

SOLAR ENERGY AND THE REAGAN ADMINISTRATION

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ISSUE DEFINITION

The Reagan Administration is proceeding with its plan to dismantle much of the Federal solar energy program as it existed under the Carter Administration. The objective is to reduce Federal expenditures and bureaucracy and to limit Federal involvement in program areas where the private sector can take over. The Administration contends that the market will be, and should be, the final arbiter in commercial solar energy development. A central issue for solar interests is whether the private sector is now able to take over the solar development and commercialization work begun by the Federal Government, with minimal loss of continuity in the program. If the pace is too fast, there could be a loss of program continuity that could cause a delay in the time solar technologies are available for widespread commercial use.

BACKGROUND

The Reagan Administration is attempting to introduce an energy policy which places greater reliance on market forces and private sector investments. Under Reagan, the Federal energy effort will focus on long-term, high-risk projects; near-term technology development and commercialization will be the responsibility of the private sector. The Administration reasons that continued Federal support of near-term, market-ready technologies is unnecessary in light of economic recovery, regulatory relief, rising energy prices, and economic incentives for energy investments.

It is the Reagan Administration's contention that much of the Federal work in solar energy supports near-term development and commercialization and, hence, can be reduced or eliminated. In its first budget submittal to Congress for the FY82 budget, the Reagan Administration cut the solar program by about 60%, which eliminated most of the demonstration and near-term commercialization work. Even deeper cuts are proposed for the FY83 budget as the Administration prepares to dismantle the Department of Energy (DOE) and transfer remaining program authority to other Federal agencies. (See IB 74059 for more detailed information on the Federal solar energy program.)

ISSUES

Solar Policy Shift and Congressional Input

As a result of cuts in the FY82 DOE solar budget, Government solar program emphasis is now on long-range research and development rather than on near-term development, demonstration and commercialization as it had been under the Carter Administration. The cuts were made in order to bring the solar program into conformity with the Administration's overall strategy for energy development. In some cases, however, the cuts and resultant policy shifts appear to be in conflict with the mandates of present law. In particular, cuts in the wind, photovoltaic and ocean thermal energy conversion programs may be inconsistent with the expressed purposes of special goal-oriented legislation passed in those program areas by the 95th and 96th Congresses.

Policy set forth in earlier generic solar legislation may also be affected by the Administration's actions. For example, Sec. 2.(b)(2) of the Solar Energy Research, Development, and Demonstration Act of 1974 (P.L. 93-473) declares that it is the policy of the Federal Government to "provide for the development and demonstration of practicable means to employ solar energy on a commercial scale." The end of this policy is a major objective of the Reagan Administration.

At issue is whether the Administration's use of the budget process to implement policy change represents a denial of Congress' legitimate role in policymaking. Thus far, the Administration has not asked Congress to amend or repeal any legislation in the solar area, but then Congress has not taken the initiative to change existing law either. Congress has generally supported the Administration's approach and has accepted a role in the solar policy shift which is limited to adjustments in the solar budget made at the program and subprogram levels.

Impact of the Reagan Program on Future Solar Use

The Administration contends that the marketplace can achieve the commercial introduction of solar technologies more efficiently and effectively than the Government, especially if energy prices are allowed to reflect their true replacement cost. During authorization hearings in February 1981, Secretary of Energy Edwards predicted that cuts in the solar budget would have little effect on solar energy use. He further predicted that solar energy use will continue a healthy rate of increase over time as the President's economic recovery program takes effect.

There is some question whether the solar industry is strong enough now to commercialize market-ready systems without Federal assistance and at the same time substantially increase its investments in R&D to make up for cuts in the Federal program. While the Administration contends that it is, the Solar Energy Industries Association predicted that the budget proposed for FY82 would collapse the industry. Denis Hayes (former director of the Solar Energy Research Institute and an outspoken critic of the Administration's proposed program) reportedly called the cuts "catastrophic" and "radical beyond belief." Hayes was also reported to have said that solar development would not be perceptively different in 1985 as a result of the cuts, but the difference will become very great by 1990 and could be enormous by the turn of the century.

