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# Federal Energy News

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REMARKS PREPARED FOR DELIVERY BY FRANK G. ZARB  
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION  
BEFORE THE

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WEDNESDAY, OCTOBER 8, 1975, 10:30 A.M., CDT

Thank you for that kind introduction. I am glad to be able to address this convention of the American Gas Association, and I am particularly pleased that this year's meeting is here in Houston, where the audience includes a large number of representatives from all three segments of the gas industry -- producers, pipelines, and distributors.

The nationwide shortage of available natural gas supplies is without question the most critical energy issue facing the Nation today. And I assure you unequivocally that the number one priority of the Federal Energy Administration -- and the top energy aim of the President -- is to ease the natural gas shortage as much as possible in the short term, and to work with you to solve it in the long run.

The shortfall of natural gas deliveries by interstate pipelines is every bit as great a problem as the oil embargo of two years ago was to this country. Obviously we have to take whatever steps are possible and equitable to deal with the immediate shortage.

But, unless concurrent action is taken to solve the long-term problems of gas supply, the shortages of this year and the inevitable shortages of the next several years will seem trivial indeed compared to the massive economic disruptions which could result from failure to act now.



Every citizen of the United States, whether he realizes it or not, and whether he uses natural gas directly or not, stands to benefit both in the near term and over the long haul from removal of artificial Federal price controls on the wellhead price of newly-produced natural gas.

Basically, we have only two choices when it comes to natural gas. Either we deregulate new gas prices, and allow consumer costs to rise gradually as new supplies come on stream, or we continue to impose price controls, cause an inevitable decline in both proved reserves and production, and allow consumer costs to rise by default as scarcity of gas increases dependence on much higher-cost alternate fuels.

We are going to pay more for energy in all forms -- that is as inescapable as the coming of tomorrow. The question is how much we will get for the added sums we pay.

We can encourage both consumer conservation of energy and dramatically increased exploration efforts to find and develop new sources of energy if we remove arbitrary price restraints on the production of new natural gas and all domestically-produced oil.

The aim of removing Federal Power Commission regulation, which has stifled exploration incentives for more than twenty years, is a top Administration objective, and we continue to believe that it is the single most important step that can be taken to assure increasing exploration for new natural gas supplies. President Ford has accelerated efforts over the past nine months to convince Congress of the critical need for action on deregulation now.

It is gratifying to see that a nationwide Harris Survey conducted this summer found a solid majority of the American public in support of removal of price controls on both natural gas and oil to encourage



new energy exploration and production. Fifty-four percent of those surveyed were in favor of decontrol of gas and oil prices, while only 22 percent were opposed.

This is a striking turnaround from the 42 to 28 percent plurality against oil and gas price decontrol exactly one year earlier.

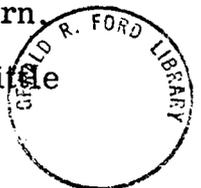
Obviously, the message is getting to the people that domestic gas and oil require free-market pricing. The citizens of the nation are becoming increasingly aware that maintaining artificially cheap prices for natural gas, oil -- or indeed for any finite commodity -- invariably results in increasing scarcity and even higher prices.

The solution to shortages of any product or service -- especially shortages of the energy which is so basic to our economy and to the lifestyles and livelihoods of individual consumers -- is an economic environment in which the free-market forces of competition determine supply, price, and demand.

No legislative body in the history of mankind has been able to successfully abrogate those universal economic laws, and the sooner we recognize that and aim ourselves back in the direction of less regulation and more competitive free enterprise, the sooner we will eliminate shortages and improve the economic outlook for all -- businessmen and consumer alike.

As long ago as 301 A.D., the Roman Emperor Diocletian imposed price ceilings on meat, grain, other foodstuffs -- in fact all marketed commodities. After much bloodshed, with no increase in supplies and rapidly increasing shortages, the law was repealed.

Shortly after that, Emperor Julian tried it again, this time with corn. Farmers had no incentives to produce, supplies dried up, and what little corn there was went for inflated prices on the black market.



Agricultural price controls during the French Revolution fared no better. Farmers produced less, and rationing was necessary to parcel out inadequate supplies.

And, two hundred years ago next year, Adam Smith noted in "The Wealth of Nations," that the removal of price-setting authority might "help somewhat in the cheapness of victuals."

