file

June 18, 1973

MEMORANDUM

TO: Harley O. Staggers, Chairman

FROM: Mark J. Raabe, MR Staff Attorney

SUBJECT: Attached Newspaper Article.

I thought you would be interested in the attached article from today's edition of the Washington Post which points out that major producers of natural gas desire to triple prices under a new pricing procedure which is expected to be approved in two weeks by the Federal Power Commission. It would appear that early consideration of your Concurrent Resolution would be desirable.

WASHINGTON POST / JUNE 18, 1973
PAGE ONE

Tripled Natural Gas Prices Sought; FPC Approval Seen

By Morton Mintz
Washington Post Staff Writer

Major producers of natural gas want to triple prices under a new pricing procedure that is expected to be approved within two weeks by the Federal Power Commission.

The current price for 1,000 cubic feet of new gas at the wellhead averages less than 25 cents.

The commission has given no indication of what price it would approve, but a number of producers are seeking a threefold increase.

Continental Oil Co. has urged the FPC to set a new price—nationwide—of "not less than 75-80 cents."

"Anything less than this price will be insufficient," the company told the commission.

Hunt Oil Co. proposed a 70-cent minimum. Mobil urged 65 cents and Standard Oil of Indiana 60 to 70 cents, but both recommended an additional premium for discoveries of new gas.

A group of 26 producers, in a three-volume filing, advised a multi-tiered system in which prices would range from 52 cents to 82 cents, depending upon factors including the price of other fuels.

Continental is one of several giant companies with substantial interests in competing fuels. It entrenched its position in 1966 when, without Justice Department objection, it acquired Consolidation Coal, the nation's largest coal producer.

Continental is also one of nine energy companies with interests in uranium and shale, as well as oil, gas and coal.

Liquefied natural gas (LNG) was cited by Continental as an example of a higher-price alternate fuel. LNG may bring up to $2 per 1,000 cubic feet, the company told the FPC. Plans are under way to import LNG from Algeria and the Soviet Union.

To be priced on a par with No. 2 fuel oil used for heating homes, said R.E. Galbraith, manager of Continental's Natural Gas Division, domestic natural gas should be selling for 75 to 80 cents today. But by mid-1975, he said, it should be priced to exceed the then prevailing price of fuel oil by 10 to 15 per cent.

Continental's views are "typical of the producing industry in general," Galbraith said.

"We need rate stability and rate simplification," the commission declared. However, it said, it is considering an annual review of the uniform rate it may prescribe in order to reflect "current" costs and market conditions."

"It is our present belief that there is no need for any public conference on this notice," the FPC said. Opting for "informal rule-making," the commissioners said that "we do not envision a trial-type adjudicatory hearing or oral cross-examining."

The FPC set a deadline of May 16 for the filing of comments. Continental Oil and the others filed before then, as did a few objectors.

Meanwhile, the commission was preparing to decide the first contested case under the so-called optional-pricing method, an earlier alternative to cost-based ceiling prices.

The industry bitterly opposes ceilings. "Producers should be free to obtain whatever the market or commodity value of gas may be," Continental argues. "The gas shortage today is proof of the error in trying to determine producer rates of on any basis of

Texaco and Tenneco Oil—an after-taxes return of 15 per cent on investment, the staff said.

The three companies wanted 45 cents—a 73 per cent increase over the 26-cent price that had been approved only two years earlier on assurance by the producers that it would stimulate exploration and development.

The 45-cent price promised a rate of return of 27.5 per cent on investment. Tenneco's return on equity—with a 20 per cent debt ratio and a 7 per cent cost of debt—was calculated by the staff at 48 per cent. With a 75-cent price that price would skyrocket to an estimated 113 per cent, assuming present costs do not increase.

On May 30 the commission approved the 45-cent price by a vote of 2 to 1. Chairman Nassikas dissented.

"Unconscionable," protested former FPC Chairman Lee White, head of the Consumer Federation of America's Energy Policy Task Force. "The commission has abandoned the consumer."

However, the 45-cent price was delayed by the new price