletion deduction is allowed, not in the House bill but presently a percentage depletion allowance is allowed by the Internal Revenue Code with respect to income from domestic oil and gas production for independent producers who have no retail and refining operations.

The percentage depletion deduction is limited to income from a limited quantity of oil and gas production in 1980 and future years to 1,000 barrels of oil or 6,000 million cubic feet of natural gas.

Under the House bill this income tax deduction would be denied with respect to that portion of oil production income which constitutes windfall profits as defined in the bill.

The effect of this provision is to increase the income tax on independent producers; royalty owners, plus the pay on a portion of their oil and gas income on windfall profits tax which would also be imposed on this portion of the income.

So, in effect, what we are doing is providing one segment of the industry with a double tax. We have dealt with them. All our figures to date are based on assumptions without that, and the fact is that using the Joint Tax Committee's projected 1980 margin, market price of $23.85 a barrel, the denial of depletion on that part of the ceiling price above $16.as provided in the House bill reduces the typical independent's cash flow for the producer. To have the same ability to finance drilling of new wells would require an increase in his wellhead price of $31.50. It seems to me it is counterproductive and something which we have not talked about.

There is some effect that can be demonstrated on this, on any negative action on depletion allowances, by looking at the prior changes it would have. In late 1969 the percentage depletion rate was cut from 27.5 percent to 22 percent. Following the year 1970 there was a drop of 21 percent in the number of wellheads drilled in the United States, the largest drilling history in a single year in this country.

Now, there is already another scheduled drop which is in there, I believe, down to 16 percent. It seems to me in this instance we don't want to provide one segment of the industry, one segment. We have actually been trying to help and have not been successful. In this instance we would be applying a double tax to them and I don't think that there is any legitimate reason for us to do that, and there is a negative response to doing it.

The bill we came up with would not have the same provisions that the House bill has.

The Chairman. What is your position on that, Mr. Lubick?

Mr. Lubick. First, Mr. Chairman, the revenue effect of it would be $1.9 billion. We are very concerned about the revenue from all these exemption, but basically on the equity side we made this recommendation because we felt it was inappropriate and unnecessary to have the percentage depletion kicker, as you will, for that which is windfall.

It seems to us it is a question of fundamental equity. The percentage depletion is not essential; it is an extra incentive when you talk about windfall. I don't believe it is a double tax. You are simply getting a full income tax without the special deduction on the windfall element. In the exempt categories where you no longer have windfall, the percentage depletion would be allowed in full. If you put in an exemption for incremental,tertiary, and newly discovered, taking that out of windfall category but you classify that as windfall, we see no justification for giving an extra income tax benefit in that situation.

The Chairman. Let me ask you, was this recommendation in your original transmittal to the Ways and Means committee?

Mr. Lubick. Yes, this was recommended by the Administration in April. It was accepted by the Ways and Means Committee.

Senator Wallop. I would like to point out in the equity connection the independents are already facing a 32 percent increasr in their tax burden, disregarding windfall profits tax; 32 percent increase in their tax burden over the next four years, resulting from the scheduled reduction in the depletion rate from the 22 percent down to the 15 percent. That is a fairly impressive increase in your taxation, just on the scheduled base, without adding the double burden of the windfall profits tax and the exemption from that portion of the raise.

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Mr. Lubick. Again I don't see a double burden, Senator. Basically it is the percentage depletion.

Senator Wallop. You are receiving that, not giving that. Your burden is not at all double except the wheelbarrow has to be bigger to haul the money.

Mr. Lubick. It is basically a question of whether you are going to tax the income in full for the small independent producers. We have less than full taxation because of percentage depletion and in the case of the windfalls it seems particularly appropriate to deny the regular income tax deduction even more so than imposing the windfall profits tax on it.

Senator Wallop. I would have no objection to doing that if you would agree to exempt the thousand barrels a day we have been talking about but that argument has been laid down.

