

ONE HUNDRED TWELFTH CONGRESS
Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6115

Majority (202) 225-2927
Minority (202) 225-3641

MEMORANDUM

April 17, 2012

To: Democratic Members of the Subcommittee on Oversight and Investigations

Fr: Committee on Energy and Commerce Democratic Staff

Re: Hearing on “Budget and Spending Concerns at DOE”

On Wednesday, April 18, 2011, at 10:30 a.m. in 2322 of the Rayburn House Office Building, the Subcommittee on Oversight and Investigations will hold a hearing titled “Budget and Spending Concerns at DOE.” The invited witnesses are Christopher Johns, Director of the Office of Budget at the Department of Energy (DOE); Frank Rusco, Director for Natural Resources and Environment at the Government Accountability Office (GAO); and Gregory H. Friedman, Inspector General of the Department of Energy (DOE IG).

The majority has indicated that the hearing will cover DOE spending and its budget, the Recovery Act, and assessments of program performance.

I. BACKGROUND

On September 15, 2011, Chairman Upton and Chairman Stearns sent letters to a number of agencies including the Department of Energy (DOE) seeking documents and information related to “the Administration’s efforts to restore fiscal discipline to the federal government,” and in particular, agency efforts to “review the federal budget line-by-line for unnecessary spending.”¹ The letter included requests related to the “line-by-line” budget review processes at each agency, the President’s Accountable Government Initiative, efforts to identify low priority federal programs, and lists of proposed discretionary spending cuts.² On October 24, 2011,

¹ Letter from Rep. Fred Upton, Chairman, House Committee on Energy and Commerce, and Rep. Cliff Stearns, Chairman, House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, to Dr. Steven Chu, Secretary, U.S. Department of Energy (Sept. 15, 2011).

²*Id.*

Chairman Upton and Chairman Stearns sent a letter to DOE requesting documents and information related to “DOE’s contribution to the federal government’s unexpended balances.”³

II. IMPLEMENTATION OF DEPARTMENT OF ENERGY’S AMERICAN RECOVERY AND REINVESTMENT ACT PROGRAMS

The Recovery Act appropriated \$41.7 billion for the Department of Energy, \$35.2 billion of which was designated for programs and activities and the remaining \$6.5 billion for borrowing authority.⁴ The funds were divided between seven programs and goals: Energy Efficiency; Environmental Clean-up; Modernizing the Electric Grid; Carbon Capture and Storage; Science and Innovation; and Renewable Energy. The Loan Guarantee Program received \$2.47 billion to support loan guarantees for renewable energy and electric power transmission projects.

As of February 2012, DOE has spent \$23.2 billion in Recovery Act funds in support of over 15,000 clean energy projects. These funds were allocated to projects such as weatherization of homes, environmental clean-up of nuclear waste sites, and programs to modernize the power infrastructure.⁵ The Recovery Act was designed to be a temporary bump in DOE expenditures, and all DOE funding in this program is expected to expire by the close of FY 2015.

The Recovery Act’s \$4 billion in smart grid investments have yielded many successes. For example, more than 10.3 million smart meters have been installed in homes, helping consumers manage energy use and save money. The Recovery Act’s \$151 million in ARPA-E investments has managed to attract over \$200 million in private-sector funding for advanced clean energy projects. ARPA-E is a DOE agency which funds high-risk high-reward energy technologies. DOE received \$6 billion under the Recovery Act for nuclear weapons cleanup activity. With this investment, DOE exceeded its goal of reducing the nation’s nuclear waste footprint, reducing it by 69%. And with the Recovery Act’s \$5 billion investment in home weatherization, the Administration has helped more than 650,000 low-income families with home retrofits and reduced energy bills.⁶

³ Letter from Rep. Fred Upton, Chairman, House Committee on Energy and Commerce, and Rep. Cliff Stearns, Chairman, House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, to Dr. Steven Chu, Secretary, U.S. Department of Energy (Oct. 24, 2011).

