INTERSTATE: NATURAL GAS SUPPLIES MOLLOHAN, ROBERT H.
H. R. 9464 (HOS)

JACK KEMP (x)
38TH DISTRICT, NEW YORK

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(x) Murtha -

Dear Colleague:

The Natural Gas Emergency Act, H.R. 9464, has been scheduled for Floor consideration this week. The Rule providing for its consideration will make in order two substitutes, one by Congressman Krueger of Texas and one by Congressman Brown of Ohio.

Our ability to avoid shortages of natural gas will depend substantially on what we do with this legislation.

In June of this year, 36 Members urged the Senate to increase funding for ERDA to develop the natural gas potential of the Devonian shales which underlie the States of the Appalachian region -- New York, Pennsylvania, Ohio, Maryland, West Virginia, Kentucky, Virginia, Tennessee, Georgia and Alabama -- and Indiana, Illinois, and Michigan. The best current estimate of the quantity of producible, recoverable natural gas within the Eastern shales is 285 trillion cubic feet. This is a vast reserve, for the remaining proven gas reserves in the entire United States at the end of 1974 was only 237 trillion cubic feet. We were successful in our request of the Senate, and it is now assured that a meaningful research effort will be initiated by ERDA this fiscal year in an amount of at least $8.5 million.

Until the potential of Devonian shale gas can be realized, however, production of natural gas in the Appalachian region and certain areas of the Midwest from traditional geologic formations must be maintained, or, if possible, increased.

The latest statistics from the U.S. Bureau of Mines shows that natural gas production in West Virginia, for example, for the first nine months of 1975 of 122.6 billion cubic feet is sharply down from the quantity produced in the same period of last year of 156.0 billion cubic feet. The decline is an alarming 21.4-percent, and decreases in output have occurred also in Pennsylvania and Ohio. The reason for the decline, in large part, is that small "stripper" gas wells are being capped because operating costs continue to soar while the selling price remains fixed by the FPC.

In view of this continued natural gas shortage and the unreasonableness of maintaining cost-based regulatory controls by the FPC on small "stripper" natural gas producers, typical of the Appalachian region and areas of the Midwest, we have proposed an amendment to the legislation, to be offered as an amendment to the Krueger substitute.

You will find included with this letter a copy of the amendment.

In brief, that amendment would ---

* Exempt stripper producers from FPC regulation;
* Allow purchasers of stripper natural gas to renegotiate contracts for flowing gas to reflect current costs;
* Provide an incentive to investors and producers to accelerate development of natural gas from marginal or tight geologic formations such as the Devonian shale; and,
* Equalize price incentives for stripper natural gas with incentives now given to producers, under FEA regulations, of high-cost stripper crude oil production.

The amendment will not mean a larger price increase to consumers, especially in contrast with both other domestic and foreign sources. It would not exempt all small producers.

The desirability of remedial legislation on natural gas is widely recognized. The inclusion of this amendment, we believe, in pending legislation will contribute significantly to obtaining and maintaining supplies both in the Appalachian region and in other areas dependent upon natural gas produced there.

Your support of the amendment and the Krueger substitute can contribute to this objective.

Sincerely,

Jack Kemp Jack Murtha Bob Mollohan

AMENDMENT TO THE AMENDMENT IN THE
FORM OF A SUBSTITUTE

Offered by Mr. Kemp (for himself, Mr. Murtha, and Mr. Mollohan)

Following section 209 of the substitute, add the following new section:

"Sec. 210. (a) Notwithstanding any provision of the Natural Gas Act or any other provision of federal law or any contractural price limitation applicable thereto on the date of enactment of this section, sales of any natural gas (except synthetic or liquified natural gas) by small producers shall be exempt from regulation of the Federal Power Commission and may be made without any application for a certificate of public convenience and necessity under section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)); and any such sale shall be made at a price not less than that which adequately compensates the seller for current costs, including an adequate return on investment, as determined by the seller and the purchaser.

"(b) For purposes of this section 'small producer' shall mean an independent producer of natural gas (1) who is not affiliated with a natural gas pipeline company or a producer who is not included within this definition, (2) whose total sales of natural gas on a nationwide basis, together with such sales of affiliated producers, are not in excess of 10 million Mcf at 14.65 P.S.I.A. during any calendar year, and (3) whose average production per well for all wells for such calendar year is not in excess of 100 Mcf per day.

"(c) For purposes of this section 'affiliated producers' are persons who, directly or indirectly, control, or are controlled by, or are under common control with, a small producer."

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