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STATEMENT OF FRANK G. ZARB
ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION

Before the

COMMITTEE ON COMMERCE
UNITED STATES SENATE

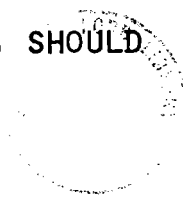
Monday, September 15, 1975



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 S. 2330, THE ADMINISTRATION'S NATURAL GAS EMERGENCY STANDBY ACT OF 1975 WHICH WAS INTRODUCED BY SENATOR PEARSON, AND S. 2310, A BILL INTRODUCED BY SENATORS HOLLINGS, GLENN AND TALMADGE.

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.

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, SHOULD



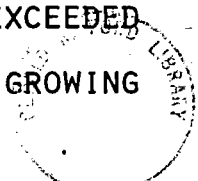
GIVE US THE TOOLS NECESSARY TO HELP ALLEVIATE THE IMPACT OF EXPECTED NATURAL GAS CURTAILMENTS THIS WINTER.

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 RELEASED 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, SINCE 1970 NEW RESERVES OF GAS ARE PRIMARILY GOING TO THE INTRASTATE MARKET.

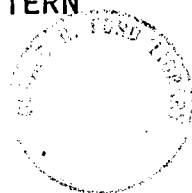
AT THE SAME TIME, NATURAL GAS REQUIREMENTS HAVE EXCEEDED DELIVERIES BY AN INCREASING MARGIN, RESULTING IN GROWING



CURTAILMENTS OF SERVICE OVER THE LAST FEW YEARS. IN 1970, CURTAILMENTS WERE 0.1 TCF, OR LESS THAN ONE PERCENT OF CONSUMPTION. BY 1974, CURTAILMENT 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, 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. 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



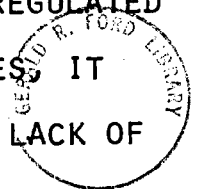
DISTRIBUTING COMPANIES, OR FROM OTHER INTERSTATE PIPELINES, ON AN EMERGENCY BASIS FOR A PERIOD UP TO 180 DAYS. THIS WOULD ALLOW INTERSTATE PIPELINES TO COMPETE EFFECTIVELY FOR AVAILABLE SUPPLIES OF NATURAL GAS TO MEET REQUIREMENTS OF RESIDENTIAL AND COMMERCIAL CUSTOMERS, AND OF INDUSTRIAL USERS WHO NEED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

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 MERELY DIVERTING LARGE QUANTITIES OF PROPANE FROM HISTORICAL USERS, OR CAUSING LARGE PRICE INCREASES. THE STANDBY AUTHORITY TO ALLOCATE AND ESTABLISH REASONABLE PRICES FOR PROPANE WILL ASSURE FAIR DISTRIBUTION OF AVAILABLE PROPANE AT EQUITABLE PRICES.



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:

- o ESTABLISHMENT OF A NATURAL GAS TAKE FORCE IN THE FEDERAL ENERGY ADMINISTRATION TO PROVIDE A CONTINUING LIAISON 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



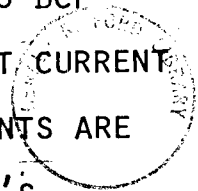
NATURAL GAS AS POSSIBLE, EVEN FROM MARGINALLY ECONOMIC WELLS.

- o THE FEDERAL POWER COMMISSION WILL TAKE ACTION TO ASSURE THAT SIGNIFICANT AMOUNTS OF NATURAL GAS ARE STORED FOR WINTER PEAK USE.
- 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 LAST WINTER'S.

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 INCREASES IN THE PRICES THAT THEY NOW PAY FOR NATURAL GAS.

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. 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.



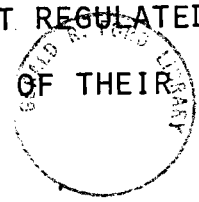
THE ADMINISTRATION'S BILL WILL GIVE US THE AUTHORITIES WHICH WE NEED WITHOUT UNREASONABLE OR UNNECESSARY REGULATION OF THE NATURAL GAS INDUSTRY, AND I URGE ITS IMMEDIATE PASSAGE.