⁴ DOE initially received \$45.2 billion from the Recovery Act, but \$3.5 billion originally designated for the DOE Loan Guarantee Program was transferred to the Cash for Clunkers Program (\$2 billion) and Education Jobs Fund (\$1.5 billion). *See* Government Accountability Office, *Recovery Act: Factors Affecting the Department of Energy’s Program Implementation* (Mar. 4, 2010) (GAO-10-497T).

⁵ Department of Energy, *Successes of the Recovery Act* (Jan. 2012) (online at energy.gov/sites/prod/files/RecoveryActSuccess_Jan2012final.pdf).

⁶ *Id.*

DOE's Loan Guarantee Programs include Section 1703, Section 1705, and the Advanced Technology Vehicle Manufacturing (ATVM) loan program, three programs which provide loan guarantees for clean energy and advanced vehicle projects.⁷ For example, a company was awarded \$117 million loan guarantee to build a wind farm in Hawaii that will supply clean electricity to more than 7,500 households under this program.⁸

DOE expenditures and loan guarantees under the Recovery Act have supported approximately 100,000 jobs.⁹

III. FISCAL YEAR 2013 DOE BUDGET

On February 13, 2012, the President submitted his proposed budget for fiscal year 2013, requesting \$27.2 billion in discretionary funds for DOE, a 3.2% increase over enacted levels from the prior year.¹⁰ DOE identified four key budget goals in its budget: (1) accelerating the transformation of America's energy system; (2) securing U.S. leadership in clean energy technologies; (3) investing in science and innovation; and (4) enhancing nuclear security through defense, nonproliferation, and environmental cleanup.¹¹ Savings in the budget are achieved through cuts to various programs, including inefficient fossil fuel subsidies, low-performing programs, and by efficiently and fully utilizing existing facilities and infrastructure.¹²

The budget also prioritizes basic research with \$5 billion in funding to the Office of Science and improves the competitiveness of American industries by more than doubling monies allocated at the Department for research and development on advanced manufacturing processes.¹³

⁷ Department of Energy, *About the Loan Programs Office (LPO)* (online at https://lpo.energy.gov/?page_id=2) (accessed Apr. 14, 2012).

⁸ Department of Energy, *Kahuki Wind Power, LLC*. (online at <https://lpo.energy.gov/?projects=kahuku-wind-power-llc>) (accessed Apr. 16, 2012).

⁹ See Department of Energy, *Successes of the Recovery Act* (Jan. 2012); Department of Energy, *The Financing Force Behind America's Clean Energy Economy* (online at https://lpo.energy.gov/?page_id=45) (accessed Apr. 16, 2012).

¹⁰ White House, *Budget of the United States Government, Fiscal Year 2013* (online at www.whitehouse.gov/omb/budget/Overview) (accessed Apr. 14, 2012); DOE's FY 2013 budget includes over \$7 billion in mandatory funding to support local clean energy infrastructure projects. See Department of Energy, *FY 2013 Congressional Budget Request: Budget Highlights* (Feb. 2012).

¹¹ Department of Energy, *FY 2013 Congressional Budget Request: Budget Highlights* (Feb. 2012).

¹² White House, *Department of Energy: Funding Highlights* (online at www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/energy.pdf) (accessed Apr. 16, 2012).

¹³ *Id.*

During the Bush Administration, from FY 2001 to FY 2004, the core DOE budget increased by 16%. During the Obama Administration, from FY 2009 to FY 2012, the core DOE budget (not including the temporary stimulus funds) has decreased 22.18%.¹⁴

The Administration's FY 2013 budget proposes a mix of funding cuts and funding increases. Below is a brief summary of some of these changes.

