Public Citizen

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Dear Representative:

This week the House of Representatives will vote on Emergency Natural Gas legislation (H.R. 9464) which was recently reported by ~~the House Commerce Committee~~. This legislation provides special purchase arrangements to cope with predicted curtailments in natural gas availability this winter and next winter. It was reported even though the original curtailment predictions were highly speculative and based on suspect figures and the winter is warmer than usual. Both the Office of Technology Assessment and the General Accounting Office say that major curtailments are not probable and in cases that do occur the Federal Power Commission has provided for 60-day emergency sales procedures.

Even though neither the appropriate subcommittee nor full Committee has held hearings on long-term natural gas regulation, it is expected that some Members will introduce non-germane amendments to H.R. 9464 which would increase natural gas prices for seven years and longer. They would have the House short circuit its deliberative process and undermine full consideration by precipitious action on the floor.

When H.R. 9464 and the deregulation-price increase amendments reach the floor, the House of Representatives will be voting, in essence, for or against a "Foreign Power Commission," the OPEC cartel. When voting on the deregulation-price increase option, you will be voting up or down on OPEC pricing of domestic natural gas. You were presented with this option on oil pricing earlier in the fall. The House rejected OPEC pricing and voted to keep domestic oil under American control and at stable prices. Natural gas pricing raises the same choice. Here's why.

The price of new, uncontrolled crude oil has risen steadily as OPEC raises its price. In the last 30 months it has gone from $3.90 to $13.50 per barrel. In October of 1973, the price of unregulated natural gas sold on the intrastate market for approximately 35-40¢/MCF. In tandem with the rising prices of OPEC oil and uncontrolled domestic oil, intrastate natural gas has risen to an average price of $1.25/MCF, an increase of almost 300%. Some intrastate gas is now selling at $2 and more per MCF.

The price of interstate natural gas would also rise to this artificially high OPEC price if deregulation occurs as Representative Krueger will undoubtedly propose. Abandoning price regulation would mean that all natural gas prices would be controlled by a cartel of foreign governments, in essence a "Foreign Power Commission." This would result in a massive transfer of wealth from consumers and workers to the energy industry. In the first year, the cost impact of deregulation will be an increased burden on consumers of $17 billion per year or $320 for each four member American family.

The American people have suffered through an embargo, major price increases on all fuels, energy industry myths about natural gas shortages, threats of job losses, and in general have been blackmailed to accept whatever fuel prices the energy industry offers. Congress was not hoodwinked on oil pricing. It fought to continue oil controls at non-OPEC prices. OPEC also exerts control over natural gas pricing. Seventy-five percent of all natural gas is produced by the major oil companies. Congress again must assert itself and protect the economy from a new round of inflation and recession which would be the obvious result of natural gas deregulation--huge price increases.

We urge you to vote against any amendments to the Emergency Natural Gas Bill (H.R. 9464) which would extend the scope of the bill beyond the emergency period.

Sincerely,

Joan Claybrook

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CONGRESS WATCH • 133 C STREET, S.E., WASHINGTON, D.C. 20003 • (202) 546-4996

THE CONTRIVED NATURAL GAS SHORTAGE: DRIVING FOR MONOPOLY PRICES IN A HELIUM BALLOON

Natural gas constitutes about one-third of the total energy consumed in the United States. About two-thirds of all natural gas produced in the lower 48 states is sold in interstate commerce at a top price of $.52 per thousand cubic feet (mcf) and an average price of $35.5 per mcf in accordance with Federal Power Commission regulations. The remaining one-third is sold intrastate, is not regulated, and sells at a current top price of about $2.00 per mcf and an average price of about $1.25 per mcf. Production of interstate gas peaked at 14.2 trillion cubic feet (tcf) in 1971 and has since declined to 12.9 tcf in 1974. Beginning in November 1970, some interstate pipelines began curtailing deliveries to their firm customers. This curtailment has continued and increased in each successive year.