The Chairman. I am sure that at least someone among the absentees would like to be heard to support the Administration's position of denying the depletion allowance to the independents.

Mr. Lubick. On the windfall only, Mr. Chairman.

The Chairman. On the part being taxed by the windfall. As far as I am concerned we can vote on it tomorrow. We can vote on it now and let the absentees to record themselves. It is all right for me to do it either way.

Senator Dole. How do you get 1.9 billion? You eliminate the exempt categories. That is not effected at all so the new,

new oil and the incremental tertiary and ---

Mr. Lubick. Just the Tier I and Tier II.

Senator Dole. It amounts to that much?

Mr. Lubick. That is what I am informed.

Senator Wallop. That is not a revenue effect that has anything to do with the figures that have been under consideration by this committee to date. Ours has been on the tax that we have imposed in the scheduled categories.

Mr. Lubick. We may be in error, Senator Dole. The committee estimates it at two billion.

Senator Dole. Instead of 1.9.

Senator Wallop. That was prior to other exemptions.

Mr. Shapiro. It was as high as $4 billion. That brought it down to 1.9, in the two billion area for percentage depletion. This has no effect -- in other words the newly discovered oil, incremental, tertiary strippers. All these exempt categories will get full depletion so 1.9 only applies to the windfall element of the tax.

The Chairman. Senator Chafee asked if we could put this matter over to tomorrow. In view of the fact I am sure someone would like to be heard in opposition, you would like to communicate with some members of the committee before they vote on the matter, in any event I think it is fair that we vote on it tomorrow. If it is all the same I would suggest that when we come in tomorrow that I hope we can agree we will vote without much debate, just five or ten minutes on each side.

I don't think you will change your votes but I think if the Administration wants to communicate with Senators, they can. I think everybody knows how they will vote but I think it would be best to wait until tomorrow.

Senator Dole. I am not certain I understand. We have what we referred to as cumulative deficiencies under the price control regulations. Once a property has produced an amount of oil above its so-called adjusted base production control level if it thereafter produces an amount of oil below the level of its adjusted base production control level, the difference between this reduced amount and the adjusted base production control level results in a cumulative deficiency.

Now, I don't know if there is any revenue impact -- I would disregard cumulated deficiencies for the purpose of determining the volume of oil taxable in Tier I. I think the staff is familiar that effective June 1st, 1979, the new price control regulations eliminated all existing cumulated deficiencies for pricing purposes but they could be built up in the future and produce the amount of oil eligible for the upper tier price.

I don't know of Mr. Shapiro has any information on that or not.

Mr. Shapiro. Under the price controls before you had windfall profit tax consideration, there is a system called cumulated deficiency that Senator Dole is referring to that said if you went below your production level, so therefore you had deficiencies you had to pick those up before your increased production could get a higher price.

The reason for that is this if for pricing purposes. You had a certain decline curve and if you went above that decline curve you get a higher price and a figure below the decline curve, you get the control price and apparently the concern was that some producer may hold back production so he would go below the decline curve and then have all the oil come out later so he would go above it, and therefore get a higher price and the cumulative deficiency means you have to make up the difference below the decline curve before you can get a higher price for any production above the decline curve.

When the Administration has a phased decontrol program, they eliminated the cumulative deficiency for the past and established a new cumulative deficiency starting from zero. As I understand Senator Dole's proposal, it would be to disregard any cumulative deficiency for tax purposes. What the House bill does is assume the cumulative deficiency would be the same for price purposes and tax purposes.

One, the committee can either follow the Dole proposal which is to disregard the cumulative deficiency if there is a cumulative deficiency as a result of unforseen circumstances which are strikes, acts of God, whatever it may be that causes a shutdown that results in cumulative deficiencies and it is not someone holding back, in that case you disregard it. That is a compromise.

I am not sure if you are trying to disregard cumulative deficiencies or in the case of special unforeseen circumstances ---

The Chairman. What is the Administration's position on that?

Senator Dole. What are we talking about revenuewise?

