

Senator Robert Morgan
Anson-Union Home Builders Association
Rolling Hills Country
Club.
Monroe, N.C.
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HOUSING TODAY

I know you all didn't come here tonight to be told that these are troubled times. They are and no one knows it better than you do. And I didn't come to tell you that I have a magic cure-all for our problems. I don't. Nor does any other responsible elected official or candidate for political office.

While I have no magical patent medicine, I do bring you some prescription and diagnosis provided by the best economic doctors in the nation. Washington is loaded with them now. We have both resident practitioners as well as many transients who make the pilgrimage to offer their wisdom. Just last week, for example, the Banking and Housing Committee, on which I serve, heard from the six economic wise men who have served as Chairmen of the President's Council of Economic Advisors for each of our Presidents since 1964. The eminent economists served both Democratic and Republican Presidents, and surprisingly hold similar views about our condition today.

Their most important theme is one that we all understand--inflation. It is the most serious problem facing us today, for the rate of inflation has risen to alarming levels. In 1977, the rate of inflation was

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THE CHALLENGE OF THE ENERGY CRISIS

It is a comment on our times that the more modern our country becomes the more we yearn for the "good old days." City people roam through the countryside looking for "antiques," which vary from farm bells to plow points. They love to find dirt roads and out of the way places which to them seem unspoiled by urban blight.

I remember, and I am sure that many of you can, when many of us living out in the country hoped that progress would catch up with us and that we could have some of the modern conveniences that the urban people had.

When I was born, our house had no electricity, so the doctor worked by lantern light. To get the news out after my first cry, my father had to go down the road a few miles to the last telephone on the line. As I grew up, the country was in a depression, and many of us knew that the deprivation that we suffered then was something that we never wanted to pass on to the next generation.

The New Deal gave us hope, and it also gave us much more. Whereas today we complain (often with good cause) about big government, in those days we were pleased to learn that there was an Agricultural Adjustment Administration that would help us control tobacco production and get the prices up. We were glad that Franklin D. Roosevelt shut the banks for a holiday while he planned how to open them without causing a panic.

And in 1936 we were glad to hear that President Roosevelt established the Rural Electrification Authority, for in the South only 3 percent of the farms had electric service. We live in a different world today so far as energy is concerned. Our crisis today is not a lack of electricity so much as a lack of money to pay for it. We don't lack cars so much as lack the money for gasoline to feed them. Energy and inflation are the twin giants that are plundering the land and stealing the golden eggs.

This crisis has not come about without warning. Again, reflecting on my younger days, I can remember the Weekly Readers that we had in the seventh grade. Regularly, there were charts and graphs outlining the known oil and coal reserves and a map of the world illustrating reserves. It all seemed rather unreal, for the reserves would last for years--a half century--which

seemed too distant to worry about. And too, there were predictions of how our technology could invent ways to solve these problems.

Well, the Weekly Reader reports have finally caught up with us. Today we find ourselves in an energy crisis that affects our lives in many ways--from the inflation that we see rising daily to the occasional gas lines. The runaway cost of gasoline led one commentator to observe that we will never run out of oil because nobody will be able to afford what's left!

No question recurs more regularly in my travels across the state than our energy crisis. When is Congress going to solve the energy crisis? Why doesn't the President do something? And I must admit that from the complaints that I hear, there are many justifiable cases. Family budgets have been burst by energy bills. Commuters feel as though they are paying more for gasoline than they get for their work. Interest rates make us all blink before we commit ourselves to time purchases. So, my friends ask, what is the solution?

Frankly, there is not a solution. There are steps. And for our country, which has run incredibly fast since it was founded, this means a drastic adjustment in the way that we look at things.

The old Weekly Readers, with a refreshing note of optimism, predicted that when the crunch came, the American people would be equal to it. There would have to be adjustments, it read, but then Americans were inventive and would find ways to deal with this problem. I think that this was an accurate observation.

We have now come to acknowledge that the days of inexpensive energy are over. And we have also begun to make the adjustments. I would wager that all of you give more attention to your driving habits today than you did a year ago. This is reflected in a decrease in our demand for oil, some 2.7 percent less this year than last, according to a recent issue of The Oil and Gas Journal. Gasoline consumption in February of this year was 8.6 percent less than a year ago. At the same time, domestic energy production was at an all time high, with an increase of 3 percent over 1978. There was a 17 percent increase in coal production in 1979, something that should interest us Tar Heels, for the bulk of our electricity is produced from coal.

