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STATEMENT OF FRANK G. ZARB
ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION

Before the

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
UNITED STATES HOUSE OF REPRESENTATIVES

Friday, January 23, 1976

T-76-022

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE LONG-TERM SOLUTION TO THE NATURAL GAS SUPPLY PROBLEM. SPECIFICALLY, I HAVE BEEN ASKED TO COMMENT ON FOUR LEGISLATIVE PROPOSALS WHICH ADDRESS THE ISSUES OF PRICE AND AVAILABILITY OF NATURAL GAS IN THE FUTURE -- TITLE II OF S. 2310, INTRODUCED BY SENATORS PEARSON AND BENTSEN AND PASSED BY THE SENATE IN AMENDED FORM ON OCTOBER 22 BY A 58-32 VOTE; H.R. 11265, INTRODUCED BY REPRESENTATIVE KRUEGER; H.R. 9159, INTRODUCED BY REPRESENTATIVE FRASER; AND H.R. 11047 INTRODUCED BY REPRESENTATIVE BROWN OF OHIO.

BEFORE I DISCUSS THE PROVISIONS OF THESE BILLS, I WOULD LIKE TO SAY AGAIN, AS THE ADMINISTRATION HAS SAID MANY TIMES BEFORE, THAT IT IS EXTREMELY IMPORTANT TO TAKE IMMEDIATE ACTION ON THIS VITAL ISSUE. WITH EACH DAY THAT PASSES WITHOUT CONGRESSIONAL ACTION ON THE DEREGULATION ISSUE, THIS NATION'S NATURAL GAS SUPPLY OUTLOOK WORSENS. WE BELIEVE THE CONGRESS'S DECISION ON THIS ISSUE WILL LARGELY DETERMINE WHETHER THIS NATION WILL FACE A COMING DECADE OF ADEQUATE NATURAL GAS SUPPLY OR INCREASINGLY DISRUPTIVE SHORTAGES. BECAUSE LEGISLATIVE ACTION ON NATURAL GAS WELLHEAD PRICE DEREGULATION HAS BEEN DEFERRED FAR TOO LONG, THE NATION NOW

FACES MOUNTING SHORTAGES OF NATURAL GAS.

AMERICA'S NATURAL GAS PRODUCTION PEAKED IN 1973 AND IS NOW DECLINING FASTER THAN OUR DOMESTIC OIL PRODUCTION. SINCE 1968, OUR HOMES, BUSINESSES AND INDUSTRIES HAVE BEEN CONSUMING MORE NATURAL GAS EACH YEAR THAN OUR PRODUCERS HAVE BEEN ADDING TO RESERVES. CURRENT PROVED RESERVES, EXCLUDING ALASKA, NOW STAND AT 205 TRILLION CUBIC FEET, THE LOWEST LEVEL SINCE 1952. NATURAL GAS CURTAILMENTS WHICH FIRST APPEARED ON THE NATIONAL SCENE SIX YEARS AGO, HAVE NOW GROWN INTO A SERIOUS NATIONAL ENERGY PROBLEM. IN 1970, INTERSTATE PIPELINE CURTAILMENTS WERE 0.1 TCF, OR LESS THAN ONE PERCENT OF CONSUMPTION, AND A NORMALLY COLD WINTER THIS YEAR COULD HAVE INCREASED ANNUAL CURTAILMENTS TO AS MUCH AS 2.9 TCF, OR 15 PERCENT OF DELIVERY TO END USERS.

AS MEMBERS OF THIS COMMITTEE ARE AWARE, INTERSTATE PIPELINE CURTAILMENTS ARE MERELY A ROUGH ESTIMATE OF THE MEASURE OF THE NATURAL GAS SUPPLY PROBLEM. TO OBTAIN A MORE ACCURATE VIEW OF THE PROBLEM, THE FEDERAL ENERGY ADMINISTRATION (FEA), IN CONJUNCTION WITH THE FEDERAL POWER COMMISSION (FPC) CONDUCTED A DETAILED SURVEY LAST SUMMER OF 1700 NATURAL GAS COMPANIES IN THE NATION WHICH DELIVER GAS TO END USE CUSTOMERS.

