

The original documents are located in Box 4, folder: “Testimony, September 23, 1975, House Committee on Interstate and Foreign Commerce - Subcommittee on Energy and Power” of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Frank Zarb donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

STATEMENT OF FRANK G. ZARB
ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION

Before the

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
UNITED STATES HOUSE OF REPRESENTATIVES

Tuesday, September 23, 1975



MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, IT IS A PLEASURE FOR ME TO BE WITH YOU TODAY TO DISCUSS LEGISLATION WHICH IS NECESSARY TO MINIMIZE THE ADVERSE EFFECTS OF NATURAL GAS SHORTAGES THIS WINTER. THE COMMITTEE HAS BEFORE IT SEVERAL DIFFERENT EMERGENCY LEGISLATIVE PROPOSALS DESIGNED TO ALLEVIATE THE SHORTAGES, AND I WILL DISCUSS WITH YOU BOTH H.R. 9464, INTRODUCED BY MR. DINGELL AND MR. STAGGERS, AND THE ADMINISTRATION'S LEGISLATION WHICH WAS SUBMITTED ON SEPTEMBER 10.

LET ME STATE AT THE OUTSET THAT THE MEASURES BEFORE US TODAY ARE TEMPORARY IN NATURE AND ARE INTENDED TO DEAL ONLY WITH POSSIBLE EMERGENCIES THIS WINTER AND NEXT YEAR. WHILE DEVELOPMENT OF FRONTIER AREAS, SUCH AS THE ATLANTIC OUTER CONTINENTAL SHELF AND ALASKA, AND A MAJOR SYNTHETIC FUELS PROGRAM CAN INCREASE LONG-TERM GAS SUPPLIES, THE ONLY EFFECTIVE LONG-TERM SOLUTION TO THE WORSENING NATURAL GAS SITUATION IS THE DEREGULATION OF WELLHEAD PRICES OF NEW NATURAL GAS. DEREGULATION WILL PROVIDE THE NECESSARY INCENTIVE FOR INDUSTRY TO EXPLORE FOR AND PRODUCE MORE GAS. WITHOUT DEREGULATION, IT WILL BE NECESSARY TO PASS SIMILAR EMERGENCY LEGISLATION EACH YEAR TO DEAL WITH SHORTAGES




WHICH WILL ONLY GET WORSE, EMERGENCY LEGISLATION CAN ENSURE MORE EQUITABLE DISTRIBUTION OF EXISTING SUPPLIES, BUT NOTHING SHORT OF DEREGULATION WILL ACTUALLY INCREASE THE AMOUNT OF NATURAL GAS, EVENTUALLY AVAILABLE TO CONSUMERS. AS YOU KNOW, IF WE HAD ENACTED DEREGULATION WHEN IT WAS FIRST PROPOSED, IT MIGHT NOT HAVE BEEN NECESSARY TO MEET HERE TO DISCUSS THIS SUBJECT TODAY.

ENACTMENT OF THE ADMINISTRATION'S SHORT-TERM EMERGENCY LEGISLATION, HOWEVER, COMBINED WITH COMPLEMENTARY ADMINISTRATIVE ACTIONS, WILL HELP SIGNIFICANTLY IN COPING WITH THE IMMEDIATE PROBLEM. THESE ACTIONS, TOGETHER WITH STATE AND LOCAL INITIATIVES SUCH AS CONSERVATION, WOULD GIVE US THE TOOLS NECESSARY TO HELP ALLEVIATE THE IMPACT OF EXPECTED NATURAL GAS CURTAILMENTS THIS WINTER.

THE ADMINISTRATION'S RECOMMENDATIONS ARE BASED ON AN ANALYSIS OF THE PROBLEM PREPARED BY THE ENERGY RESOURCES COUNCIL'S NATURAL GAS TASK FORCE, WHICH WAS COMPLETED IN AUGUST.

I WOULD LIKE TO SUMMARIZE BRIEFLY THE RESULTS OF THAT STUDY.

NATURAL GAS CONSUMPTION HAS GROWN DRAMATICALLY SINCE WORLD WAR II, AND NOW SUPPLIES ABOUT 30% OF TOTAL U.S. ENERGY REQUIREMENTS, INCLUDING 40% OF OUR NON-TRANSPORTATION ENERGY NEEDS. OF THE APPROXIMATELY 22 TRILLION CUBIC FEET (TCF) CONSUMED YEARLY, ALMOST HALF IS USED IN INDUSTRIAL PROCESSES.



THERE ARE OVER 100 INTERSTATE PIPELINE COMPANIES DELIVERING GAS FROM PRODUCER STATES. THESE COMPANIES CANNOT COMPETE FOR NEW SUPPLIES OF NATURAL GAS BECAUSE THE FIELD PRICE OF GAS FOR SALE TO INTERSTATE PIPELINES IS REGULATED BY THE FEDERAL POWER COMMISSION AT LEVELS DRAMATICALLY BELOW THE CURRENT PRICES FOR UNREGULATED GAS SOLD TO INTRASTATE PIPELINES. AS A CONSEQUENCE, MORE EXPLORATION HAS BEEN OCCURRING IN THE INTRASTATE AREA. IN THE LAST FIVE YEARS, OVER 90% OF THE NEW RESERVES HAVE BEEN IN THE INTRASTATE AREA; WHEREAS IN THE PRECEDING FIVE YEARS ONLY ONE-THIRD OF RESERVE ADDITIONS WERE IN THE INTRASTATE MARKET.