Mr. Shapiro. It is hard to tell because we don't know what the cumulative deficiency would amount to. You don't know what would happen with the producer. If there is a strike or hurricane or something that causes a shutdown for a period of time, then you have cumulative deficiency. It just helps to anticipate -- is hard to anticipate what would occur.

Mr. Lubick. We did not originally propose a cumulative deficiency rule on the grounds of complexity. It was added by the Ways and Means Committee to deal with possibilities of tax avoidance. If you have a number of producers from the same reservoir I suppose it is unlikely you would have people fooling around deliberately holding down production so one solution that we thought of it you don't like the cumulative deficiency rule is simply to put in a tax avoidance rule that might deny the higher tier treatment to the old oil, if it is determined that the reduction is for purpose of avoiding tax. You have done that in other areas.

Senator Dole. If they are going to withhold it to avoid tax.

The Chairman. Would you be willing to settle for that, Mr. Lubick?

Mr. Lubick. That would be in line with our original position, Mr. Chairman.

The Chairman. Could I take it then that there would be no revenue loss? That it would be revenue neutral?

Mr. Shapiro. We can't attach any significant revenue to that at all now. If you tax unforeseen circumstances we don't know what it is right now and we can't anticipate. So I can't imagine us making any revenue effect.

The Chairman. We are talking about an amendment where -- you might explain the amendment again, Mr. Lubick.

Mr. Lubick. To the extent that a producer suppresses production for the purpose of avoidance of tax you would deny the upper tier treatment to the later production.

The Chairman. All in favor say aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

The ayes have it.

Senator Dole. I want to bring up one other and that was 501-C3. I think one day when I was absent Senator Bentsen brought it up in a specific area. We now exempted from the tax monies accruing to states and subdivisions and this would exempt all 501-C3 organizations from the tax. I have asked the Joint Committee for revenue estimates. This is a broader amendment than the amendment of the Senator from Texas. If it is a nonprofit organization it seems to me they should not be subject to windfall profits tax. I don't know what the revenue estimates are.

Mr. Shapiro. We have no way of knowing all the producers in tax exempt organizations we cover. We are aware of one case that was brought before the committee earlier. In looking into that particular case it is 150 million over the 11-year period 1980 to 1990. We don't know if that is just a very large one or if there are many in that category. But that is just the basis of one case and we have no way of determining who owns the oil.

Senator Dole. We are talking about private schools, Princeton, Baylor, Shrine hospitals, they are all nonprofit as far as I understand. I don't inclue private foundations.

Senator Bentsen. If I might on that. I originally spoke of this for the Hospital for Crippled Children in Dallas which provides free health care on a nondiscriminatory basis for children with serious ailments. Any reduction in their earnings just means that much less health care that will be available. I think the point was well made, if you do it for them how can you deny doing it for other charitable institutions? I frankly can't argue against that point of view. What we are trying to do is to try to stop the private sector from ahving a windfall and this obviously is not that. This is instutions that use it for charitable purposes. So I very strongly support what the Senator has stated.

I know we passed one for the oil holdings of Indian tribes to exclude them from it. I certainly think this is fully worthy and I would strongly support what he is doing. Senator Heinz brought up a point I think is a valid one. He said there would be the possibility of people then selling their properties, oil properties to such institutions and that we ought to preclude that from future transactions or we ought to grandfather this and say that is on current holdings.

I think that that is a fair criticism of what we are trying to do.

The Chairman. What is your suggestion?

Mr. Lubick. Mr. Chairman, we think this amendment ought to be adopted because here again you have an element of pure windfall. What you have not is an area where you are going to get any particular energy advantage by the exemption as in the case of the newly discovered or incremental tertiary. These are not persons who are going to increase production if freed from tax and in your illustrations you showed us some situations where you had both an income tax and an excise tax on the windfall. There is a situation where you do not have an income tax on the windfall.