Another bright sign is that non OPEC countries are producing more oil than before. Output of these nations has risen from 14 million barrels a day in 1976 to 18 million today. This trend may help us break away from the OPEC cartel.

As you can see, I am not a prophet of doom when it comes to our energy crisis. I am still so unsophisticated that I think good old American know-how can solve problems, even such a massive problem as energy.

The biggest news on the energy front, of course, is the passage of the Windfall Profits bill last week. I supported this bill, and I want to explain why.

First let me make an observation. The idea of decontrolling the price of domestic oil was not a new one that President Carter thought up. Both Presidents Nixon and Ford toyed with the idea of decontrol, but both feared the results. As OPEC prices rose, domestic oil remained controlled, and this cost the oil companies profits and also discouraged exploration and drilling. Decontrol will bring higher prices. But by decontrolling the price of domestic oil, the companies can eventually charge as much as the world market price. For example, oil that had a control cap of \$6 per barrel for old oil and about \$13 a barrel for new oil is now selling for about \$30 a barrel.

In many cases, the cost of production has not changed. Thus, a company that was making a profit on controlled oil at \$6 or \$13 is now making a whopping profit at \$30. That is where the Windfall Tax comes in. Technically, of course, it is not

a windfall tax but an excise tax, but the effect is to tax a windfall situation, profits that would not have been possible without decontrol.

I favored this tax. After seeing the large profits that came from the first stages of decontrol, staggering amounts of money, I realized that the American people, who were paying the bill in higher prices for gasoline and heating oil, should share in this windfall. Thousands of letters poured in to my office demonstrating that there was widespread support for this tax.

There was another theme that ran throughout these letters also. The people who were paying these higher prices stated that if the oil companies did not show some restraint and if Congress did not tax these profits, they would favor nationalizing the oil industry. Several of my Senate colleagues, and not just the liberals, stated publicly that this was the handwriting on the wall.

So we now have a Windfall Profits Act that will bring in \$227 billion in the next ten years. This money is targeted for business and individual tax cuts, and tax credits for the installation of energy conservation equipment, and aid to those who are financially unable to bear the higher energy costs.

Few people are completely happy with this bill. The independent oil people wanted more of an exemption than they got. New oil was taxed higher than the producers desired. Many liberal Senators and Congressmen wanted to soak the oil companies. In the end, I think that the bill proved to be a significant compromise--a good law.

In the coming decade our country will turn more and more to alternate sources of energy, and in this I do see hope that we can break the grip of the OPEC cartel. First of all, we have a tremendous reserve of oil locked up in shale in the Western part of our country. We are currently developing the technology that will enable us to exploit this supply. Once this program is moving, we can cut back on imported oil.

On the local level, gasohol will more and more become important. I have been heartened at the groundswell of support from North Carolina on this issue. I have had a few laughs at my colleagues who have been so serious about developing the know-how to make gasohol, which is a blend of ethonol and gasoline. I told them that we had enough expertise in North Carolina to make all the alcohol that they needed; we 've been making alcohol for centuries. Some of our producers have occasionally run into problems with the authorities on the matter of tax.

Seriously, though, gasohol is not new. Some of you may remember that Henry Ford designed the Model T to run on alcohol, gasoline, or anything in between. In World War II, the government ran an ethanol plant in Nebraska to make motor fuel for the Army. A concoction named "Agrol" was sold by gas stations in Kansas and Nebraska during the war also. Alcohol fuel never caught on because gasoline was so much less expensive.

That has changed. We now encourage the production of gasohol by exempting this from the 4¢ federal excise tax at the pump, a move that I have supported strongly. A few years ago there was a negligible amount of ethanol produced, but in the past year we produced 80 million gallons. With the farm production and the larger plants now under construction, I expect that we will see "Gasohol Sold Here" signs all over the state and the country. This will save 10 percent of our gasoline. And, best of all, ethanol can be made from almost anything--it's renewable. Farmers can grow their own fuel year after year. While this is no "cure" for the energy crisis, it does represent a constructive approach to ending our dependence on imported oil. Let me add that last year the Federal Bureau of Alcohol, Tobacco, and Firearms received over 5,000 applications for on-farm distillation permits last year.