PRODUCTION OF INTRASTATE NATURAL GAS HAS BEEN INCREASING SUBSTANTIALLY IN RECENT YEARS, AND NOW ACCOUNTS FOR APPROXIMATELY 35% OF TOTAL NATIONAL DEMAND, OR ABOUT 7 TCF PER YEAR. NINETY PERCENT OF ALL INTRASTATE DELIVERIES ARE IN TEXAS, LOUISIANA AND OKLAHOMA. CONSUMPTION-BY-SECTOR DATA FOR THESE STATES FOR 1972 INDICATES THAT APPROXIMATELY 10% OF THIS INTRASTATE GAS WAS CONSUMED BY THE RESIDENTIAL AND COMMERCIAL SECTOR, 34% FOR ELECTRICAL GENERATION, AND 54% BY INDUSTRIAL USERS.

AT THE SAME TIME, NATURAL GAS REQUIREMENTS HAVE EXCEEDED DELIVERIES BY AN INCREASING MARGIN, RESULTING IN GROWING CURTAILMENTS OF SERVICE OVER THE LAST FEW YEARS. IN 1970, CURTAILMENTS WERE 0.1 TCF, OR LESS THAN ONE PERCENT OF CONSUMPTION. BY 1974, CURTAILMENTS INCREASED TO 2.0 TCF,

OR 10% OF CONSUMPTION. FOR 1975, THEY ARE FORECAST TO INCREASE TO 2.9 TCF OR ABOUT 15% OF CONSUMPTION, WHICH REPRESENTS A 45% INCREASE OVER 1974 CURTAILMENTS.

WITH NORMAL TEMPERATURES, WINTER CURTAILMENTS ARE EXPECTED TO BE 1.3 TCF, UP FROM 1.0 TCF LAST WINTER. A VERY COLD WINTER COULD RAISE THE DEMAND FOR NATURAL GAS BY ABOUT 150 BCF. SHORTAGES CAN BE EXPECTED TO GROW IN EACH SUCCEEDING WINTER FOR SEVERAL YEARS.

ECONOMIC IMPACTS OF THE NATURAL GAS SHORTAGE LAST WINTER WERE VERY SCATTERED GEOGRAPHICALLY AND NOT SIGNIFICANT ON A NATIONWIDE BASIS, ALTHOUGH PRICE WAS SIGNIFICANT IN SOME AREAS OF THE COUNTRY, BECAUSE ALTERNATE FUELS WERE AVAILABLE AND MANY GAS CONSUMERS SWITCHED TO PROPANE AND OIL.

FURTHERMORE, THE ECONOMIC SLOWDOWN AND A MILD WINTER REDUCED DEMAND, WHILE EFFECTIVE CONSERVATION PROGRAMS WERE IMPLEMENTED IN SOME LOCAL AREAS. FINALLY, SOME EMERGENCY NATURAL GAS DELIVERIES WERE ALLOWED UNDER EXISTING FEDERAL POWER COMMISSION (FPC) AUTHORITIES. THIS YEAR, WE ANTICIPATE THAT THE AREAS LIKELY TO EXPERIENCE THE GREATEST ECONOMIC IMPACT ARE THE MID-ATLANTIC STATES (FROM SOUTHERN NEW YORK TO SOUTH CAROLINA) AND SEVERAL MIDDLE WESTERN STATES (OHIO, WEST VIRGINIA, AND KENTUCKY).

ECONOMIC IMPACTS THIS WINTER WITHIN A STATE WILL AGAIN DEPEND UPON THE SEVERITY OF THE NATURAL GAS SHORTAGE THERE AND OTHER VARIABLES, SUCH AS THE AVAILABILITY TO INDUSTRY

OF ALTERNATE FUELS, THE WEATHER, AND THE LEVEL OF ECONOMIC ACTIVITY, FOR EXAMPLE, IN NORTH CAROLINA IT IS EXPECTED THAT LESS THAN 4% OF INDUSTRIAL DEMAND WILL BE MET. ADDITIONALLY, FIGURES FOR OHIO INDICATE THAT APPROXIMATELY HALF OF THEIR TOTAL INDUSTRIAL NATURAL GAS DEMAND CANNOT BE MET THIS WINTER. AS A RESULT OF NATURAL GAS CURTAILMENTS, SOME INDUSTRIES WILL SWITCH TO ALTERNATE FUELS, PAYING HIGHER PRICES FOR THE ALTERNATE FUEL. THOSE PLANTS THAT CANNOT REMAIN COMPETITIVE AT HIGHER FUEL COSTS COULD CLOSE. THOSE THAT CANNOT CONVERT BECAUSE OF PROCESS OR FEEDSTOCK REQUIREMENTS FOR GAS MAY ALSO HAVE TO SHUT DOWN.

