

**ANALYSIS OF THE PROPOSED REORGANIZATION  
OF THE DEPARTMENT OF ENERGY**

**Staff Memorandum**

**The Congress of the United States  
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This analysis describes the President's reorganization proposal of December 17, 1981. It includes a brief review of the rationale for establishing the DOE in 1977 and for dismantling it in 1982. The analysis then includes five perspectives through which the Congress can evaluate this proposal: budget impact, emergency preparedness, effect on program coordination, short-term disruptive effects, and the effects on defense nuclear programs.

## DESCRIPTION OF THE ADMINISTRATION'S PROPOSAL

The plan proposed by the President allocates the present DOE functions into four existing departments and creates a new independent agency. The Department of Commerce would receive most of the existing analytical, regulatory and emergency planning staffs, together with the Energy Information Administration. Technology programs would be combined into a new entity called the Energy Research and Technology Administration (ERTA), which would also become a unit of the Department of Commerce. The ERTA would include research programs for civilian nuclear technology, fossil fuels, conservation, solar, and environmental research. Nuclear weapons research, design, production and testing is to be transferred intact to the Commerce Department as a part of ERTA.

The Interior Department would administer the Strategic Petroleum Reserve and the Naval Petroleum Reserves. It would be assigned the regional power marketing administrations and resource leasing programs. The alcohol fuel grants programs would be allocated to the Department of Agriculture. The Economic Regulatory Administration would be abolished, and residual responsibility for enforcement activities and litigation would be sent to the Department of Justice. In addition, the Federal Energy Regulatory Commission, which has been a nominal part of DOE, will return to the independent status of its progenitor, the Federal Power Commission.

## RATIONALE FOR ESTABLISHMENT OF DOE IN 1977

The concern that Congress expressed in the DOE Organization Act was that the United States would face a chronic shortage of certain energy resources and that this would remain a threat to the security and welfare of the country. Congress found that the existing energy programs were fragmented, lacking focus and coordination. It concluded that strong measures were needed, including greater emphasis on programs to increase supply and reduce demand, and greater coordination of programs within a single department.

Thus the Congress created the Department of Energy with several apparent expectations. First, elevation to departmental status would



enhance the budget priority of energy activities, thereby assuring the commitment of more resources to the energy problem. Second, combining hitherto separate functions under one department would improve their coordination and the analysis of their costs and benefits. Third, a single department would be more capable of response to energy emergencies than would the same activities scattered throughout the government.

How well the Department of Energy met these expectations is open to debate. Increased budget priority was indeed obtained, and DOE outlays grew from \$6.9 billion in fiscal year 1978 to almost \$12 billion in 1981. But there have been frequent questions regarding the extent to which coordination was achieved and to which the resulting package of outlays, regulations, and tax incentives proved useful. A thorough analysis of the actual performance of DOE is beyond the scope of this small paper. But it is worth noting that care should be taken in comparing the performance of an actual organization with an ideal—either the ideal of the original plan or the ideal of the proposed reorganization.

### RATIONALE FOR DISMANTLING DOE

The President stated on December 17, 1981 that his plan would dismantle a bureaucracy but keep intact its essential functions. This would "make government more efficient and reduce the cost of government to the taxpayers." This plan reflects a commitment to limit the role of the government in energy, based on a different view of the energy problem than that held by the Congress when it created DOE.

The reorganization presupposes that government planning and regulation is less necessary and desirable than before. This is because market forces have brought about substantial energy conservation and stimulated energy production, largely in response to the oil price increases of 1979 and 1980. This has reduced the need for a cabinet-level department to administer existing energy programs and propose new ones. The government role can, and hence should, diminish. There would be no need for a separate energy policy, but rather energy would become a part of overall economic and trade policy.

### CONSIDERATIONS FOR CONGRESS

The Congress may wish to evaluate this proposal from several perspectives: budget impact, emergency preparedness, the effect on program coordination, disruptions due to prospective reorganization, and the effects on defense nuclear programs.



## Budget Effects

The President's statement said reorganization would "make government more efficient and reduce the cost of government," but it did not claim savings as a primary benefit. Most current functions would be retained and few cuts would occur as a direct result of reorganization. Any large savings are due to policy changes as reflected in the budget, and not to reorganization.

At least \$3 million in annual savings would be achieved solely by the reorganization. These savings would result primarily from reductions in executive staff required for the administration of the ERTA. This estimate assumes that most functions performed by DOE's administrative group would be transferred to Commerce or Interior and that ERTA would be organized and operated in a fashion similar to NOAA. To the extent that larger staff reductions can be attributed to the reorganization, the savings would increase proportionally.

Savings achieved by the reorganization will be offset by additional administrative and logistic costs. The largest of these is a one-time cost of consolidating employees at either Interior or Commerce under the new organization structure. While the extent of such consolidations is uncertain, relocating 500 employees, or approximately 8 percent of the estimated headquarters staff, would cost approximately \$2 million. In addition, about \$1 million may be needed for various administrative activities associated with the reorganization. As a result, the net impact on the budget will be small.

In the long run, elimination of cabinet status may indeed reduce the ability of the government's energy activities to claim budget resources and promote new programs. A cabinet level organization has ready access to the press, to the Congress, and a direct link to the President. Since the new ERTA would (presumably) lack these, energy activities would not enjoy their former leverage in budget activities under the proposed reorganization. This reduction in visibility derives from the long-run policy decision of the Administration to reduce the federal presence in energy.