FEA'S LATEST UPDATE OF THIS SURVEY DATA SHOWS CURTAILMENTS BY DISTRIBUTORS IN THOSE 21 KEY STATES AT 1.03 Tcf FOR THE CURRENT HEATING SEASON. THIS IS 140 BILLION CUBIC FEET GREATER THAN LAST WINTER. NATIONWIDE, THE GAS SUPPLY OUTLOOK HAS IMPROVED FROM EARLIER PROJECTIONS, LARGELY DUE TO THE WARM, DRY WEATHER THE NATION EXPERIENCED IN NOVEMBER AND EARLY DECEMBER WHICH REDUCED DEMAND FOR NATURAL GAS, PROPANE AND FUEL OIL. EMERGENCY SALES OF NATURAL GAS PERMITTED UNDER FPC REGULATIONS HAVE ALSO HELPED BY REDISTRIBUTING GAS SUPPLIES FROM SURPLUS TO SHORTAGE AREAS.

BUT EVEN WITH THIS IMPROVEMENT, THE LONG-RANGE TREND IS TOWARD INCREASING CURTAILMENT, WITH OUR ONLY PROTECTION FROM POTENTIAL ECONOMIC DISRUPTION THIS WINTER AND NEXT BEING A CONTINUATION OF REDUCED DEMAND DUE TO WARM WEATHER. EARLIER THIS MONTH, A SEVERE COLDSPELL IN SEVERAL STATES RESULTED IN TEMPORARY INDUSTRIAL SHUT-DOWNS AND SCHOOL CLOSINGS. AND WE ARE NOT THROUGH THE WINTER YET -- FURTHER COLD WEATHER CAN STILL CAUSE THE ADVERSE DISRUPTIONS FROM WHICH WE HAVE BEEN SPARED TO DATE. SURELY, THIS NATION MUST NOT TOLERATE A SITUATION WHERE THE CONTINUED AVAILABILITY OF SO VITAL A FUEL AS NATURAL GAS MUST DEPEND ON THE VAGARIES OF THE WEATHER.

PRODUCTION OF NATURAL GAS PEAKED IN 1973 AT 22.6 Tcf AND DECLINED BY APPROXIMATELY 5 PERCENT IN 1974 TO 21.6 Tcf. ACCORDING TO PRELIMINARY BUREAU OF MINES AND FEA ESTIMATES FOR 1975, PRODUCTION IS ESTIMATED TO HAVE DECLINED AT A RATE

OF CLOSE TO 7 PERCENT. THIS SITUATION COULD JEOPARDIZE OUR CONTINUED ECONOMIC RECOVERY AND FUTURE ECONOMIC VITALITY. THEREFORE, THE DECREASE IN DOMESTIC SUPPLY FROM 22.6 TCF IN 1973 TO 21.6 TCF IN 1974 IS EQUIVALENT TO 500,000 BARRELS OF OIL PER DAY, A TOTALLY UNACCEPTABLE INCREASED DEPENDENCE UPON NON-DOMESTIC SOURCES. AND WE SEE A WORSE DETERIORATION IN OUR 1975 PRELIMINARY FIGURES.

IN HIS STATE OF THE UNION MESSAGE ONE YEAR AGO, PRESIDENT FORD PROPOSED THE DEREGULATION OF NEW NATURAL GAS AS A LONG-RANGE SOLUTION TO OUR NATURAL GAS PROBLEM. WE BELIEVED THEN, AND WE STILL BELIEVE TODAY, THAT DEREGULATION CAN IMPROVE THE NATURAL GAS OUTLOOK IN THREE SIGNIFICANT WAYS: FIRST, BY PROVIDING THE ECONOMIC INCENTIVE FOR PRODUCERS TO DEVELOP NEW AND ADDITIONAL GAS SUPPLIES FROM THE OUTER CONTINENTAL SHELF (OCS), FROM ALASKA AND FROM TIGHTER, DEEPER ONSHORE FORMATIONS. SECONDLY, BY ENCOURAGING MORE EFFICIENT NATURAL GAS USAGE, AS THE PRICE IS ALLOWED OVER TIME TO REFLECT THE TRUE ECONOMIC VALUE OF THIS CLEAN-BURNING FUEL. AND, THIRDLY, BY GRADUALLY ELIMINATING THE CURRENT PRICE DISPARITY BETWEEN THE INTERSTATE AND INTRA-STATE GAS MARKETS WHICH NOW DISTORTS OUR NATURAL GAS DISTRIBUTION.