THE ADMINISTRATION'S PROPOSALS

I WOULD LIKE NOW TO TURN TO THE LEGISLATION WHICH THE ADMINISTRATION HAS PROPOSED TO MINIMIZE THE ADVERSE EFFECTS OF NATURAL GAS CURTAILMENTS IN THE NEXT TWO HEATING SEASONS. THE ADMINISTRATION HAS SUBMITTED S. 2330, THE NATURAL GAS EMERGENCY STANDBY ACT OF 1975, CONTAINING THE FOLLOWING MAJOR TITLES:

TITLE II -- INTERSTATE PIPELINE EMERGENCY NATURAL GAS PURCHASES ACT OF 1975

THIS TITLE WOULD AMEND THE NATURAL GAS ACT TO PROVIDE EXPLICIT AUTHORITY FOR INTERSTATE PIPELINES WITH INSUFFICIENT NATURAL GAS TO MEET THE REQUIREMENTS OF THEIR HIGH PRIORITY CONSUMERS BY GIVING THEM THE OPPORTUNITY TO PURCHASE NATURAL GAS AT MARKET PRICES FROM INTRASTATE SOURCES, FROM GAS

DISTRIBUTING COMPANIES, OR FROM OTHER INTERSTATE PIPELINES, ON AN EMERGENCY BASIS FOR A PERIOD UP TO 180 DAYS. THIS WOULD ALLOW INTERSTATE PIPELINES TO COMPETE EFFECTIVELY FOR AVAILABLE SUPPLIES OF NATURAL GAS TO MEET REQUIREMENTS OF RESIDENTIAL AND COMMERCIAL CUSTOMERS, AND OF INDUSTRIAL USERS WHO NEED NATURAL GAS FOR FEEDSTOCK PROCESSES OR OTHER HIGH PRIORITY USES.

ESTIMATES ARE THAT AS MUCH AS 200-250 BILLION CUBIC FEET OF NATURAL GAS COULD BE MADE AVAILABLE TO THE INTERSTATE MARKET IF SUCH EMERGENCY SALES WERE PERMITTED.

TITLE III -- CURTAILED CONSUMERS EMERGENCY NATURAL GAS PURCHASES ACT OF 1975

THIS TITLE WOULD AMEND THE NATURAL GAS ACT TO ALLOW HIGH PRIORITY CONSUMERS OF NATURAL GAS WHO ARE EXPERIENCING CURTAILMENTS TO PURCHASE NATURAL GAS DIRECTLY FROM INTRASTATE SOURCES AT MARKET PRICES AND TO ARRANGE FOR ITS TRANSPORTATION THROUGH INTERSTATE PIPELINE SYSTEMS. THIS AUTHORITY WOULD EXPIRE JUNE 30, 1977.

THE PURPOSE OF THIS TITLE IS TO ALLOW CURTAILED END USERS IN CERTAIN HIGH PRIORITY USE CATEGORIES TO LOCATE AND BID FOR AVAILABLE SUPPLIES OF NATURAL GAS IN THE INTRASTATE MARKET. WHILE THEY MAY HAVE TO PAY MORE THAN THE REGULATED INTERSTATE GAS PRICE TO OBTAIN ADDITIONAL QUANTITIES, IT WOULD PROVIDE AN ALTERNATIVE TO A SHUT DOWN DUE TO LACK OF NATURAL GAS.

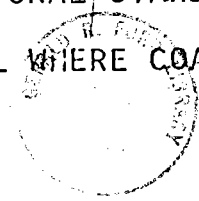


THE FEDERAL POWER COMMISSION HAS RECENTLY ISSUED AN ORDER (ORDER NUMBER 533, DOCKET NUMBER RM 75-25, AUGUST 28, 1975) INDICATING THAT IT WOULD CONSIDER ISSUING CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY TO PIPELINE COMPANIES TO PERMIT TRANSMISSION OF SUCH PURCHASED GAS OVER THE INTERSTATE PIPELINE SYSTEM. HOWEVER, AS THE FPC ACKNOWLEDGES IN ITS ORDER, LEGAL OBJECTIONS MAY BE RAISED WITH RESPECT TO THE FPC'S ACTION. THIS TITLE WOULD PROVIDE AN EXPLICIT STATUTORY BASE FOR THIS ACTION, WHICH COULD PROVIDE AS MUCH AS 50-75 BCF TO HIGH PRIORITY END USERS.

I HAVE HEARD SOME CONCERN EXPRESSED THAT BIG INDUSTRIAL END USERS WOULD BID HIGH, THEREBY TYING UP ALL OF THE AVAILABLE GAS AND RAISING THE PRICE TO AN INORDINATELY HIGH LEVEL. EXPERIENCE UNDER OTHER FPC EMERGENCY PROCEDURES DEMONSTRATES THAT THIS WILL NOT OCCUR BUT THAT, INSTEAD, PURCHASERS WILL PAY FOR A COMMODITY ONLY WHAT IT IS WORTH.

TITLE IV -- EMERGENCY ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT (ESECA) AMENDMENTS OF 1975

THIS TITLE EXTENDS THE RECENTLY EXPIRED AUTHORITY TO ALLOW THE FEDERAL ENERGY ADMINISTRATION TO REQUIRE ELECTRIC UTILITY AND INDUSTRIAL BOILER CONVERSIONS FROM NATURAL GAS OR OIL TO COAL. THE TITLE ALSO PROVIDES ADDITIONAL STANDBY AUTHORITY TO REQUIRE CONVERSION FROM GAS TO OIL WHERE COAL CONVERSION IS NOT PRACTICABLE.



