FOR IMMEDIATE RELEASE AUGUST 28, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
ALAN GREENSPAN
CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
THOMAS P. SALMON
GOVERNOR OF THE STATE OF VERMONT
EDWIN W. EDWARDS
GOVERNOR OF THE STATE OF LOUISIANA
JULIAN CARROLL
GOVERNOR OF THE STATE OF KENTUCKY
JAMES E. HOLSHOUSER
GOVERNOR OF THE STATE OF NORTH CAROLINA
AND
DAVID BOREN
GOVERNOR OF THE STATE OF OKLAHOMA

THE BRIEFING ROOM

12:50 P.M. EDT

MR. NESSEN: Let me introduce to you the folks who will be doing this briefing.

The meeting broke up five or six minutes ago, and so you can time it yourself.

First of all, Frank Zarb, the energy administrator, who will first of all have a brief opening statement for you. We have Alan Greenspan here because some of you raised some questions about economic impact.

We also have some of the Governors. First of all, we have Governor Tom Salmon of Vermont, Chairman of the Energy Committee of the National Governor's Conference; James Holshouser, Governor of North Carolina -- as some of you know, North Carolina is one of the States that will be most severely affected by the natural gas shortage -- and we have Governor David Boren of Oklahoma. As some of you know, Oklahoma is a major producer of natural gas.

We will start with a short statement by Frank.

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MR. ZARB: The President in the spring directed that we take a hard and in-depth look at the up and coming natural gas problem, both from long- and short-term perspectives and an interagency group under the direction of the Energy Resources Council undertook that assignment and completed its work.

General details of its conclusions are in the fact sheets, which are here if they have not already been distributed.

Q They have been.

MR. ZARB: Most of the details are there. We will, at the FEA at 3 o'clock, have a more in-depth, detailed background on the outcome of the study and what we have found.

The President was given a report before he left for Europe, as I recall, on the general findings. He directed that we look at some additional questions and come back with some options with respect to Government opportunity to deal with it, which we have done.

He asked that a meeting be arranged with the Governors in the most affected States today before he comes to any conclusions on measures that he should sponsor with respect to either new or old issues in this area.

We spent this morning going over the details of our findings, State by State, indicating potential shortages, keeping in mind a very difficult winter could make those numbers more severe and a milder winter could make them less severe.

The availability of alternate fuels under some circumstances might mitigate them in some States, but it was a down-the-road, down-the-middle, kind of analysis, and I expect you have the numbers for each State involved.

The Governors this morning indicated to the President some of their own earlier conversations and some of the views they have with respect to both long-term and short-term reaction to the natural gas situation.

Basically, we pointed out there would be a 15 percent worsening this year over last year in the whole area of natural gas. It falls out differently State by State, and we went over these differences as they occur in each individual State.

Before we take your questions, I think it would be useful to hear from the Governors.

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MR. NESSEN: Frank, were you going to make some reference to an FPC question today?

MR. ZARB: That was part of what we really discussed, and the Governors came into discuss with us, but the FPC this morning did release a policy statement, which I am sure is available in full text at their office, which would permit individual, high priority users to contract over a two-year period within producing States for gas at market prices and move that gas through interstate pipelines.

That will undoubtedly provoke a whole range of counteractions.

One of the options discussed during the course of this morning's meeting was putting that authority in legislative form, more specific legislative form so that the litigation issues might become clearer on the Congressional form.

We also talked about the 180-day program that the FPC initiated last year where a pipeline may go for a 180-day period, the most difficult part of the winter, into a producing state, if they are short, short over demand, acquire the difference at market prices within these States and role the new acquisition into their total gas flow in the interstate pipelines.

One of the options again considered is putting this in more specific legislative language so that the court actions surrounding these individuals might become simpler and perhaps made moot.

We talked about a number of other alternatives, which I won't get into now because I am sure we will get into them in your questions.

We ought to give the Governors who were present an opportunity to have a few words with respect to their observations and recommendations.

Q Will you all go along with the business of bringing intrastate oil over the rules by interstate pipe lines to priority users at higher prices?

MR. ZARB: Yes.

Q What does that do to the folks back home where the gas came from --in Texas, Oklahoma and Louisiana? Will they have any gas left down there? Will they have it at higher prices? Will they take the high priority price? What will they do?