While Congress is often accused of doing nothing to aid the energy crunch, I must explain that had that been true the fleet average for automobiles would still be about 11 miles per gallon. We now average about 15 miles per gallon, which is not good (In Europe the average is roughly 25 miles per gallon), but it is improving.

This improvement came about because the Senate Environment and Public Works Committee, which I served on when this legislation passed, required that Detroit manufacture cars that would get better mileage. We even attached an amendment that put a punitive tax on gas guzzlers which came into effect this year. I noticed that one imported automobile, a Rolls Royce if I remember correctly, failed to meet the minimum standard and had this tax placed on it.

On the other hand, Detroit has taken steps to trim the fat off their cars and make the engines more efficient. The target is 27.5 miles per gallon in 1985. Had Congress done nothing, our fleet average would still be quite low, costing us even more in the balance of payments. Every year our new automobiles will consume less gasoline per mile, and when the old guzzlers of the early 1970s become extinct, there will be a marked difference in our automobile consumption. Since there are 165 million cars and trucks on our roads and since

about 85 percent of all our travel is still by automobile, any improvement in mileage will show significant savings.

This emphasis on improving our technology is nowhere more apparent than in the controversy that surrounds the development of nuclear power. The accident at Three Mile Island happened a year ago. Since then we have learned quite a bit about safety. Some of the complacency of the nuclear advocates has been removed. At the same time, opponents of nuclear power have been impressed with the industry's ability to recover from this accident.

I have always supported nuclear power, so long as it is safe. We would be like the proverbial ostrich if we did not develop this industry. Our European allies realize that this source of power is necessary, and so must we.

We now have 70 nuclear reactors operating in this country and 95 additional plants in the building stage and 25 more planned. You probably read that in Sweden ~~that~~ a referendum recently passed to continue their nuclear development. Since Sweden had a very strong anti-nuclear movement, this indicates that much of the opposition to this form of power is collapsing.

We are also fortunate in North Carolina to have a capacity to produce power from water. I wish that we had the hydroelectric capacity of the Pacific Northwest. I read the other day in Forbes magazine that six of the ten least expensive electric rates are charged by utilities in that section of the country. On the other hand, in the Northeast, where most power is generated by oil fired generators, the rates are extremely high. In Washington state, the Washington Water Power Company in Spokane charges 1.23¢ per kilowatt for its electricity and Consolidated Edison in New York City charges 7.59¢..

Duke Power Company is doing its part to hold down energy costs in North Carolina by giving preferential rates for homes that are energy efficient. The program started in September 1978, and now there are 19,500 homes that get a lower rate. This reduces the electric bill in these homes by an average of \$9 per month.

One of the little victories that I have won since I have been in Washington has to do with clean air. You remember, I am sure, that in the early 1970s there was a massive effort to make sure that the air we breath is pure. This is a very important issue, for there is reason to believe that many ailments come from the pollutants that fly from industrial chimneys.

I was on Senator Ed Muskie's Public Works Committee when I first went to the Senate, and we were marking up the Clean Air Act. One of the main issues in this debate in committee dealt with the term, "best available controlled technology." Under this rule, every electric generating plant, old and new, would have to install the most modern scrubbing technology even if they were in compliance with clean air standards.

While my amendment might have marginally allowed more pollution, I knew that there were corporations that had only recently invested in scrubbing equipment, and they would be forced to purchase even more modern scrubbers. This just went too far; it was an over-reaction to the problem. Thus, I offered an amendment to this "best available technology" language that added, "taking energy, environmental, and economic impacts" into account. This would save a great deal of money for utilities that had complied with clean air standards. This amendment was one of only two offered to this bill that carried in the Public Works Committee.

Had this not passed, the added cost of electricity due to refitting scrubbers would have been passed on to the consumer. Although my amendment was watered down in conference committee, it represented the first effort to achieve balance

in the new environmental standards. We were heading down a path that would have meant complete overhaul of the smokestacks every time there was a new invention. This would have led to spiraling electricity costs with little additional protection of the environment. I think that this amendment has led to the saving of millions of dollars for corporations and these savings have been passed on to consumers.