THIS WOULD PERMIT FREEING UP OF NATURAL GAS FOR SUCH USES AS RESIDENTIAL CONSUMPTION AND INDUSTRIAL PROCESS AND FEEDSTOCK USE WHEN OTHER FUEL IS AVAILABLE FOR BOILER FUEL USE. APPROXIMATELY ONE-THIRD OF THE NATURAL GAS CONSUMED IN THE UNITED STATES IS FOR BOILER FUEL USE, AND THIS USE IS ABOUT EQUALLY DIVIDED BETWEEN INDUSTRIAL BOILERS AND ELECTRIC UTILITY GENERATING STATIONS. BY CONVERTING THESE BOILERS FROM NATURAL GAS TO OTHER FUELS WHERE PRACTICABLE, NATURAL GAS CAN BE FREED UP FOR HIGHER PRIORITY USES WHERE NO ALTERNATE FUELS ARE AVAILABLE.

TITLE V -- PROPANE STANDBY ALLOCATION ACT OF 1975

THIS TITLE PROVIDES AUTHORITY TO ALLOCATE AND ESTABLISH REASONABLE PRICES FOR PROPANE DURING PERIODS OF ACTUAL AND THREATENED SEVERE SHORTAGES OF NATURAL GAS. IT IS INTENDED TO ASSURE AN EQUITABLE DISTRIBUTION OF PROPANE AMONG HISTORICAL USERS AT REASONABLE PRICES (SUCH AS FARMERS WHO USE PROPANE FOR ESSENTIAL AGRICULTURAL PURPOSES, AND INDUSTRIAL USERS WHO NEED PROPANE FOR FEEDSTOCK), AS WELL AS TO CUSTOMERS EXPERIENCING NATURAL GAS CURTAILMENTS.

BECAUSE OF THE NATURAL GAS SHORTAGE, LARGE UTILITY AND INDUSTRIAL GAS USERS WHO ARE CURTAILED MAY SWITCH TO PROPANE THUS DIVERTING LARGE QUANTITIES OF PROPANE FROM HISTORICAL



WITHOUT EFFECTIVE ALLOCATION AND PRICE CONTROL AUTHORITY OVER PROPANE, THIS ENTRY INTO THE PROPANE MARKET COULD CAUSE SERIOUS DISTORTIONS ADVERSELY AFFECTING THE ABILITY OF TRADITIONAL USERS TO OBTAIN PROPANE AT EQUITABLE PRICES. THE CONCERN OVER PRICES IS ESPECIALLY IMPORTANT GIVEN THE FACT THAT MANY RESIDENTIAL USERS ARE ON EITHER LOW OR FIXED INCOMES.

FINALLY, WHILE THE EXTENSION OF THE EMERGENCY PETROLEUM ALLOCATION ACT WHICH WOULD ACCOMPANY AGREEMENT ON A COMPROMISE PHASED-DECONTROL OF CRUDE OIL PRICES WOULD ASSURE THE EXISTENCE OF THE NECESSARY AUTHORITY OVER PROPANE, IT SEEMS MORE PRUDENT TO INCLUDE PROPANE ALLOCATION AS PART OF THE NATURAL GAS EMERGENCY LEGISLATION WHICH THE HOUSE SHOULD PASS.

ADMINISTRATIVE ACTIONS

THE PRESIDENT HAS DIRECTED THAT CERTAIN ACTIONS BE TAKEN TO SUPPLEMENT THE LEGISLATIVE PROPOSALS WHICH I HAVE JUST DISCUSSED. THESE ADMINISTRATIVE ACTIONS INCLUDE THE FOLLOWING:

- 0 ESTABLISHMENT OF A NATURAL GAS TASK FORCE IN THE FEDERAL ENERGY ADMINISTRATION TO PROVIDE WITH GOVERNMENT OFFICIALS AND THE PUBLIC AND TO COORDINATE LEGISLATIVE

AND CONTINGENCY PLANNING ACTIVITIES. THE WORK WHICH THE TASK FORCE MUST DO IS SO IMPORTANT THAT I HAVE ASKED MY DEPUTY ADMINISTRATOR, JOHN HILL, TO HEAD IT. THIS TASK FORCE HAS BEEN MEETING WITH REPRESENTATIVES OF OTHER AGENCIES AND WILL BE A FOCAL POINT FOR THE ADMINISTRATION'S RESPONSE TO CURTAILMENT PROBLEMS AT ALL LEVELS OF GOVERNMENT.

- O AN INTENSIVE PUBLIC EDUCATION PROGRAM EXPLAINING THE NEED FOR CONSERVATION AND HOW TO REDUCE NATURAL GAS USE. THIS PROGRAM IS BEING COORDINATED BY THE FEDERAL ENERGY ADMINISTRATION IN CONJUNCTION WITH THE DEPARTMENT OF COMMERCE, THE FEDERAL POWER COMMISSION, AND OTHER AGENCIES OF THE GOVERNMENT.
- O THE FEA, FPC, AND THE DEPARTMENT OF THE INTERIOR WILL ENCOURAGE ALL PRODUCERS TO PRODUCE AS MUCH NATURAL GAS AS POSSIBLE, EVEN FROM MARGINALLY ECONOMIC WELLS.
- O THE FEDERAL POWER COMMISSION MONITORS STORAGE OF ALL INTERSTATE PIPELINES, AND BEGINNING OCTOBER 5, WILL WORK IN CONJUNCTION WITH THE FEDERAL ENERGY ADMINISTRATION TO MONITOR ALL INTER AND INTRASTATE PIPELINE STORAGE.