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MR. ZARB: The Governors of Oklahoma, Texas and Louisiana supported this particular move. What it really does is, using the market mechanism, sort of re-allocate priority use of gas. If in some States, where there is an overabundance, or an abundance, of gas, it may be and is being put to relatively low priority use.

This kind of mechanism can help insure where an alternativefuel might be used in one of those States very relatively easy, and there is no alternative fuel in Ohio. There is an opportunity to move that gas from Oklahoma, Texas or Louisiana to Ohio and keep people employed.

Q Isn't that deregulation through the back door?

MR. ZARB: It is a form of specific deregulation under specific contracts for a very limited period of time.

Let's get the Governors to have their words in, and then we can get your questions.

GOVERNOR SALMON: Ladies and gentlemen, the Governors convened in Washington this morning. We met and had a vigorous discussion and, interestingly, neared a consensus.

The essence of our discussion is this: With almost unanimous agreement, we have a first-class crisis situation out there. The status quo is unacceptable. The status quo will not work.

There were a significant number of Governors from producing States, from consuming States and miscellaneous types such as myself, who have no particular ax to grind because of our limited direct relationship to natural gas as an energy resource, who expressed our views.

A kind of consensus emerged, not unanimous, and I would insist that it relate only to the Governors present. I delivered, as spokesman for this group, this consensus opinion to the President just a couple of hours ago.

In essence, and first off, we would like to see the role of the Governors in emerging national energy policy substantially upgraded.

We would like to see a third seat at the head table involving the White House and the Congress of the United States, and we would like to be consulted on an even more frequent basis.

Secondly, we perceive a very real dichotomy as respects natural gas that goes something like this: One, the immediate six to nine month problem to get us through the upcoming winter. On that issue, there seems to be near unanimity.

We favor legislation or FPC action that will create the 180-day opportunity to modify the rates of interstate gas in those areas of the country, those States of the country that need them.

We favor acceleration of conservation efforts and efforts to move towards conservation from natural gas to other alternate fuels.

Specifically, at the suggestion of Governor Boren, we favor a form of deregulation of new natural gas on a five-year basis only that would ultimately call for re-enactment by this provision if, in fact, adopted by the Congress.

On the short-term, in terms of these initiatives to get us through the upcoming winter, I sense the overwhelming presence of the Governors here in Washington today will work with the Administration, work with our Congressional delegation to this end.

On the merits on the longer term issues as an integral part of the comprehensive energy plan, it is our hope we will be brought in more closely to the head table and be able to play a more vital role in the future.

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GOVERNOR BOREN: Thank you,Governor Salmon. I am Governor David Boren of Oklahoma.

I was very pleased with the meeting with the President today. I appreciate his inviting us in. I thought he spoke very firmly on a very common sense basis about the current energy crisis, the natural gas crisis and also about the long-term.

I want to go into a little more detail about the informal motion which we passed this morning which I think makes a lot of sense. There was approximately a dozen of us there. There were two or three dissenting but it was the general consensus of those present and, as Governor Salmon said, it speaks only for those present this morning and it was presented to the President.

First, we do heartily endorse the 180-day rule enactment by Congress. I say this as a member of a producing State, the third largest producing State in the country.

There are, while we have no surplus of goods as far as the long-term even within a year period of time, because plants are being built, the commitments have already been made to, there are some small amounts of gas that can be made available to other hard-hit parts of the country on an emergency basis through the 180-day rule proposal as an emergency sale on the interstate market basis. I think that those of us from the producing States feel a very strong sense of obligation to the total Nation in this regard to support this proposal.

Every bit of spare gas that we can find that is not needed, whether it is a 30-day period, 60-day period or one week period, we are going to do our best, if not already committed in our States, to get it into the interstate markets and get it into the industrial areas of the country which are so hard-hit.

We are one country and I think all of us from the producing States present feel very strongly we want to do our part to help.

I hasten to point out this is a volunteer matter. In other words, these industries, these areas will be purchasing our gas that might be available on an emergency basis, on a very short-term basis, as a volunteer matter. But we will do everything we can to help and I think it can be a significant help.

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The second element -- I am very concerned about this -- I hope in trying to solve the short-term crisis that we don't forget the long-term problem. And I thought it was very significant that we reached some consensus this morning among most of those present on a compromise proposal on a long-term solution in natural gas. And this is a five-year suspension of controls on natural gas.