Proponents of deregulation, including the large natural gas producing companies and the White House, assert that regulation has caused the current natural gas shortage because the producers need greater economic incentives than the current reimbursement for all out-of-pocket expenses plus 15% return on investment. This charge is false. Four main reasons account for the shortage:

1. Since 1969, the Federal Power Commission (FPC) has as a matter of policy granted substantial periodic increases in the regulated price of gas, while publicly arguing for total deregulation. These price increases and the prospect of deregulation have created a very strong incentive for keeping natural gas out of production. Producers holding supplies of such a rapidly appreciating asset are in no hurry to liquidate their holdings. Rather, producers expecting the price to go higher will hold back their production in the expectation of far higher prices at a later date. Since much of the reserves are committed under binding contracts for interstate shipment, speculating producers who withhold production can accomplish their goal only by deliberately failing to meet their contractual obligations. They use many techniques to do this:

* The producers underrepresent the amount of their reserves. A Federal Trade Commission Memorandum of March 25, 1975 states "the documents obtained from Gulf and Union ... and the AGA (American Gas Association) field-by-field estimates show the existence of frequent and large discrepancies between reserve estimates used internally by these companies and the estimates reported to the AGA."

* Producers intentionally withhold gas contracted for by the pipelines. An October 7, 1975 Staff Memorandum of the House Commerce Committee's Subcommittee on Energy and Power demonstrates how Transco, one of the Nation's largest pipelines, failed to even note that it was receiving less than its contract volume. The Memorandum notes that all major producers have failed to comply with their obligations. The evidence indicated that the shortages were due to deliberate withholding rather than unavoidable production shortages.

* Producers have failed to initiate drilling. A November 21, 1975 report of the House Commerce Committee's Subcommittee on Oversight and Investigations found that Getty and Tenneco failed to initiate timely new drilling in a high producing gas field at Bastion Bay, Louisiana, causing serious curtailments in delivery.

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* Producers have allowed deterioration of their physical plants and have been dilatory in making repairs in apparent violation of the Natural Gas Act. The House Subcommittee on Oversight and Investigations found that Cities Service and Transco knew as early as March 1974 that Cities Service would need to do maintenance to counteract corrosion in high volume gas wells in Block A-76 in the Gulf of Mexico. Evidence showed that Cities Service intentionally delayed the work which could have been done during one summer month so that it was not completed until January 1975. The result was severe disruption of delivery.

* An FPC staff report in 1974 revealed that there were producible shut-in wells on 168 offshore leases that contained 4.7 tcf of proved reserves and 3.3 tcf of probable reserves.

* Producers hold large dedicated nonproducing reserves. These are reserves that are already dedicated to interstate commerce but are not being produced. The FPC is currently investigating these reserves whose volume increased to over 8 tcf in 1974.

* At EXXON's and Quintana's Garden City, Louisiana field the House Subcommittee on Oversight and Investigations found that capital which could have been allocated to maintain the interstate deliverability rates was shifted to fields whose production is not dedicated to the interstate market. With this shift the producers would maximize current profits by selling more gas in the unregulated intrastate market and would maximize future profits by slowing current interstate production, with the resultant shortfall on contracts, until interstate prices rise sometime in the future.

Producers have not had to worry about enforcement of their contracts to deliver. Not a single pipeline company has taken a producer to court to obtain the contract gas. The pipeline companies claim fear of reprisals if they antagonize the producers. The FPC also has authority to enforce these contracts. Under the agency's law, the FPC issues certificates for interstate gas shipment and has full authority to enforce the provisions of the contracts, including delivery and production requirements. Yet it has failed to do so. Representative John E. Moss (D., Calif) has pointed out that "by oversight, neglect, or sheer dereliction" the Commission has failed to act affirmatively in accordance with its own regulations. Thus, producers have an economic incentive to withhold supply from the market and no fear of being held legally accountable for such tactics. Finally, under pressure from Congressional oversight committees, the FPC issued Order 539 on October 14, 1975 stating it would require compliance with contracts.

2. Other federal policies create incentives for low production. Federal offshore leasing policies permit lease holders to tie up leases for future production rather than requiring lease holders to drill diligently for the natural gas. Federal tax policies promote exploration and production abroad by giving greater tax credit for royalties paid to foreign nations than for royalties paid to American owners in domestic production.

3. An unregulated market exists for gas shipped intrastate. While the interstate shipment of natural gas is subject to a regulated maximum price ceiling of $.52 per mcf, sale of the same gas in the intrastate market can bring as much as four times that price. Therefore, there is a strong incentive to sell within the state rather than dedicating the natural gas to interstate commerce. Similarly, it is more profitable to curtail supply to interstate pipelines and sell the

product on the unregulated, intrastate market. This economic fact of life is reflected in the curtailment on the interstate market. A Library of Congress study released by Representative John Dingell on November 21 calculates that a gas producer of average size could profitably withhold presently available production up to six years in anticipation of promised deregulation.