- o THE FEA AND THE FPC WILL UNDERTAKE A REVIEW OF CERTAIN ELECTRIC UTILITY PRACTICES WHICH RESULT IN UNNECESSARY CONSUMPTION OF NATURAL GAS.
- o THROUGH THE TASK FORCE, WE WILL INCREASE COORDINATION BETWEEN FEDERAL AGENCIES AND STATE ENERGY OFFICIALS.

ADMINISTRATIVE ACTIONS TAKEN BY THE FPC, FEA, STATE ENERGY OFFICES AND OTHERS TO EXPEDITE THE CERTIFICATION AND CONSTRUCTION OF NEW PIPELINES, TO REDUCE INEFFICIENT NATURAL GAS USE, TO ALTER INEFFICIENT ELECTRIC UTILITY PRACTICES, AND TO ENCOURAGE PRODUCTION FROM WELLS COULD RESULT IN AN ADDITIONAL 100-200 BCF OF NATURAL GAS FOR ESSENTIAL USES.

THE EFFECTS ON SUPPLIES AND PRICES

IF CONGRESS AMENDS THE NATURAL GAS ACT TO ALLOW 180-DAY EMERGENCY SALES OF NATURAL GAS BY PRODUCERS TO INTERSTATE PIPELINES AND ALSO PERMITTING END USER PURCHASES OF NATURAL GAS FROM PRODUCERS, IT IS EXPECTED THAT SOME 200-350 BCF OF NATURAL GAS COULD BE MADE AVAILABLE TO SUPPLEMENT CURRENT INTERSTATE SUPPLIES. SINCE THIS WINTER'S CURTAILMENTS ARE EXPECTED TO INCREASE BY SOME 300 BCF OVER LAST YEAR'S CURTAILMENTS, THE ADDITIONAL NATURAL GAS AVAILABLE FOR INTERSTATE USE UNDER THESE PROPOSALS COULD PREVENT THIS WINTER'S CURTAILMENTS FROM BEING SUBSTANTIALLY WORSE THAN



WE BELIEVE THAT THE PROJECTED ECONOMIC IMPACT OF DIVERTING PERHAPS 300 BCF OF GAS FROM THE INTRASTATE TO THE INTERSTATE MARKET IS MINIMAL. THIS IS BECAUSE THIS ADDED DEMAND ONLY AMOUNTS TO 3-4% OF THE CURRENT INTRASTATE MARKET, AND BECAUSE THE RECENT SOFTENING OF THE SPOT MARKET INDICATES THAT THERE IS EXCESS GAS AVAILABLE.

ADDITIONALLY, INTRASTATE PRICES WOULD BE RESTRAINED BY LONG-TERM CONTRACTUAL ARRANGEMENTS. BASED UPON THE 1973-74 EXPERIENCE, GAS WHICH MOVED UNDER THE EMERGENCY SALE PROVISION (ABOUT 200 BCF) WHICH SOLD FOR AN AVERAGE PRICE OF 51¢/MCF IN 1973, INCREASED TO 64¢/MCF IN 1974. THESE PRICES REFLECT THE MOST VOLATILE COMPONENT OF THE SPECTRUM OF INTRASTATE SALES PRICES, AND ALTHOUGH SPOT PRICES OR PRICES FOR UNCOMMITTED GAS WOULD BE EXPECTED TO INCREASE BY A COMPARABLE AMOUNT THIS WINTER, AVERAGE INTRASTATE PRICES WOULD ONLY HAVE A MINIMAL INCREASE.

THE 180-DAY EMERGENCY SALES TO INTERSTATE PIPELINES AT UNREGULATED PRICES WOULD HAVE LITTLE COST IMPACT ON ALL CONSUMERS OF NATURAL GAS. THE PIPELINES WOULD BE ALLOWED TO AVERAGE THE HIGHER COST GAS WITH THE REGULATED VOLUMES THEY HAVE PURCHASED UNDER LONG-TERM CONTRACTS. SINCE THE ADDITIONAL VOLUMES ARE SMALL IN RELATION TO THE TOTAL GAS CARRIED, END USERS ARE NOT EXPECTED TO EXPERIENCE SIGNIFICANT

FUEL COSTS TO END USERS PERMITTED TO PURCHASE GAS IN THE INTRASTATE MARKET WILL VARY ACCORDING TO HOW MUCH THEY NEED

TO BUY AND WHAT PRICES THEY CAN NEGOTIATE. WHILE INTRASTATE PRICES MAY BE CONSIDERABLY HIGHER IN SOME INSTANCES THAN THE REGULATED INTERSTATE PRICE, THEY ARE LOWER THAN THE PRICE OF ALTERNATE PETROLEUM FUELS.

(PRICE DATA ON INTRASTATE GAS IS DIFFICULT TO OBTAIN, BUT AVAILABLE INFORMATION INDICATES THAT LARGE BLOCKS OF NEW INTRASTATE RESERVES SELL FOR BETWEEN \$1.00/Mcf AND \$1.25/Mcf)

MORE IMPORTANTLY, ACCESS TO THE INTRASTATE GAS IN MANY INSTANCES WILL MEAN THE DIFFERENCE BETWEEN SHUTTING DOWN OPERATIONS OR KEEPING THEM OPEN. THIS IS ESPECIALLY TRUE FOR THOSE WHO, REGARDLESS OF ITS PRICE, MUST HAVE NATURAL GAS AS A FEEDSTOCK OR IN THEIR INDUSTRIAL PROCESS.