## Effects on Preparedness for Energy Emergencies

The reorganization proposal relies on market adjustments as the primary response to many types of energy emergencies. The government would interfere only if the emergency became quite severe and the free market were failing to adjust. Because energy would be allocated by price, market adjustment would provide the greatest economic efficiency and hence the greatest benefit to the nation as a whole. This premise, however, raises two potential difficulties. First, time is required for markets to adjust to the effects of a supply disruption. During this adjustment period,



prices are not always able to allocate the scarce resource. Thus, complete reliance on a market system might allow economic dislocations that could otherwise be reduced. Second, other considerations—such as sharing the burden of the disruption in a manner that is widely perceived to be fair—also merit attention.

To be sure, the proposed reorganization includes a low-level planning function, and assigns it to the Department of Commerce. But coordination with fiscal and monetary policy is not improved, and the reorganization would allocate operational responsibilities for the Strategic Petroleum Reserve to Interior. This division of responsibilities among departments may be the source of management difficulties. At issue for the Congress is whether planning and operational management should be linked, not only to coordinate responses in time of emergency, but also to coordinate budget requests for construction and fill rates for the Strategic Petroleum Reserve during normal periods. In the absence of such linkages, market adjustment may be the only option available in the event of an oil emergency.

#### Effect of Reorganization on Energy Programs

The proposed reorganization also affects federal energy activities beyond those aimed at preparedness for oil import disruptions. In particular, four areas merit consideration: energy policy coordination; promotional and research programs; enforcement of energy regulations; and specific operational responsibilities.

Energy Policy Coordination. This proposal assumes no need for a distinct energy policy. Hence, it transfers existing planning and policy staffs to the Commerce Department and, separately, reduces their size through budget cuts. An independent FERC would regulate natural gas and electricity without even nominal coordination with a parent department. The FERC is not projected to have an overall policy responsibility. Thus, the proposed reorganization may make policy coordination among fuels more difficult.

Promotional and Research Programs. One advantage of a single agency, claimed in 1977, was the coordination of budget priorities among nuclear, and non-nuclear, programs and among research, development, demonstration and promotional programs. Creation of the Synthetic Fuels Corporation in 1981 has eliminated one of these components. The remaining research, conservation and promotional programs would be in ERTA, within the Commerce Department, and these presumably would still compete with each other for funds. However, the alcohol fuel grants program would be assigned to the Department of Agriculture. There, it is likely to become more closely related to agricultural than to energy concerns. It is difficult to see how the proposed reorganization would improve coordination among these programs; indeed, it may weaken such coordination as already exists.



Enforcement of Regulations. The DOE no longer has a large body of regulatory law to enforce. Nevertheless, an extensive backlog of cases still exists because of the price controls once on petroleum. The reorganization would transfer staffs and authority to the Department of Justice, but would not by itself affect either the Administration's policy of enforcement or its vigor.

Specific Operational Responsibilities. Most resource management programs are now under semi-autonomous agencies such as those which market power from federal dams, and manage production from the Naval Petroleum Reserves. These would be assigned to Interior from whence they came in 1977. The responsibilities of these agencies are very specific and tend to be controlled more by local needs and by the Congress than by their administering department. It is not expected that the reorganization will affect them to any important degree.

### Short Run Disruptive Effects

The morale of DOE staff is likely to be hurt while the proposed reorganization is under consideration. If it were carried out, there may be a short-term disruptive effect while working relationships are reestablished within the new organization and with other Departments having energy responsibilities. Such disruptions are, of course, temporary. However, the history of federal energy organizations is characterized by much turbulence, and many programs may have suffered from a series of temporary disruptions.

In the long run, the Administration proposal anticipates that benefits accruing from leaner, more manageable staffs and a lower level of federal involvement in energy will outweigh the short-term problems.

### Nuclear Weapons Programs

The unique nature of nuclear weapons has long been recognized by the Congress. For this reason nuclear weapons programs were located outside the Department of Defense—originally in the Atomic Energy Commission and finally in the Department of Energy. In general, this arrangement appears to have worked satisfactorily. How satisfactory the new organization would be depends upon management relationships that are not yet established. Nevertheless, several considerations can be identified that deserve attention.

First, there are technical and organizational linkages between many energy and weapons programs. A large and integrated field organization supports work in high energy physics, nuclear energy development, and weapons development. This suggests that these activities should remain under common management, and indeed the proposed plan appears to allow this.



Second, there is little real commonality between nuclear weapons activities and those of the Department of Commerce. This implies that program and budget review by that Department may be quite difficult.

Finally, Presidential decisionmaking regarding nuclear weapons has traditionally had a threefold basis: military considerations; international and political considerations; and technical considerations. The latter has been the purview of the nuclear weapons organization. That organization has had direct access to the President throughout its history, first by means of the Atomic Energy Commission, later the Energy Research and Development Administration, and finally the Department of Energy. It is important that such access be retained to ensure Presidential control.

## CONCLUSIONS

Even though full information is not yet available on many aspects of the proposed reorganization, several conclusions are warranted.

- o Reorganization, by itself, is unlikely to result in significant budget savings. Instead, the principal impact on energy programs and expenditures derives from policy changes that have been reflected in the budget.
- o By subsuming energy policy into overall economic and trade policy, the plan makes no special provision for a coordinated response to disruptions in the supply of imported oil. This places heavy reliance on market adjustments as the primary means of response and raises questions regarding economic and social dislocations during the period of readjustment.
- o The proposed reorganization is not likely to improve the coordination among energy-related programs. Indeed, it could make such coordination more difficult.
- o The management of defense nuclear activities warrants special attention because of the unique nature of nuclear weapons. However, sufficient information is not yet available to discern how the proposed reorganization would affect these.

Finally, two observations deserve mention. First, the continued existence of a Department of Energy does not, by itself, assure program integration and emergency preparedness. There must also be continued and active pursuit of these objectives. Second, real organizations often fall short of the expectations held for them in founding legislation. This suggests caution in comparing the actual performance of DOE with the ideal performance of federal energy activities under the proposed reorganization.