So the consumers of oil are being asked to transfer some of their wealth in the form of higher prices resulting in these windfall benefits to the owners but the owners are not paying even the underlying income tax in this situation. So we think it is especially appropriate in this case to impose the windfall tax even though recognizably the owners are devoting their income to charity, nevertheless they are realizing much greater income as a result of decontrol to the extent of the windfalls than they ever anticipated and it is appropriate for some of that to be shared with the American people in the form of the programs that you have been providing for energy, mass transit and relief for the poor.

Senator Bentsen. Once again this is a situation where we are trying to stop a windfall to the private sector and we are not talking about the private sector here, we are talking about institutions that are going to try to do good for the people and this particular one is one that takes care of crippled children and does an absolutely outstanding job and does it on a nondiscriminatory basis. To the extent you put the tax on you deny that much more help here and I am sure that is repeated time and time again with other charitable institutions but if Senator Dole would not object I would like to put something on to meet the objection that Senator Heinz had and I think the Chairman mentioned it. That this would apply only to currently held properties so there would not be the situation you referred to, Senator.

In fact, I think this was your solution to it. Where people would be trying to sell oil producing properties to charitable institutions and perhaps getting a higher price for them.

Mr. Lubick. It seems to us we don't simply have as our objective the elimination of windfalls for the private sector but really for the, generally speaking, for the owners of oil and if it is desired to send from these American people additional money for these charitable purposes then Congress ought to do it generally somehow through charitable contribution deductions or otherwise rather than selective additional appropriations to those charitable holders of royalty interests in windfall.

Senator Dole. They don't pay any tax now. If they have to pay a windfall tax ---

Mr. Lubick. They are getting windfall revenues of very substantial amounts from the consumers of oil. Now we are suggesting that they keep a good portion of that but not all of it. They are much better off as a result of decontrol than they were before decontrol. To the extent of the windfalls. Now to the extent the tax applies, they will give up part of those windfalls but they don't also pay an income tax on those windfalls as the private owners do.

So they are still considerably better off than the private producers.

Senator Dole. Won't they give it all? They don't have anything to deduct?

Mr. Lubick. They don't pay income tax. Sure, they don't get the income tax offset but if you add up the figures that Senator Long puts on the blackboard that are on the other side there that Mr. Cohen got up -- you got into some illustrations of some very high rates of taxation. That is not the case in this group.

Senator Dole. A state school gets the money without any problem, right?

Mr. Lubick. That involves questions of intergovernmental immunity that I think presents very different problems from the tax exempt organizations.

Senator Dole. Or state hospitals?

Mr. Lubick. States have functions to perform that are governmental functions. They have to perform them. When you are dealing with the charitable sector you are outside the control of government and you have in effect private appropriations of money for good and desirable purposes.

Senator Dole. I think probably if we could do the same with this amendment in the morning and maybe have five minutes of discussion and then vote, because we don't have a quorum present now that would give us an opportunity to discuss it tomorrow and a chance for Treasury to communicate by mail with those of us who are not here.

The Chairman. I suggest we do that.

Senator Danforth. Before we quite this noon we went over those formulas for distribution to the lower income people and I don't know what your desire is in connection with that. Are they working on revised formulas or where do we stand?

The Chairman. I am told there are some revised formulas being proposed and I am not, I don't have the details or know precisely who but I know Senator Dole's ---

Senator Danforth. We will consider it tomorrow.

The Chairman. Yes.

Senator Bentsen. If we do that, I think we should reconsider the whole 2.4 billion or three billion, whatever we are talking about. I think the Administration's proposal ought to at least be considered. I don't think it has been considered here yet. The Administration's proposal for relief for the poor on the problems of energy costs. They have had a proposal and I don't think it has been presented.

The Chairman. I would suggest that we get with that tomorrow. We don't have a quorum here and if we try to round them up we will lose members by the time we try to get others in the room. Maybe the witness from HEW can tell us something that occurred.