THE ADMINISTRATION'S BILL WILL GIVE US THE AUTHORITIES WHICH WE NEED WITHOUT UNREASONABLE OR UNNECESSARY REGULATION OF THE NATURAL GAS INDUSTRY, AND I URGE ITS IMMEDIATE PASSAGE.

H. R. 9464

I WOULD LIKE NOW TO TURN TO H.R. 9464, THE LEGISLATION SPONSORED BY CONGRESSMEN DINGELL AND STAGGERS. THE BILL ADDRESSES THE SAME IMMEDIATE PROBLEM AS DOES THE ADMINISTRATION'S BILL, AND CONTAINS SOME PROVISIONS OF REAL MERIT. HOWEVER, THE BILL INCLUDES SEVERAL UNACCEPTABLE PROVISIONS AND RAISES MAJOR ISSUES THAT WARRANT FURTHER

TO DEVELOP EFFECTIVE AND MUTUALLY ACCEPTABLE LEGISLATION TO

DEAL WITH THIS WINTER'S NATURAL GAS SHORTAGE.

I FEAR THAT, UNLESS THE CONGRESS IS WILLING TO ELIMINATE SOME OF THE MORE UNACCEPTABLE PROVISIONS, WE WILL NOT HAVE THE URGENTLY NEEDED AUTHORITIES, WHICH I PREVIOUSLY MENTIONED, ENACTED INTO LAW.

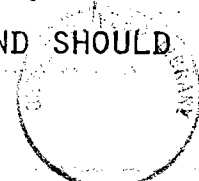
ACCESS BY PRIORITY INTERSTATE PURCHASERS TO NATURAL GAS

SECTION 4 OF H.R. 9464 WOULD REQUIRE THE FEDERAL POWER COMMISSION TO DESIGNATE INTERSTATE PIPELINES WHICH ARE UNLIKELY TO HAVE SUFFICIENT SUPPLY FOR ESSENTIAL USERS AND ENABLE THESE PIPELINES TO BUY GAS FROM ANY ON-SHORE SOURCE AT PRICES SET BY THE FPC. THIS SECTION WOULD ALSO ALLOW DESIGNATED INTERSTATE PIPELINES TO RECEIVE PRIORITY TO PURCHASE OUTER CONTINENTAL SHELF NATURAL GAS AT REGULATED PRICES IN AMOUNTS SUFFICIENT FOR THE REQUIREMENTS OF THEIR ESSENTIAL USERS.

A MOST DISTURBING FEATURE OF H.R. 9464 IS SECTION 4 (C) WHICH WOULD REGULATE THE WELLHEAD PRICE OF ALL GAS, INCLUDING PRESENTLY UNREGULATED INTRASTATE GAS. SUCH INTRASTATE REGULATION IS BOTH UNWISE AND UNACCEPTABLE FOR SEVERAL SUBSTANTIAL REASONS:

- O THE PRINCIPAL REASON FOR THE PRESENT STATE OF NATURAL GAS SHORTAGES IS THE CURRENT SYSTEM OF REGULATION, WHICH INHIBITS PRODUCTION AND SHOULD

EXTENDED TO THE INTRASTATE MARKET.



O AN ARTIFICIALLY CONTROLLED, LOW-PRICE (RELATIVE TO ALTERNATIVE FUELS) ENCOURAGES EXCESSIVE CONSUMPTION OF NATURAL GAS.

- CONTINUED EXCESSIVE CONSUMPTION EXACERBATES SHORTAGES, AND

- REQUIRES BUREAUCRATIC DECISIONS AS TO WHAT INDUSTRIES AND OTHER USERS WILL RECEIVE PRIORITY.

SINCE THE AMOUNT OF NATURAL GAS AVAILABLE OVER THE SHORT TERM IS LIMITED, THE SETTING OF PRIORITIES AMOUNTS TO TAKING NATURAL GAS FROM SOME AND GIVING IT TO OTHERS.

O REGULATION OF INTRASTATE PRICES WILL BE AN IMMENSE ADMINISTRATIVE BURDEN

O BECAUSE OF LACK OF DATA IN THE INTRASTATE MARKET, IT WILL BE DIFFICULT TO ESTABLISH REGULATED RATES WITHIN THE BILL'S TIME REQUIREMENTS, THEREBY MAKING IT INEFFECTIVE FOR THIS WINTER.

O THE UNCERTAINTIES STEMMING FROM PROBABLE LAW SUITS CHALLENGING RATES REQUIRED TO BE ESTABLISHED BY THIS BILL WILL VERY LIKELY IMPEDE THE FLOW OF ADDITIONAL INTRASTATE GAS INTO THE INTERSTATE PIPELINE SYSTEM.

O THERE IS SERIOUS CONCERN BY INTRASTATE SOURCES THAT SHORT TERM (180 DAY) SALES INTO THE INTERSTATE



MARKET AT REGULATED PRICES COULD SUBJECT THEM TO CONTINUED FPC REGULATION UPON THE EXPIRATION OF THEIR CONTRACTS. THIS UNCERTAINTY MAY WELL RESULT IN THE REFUSAL OF PRODUCERS TO SELL TO PRIORITY INTERSTATE PIPELINES, THUS DEFEATING THE WHOLE PURPOSE OF SECTION 4.