The lesson is obvious. A free market means providing commodities at prices which reflect the true value of a good or service to consumers -- no more and no less. And a free market protects all consumers -- the poor, the working man, all of us -- by insuring adequate supplies at reasonable prices.

Finally, after many years of arguments by legislators in Washington -- all in good faith -- that price controls benefit consumers, a realization appears to be dawning that the long-range interests of consumers are far better served by allowing economic processes to work in a relatively unhindered fashion where true competition exists, with a minimum of Governmental oversight to assure fairness and equity where monopoly or oligopoly occurs.

Unfortunately, Federal regulation of natural gas production over so many years contributed to a continuing decline in new exploration, which in turn resulted in decreasing additions to proven natural gas reserves. Our withdrawals from the reserve "bank" have exceeded our deposits in the lower 48 states for a full seven years now, and we have reached the point where production of natural gas has finally topped out and is declining.

There is, of course, no magic instant solution to the natural gas shortage.



Even if Congress were to pass a natural gas wellhead price deregulation bill this week, that action would do little to increase gas supplies this winter. And it is this coming winter and the several to come -- before deregulation could have a significant impact on increasing natural gas supplies -- that pipeliners, distributors, and consumers are worried about.

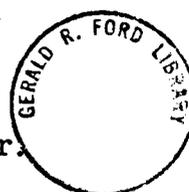
We share that worry. It was because of the impending serious natural gas shortages this winter that the Administration sent to Congress the Natural Gas Emergency Standby Act of 1975.

At the outset, I would emphasize two things. First, the Act is -- as its name implies -- an emergency act, designed to deal with a specific situation. Second, the emergency provisions of the Act are no substitute for deregulation of new gas wellhead prices, and they were never proposed as substitutes.

What the emergency act would do is make it easier for industries in states served by interstate natural gas pipelines which have had to curtail their deliveries to obtain needed supplies of gas under special provisions exempt from Federal Power Commission price regulation.

The Act would permit purchases of natural gas at free market intrastate prices by curtailed pipelines and high-priority major gas consumers.

I'm sure all of you are familiar with the details of the provisions under which emergency purchases would be made, but the importance of the provisions lies in the FEA estimates that from 250 to 325 billion cubic feet of additional gas could be made available to the Middle Atlantic and other States where gas shortages are expected to be most severe this winter. That addition to supplies could actually offset most or all of the increase in curtailments this winter over last winter.



The Act would also extend FEA's authority to require electric utility and industrial boiler conversions from gas to coal where possible, and to oil where coal is not a viable alternative. This would make more gas available for higher-priority uses.

Finally, the Act would provide authority to allocate and establish price controls for propane, which will be in greater demand as an alternative to natural gas.

But that's this winter, and -- as I have said -- we must be concerned with the years far beyond the next one or two or three.

I was gratified to see the healthy bipartisan spirit represented by Senators Pearson and Bentsen when they introduced amendments to S. 2310 in the Senate to substitute most of the provisions of the Administration's emergency bill, with the vital inclusion of legislation to begin the long-overdue process of phasing out Federal price controls on new gas production.

It is no news to any of you here today that the Pearson-Bentsen amendment survived a close procedural vote in the Senate last Thursday, and that it will be considered by the full Senate.

Deregulation is -- unfortunately -- not assured by any means, at least not as quickly as we would wish it. A long battle is looming in the House, where Congressmen apparently have not yet read the results of that Harris survey I mentioned. And the immediate danger is that well-intentioned but badly-advised Senators may continue to try to amend a bill -- which must deal only with the vitally-important issues of gas supply this winter and gas supply in the future -- with provisions which defeat or hinder the goal of bringing more gas to market.



Still, deregulation of new gas prices is closer to passing at least one of the two hurdles on Capitol Hill than it has been in many years. That is progress, but it is progress at a snail's pace, when we need giant steps forward to meet the needs of today and tomorrow.

A little over two years ago, a nationally-televised energy special concluded its segment on the natural gas industry by showing a blue flame gradually flickering out, accompanied by the statement "There is no future for natural gas."

In my opinion, nothing could be further from the truth. Not only is there a future for gas, but there must be a strong future for gas if we are to meet our goals of making the United States less reliant on foreign energy sources.