The Chairman. Maybe you have later information or some later suggestion to make about the proposal for the poor. Do you?

Ms. Amedi. Yes, Senator, we have been approached by a number of people. With the suggestion that perhaps it would be helpful if we could provide a greater deg ree of flexibility to the states in the way the low income energy assistance would be provided and we continue to feel very strongly that the SSI recipient should get a direct payment through the Federal government through our Social Security Administration and we would continue to like to see that $400 million that we expected to have for that purpose go out directly to those SSI recipients and we share with you the formulae we would have used and we have done some extra computer runs based on what the committee here already discussed.

In addition, we would continue to feel that the most effective and simplest way to provide additional assistance would be by giving grants directly to AFDC recipients as this committee has discussed. But it has been presented to us that a number of states, perhaps not many, perhaps only a few, but a number of states may be in a position to devise and mount programs of their own this year and so we are now of the mind that we should permit an option for those states which can make a showing to the Federal government that they are equipped and are able to provide assistance to people below 125 percent of the poverty line, if they can make that known to us speedily and show us how they mean to do it, we would permit them to take their share of the money that would have been available for

AFDC recipients and for their grants to the state under the CSA part of the formula and combine that and run a program of their own devising.

As I say though, we continue to believe that the simplest and most effective methods would continue to have the SSI recipient paid directly by the Federal government. AFDC paid by the states and a block grant for emergency or crisis assistance but now we are adding in this extra element of flexibility and saying for those statds which can show they can mount their own program, this winter they could combine their share of those other two elements and run their own program.

The Chairman. Could you show us what your latest thought is about the formula for distributing money to the states?

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Ms. Amedi. We were discussing the new charts. These charts do not represent a new formula devised by the Administration; they are simply the computer runs we were asked to do as a result of the conversations that went on earlier before the committee.

I think I will give you some idea of what happens when the various things that have been discussed are taken into account, when we have a $120 minimum payment factored in, or what happens if you go to a formula that is strictly based on degree days, or when you have a formula that makes a differentiation between, or makes payments that differentiate between, single-person households and households of more than one person, and takes into account a minimum payment.

Senator Bentsen. Do you take into account the fact tax credit is using up approximately one-third, as we were considering it here -- the tax credit was using up about a third of the money, as I recall. So the formula we are talking about here, the Nelson formula, would actually be applicable only to the remaining two-thirds, as I understand it.

Senator Chafee. I was told to use $2 billion, based upon $3 billion total. If it were smaller, everything would be prorated down.

The Chairman. Looking at page 3 formulas, help me with this: Table No. 1 is the Nelson formula, weighted by transfer units. Can you give me a little more detail on that?

Mr. Stern. That is a technical term. The actual Nelson formula that has been tentatively agreed to by the committee was based on two parts: One part was heating degree days weighted by low-income population over all; and the other part was the residential use of energy, which essentially would be replaced by total use of energy by poor people. That particular formula Senator Chafee raised the question about because it is not related to the number of actual welfare and food stamp recipients; therefore, if two States have comparable residential use of energy but one has rather more welfare recipeints, then the other payment, per recipient, tends to be rather lower.

So the first table here, Table 1, is a table similar to the table on the Mimeographed form, but this time, instead of weighting the heating degree days by the number of low-income people, generally in a State it weights it by the number of actual welfare and food stamp recipients.

That is Table No. 1.

The Chairman. Say that again.

Mr. Stern. Under that table, both the heating degree day factor -- that is to say, the factor of the coldness of the State and also the residential use of energy -- both factors are weighted by number of actual welfare and food stamp recipients.

The Chairman. Residential use and heating degree day?

Mr. Stern. That is correct; both factors are weighted by the number of actual recipients rather than just the extent of poverty in the State.

Senator Dole. What is the percentage?

Senator Heinz. Which one is weighted by the actual number of recipients?

Mr. Stern. Table 1 of the separate sheets.

The Chairman. Residential energy use rate?

Mr. Stern. That is correct.