4. The supply of natural gas also has been wasted. Through widespread unrestrained use during the 1950's and 1960's, corporations have drawn unnecessarily from its natural gas supply. One striking example of this profligate waste is the use of natural gas in electricity generation. While methods have long existed to use coal and to control its pollution, many utilities have continued to misuse natural gas. Only within the last two years have limits been placed on this unnecessary use.

SENATE BILL (S. 2310) PASSED OCTOBER 22, 1975, KNOWN AS PEARSON-BENTSEN

Title I (Emergency Provisions)

* Authorize FPC to exempt from regulation and price controls for 180 days interstate natural gas suppliers whose supplies of natural gas are insufficient to supply high-priority customers, defined as those with no alternative fuel and whose requirements must be satisfied to avoid substantial unemployment, food production impairment, or threat to public health or safety. Generally, residential and small commercial customers are given first priority.

* Regulate wellhead price of gas sold for the first time in interstate commerce to a price equal to the highest price in the state of its origin during the period of June 1 to August 1, 1975.

* Forbid suppliers from passing higher costs on to small users and residential customers.

* Extend FEA authority to order conversion from natural gas to coal until June 30, 1976 and authorize FEA to ban use of natural gas as boiler fuel for electric generation.

* Extend to April 4, 1976 President's authority to allocate and control price of propane and butane.

* Provide authority for FEA action allowing high priority customers experiencing curtailments to purchase gas directly from intrastate sources at market prices and to arrange for its transportation through interstate pipelines.

* Provides for expiration of emergency provisions on April 4, 1976.

Title II (Long-Term Deregulation)

* Deregulate price of onshore new natural gas on April 5, 1976. New natural gas is that gas committed to interstate commerce for the first time after January 1, 1975 or produced from wells discovered after that date.

* Deregulate price of new offshore natural gas on January 1, 1981. Authorize FPC to set ceiling price on new offshore gas during 1975-1980 phase-out period.

* Direct FPC to conduct its own study of natural gas supplies and file initial report within 90 days of enactment.

* Direct pipelines to sell less expensive old gas to small users and residential customers.

* Direct FPC to modify price on old gas every two years including gas now flowing under contract, after the contract expires.

* Extend FPC jurisdiction over synthetic natural gas.

SUMMARY OF NATURAL GAS LEGISLATION CURRENTLY PENDING BEFORE CONGRESS

HOUSE BILL (H.R. 9464) REPORTED BY THE COMMERCE COMMITTEE DECEMBER 2

* Authorizes "distressed interstate pipelines" to purchase additional supplies from intrastate sources at market - nonregulated - price. This authority expires on April 15, 1977.

NOTE: An amendment offered by Rep. Krueger of Texas would have extended the expiration date for seven years.

* A "distressed interstate pipeline" is one certified by the FPC as unable to meet the requirements of "essential users" supplied directly by such a pipeline. An "essential user" is a customer who the FPC determines to be such by examining the availability of alternative fuel, the cost and reasonableness of conversion to that other fuel, and the impact of curtailment on unemployment, domestic food production, and public health, safety, and welfare.

* Allows sale of new natural gas--first committed to interstate commerce after September 9, 1975--at a rate above the regulated rate during the duration of the supply emergency period (i.e., until April 15, 1977).

* Requires the higher prices paid for intrastate gas be passed through as a surcharge to customers other than small users and residential users.

* Authorizes the FPC to direct pipelines to interconnect to carry out purposes of the Act.

* Provides for enforcement by the Attorney General or by private civil cause of action.

(more--see other side)

To: Each U.S. Family of 4

From: U.S. Congress

The consumer cost of natural gas deregulation would begin at $17,000,000,000 and grow to $29,000,000,000 per year by the fifth year. Over a five year period, these consumer costs would amount to $115,000,000,000. This amount divided by the number of citizens equals approximately $2190 per four member family. Over the next five years you would be expected to pay these gradually increasing prices:

YEAR	ITEMS PURCHASED	PRICE INCREASE
1976	Any products made	$320
1977	using natural gas:	380
1978	frozen food, beer	440
1979	cans, newspaper,	500
1980	glass products, bread,	550
	TOTAL	$2190