S. 2310

I WOULD LIKE NOW TO TURN TO S. 2310, THE LEGISLATION SPONSORED BY SENATORS HOLLINGS, GLENN AND TALMADGE. THE BILL WOULD ADDRESS THE SAME IMMEDIATE PROBLEM AS DOES THE ADMINISTRATION'S BILL, AND IT CONTAINS SOME PROVISIONS OF REAL MERIT. HOWEVER, THE BILL INCLUDES SEVERAL UNACCEPTABLE PROVISIONS AND RAISES MAJOR ISSUES THAT WARRANT FURTHER EXAMINATION AS THE CONGRESS AND THE ADMINISTRATION WORK TO DEVELOP EFFECTIVE AND MUTUALLY ACCEPTABLE LEGISLATION TO DEAL WITH THIS WINTER'S NATURAL GAS SHORTAGE.

ACCESS BY PRIORITY INTERSTATE PURCHASERS TO NATURAL GAS

SECTION 4 OF S. 2310 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 S. 2310 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:

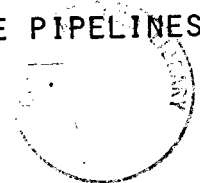
- O THE PRINCIPAL REASON FOR THE PRESENT STATE OF NATURAL GAS SHORTAGES IS THE CURRENT SYSTEM OF REGULATION, WHICH INHIBITS PRODUCTION AND SHOULD BE REMOVED FROM THE INTERSTATE MARKET INSTEAD OF EXTENDED TO THE INTRASTATE MARKET.
- O AN ARTIFICIALLY CONTROLLED, LOW-PRICE (RELATIVE TO ALTERNATIVE FUELS) 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 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.

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).

SECTION 4 ALSO DOES NOT EXPRESSLY 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 COULD PROVIDE OPPORTUNITIES FOR SALE OF NATURAL GAS FROM COMPANIES WITH A TEMPORARY SURPLUS TO INTERSTATE COMPANIES WITH A TEMPORARY SURPLUS TO INTERSTATE COMPANIES 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.

AGRICULTURAL PRIORITY

SECTION 5 OF S. 2310 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 ALLOWS THE SECRETARY OF AGRICULTURE TO ALLOCATE NATURAL GAS, EVEN BETWEEN PIPELINES. I FEEL THAT THE PRESENT PRIORITY SYSTEM IS SUFFICIENT TO MEET ESSENTIAL AGRICULTURAL NEEDS AND SHOULD NOT BE TAMPERED WITH TO THE EXTENT FOUND IN SECTION 5.



PROHIBITION OF USE OF NATURAL GAS AS BOILER FUEL

SECTION 6 OF S. 2310 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.

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.

THE ADMINISTRATION HAS PROPOSED BROADER CONVERSION AUTHORITIES INCLUDING CONVERSION OF MAJOR FUEL BURNING INSTALLATIONS TO OIL IF COAL CONVERSION IS NOT FEASIBLE. SECTION 6 SHOULD BE EXPANDED TO INCLUDE THE MAJOR FUEL BURNING INSTALLATIONS, AND REVISED TECHNICALLY TO COMPLEMENT THE PRIOR LAW AS DOES THE ADMINISTRATION'S PROPOSAL.

I QUESTION WHETHER THE ONE-YEAR LIFE OF THE PROVISIONS IN SECTION 6 IS LONG ENOUGH TO BE EFFECTIVE. 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.

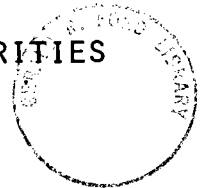
PRODUCTION OF GAS AT THE MAXIMUM EFFICIENT RATE

SECTION 7 OF S. 2310 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.

PIPELINE INTERCONNECTIONS

SECTION 8 OF THE S. 2310 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 PURCHASES. THIS SECTION APPEARS UNNECESSARY TO IMPLEMENT THE SHORT-TERM PURPOSES OF THE PROVISIONS OF THIS ACT.

IN SUMMATION, MR. CHAIRMAN, I BELIEVE THAT, ON THE MERITS, THE ADMINISTRATION'S BILL WILL PROVIDE NEEDED AUTHORITIES



WHILE S. 2310 IS OBJECTIONABLE IN ITS PRESENT FORM. MY STAFF HAS ALREADY BEEN WORKING WITH YOURS, AND I SUGGEST THAT WE MAKE IT OF A HIGHEST PRIORITY TO CONTINUE TO WORK TOGETHER 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.