Energy Tax Credits Under Review for Possible Repeal

The Administration is considering the repeal of the residential and business tax credits for solar energy and energy conservation improvements. The possibility that the credits might be repealed was first raised by the President on Sept. 24, 1981, when he announced that he would seek further reductions in the FY82 Federal budget. Repeal of these credits (including the 4 cents per gallon excise tax exemption for alcohol fuels) would reduce projected deficits by an estimated \$1.3 billion in FY83 and \$1.9 billion in FY84, and would be consistent with the Administration's policy of a reduced Federal role in energy markets.

The solar industry's reaction to the repeal possibility has been one of alarm and disappointment. The Renewable Energy Institute (a lobby group for

the solar energy industry) called it the most serious threat yet to renewable energy development. Tax credit supporters labeled the repeal contradictory and inconsistent since the Administration has repeatedly used the credits as an argument to justify deep cuts in the renewable energy and energy conservation budgets. Congressional supporters note that the Administration has repeatedly promised to protect the credits in return for congressional support of the budget reductions.

In its FY83 budget request the Administration indicated its intent to ask Congress to repeal the business energy tax credits but not the residential credits. However, draft legislation to effect the repeal has not yet been submitted to Congress. Strong congressional opposition to the repeal of either the residential or business energy tax credit has apparently caused the Administration to drop the proposal. However, the solar industry claims that the Administration's reported attacks on the credits has damaged the solar industry. Legislation has been introduced to extend the credits through 1990 (H.R. 6735).

DOE Solar Program Closeout Budget in FY83

The \$72 million budget proposed by the Administration for solar programs in FY83 assumes the dismantlement of DOE and the subsequent transfer of remaining program authority to an Energy Research and Technology Agency to be established within the Department of Commerce. DOE reportedly had asked for \$96 million to close out solar programs in FY83, but OMB cut the request to \$72 million. DOE could have appealed the cut to the President before a December 10 deadline for filing budgets, but elected not to do so. However, in a November 24 letter from Energy Secretary Edwards to OMB Director Stockman, Edwards asked that the renewable energy program cuts be reconsidered since they effected a change in the Administration's policies in that area. He further noted that the cuts imposed by OMB in the renewable energy area "would limit Federal involvement to only the most basic, generic kinds of research, which would eliminate environmental work which is essential to achieving feasibility of new technologies, and would discontinue work necessary to complete proof-of-concept activities which are essential if activities are to be turned over and accepted by private industry."

A \$72 million solar budget would result in the termination of several programs in FY83: active and passive systems development; ocean energy research and development; information activities; and a permanent facility for the Solar Energy Research Institute. The remaining programs would be funded at the minimum level necessary for their orderly transfer to another agency: photovoltaics, \$27.6 million; solar thermal, \$15.4 million; biomass, \$6.75 million; alcohol fuels, \$3 million; wind energy, \$5.6 million; international activities, \$9.5 million (primarily for an on-going joint project with Saudi Arabia); and program direction, \$2.146 million to pay the salaries of 46 employees.

Congress approved a budget resolution (S.Con.Res. 92) which would freeze FY83 energy spending at FY82 levels. This is expected to mean that the DOE renewable energy and conservation budgets will be at FY82 levels rather than at the sharply reduced level requested by the Administration. However, the resolution only establishes a budget ceiling; the actual level of solar spending will be established through the regular appropriations process.

DOE Dismantlement: Possible Effect on Solar Programs

As part of a plan to reduce Federal spending and Federal jobs, the President on Sept. 24, 1981, announced a proposed elimination of the Departments of Energy and Education. According to Administration estimates, the elimination of DOE would save about \$1.5 billion in FY83 and enable the Federal bureaucracy to be reduced by 4,400 jobs by FY84.