A. DOE's FY 2013 Budget: Proposed Funding Increases

- The Administration proposed \$2.34 billion in funding for clean energy research programs, an increase of \$527.4 million over levels enacted in FY 2012. This funding will support the development of biofuels, geothermal, solar, and wind technologies and energy efficiency projects like weatherization. This funding includes \$420 million for vehicle technologies like advanced battery manufacturing, which will help improve the viability of electric vehicles.¹⁵
- The Administration proposed \$5 billion for the Office of Science, an increase of \$118 million over levels enacted in FY 2012. This funding will support fundamental research directed at non-carbon emitting energy sources and will provide for foundational science research in areas such as material physics, chemistry, biology, and applied mathematics. This basic research will foster the long-term development of new clean energy technologies.¹⁶
- The Administration proposed \$325 million for ARPA-E projects, an increase of \$70 million over levels enacted in FY 2012. ARPA-E funds high-risk, high-reward energy projects. The increased funding will support an expansion of transportation systems and stationary power programs. ARPA-E's Batteries for Electrical Energy Storage in Transportation program is conducting research investigating battery chemistries that would allow longer range electric vehicles. ARPA-E will also support transportation fuels from domestic resources and cost-effective power generation systems.¹⁷

¹⁴ Comparing enacted increases from FY 2001 through FY 2004 with enacted increases from FY 2009 through FY 2012. *See* Department of Energy, *FY 2009 Congressional Budget Request: Budget Highlights* (Feb. 2008) (DOE/CF-031); Department of Energy, *FY 2013 Congressional Budget Request: Budget Highlights* (Feb. 2012).

¹⁵ Department of Energy, *FY 2013 Congressional Budget Request: Budget Highlights* (Feb. 2012).

¹⁶ *Id.*

¹⁷ *Id.*

- The Administration proposed \$116.4 million for the U.S. Energy Information Administration (EIA), an increase of \$11.4 million over levels enacted in FY 2012. EIA produces independent and impartial energy information for policymakers. The increased funding will restore critical data collection and analysis programs and enhances the accessibility and usability of its data.¹⁸
- The Administration proposed \$2.4 billion for defense nuclear nonproliferation, an increase of \$162.8 million over levels enacted in FY 2012. The funding will support U.S. leadership in nonproliferation initiatives and efforts to secure vulnerable nuclear materials.¹⁹

B. DOE's FY 2013 Budget: Proposed Funding Reductions

- The Administration proposed eliminating \$4 billion in funding for inefficient and outdated fossil fuel subsidies to oil, gas, and other fossil fuel producers.²⁰
- The Administration proposed \$88.3 million in cuts for nuclear energy activities. These programs support nuclear energy generation and associated research, development, and management activities. Many of the program decreases reflect completion of previously funded activities.²¹
- The Administration proposed \$4 million in funding for the Northeast Home Heating Oil Reserve, a decrease of \$6 million from levels enacted in FY 2012. In FY 2011, the program completed the sale of all heating oil in commercial storage. The FY 2013 budget request proposes cancellation of \$6 million in prior year unobligated balances.²²
- The Administration proposed reduced funding for the Office of Public Affairs. The FY 2013 request is \$3.3 million, a decrease of \$500,000 from levels enacted in FY 2012. The decreased funding reflects a reduction in contractor support services and savings from the development of an integrated DOE website.²³

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ *Id.*

- The Administration proposed reduced funding for the Office of Management, reflecting a decrease in salaries for 259 full time employees and other personnel changes. The FY 2013 request is \$53.3 million, a \$9.4 million reduction from FY 2012 enacted levels.²⁴

IV. FY 2013 REPUBLICAN BUDGET

In March 2012, Congressman Paul Ryan, Chairman of the Budget Committee, introduced the FY 2013 House Republican budget plan that would cut non-defense discretionary spending by \$1.2 trillion.²⁵ The budget passed the House in March 2012. While the Republican Budget does not detail programmatic funding levels, the budget cuts discretionary spending on energy programs by 57% in 2013.²⁶

The Budget Committee report indicates that the Republican budget includes rescission of other DOE mandatory funds, including unobligated balances of DOE’s loan programs, as well as the repeal of borrowing authority for the Western Area Power Administration Transmission green infrastructure program.²⁷ The committee report “recommends paring back spending . . . [for] applied and commercial research and development projects best left to the private sector.”²⁸