LET ME GIVE YOU AN EXAMPLE OF THE BENEFITS OF DEREGULATION. IN PRELIMINARY FIGURES FROM A PROJECT INDEPENDENCE UPDATE, FEA PROJECTS, FOR 1985, GROSS MARKETED PRODUCTION OF 17.9 TCF UNDER CURRENT REGULATIONS AND 22.3 TCF UNDER DEREGULATION, AND NET MARKETED PRODUCTION OF 15.9 AND 20.0 TCF RESPECTIVELY. THAT DIFFERENCE IS THE EQUIVALENT OF OVER 2 MILLION BARRELS OF OIL PER DAY. ADMITTEDLY, THERE WOULD BE A SLIGHTLY HIGHER FUEL BILL TO PRESENT DAY GAS USERS UNDER DEREGULATION BUT THAT WOULD BE MORE THAN OFFSET BY THE GREATLY INCREASED DOMESTIC GAS PRODUCTION AND REDUCED NEED OF IMPORTS.

ANOTHER EXAMPLE IS THE EFFECT DEREGULATION WOULD HAVE ON THE INTERSTATE MARKET. WITHOUT DEREGULATION, WE PROJECT FOR 1985 9.3 TCF IN THE INTRASTATE MARKET AND 6.6 TCF IN THE INTERSTATE MARKET. HOWEVER, WITH DEREGULATION THE SHIFT IS DRAMATIC: 7.9 TCF IN THE INTRASTATE AND 12.1 TCF IN THE INTERSTATE MARKET; AN INCREASE OF 5.5 TCF IN THE INTERSTATE MARKET.

WHILE A MAJOR SYNTHETIC FUELS PROGRAM CAN INCREASE LONG-TERM GAS SUPPLIES SOMEWHAT, THE DECREASE IN PRODUCTION WE HAVE SEEN SINCE 1973 IS PROJECTED TO CONTINUE UNLESS ACTION IS TAKEN BOTH FOR CONSERVATION AND TO PROVIDE NEEDED INCENTIVES FOR ADDITIONAL EXPLORATION, DEVELOPMENT AND PRODUCTION.

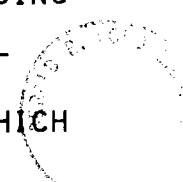
THE ADMINISTRATION'S CONCERN WITH GROWING NATURAL GAS CURTAILMENTS PROMPTED PRESIDENT FORD TO ORDER THE CREATION OF A SPECIAL INTERAGENCY NATURAL GAS TASK FORCE UNDER THE DIRECTION OF THE FEA. THE TASK FORCE IS RESPONSIBLE FOR COORDINATING THE FEDERAL GOVERNMENT'S ACTIVITIES RELATING TO GAS SHORTAGES. SINCE ITS INCEPTION LAST SEPTEMBER, IT HAS SUPERVISED THE COLLECTION AND PUBLICATION OF DATA ON NATURAL GAS DISTRIBUTOR CURTAILMENTS, PROVIDING DATA ASSISTANCE TO STATE ENERGY OFFICES. IT HAS ALSO PUT INTO PLACE A NETWORK OF REGIONAL REPRESENTATIVES TO MONITOR THE GAS SUPPLY OUTLOOK AT THE LOCAL LEVEL AND REPORT BACK TO WASHINGTON ANY PROBLEMS WHICH MAY DEVELOP. IN ADDITION, THE TASK FORCE HAS WORKED CLOSELY WITH THE FPC, PROVIDING INFORMATION ON ALTERNATE FUELS, AND WITH THE DEPARTMENT OF COMMERCE IN THEIR INDUSTRIAL CONSERVATION EFFORT. HOWEVER, EVEN WITH OUR EFFORTS TO ENCOURAGE CONSERVATION AND CONSUMERS' IMPROVING ATTITUDES TOWARDS DOING SO, THE PROBLEM IS FAR FROM BEING SOLVED. UNLESS CONGRESS ACTS NOW, THIS NATION CAN ANTICIPATE AN UNENDING SUCCESSION OF WINTERS MARKED BY EVER-INCREASING SHORTAGES AND POTENTIAL ECONOMIC DISLOCATION.