Natural gas is the most environmentally preferable fuel. It is more energy efficient than competing energy sources, the physical plant required to supply gas is less complicated than that for other energy sources, and gas is more extensively used than other fuels.

Even with price increases which would result from deregulation, and which are essential to encourage increased exploration for natural gas and optimum development of synthetic gas supplies, gas will still have a considerable economic advantage. This, combined with the built-in desirability of gas for its cleanliness and versatility, will insure a ready market for gas and a solid future for the industry.

Synthetic gas from liquid hydrocarbon feedstocks -- such as naphtha and natural gas liquids -- can be produced using existing technology. Feedstock availability has been the major problem in this area, and we continue to consider changes in regulations which could increase the availability of feedstocks to synthetic gas plants already in operation.



Synthetic gas from coal is still in the experimental stages, but among the many processes being tested in pilot plants are several which are nearing commercial viability.

Coal gasification could be one of the most promising development projects in our energy future. It can make use of the massive reserves of coal which exist domestically, and which can be converted into clean-burning synthetic gas fully compatible with pipeline supplies of natural gas.

The capital costs of synthetic gas development have risen sharply, as all of you know. One 250 million cubic foot-per-day synthetic gas plant now costs on the order of one billion dollars, as most of you know from watching the escalating cost figures.

We cannot -- and will not -- abandon efforts to make synthetic gas a reality. The President has promised a Federal program to encourage synthetic fuel development including incentives such as price guarantees, purchase agreements, capital subsidies, leasing programs, and whatever other actions are necessary to guarantee the availability of synthetic fuels -- both liquid and gaseous -- produced from domestic coal and oil shale. That program will be sent to Congress soon.

The Administration remains confident that once the first generation of synthetic fuels plants has been brought to commercial reality, and economies of scale have taken effect, synthetic fuels will be able to compete freely with natural fossil fuels and other energy sources in the free market, to the benefit of all concerned.

Both high-Btu gasification programs and low-BTU coal gas plants for industrial gas supply can and will make important contributions to our energy future. Added increments of low-Btu gas for use in industrial processes can free substantial quantities of pipeline-



quality gas for use in higher-priority applications.

The gas industry has provided an invaluable service to the nation in doing more than its share to promote effective energy conservation. This industry is the acknowledged leader in encouraging conservation of all energy through improvements in home insulation and appliance use, as well as other conservation techniques, and it has helped bring about substantial progress in efficient energy utilization.

Conservation is, after all, an immediately effective source of new gas supply for priority uses.

The emergency actions we have proposed to Congress to cope with the shortages of natural gas this winter are, we believe, necessary to deal with the immediate problems.

However, I would emphasize strongly that the last thing we wish to do is to encourage or endorse panic fuel switching from gas to other fuels. Where coal can be used effectively, and in accord with environmental protection, we will encourage its use, as we will wherever supplies of gas can be made available for priority consumption.

But, if we can finally secure deregulation, we will eventually have far more gas supply available than we will under current regulations. Even at higher prices, the relative economy of gas -- natural or synthetic -- will guarantee demand for as much gas as can be made available.

This hasn't been the best of years for the gas industry. Proved reserves continued to decline; production fell last year for the first time in history; revised U. S. Geological Survey forecasts indicate lower, although still substantial, undiscovered recoverable natural gas resources; projected curtailments for the year ending next March are up by 45 percent from the previous year; and many willing customers for new gas service have had to be turned away.



But, the outlook for this industry is good, and it can become even better, as the realization of the desperate need for Congressional action on deregulation sinks more and more into the minds of those responsible for legislation.

The gas industry provides a third of the Nation's total energy, and half the energy requirements of American industry. No plan to recapture energy invulnerability for the United States can succeed without a firm determination to assure reliable and expanding supplies of gas -- natural and synthetic -- to meet the needs of present and future consumers.

Gas is basic to the economy of this country, to the health and comfort of millions of Americans, and to the employment security of virtually every citizen.

With a legislative framework which recongizes both the value of gas -- to the economy, to the environment, and to the convenience of all who depend on gas service -- and the need to encourage development of new gas supplies, I am confident that Government and industry can work together to get needed supplies to market.

Thank you for this opportunity to share my views with you.

-FEA-