V. DEPARTMENT OF ENERGY INSPECTOR GENERAL REPORTS

The testimony of the Department of Energy Inspector General (DOE IG) will likely focus on findings from key reports identifying management challenges faced by DOE and the lessons learned from its rapid deployment of Recovery Act funds. These reports include:

A. DOE IG Report on Lessons Learned from DOE Implementation of the Recovery Act

Due to the legislative mandate requiring the rapid deployment of Recovery Act funds, DOE faced a number of difficult implementation challenges. In a report released in January 2012, the IG highlighted the lessons learned from three years of work and suggested best practices going forward:

²⁴ *Id.*

²⁵ Center for Budget and Policy Priorities, *CBO Shows Ryan Budget Would Set Nation on Path to End Most of Government Other than Social Security, Health Care, and Defense By 2050* (online at www.cbpp.org/cms/index.cfm?fa=view&id=3708) (accessed Apr. 14, 2012).

²⁶ House Committee on the Budget, *Concurrent Resolution on the Budget-Fiscal Year 2013*, 112th Cong. (2012) (H. Rept. 112-421).

²⁷ House Committee on the Budget, *Concurrent Resolution on the Budget-Fiscal Year 2013*, 112th Cong. (2012) (H. Rept. 112-421).

²⁸ *Id.*

- *Risk Management Practices* – DOE IG identified project controls and risk management practices to reduce the risk of budget overruns and schedule slippages.
- *Financial Management and Accounting and Reporting* – DOE IG noted areas for potential improvement, including data reporting methods and the coordination of Recovery Act reporting among program offices.
- *Human Capital Management* – DOE IG found a misallocation of grant work among project officers.
- *Regulatory Compliance* – DOE IG’s audits of State Energy Program grants found that DOE failed to establish contingency plans if regulatory requirements weren’t met.
- *Delivery of Public Services* – DOE IG noted that clearer communication with the public was necessary to avoid gaps between recipient expectations and actual capacity of Recovery Act programs. For example, the Office of Inspector General (OIG) Hotline received approximately 200 complaints related to the Weatherization Assistance Program because of gaps related to homeowner expectations.²⁹

B. DOE IG Report on Operational Efficiency and Cost Savings Management Challenges

As required by the Reports Consolidation Act of 2000, DOE IG annually identifies the most significant challenges facing DOE. In response to budgetary concerns, DOE IG in November 2011 added “Operational Efficiency and Cost Savings” as a new management challenge for FY 2012. DOE IG also developed operational efficiency and cost reduction ideas for DOE’s consideration. The IG made a number of broad recommendations:

- Extend the Quadrennial Technology Review, an in-depth program analysis, beyond the energy-related technology sector in order to better inform budget prioritization.
- Eliminate duplicative, redundant National Nuclear Security Administration (NNSA) functions.
- Establish a "BRAC-style" commission to analyze DOE’s laboratory and technology complex. BRAC is a commission makes recommendations on military base closures.
- Reprioritize DOE’s environmental remediation efforts to fund only those projects that present a high risk to health and safety or the environment.
- Re-evaluate the current structure of DOE’s physical security apparatus for sensitive sites in order to achieve cost savings. Suggestions include utilizing a master contract and federalizing the workforce.³⁰

DOE IG noted that DOE has undertaken new management initiatives to respond to the various challenges it faces. As part of these new initiatives, DOE is realigning roles and

²⁹ U.S. Department of Energy Inspector General, *Lessons Learned/Best Practices during the Department of Energy’s Implementation of the American Recovery and Reinvestment Act of 2009* (Jan. 18, 2012) (OAS-RA-12-03).