CLEARLY, THE SOLUTION TO THE PROBLEM IS THE IMMEDIATE DEREGULATION OF THE WELLHEAD PRICE OF NEW NATURAL GAS. THE LEGISLATION INTRODUCED BY SENATORS PEARSON AND BENTSEN AND REPRESENTATIVE KRUEGER ILLUSTRATE A VIABLE DEREGULATION PLAN WHICH WILL TURN THE TIDE OF INCREASING SHORTAGES AND ARE SUPPORTED BY THE ADMINISTRATION.

TITLE II OF S. 2310 AS PASSED BY THE SENATE WOULD DEREGULATE THE WELLHEAD PRICE OF ONSHORE NEW NATURAL GAS ON APRIL 4, 1976. NEW NATURAL GAS IS DEFINED AS GAS FIRST DEDICATED TO INTERSTATE COMMERCE ON OR AFTER JANUARY 1, 1975 OR GAS PRODUCED FROM A RESERVOIR DISCOVERED OR EXTENDED ON OR AFTER JANUARY 1, 1975. OFFSHORE GAS WOULD BE DEREGULATED ON JANUARY 1, 1981. IN THE INTERIM, ITS PRICE IS SET AT A ROYALTY CRUDE OIL EQUIVALENCY UNTIL THE FPC ESTABLISHES A NATIONAL CEILING RATE.

REGARDING GAS FROM EXPIRED INTERSTATE CONTRACTS, THE FPC WOULD ESTABLISH, AND REVISE BIENNIALY, A NATIONAL CEILING RATE. THEREFORE, WHILE SUCH GAS WOULD NOT BE DEREGULATED, IT WOULD BE TREATED IN A SPECIAL MANNER.

S. 2310 WOULD ALSO AMEND THE NATURAL GAS ACT BY ADDING EIGHT NEW SECTIONS, INCLUDING SECTION 25 WHICH WOULD ESSENTIALLY ESTABLISH A CURTAILMENT ORDER OF PRIORITIES WHICH



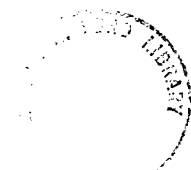
THE FPC MUST PUT INTO EFFECT, WITH PRIORITY ONE FOR RESIDENTIAL AND SMALL USERS AND PUBLIC HEALTH AND SAFETY USERS; PRIORITY TWO FOR ESSENTIAL AGRICULTURAL USERS, AND PRIORITY THREE FOR ESSENTIAL INDUSTRIAL USERS (I.E., PROCESS AND FEEDSTOCK USERS). THESE PRIORITIES WOULD BE ESTABLISHED WITHOUT REGARD TO WHETHER THE UNDERLYING CONTRACT IS FIRM OR INTERRUPTIBLE.

UNDER SECTION 25(A) THE SECRETARY OF AGRICULTURE WOULD DETERMINE THE AGRICULTURAL PURPOSES FOR WHICH NATURAL GAS IS ESSENTIAL, AND CERTIFY TO THE FEDERAL POWER COMMISSION THE AMOUNT OF NATURAL GAS NECESSARY TO MEET FULL FOOD AND FIBER PRODUCTION REQUIREMENTS. THE ADMINISTRATION BELIEVES THAT ESSENTIAL AGRICULTURAL NEEDS DESERVE PRIORITY, BUT WE DO NOT FEEL THAT SECTION 25(A) IS THE PROPER VEHICLE TO ASSURE THAT THESE NEEDS ARE MET. HOWEVER, WITH MINOR TECHNICAL AMENDMENTS, THIS PROVISION CAN BE MADE WORKABLE.