WHILE THE OBJECTIVE OF MAKING MORE GAS AVAILABLE TO THE INTERSTATE MARKET IS SIMILAR TO TITLE II OF THE ADMINISTRATION'S BILL, THE ADMINISTRATION'S APPROACH IS MUCH PREFERABLE IN THAT IT AVOIDS THE PROBLEMS WHICH I HAVE JUST DISCUSSED THAT ARE INHERENT IN SETTING CEILING PRICES ON INTRASTATE NATURAL GAS. THE ADMINISTRATION'S BILL WOULD PROVIDE FOR EMERGENCY SALES AT THE MARKET PRICE FOR UP TO 180 DAYS. AS I HAVE ALREADY MENTIONED, THIS APPROACH - DUE TO THE ABILITY OF THE PIPELINE TO ROLL IN THE NEW PRICES INTO ITS RATE BASE - IS NOT EXPECTED TO CAUSE MUCH INCREASE IN NATURAL GAS PRICES. FURTHERMORE, THIS APPROACH IS DEMONSTRABLY WORKABLE IN EMERGENCY SITUATIONS, BEING BASED AS IT IS ON REGULATORY PROGRAMS OF THE FEDERAL POWER COMMISSION FOR 180-DAY EMERGENCY SALES AND FOR SUCH SALES OF SHORTER DURATION (60 DAYS).

FURTHERMORE, SECTION 4 FAILS EXPRESSLY TO PROVIDE FOR EMERGENCY PURCHASES AT UNREGULATED PRICES BETWEEN INTERSTATE PIPELINES OR BETWEEN INTERSTATE PIPELINES AND DISTRIBUTORS, AS PROVIDED FOR IN THE ADMINISTRATION'S BILL. SUCH PROVISIONS

THAT ARE SHORT OF SUPPLY.

SECTION 4 (G) OF THE BILL STATES THAT GAS WHICH COULD HAVE BEEN PRODUCED DURING THE PERIOD THAT THIS ACT IS IN EFFECT, BUT WAS NOT PRODUCED OR SOLD, MAY NOT AT ANY TIME THEREAFTER BE SOLD AT A PRICE ABOVE THAT PERMITTED UNDER THIS ACT. THIS PROVISION WOULD CREATE AN ENORMOUS ADMINISTRATIVE PROBLEM AND WOULD CERTAINLY LEAD TO EXTENSIVE LITIGATION, POSSIBLY JEOPARDIZING THE WORKABILITY OF ALL THE OTHER EMERGENCY AUTHORITIES.

AGRICULTURAL PRIORITY

SECTION 5 OF H.R. 9464 ESTABLISHES A PRIORITY FOR AGRICULTURAL, FOOD PROCESSING AND FOOD PACKAGING USES. THIS ADMINISTRATION IS STRONGLY COMMITTED TO AGRICULTURAL PRIORITIES. HOWEVER, ESSENTIAL AGRICULTURAL NEEDS HAVE BEEN RECOGNIZED AND ARE BEING MET BY THE PRESENT CURTAILMENT PRIORITIES OF THE FEDERAL POWER COMMISSION. FURTHERMORE, SECTION 5, ARGUABLY AUTHORIZES THE SECRETARY OF AGRICULTURE TO ALLOCATE NATURAL GAS, EVEN BETWEEN PIPELINES.

I FEEL THAT AUTHORIZING THE SECRETARY OF AGRICULTURE TO ALLOCATE NATURAL GAS WOULD BE COUNTERPRODUCTIVE AND COULD ONLY RESULT IN FURTHER COMPLICATIONS TO AN ALREADY DIFFICULT PROBLEM. THE PRESENT PRIORITY SYSTEM IS SUFFICIENT TO MEET ESSENTIAL AGRICULTURAL NEEDS AND SHOULD NOT BE TAMPERED WITH TO THE EXTENT FOUND IN SECTION 5.

FURTHERMORE, THE VERY NATURE OF EMERGENCY LEGISLATION REQUIRES

AND I BELIEVE SHOULD BE DELETED.

PROHIBITION OF USE OF NATURAL GAS AS BOILER FUEL

SECTION 6 OF H.R. 9464 WOULD EXTEND UNTIL JUNE 30, 1976, THE RECENTLY EXPIRED AUTHORITY UNDER ESECA TO REQUIRE ELECTRIC UTILITY AND MAJOR INDUSTRIAL BOILER CONVERSIONS FROM NATURAL GAS OR OIL TO COAL. THIS SECTION WOULD ALSO PROHIBIT NATURAL GAS USE BY ELECTRIC GENERATING SYSTEMS, IF SUCH POWERPLANTS HAVE THE CAPABILITY TO CONVERT TO PETROLEUM PRODUCTS.

THE FORCED ELECTRIC UTILITY GAS BOILER CONVERSION SECTION OF H.R. 9464 WOULD HAVE A LIMITED IMPACT FOR THIS WINTER'S EXPECTED CURTAILMENTS BECAUSE OF THE ADMINISTRATIVE DIFFICULTIES IN MANDATING CONVERSIONS, THE LIMITED EXISTENCE OF ALTERNATIVE FUEL BURNING CAPABILITY, AND THE DIFFICULTIES IN TRANSPORTING OIL TO THE POINT OF USE.