³⁰ U.S. Department of Energy Inspector General, *Management Challenges at the Department of Energy* (Nov. 10, 2011) (DOE/IG-0858).

responsibilities, improving contract and project management, improving transparency, cutting waste, and reapportioning savings.³¹

VI. GOVERNMENT ACCOUNTABILITY OFFICE REPORTS

The Government Accountability Office (GAO) has also issued numerous reports over the past year examining opportunities to reduce duplication and assessing performance for DOE programs including the Weatherization Assistance Program, ARPA-E, DOE Loan Guarantees, and other renewable energy initiatives.³²

Every two years, GAO provides Congress with an update on its High-Risk Program, highlighting major programs at risk of waste, fraud, abuse, mismanagement, or are in need of broad reform. GAO has designated contract management for NNSA and Office of Environmental Management as “high-risk” areas since GAO began providing these reports in 1990.³³

A. GAO Report on Progress and Challenges in Spending Weatherization Funds

In December 2011, GAO released a report assessing the performance of the Weatherization Assistance Program and its use of Recovery Act funds. The Recovery Act provided \$5 billion of funding to DOE’s Weatherization Assistance Program to help low-income families make home energy efficiency improvements. GAO examined the efficacy of the program and assessed job creation estimates. GAO found that DOE is on track to meet or exceed its production target of 607,000 homes, while supporting over 13,000 jobs in the first quarter of FY 2012. GAO also found that the quality of jobs data has improved and that DOE has taken

³¹ *Id.*

³² See, e.g., U.S. Government Accountability Office, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue* (Feb. 28, 2012) (GAO-12-342SP); U.S. Government Accountability Office, *Diesel Pollution: Fragmented Federal Programs that Reduce Mobile Source Emissions Could be Improved* (Feb. 7, 2012) (GAO-12-260); U.S. Government Accountability Office, *Renewable Energy: Federal Agencies Implement Hundreds of Initiatives* (Feb. 27, 2012) (GAO-12-260); U.S. Government Accountability Office, *Department of Energy: Additional Opportunities Exist to Streamline Support Functions at NNSA and Office of Science Sites* (Jan. 31, 2012) (GAO-12-255); U.S. Government Accountability Office, *DOE Loan Guarantees: Further Actions Are Needed to Improve Tracking and Review of Applications* (Mar. 12, 2012) (GAO-12-157); U.S. Government Accountability Office, *Excess Uranium Inventories: Clarifying DOE’s Disposition Options Could Help Avoid Further Legal Violations* (Sept. 26, 2011) (GAO-11-846); U.S. Government Accountability Office, *Nuclear Material: DOE’s Depleted Uranium Tails Could be a Source of Revenue for the Government* (June 13, 2011) (GAO-11-752T); U.S. Government Accountability Office, *Department of Energy: Advanced Technology Vehicle Loan Program Needs Enhanced Oversight and Performance Measures* (June 9, 2011) (GAO-11-745T).

³³ U.S. Government Accountability Office, *High-Risk Series* (online at www.gao.gov/docsearch/featured/highrisk.html) (accessed Apr. 16, 2012).

steps to assure data quality. DOE provided comments on the report and generally concurred with GAO's findings.³⁴

B. GAO Report on ARPA-E Application Information

In January 2012, GAO released a report assessing application data collection for the ARPA-E program. GAO found that ARPA-E could improve its efforts to determine whether applicants have received private sector funding, and that DOE needed to improve the guidance provided to program applicants. GAO recommended that: (1) the Secretary take specific steps to improve ARPA-E application guidance; (2) ARPA-E require applicants to provide documentation from private investors explaining why they are not willing to fund the proposed projects; and (3) use venture capital funding databases to verify private-sector funding. ARPA-E generally concurred with GAO's findings and recommendations.³⁵

VII. WITNESSES

The following witnesses have been invited to testify:

- **Gregory Friedman**
Department of Energy
Inspector General
- **Christopher Johns**
Department of Energy
Director
Office of Budget
- **Franklin Rusco**
Government Accountability Office
Director
Natural Resources and Environment

³⁴ U.S. Government Accountability Office, *Recovery Act: Progress and Challenges in Spending Weatherization Funds* (Dec 16, 2011) (GAO-12-195); Department of Energy, *Successes of the Recovery Act* (Jan. 2012).

³⁵ U.S. Government Accountability Office, *Department of Energy: Advanced Research Projects Agency-Energy Could Benefit from Information on Applicants' Prior Funding* (Jan. 13, 2012) (GAO-12-112).