A NEW SECTION 26 WOULD SUBJECT SYNTHETIC NATURAL GAS (SNG) PLANTS, THE PERSONS OWNING OR OPERATING THEM, AND SNG SALES AND TRANSPORTATION TO FPC JURISDICTION. THIS REPRESENTS AN EXPANSION OF EXISTING AUTHORITIES, WHICH IS UNNECESSARY ADDED REGULATION. THEREFORE, WE WOULD PREFER TO SEE THIS SECTION REMOVED.

SECTION 27 MANDATES FPC PROHIBITION OF BOILER FUEL USE OF NATURAL GAS NOT CONTRACTED FOR PRIOR TO JANUARY 1, 1975, UNLESS ALTERNATIVE FUELS -- OTHER THAN OIL OR PROPANE -- ARE UNAVAILABLE OR CANNOT BE UTILIZED AT THAT TIME. IT REQUIRES TERMINATION OF BOILER FUEL USE OF NATURAL GAS CONTRACTED FOR BEFORE JANUARY 1, 1975, AT THE TIME OF CONTRACT EXPIRATION OR IN 12 YEARS, WHICHEVER IS EARLIER, SUBJECT TO THE SAME LIMITATIONS STATED ABOVE. THE ADMINISTRATION STRONGLY OPPOSES THESE LONG-TERM FPC PROHIBITION AUTHORITIES SINCE FEA ALREADY HAS SIMILAR AUTHORITIES UNDER THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT (ESECA). IT SEEMS INCONGRUOUS THAT FPC SHOULD NOW BE GIVEN AUTHORITY TO PROHIBIT BOILER FUEL USE WHEN FEA HAS ALREADY BEEN GIVEN THAT AUTHORITY IN OTHER LEGISLATION.

ANOTHER PART OF SECTION 27 WOULD REQUIRE THE ADMINISTRATOR OF FEA TO PROHIBIT RESIDENTIAL GAS USAGE WHICH HE DETERMINES TO BE SOLELY FOR ORNAMENTAL OR DECORATIVE PURPOSES. WHILE THIS TYPE OF CONSERVATION ACTIVITY SHOULD BE ENCOURAGED, WE FEEL IT IS A MATTER WHICH SHOULD ONLY BE MADE MANDATORY AT THE DISCRETION OF INDIVIDUAL STATES AND NOT BY FEDERAL



FIAT.

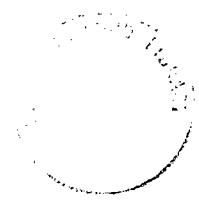
S. 2310 ADDS A SECTION 28 TO THE NATURAL GAS ACT WHICH WOULD REQUIRE ALL PIPELINES TO FILE SEPARATE TARIFFS WITH RESPECT TO OLD AND NEW NATURAL GAS AND REQUIRES DISTRIBUTING COMPANIES TO PROVIDE LOWER PRICED OLD GAS TO RESIDENTIAL AND SMALL USERS ON A PRIORITY BASIS. WHILE ON THE FACE OF IT, THIS INCREMENTAL PRICING PROVISION APPEARS TO BENEFIT RESIDENTIAL CONSUMERS, IN FACT, IT WILL PLACE THE BURDEN OF HIGHER COSTS FOR GOODS AND SERVICES ON ALL CONSUMERS -- WHETHER GAS USERS OR NOT -- TO SUPPLEMENT LOWER FUEL COSTS FOR HOMEOWNERS WHO DO USE GAS. WE MUST REALIZE THAT WE ARE NO LONGER IN THE ERA OF CHEAP, ABUNDANT ENERGY, AND EVERYONE MUST BE PREPARED TO PAY THE ADDITIONAL COSTS. IT WOULD BE WRONG TO SINGLE OUT ONE SECTOR -- GAS-CONSUMING HOMEOWNERS -- FOR FAVORABLE TREATMENT AND CAUSE ALL OTHER CONSUMERS TO PAY MORE THAN THEIR SHARE. FINALLY, WE ARE CONCERNED THAT SUCH A PROVISION WOULD HAVE A DELETERIOUS EFFECT UPON SNG INVESTMENTS AT THIS TIME, AND WOULD ALSO REMOVE INCENTIVES FOR FURTHER RESIDENTIAL CONSERVATION.