THIS SECTION FAILS ADEQUATELY TO INTEGRATE THE "OIL CONVERSION" AUTHORITY IN SUBSECTION (A) WITH THE ESECA PROGRAM, LEAVING IT UNCLEAR WHETHER COAL OR OIL CONVERSION IS TO BE ORDERED WHERE BOTH WOULD BE POSSIBLE. A NUMBER OF OTHER IMPORTANT TECHNICAL DISCREPANCIES BETWEEN THE OIL CONVERSION AUTHORITY IN SECTION 6 (A) AND ESECA SHOULD BE ELIMINATED SO AS TO AVOID UNNECESSARY IMPLEMENTATION PROBLEMS.

TIES INCLUDING CONVERSION OF MAJOR FUEL BURNING INSTALLATIONS

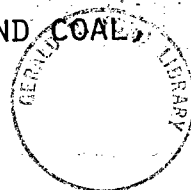


TO OIL IF COAL CONVERSION IS NOT FEASIBLE. SINCE THE INDUSTRIAL SECTOR USES AS MUCH OIL AS THE ELECTRIC UTILITY SECTOR, SECTION 6 SHOULD BE EXPANDED TO INCLUDE THE MAJOR FUEL BURNING INSTALLATIONS, AND REVISED TECHNICALLY TO COMPLETE THE PRIOR LAW AS DOES THE ADMINISTRATION'S PROPOSAL.

WHILE CONSUMPTION IN THE ELECTRIC UTILITY SECTOR IS 3.5 Tcf, NOT ALL OF THIS AMOUNT COULD POTENTIALLY BE CONVERTED TO OTHER FUELS. THE FEDERAL POWER COMMISSION HAS ONLY COMPILED DATA CONCERNING ELECTRIC GENERATING PLANTS IN THE WEST-SOUTH CENTRAL REGION, BUT THEY STATE THAT 17 LARGE POWER PLANTS COULD RESULT IN ANNUAL SAVINGS OF 180 Bcf. AS MENTIONED ABOVE, INCLUSION OF MAJOR FUEL BURNING INSTALLATIONS COULD RESULT IN EVEN LARGER ANNUAL SAVINGS.

AS I HAVE ALREADY DISCUSSED, WE DO NOT THINK THAT AUTHORITY TO MANDATE BOILER FUEL CONVERSION FROM NATURAL GAS TO ALTERNATE FUELS IS EXPECTED TO HAVE A SIGNIFICANT EFFECT THIS WINTER, BUT COULD BE EXTREMELY USEFUL TO MEET NEXT YEAR'S SITUATION.

THERE HAS BEEN SOME QUESTION ABOUT ADMINISTRATION OF THE BOILER FUEL PROHIBITION AUTHORITIES. I DON'T THINK THERE SHOULD BE ANY DOUBT AS TO EPA'S COMMITMENT TO THIS PROGRAM OR OUR ABILITY TO CARRY IT OUT. A NATURAL GAS BOILER FUEL CONVERSION PROGRAM REQUIRES EXPERTISE IN BOTH OIL AND COAL.



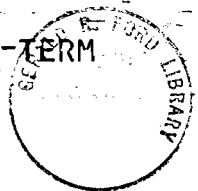
OBTAINED IN ADMINISTERING OUR COAL CONVERSION REGULATORY PROGRAM UNDER ESECA.

PRODUCTION OF GAS AT THE MAXIMUM EFFICIENT RATE

SECTION 7 OF H.R. 9464 WOULD REQUIRE THAT PRODUCTION FROM DESIGNATED NATURAL GAS FIELDS OCCUR AT THE MAXIMUM EFFICIENT RATE, AND WOULD PROVIDE AUTHORITY TO ORDER PRODUCTION ABOVE THIS LEVEL ON A TEMPORARY EMERGENCY BASIS. WHILE WE ARE NOW STUDYING THE MERITS OF THIS PROVISION, WE QUESTION WHETHER THIS AUTHORITY WOULD PROVIDE ANY INCREASED PRODUCTION DURING THE EIGHT-MONTH DURATION OF THE BILL. WE ARE VERY CONCERNED THAT THE BONDING AND INDEMNIFICATION REQUIREMENTS OF SECTION 7(C)(3) ARE OF SUCH POTENTIAL ECONOMIC LIABILITY THAT PRIORITY PURCHASERS WOULD BE MOST RELUCTANT TO PURCHASE ANY GAS PRODUCED ABOVE MER.

PIPELINE INTERCONNECTIONS

SECTION 8 OF THE H.R. 9464 AUTHORIZES THE FEDERAL POWER COMMISSION TO DIRECT ANY PIPELINE TO ESTABLISH A PHYSICAL INTERCONNECTION BETWEEN ANY SPECIFIED FACILITY OF ANY OTHER PIPELINE AND TO APPORTION EQUITABLY THE COSTS OF ANY SUCH INTERCONNECTIONS TO THE PIPELINE AND/OR TO PRIORITY PURCHASERS. THIS SECTION APPEARS UNNECESSARY TO IMPLEMENT THE SHORT-TERM



IN SUMMATION, MR. CHAIRMAN, I BELIEVE THAT, ON THE MERITS, THE ADMINISTRATION'S BILL WILL PROVIDE NEEDED AUTHORITIES WHILE H.R. 9464 IS OBJECTIONABLE IN ITS PRESENT FORM.

MY STAFF AND I ARE READY TO MEET AND WORK WITH YOU IN A SPIRIT OF COOPERATION SO THAT WE MAY SEE THIS URGENTLY NEEDED LEGISLATION ENACTED INTO LAW.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS WHICH YOU OR MEMBERS OF THE COMMITTEE MIGHT HAVE.