On the subject of electricity generation, I understand that the Corps of Engineers has suggested that there are what are called low-head hydroelectric sites in the state that can be developed to relieve peak load demands. These low-head sites are streams that fall gradually--not like Niagara Falls.

My office is working with Operation Overcharge, and their efforts have led FERC to announce that its staff will investigate the management practices of VEPCO. You realize that the rates paid to VEPCO are significantly higher than those charged by the other utilities.

Peat is one of North Carolina's most promising energy sources. We are presently attempting to develop a direct burn peat electric generating plant. We have the peat and the plan, but the Department of Energy has sent us conflicting signals on this matter, something that I fear they do much too

often. The DOE argues that peat should be gasified and not used directly to generate electricity.

Now, perhaps something escapes me, but it would seem to me that by burning peat directly to generate electricity we save energy. How much energy would be consumed in gasifying peat? From what I can learn, there is no hard evidence that gasification is more efficient than direct burn. Is DOE asking us to hold off on this plan while they try to find a way to use more energy instead of less?

I favor developing our peat resources for several reasons. As you know, it can be stripped off the land easily, and the fertile earth underneath, after liming it properly, is quite productive. It also burns cleanly. Eventually, I feel that the world will come to us on this issue. We have a valuable resource and the willingness to develop it properly. In the future, I think that North Carolina will be recognized as innovative in developing this valuable resource.

Another step in energy self-sufficiency has been taken on the Energy Bill. The conference committee on this bill has decided to create a seven-member synthetic fuels corporation. This will help develop the energy in coal and shale. After the technological problems have been overcome, I expect that we will all prosper from this experiment.

There are two very important programs working in North Carolina right now. I am sure that you have all heard about the Lumbee River EMC's load management system. The idea, as I understand it, was imported from Georgia, a state that has been generous with its contributions lately.

The load management system reduces the peak electricity load of the cooperative and thereby saves their members money by means of an FM radio system. Receivers are installed on water heaters, air conditioners, and heat pumps, and these appliances may be shut off by remote control. The homeowner does not have to lift a finger or experience any inconvenience.

Air conditioners, for instance, are shut off for $7\frac{1}{2}$ minutes out of every half hour during the peak load period. Water heaters are shut off for several hours in the evening peak period. In the hot summer days when there is a great demand for power at peak hours, these consumers are working to save energy without sacrificing comfort.

The French Broad EMC is seriously looking at energy generation by wood. By burning sawdust, bark, and other wood waste, the coop estimates that this type of generation will furnish 25 percent of the power during peak periods and 35 percent of its regular load. This wood can be obtained from the surrounding area, so there will not be a need to

import anything. This will not only save the members money on their electric bills but give jobs to people in the forest industry. This is the kind of farsighted thinking that we can all be proud of.

Hardee's hamburger chain is also saving energy by redesigning its signs. With subdued lighting they are heading in the right direction by cutting down on their power needs.

In conclusion, let me add that there are renewed efforts in Washington to control inflation. A week ago today, the Senate adopted a resolution instructing the Budget Committee to submit a balanced budget for 1981. You would have to be in Washington, I think, to fully understand how rapidly a consensus is being reached to stop deficit spending.

I have always favored a balanced budget and have for several years introduced bills that would require a balanced budget. I am glad that the country is now appreciating this crucial need. When can you remember the spectacle of a President submitting a budget to Congress and then drawing up a new one that eliminates deficit spending--only a few weeks later. The day of deficit spending by the Federal Government is at an end.

Despite all the negative aspects of our energy crisis, Americans are much better off than people throughout the world. Just recently I read about a study conducted by the Union Bank of Switzerland. They compared the earnings and purchasing power of similar groups of workers all over the world. How did we come out? A United States worker can buy more of life's goods than can workers in any other country. For all our troubles, we are still best.

Our productivity, for all the slack and all the improvement needed, is still high. We need to do more, but we do not have to hang our heads.

Finally, let me reiterate that we do have problems, but I feel that we are making some significant steps to solve our energy crisis. I believe that Americans still have the inventive genius to confront problems and solve them. There will be days of trial for all of us, but together we can rise above this crisis of inflation and energy costs. I cannot conceive of Americans giving up; we have never run away from a crisis. I think that in the future our generation will be judged as one that suddenly found that a crisis existed and then set out with all the traditional American spirit of inventiveness and hard work and solved that crisis.