THE BILL WOULD ALSO REQUIRE THE DEPARTMENT OF THE INTERIOR TO SET MAXIMUM EFFICIENT RATE PRODUCTION STANDARDS

FOR ALL FIELDS ON FEDERAL LANDS OTHER THAN NAVAL PETROLEUM RESERVES. SINCE THIS PROVISION IS ALREADY COVERED BY THE ENERGY POLICY AND CONSERVATION ACT, IT SEEMS UNNECESSARY TO INCLUDE IT IN THIS BILL AS WELL.

H.R. 11265, INTRODUCED BY REPRESENTATIVE KRUEGER, IS SIMILAR TO S. 2310 IN THAT IT PROVIDES FOR IMMEDIATE DE-REGULATION OF ONSHORE GAS, WITH OFFSHORE GAS TO BE DE-REGULATED ON JANUARY 1, 1981. "NEW NATURAL GAS" IS DEFINED IN THE BILL AS GAS FIRST DEDICATED TO INTERSTATE COMMERCE ON OR AFTER JANUARY 1, 1975; PRODUCED FROM WELLS COMMENCED AFTER THAT DATE; OR CONTINUED IN INTERSTATE COMMERCE UPON CONTRACT EXPIRATION. IN THAT REGARD, THE KRUEGER BILL'S INCLUSION OF GAS FROM EXPIRED CONTRACTS IN THE DEFINITION OF NEW GAS IS DIFFERENT FROM S. 2310.

AS IN S. 2310, THE KRUEGER BILL WOULD REQUIRE THE FPC TO ESTABLISH A NATIONAL CEILING RATE FOR NEW OCS NATURAL GAS THROUGH DECEMBER 31, 1980. FROM ENACTMENT TO THE ESTABLISHMENT OF THAT CEILING PRICE, THE UNITED STATES GEOLOGICAL SURVEY CRUDE OIL EQUIVALENT VALUATION WOULD APPLY, AND ON JANUARY 1, 1981, THE CEILING WOULD BE LIFTED FOR ALL NEW OCS GAS.




THE KRUEGER BILL IS ALSO SIMILAR TO S. 2310 REGARDING AGRICULTURAL PRIORITIES AND BOILER FUEL PROHIBITIONS WHICH I HAVE ALREADY DISCUSSED. I BELIEVE THAT THE KRUEGER BILL WILL IMPROVE OUR NATURAL GAS SITUATION AND, WITH THE EXCEPTION OF THE BOILER FUEL SECTION, I URGE ITS ENACTMENT. I UNDERSTAND THAT YOUR STAFF HAS CERTAIN TECHNICAL PROBLEMS WITH THE BILL AND MY STAFF HAS MADE KNOWN ITS DESIRE TO MEET WITH THEM TO DISCUSS THOSE PROBLEMS.

IN REGARD TO REPRESENTATIVE BROWN'S BILL, H.R. 11047 -- WHILE WE BELIEVE THE BILL WOULD BE AN IMPROVEMENT OVER THE PRESENT SITUATION, THE ADMINISTRATION, AND I BELIEVE MR. BROWN WOULD AGREE, FEELS THAT H.R. 11265 IS THE MORE EFFECTIVE VEHICLE TO MEET THIS NATION'S NATURAL GAS NEEDS. THE BILL WOULD REQUIRE THE FPC TO DESIGNATE DISTRESSED AND CURTAILED INTERSTATE PIPELINES. FROM ENACTMENT THROUGH APRIL 15, 1976, DISTRESSED PIPELINES WOULD BE EMPOWERED TO BUY NEW GAS AT UNREGULATED PRICES. FROM APRIL 16, 1976 THROUGH APRIL 15, 1977, BOTH DISTRESSED AND CURTAILED PIPELINES WOULD BE ABLE TO PURCHASE UNREGULATED NEW NATURAL GAS; AND FROM APRIL 16, 1977 THROUGH THE END OF THE SUPPLY