For example, if you look at Rhode Island versus Connecticut, instead of Rhode Island getting $276 per recipient and Connecticut $359, Rhode Island gets $273, about the same, but Connecticut comes down to $285.

The second table does the same thing with one characteristic difference: Instead of saying that all individuals and families are -- or individuals and more than one individual households get the same benefit, Table No. 2 says give the family one and a half times what the individual gets, except that there would be a minimum benefit in any case of $120.

So, except for the States affected by the minimum, that would give you 50 percent more in column 2 family benefit than individual benefits.

Other than that, however, the distribution of funds among the States is based on the same criteria as Table No. 1.

Finally, Table No. 3 leave out the factor of residential use of energy and looks only at heating degree days, weighted by the number of people on welfare or receiving food stamps, and here in all three of these tables there is a minimum benefit, so that is what the three tables are that we asked HEW to run over the lunch hour.

Senator Bentsen. Do we have the table of what happens on the tax credit?

Mr. Stern. No.

Senator Bentsen. Why not? Isn't that just as important for us to know?

Mr. Stern. We just don't have that table.

Senator Bentsen. You don't have what?

Mr. Stern. We don't have a State distribution.

Senator Bentsen. Why don't we try to get one? It seems to me that is important. It is one-third of the factor, and we should know how we are affected by it.

Mr. Stern. All right.

(The information follows:)

COMMITTEE INSERT

Senator Dole. What the credit will be.

Senator Bentsen. Surely. That is one-third of the factor we should know, how we are affected.

Mr. Stern. What you will find, I think, is that it is about $600 million, and it is distributed in particular States, since other States don't have heating oil.

Senator Bentzen. I can see that.

Let's see just how we are affected. Is it $600 million, or is it $1 billion?

Mr. Stern. The first year it is $600 million, and I believe it goes up over the period.

Senator Dole. We can discuss that in the morning.

Mr. Stern. I hope to have information for you in the morning.

The Chairman. You might put your imagination to work. It just occurs to me it might work out more fairly to all concerned if you did somewhat like you did with the revenue sharing formula, where in Connecticut we adopted, we had a House formula and a Senate formula and in Connecticut we agreed that people could take their choice of which formula they thought was the best for them; and by doing that you might put one of them on heating degree days and one of them on overall energy use.

Now, our suggestion about the Nelson formula was that starting after HEW had a year to make a study, and on the income use that that would not go on residential energy use but it would go on total energy consumption, so that you would take all energy use into effect and that is probably the fairest of them all.

Now, if you give States a choice as to which one they would come under, it may be that they might -- as we did with the revenue sharing formula -- take whichever formula works out best to your advantage, that might provide a better answer than we have had yet, and would make more people happy, and less people unhappy.

So why don't you see if you could work out something along that line? For starters, I guess you had better look at total residential energy, but I would think if we did that we would want a second year for that, to go to total energy used.

Ms. Amedi. We do also, of course, have the original proposal that the Administration had, which was a very simple two-part formula, half of it uniformly distributed across the States according to expected participation in the programs, and half of it according to degree days. and we do have copies of charts that would show how that would work out, which I can make available.

One of the considerations that we had in mind, and I think is going to be important in this, as long as the discussion lasts, is that we need a formula that is going to be easily replicated by people across the country, easily verified information, so that the States themselves can come up with their own estimates of what they are going to be entitled to, and so we won't have a lot of confusion over the numbers and the allocations.

The Chairman. I must say though that having tried to struggle with these things, I think we have had more satisfaction and less complaint about the revenue sharing formula than any of them; and that is because they gave them their choice between two formulas, one composed by the House and the other composed by the Senate, and the result was they are reasonably well satisfied. So, let's see what we can come up with.

I suggest we meet again tomorrow. We will come in here at 9:30.

(Whereupon, at 5:10 p.m., the committee was adjourned, to reconvene at 9:30 a.m., Friday, October 19, 1979.)