Any termination proposal must be approved by Congress. Should Congress approve, program authority remaining after the paring down and elimination of as many programs as considered sound would be transferred to other agencies, or to new agencies. Solar program authority is expected to go to the Department of Commerce. DOE submitted a \$72 million FY83 closeout budget for the solar program in anticipation of the agency's termination in late FY82 or early FY83. However, should Congress disapprove the dismantlement proposal, solar programs could be adversely affected by the steep budget cuts and staff reductions intended for the solar program closeout case. Furthermore, if DOE is left in limbo, momentum in the solar program would almost certainly be lost due to budgetary uncertainties, reorganization, and personnel losses.

The dismantlement of DOE has support in Congress, but it also has its critics. The major objection seems to be more to the Administration's approach to dismantlement than to the act itself. Some critics are concerned that the Administration is pursuing a de facto dismantlement of DOE -- that dismantlement may be achieved through budget cuts and personnel reductions instead of through a congressional response to an official proposal.

Implementation of the Solar Bank Blocked

It is the Reagan Administration's contention that the Solar Energy and Energy Conservation Bank duplicates other Federal programs and therefore need not be implemented. The Administration successfully blocked the implementation of the Bank in FY81 by rescinding \$122 million appropriated for it by the 96th Congress. Administration efforts to have the Bank permanently terminated in FY82, while not fully successful, resulted in the Bank's appropriation being reduced to just \$22 million (\$825 million had been authorized in the Bank's enabling legislation).

The \$22 million appropriation was considered a victory by the Bank's supporters. However, even if the Bank is implemented, the amount that would be available for loans in FY82 is probably too small to generate interest among the State and local government organizations and private lending institutions which would be responsible for handling loan transactions with individual consumers. Subsidies from the Bank to these organizations were expected to reduce their unwillingness to service small loans. Without their cooperation (which was in question even before the loan pool was so drastically reduced), the future of the Bank would be in jeopardy. Furthermore, with the small amount that would be available in FY82 for both solar and conservation loans, it is doubtful that the Bank could meet its intended purpose which was to increase the access of a significant number of low- to moderate-income persons to credit for energy saving investments.

The Administration's FY83 budget request to Congress included a request to rescind the FY82 Bank appropriation. This was rejected, and in early May the Administration began to take steps to implement the Bank. However, the issuance of regulations and the startup duties will delay implementation until FY83.

At issue for the 97th Congress is whether continued support of the Bank is worthwhile in view of (1) the ability of the Administration to reduce the loan pool below a level needed for effective operations, and (2) the prospect of continued opposition from the Administration.

Four Regional Solar Energy Centers Terminated

On Dec. 24, DOE notified the four regional solar energy centers (RSECs) that their contracts were being terminated effective Dec. 28, 1981. The centers provide technical assistance to aid in the commercialization of solar technology on a regional basis. They are the Northeast Solar Energy Center in Boston, the Mid America Solar Energy Complex in Minnesota, the Southern Solar Energy Center in Atlanta, and Western Sun in Portland, Oregon.

DOE's action was taken despite recent expressions of congressional support for the continuation of the RSECs. The conference report on the Energy and Water Development Appropriations Bill (P.L. 97-88) indicated that FY82 RSEC funding would come from the \$15 million solar reserve account. Senate report 97-256 on the same bill specifically earmarked \$10 million of the reserve account for the RSECs. In justifying the shutdown, DOE cited congressional approval of a general \$61 million reduction in solar funding in the appropriations bill, the agency's shift away from commercialization activities, and a relatively low funding priority for the centers.

The Northeast Center sought and obtained an emergency temporary restraining order on Dec. 28 prohibiting DOE from terminating its contract. It was reported that Senator Hatfield concurrently intervened on behalf of Western Sun to get DOE to agree to fund that center through February. DOE subsequently decided to fund all RSECs through February. DOE's decision came shortly before a scheduled Jan. 7 hearing on the Northeast Center's legal challenge, causing the hearing to be postponed until Jan. 28. That temporary reprieve was exhausted and the RSECs were ordered to terminate operations by the end of May or earlier. The Southern and Northeast centers plan to remain open by doing contract work for the private sector and for DOE.