PERIOD (7 YEARS TOTAL) INTERSTATE PIPELINES WITH A CURTAILMENT PLAN ON FILE WITH THE FPC WOULD BE ABLE TO PURCHASE NEW GAS AT UNREGULATED PRICES. WHILE THIS BILL WOULD BRING RELIEF TO CURTAILED AND DISTRESSED PIPELINES, AND WOULD GIVE A TEMPORARY IMPETUS TO OUR SUPPLY SITUATION, IT DOES NOT PROVIDE A PERMANENT SOLUTION TO THE PROBLEM.

H.R. 9159, INTRODUCED BY REPRESENTATIVE FRASER, IS COMPLETELY UNACCEPTABLE TO THE ADMINISTRATION. RATHER THAN DEREGULATING NEW NATURAL GAS PRICES, THIS BILL NOT ONLY CONTINUES PRICE REGULATION IN THE INTERSTATE MARKET BUT ALSO CALLS FOR EXTENSION OF REGULATION TO THE INTRASTATE MARKET. INSTEAD OF ALLOWING THE WELLHEAD PRICE OF NEW NATURAL GAS TO BE DEREGULATED, THE BILL WOULD CAP THE PRICE FOR INTER AND INTRASTATE NEW GAS AT A BASE PRICE OF 60¢ PER MCF. AS YOU KNOW, WE STRONGLY BELIEVE THAT ANY PRICE CAP WOULD BE A DETERRENT TO PRODUCTION. HOWEVER, THIS PARTICULARLY LOW CAP WOULD STYMIE ALL EXPLORATION AND DEVELOPMENT AND CAUSE A STEADY DECLINE IN EXISTING SUPPLIES. IN ADDITION, OUR DEPENDENCE UPON FOREIGN OIL WOULD INCREASE AS WE WOULD HAVE TO IMPORT OIL TO MAKE UP FOR THE UNAVAILABLE GAS. THE COSTS OF IMPORTED OIL TO REPLACE NATURAL GAS IS QUITE EXPENSIVE



AND MANY CONSUMERS WILL BE IN A WORSE POSITION WITH SO CALLED "LOWER GAS PRICES" THAN THEY WOULD BE UNDER DEREGULATION.

THERE ARE MANY OTHER OBJECTIONABLE PORTIONS OF THIS BILL SUCH AS THE INCREMENTAL PRICING PROVISION, ADDITIONAL PRODUCTION REQUIREMENTS, MANDATORY INTERPIPELINE CONNECTIONS DURING EMERGENCY PERIODS, FPC JURISDICTION OVER SNG, AND FPC JURISDICTION OVER BOILER FUEL CONVERSIONS. I FEEL STRONGLY THAT THIS BILL WOULD BE SERIOUSLY COUNTERPRODUCTIVE TO MEETING THE NATION'S ENERGY NEEDS AND WILL PROVIDE A MORE DETAILED ANALYSIS OF ITS EFFECTS UPON THE REQUEST OF THE COMMITTEE.

LET ME SUMMARIZE THE ADMINISTRATION'S POSITION ON THE PENDING LONG-TERM LEGISLATION WHICH I HAVE DISCUSSED. THE SENATE-PASSED BILL IS CERTAINLY A STEP IN THE RIGHT DIRECTION. WITH THE CHANGES WHICH I HAVE MENTIONED, I WOULD RECOMMEND ITS ENACTMENT. THE KRUEGER BILL IS SIMILAR TO THE SENATE BILL BUT ELIMINATES MANY OF THE SENATE BILL'S OBJECTIONABLE FEATURES. I BELIEVE IT IS VERY CLOSE TO A BILL WHICH I COULD RECOMMEND TO THE PRESIDENT. THE 7-YEAR BILL IS CLEARLY A STOP-GAP EFFORT, SUPERIOR TO DOING NOTHING, BUT INFERIOR TO OTHER POSSIBILITIES WE HAVE DISCUSSED.

THAT CONCLUDES MY REMARKS. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.