I better explain that very briefly, I don't want to take too much time. New wells drilled and coming on stream during the next five-year period -- if this were enacted -- would be forever decontrolled. Only those wells -- in other words, if I want to invest in a well and get it drilled during the next five years, I will know if my price is a dollar and a half and negotiated at that, it will be forever a dollar and a half.

Now I think this is a good proposal, it will only last five years, it will get the capital investment into drilling the wells to increase the natural gas supply and will protect against a rapid acceleration of utility rates to the users. Here is why: all the old contract prices will remain in force. We will only have this for a five-year period, only the wells found during that five years, only on the natural gas found during that period will be put on stream, will be uncontrolled and go at the market price. Therefore, the average price of gas will not increase too rapidly and it will give us a very clear indication as to whether ot not decontrol will work and can be accomplished without hitting the consumer too hard.

I think it can because, in our own experience in Oklahoma, where we have the old contracts averaged into our new natural gas, which is uncontrolled, our experience has been that our average residential utility rates have been rising at less than five percent a year over the past seven years. So your average price will not go up too rapidly if we have some of the gas decontrolled. I think these are two very positive proposals, one for the short-term, one for the long-term. They go along with the President's philosophy,of course,favoring total decontrol. It is something of a compromise with protection for the consuming States.

I think the meeting was very valuable, I appreciate the position the President is taking in trying to solve the energy crisis and I certainly am going to do all I can from a producing State and a consuming State to support it.

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GOVERNOR HOLSHOUSER: I am Governor Jim Holshouser of North Carolina.

You have heard it said that there is a crisis and I can certainly bear that out. Of the States that are going to be hardest hit, we stand at the top. If we have an average winter, in terms of temperatures, we are going to only be able to meet four percent of our industrial demands for natural gas.

If we have a more severe --

Q How much?

GOVERNOR HOLSHOUSER: That is four percent. If we have a more severe winter, it is going to go into commercial and residential in terms of shortfall.

Now,North Carolina is not the only State that is in this situation. Now, frankly, I hope today is going to be a breakpoint in the difficulty that we have had here in Washington in trying to reach the necessary legislative agreement that will allow us to move forward in this particular area. We started off, someone said this morning, with 535 different plans in addition to the one from the White House. We are now down to about 20.

The Congress is going to be debating deregulation within the next 30 days. Certainly the proposal by Governor Boren, which has been adopted in policy by those Governors who attended the meeting today, represents a major area for a middle ground of compromise that will allow deregulation on a limited basis and allow a basis for in some way alleviating the fears of those who worry about major increases in prices over a short period of time.

Certainly in terms of the immediate winter situation in 1975-76, this morning's announcement by the Federal Power Commission is certainly welcome news. We understand that that may be subject to court action. Frankly, I think such a court action brought by anyone would be the height of irresponsibility, given the crisis that is faced in a number of States in this country.

But if it does come, the Congress of the United States simply has to act if we are going to survive an economic holocaust in a great many States across this Nation.

GOVERNOR EDWARDS: I am Edwin Edwards of Louisiana.

A controlled regulation mentality has brought us to the disaster we face today. The longer it is continued, the worse the disaster is going to be and the longer it will take to work out of it. I suggest those who are going to suffer the most are the unhappy legatees of poor planning and poor policy for the last 20 years in this particular area.

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I want to emphasize that, as far as my State is concerned as a gas producer, deregulation of natural gas is no longer in our interest.

Now that says, "What do you mean?" It is very simple. We are paying a dollar and a half up to $2.00 MCF for gas in Louisiana and so long as the prices are regulated crossing State lines, it is easier to keep gas for use in Louisiana, where it is sold at market prices but used by people in Louisiana.

We are willing to do our part to help solve this problem temporarily by the 180-day rule on a voluntary basis and can in some areas help. But it should be pointed out, gas reserves are at an all-time low, gas demands are at an all-time high and we are never going to get additional reserves until we decontrol the price of gas and allow gas to seeks its price in the marketplace. I suggest,also,that is only part of the overall problem and those who are going to suffer the most in the months ahead should recognize in their backyards off the Atlantic Seaboard are unmeasured trillions of cubic feet of gas and unmeasured millions of barrels of oil which should have been tapped five years ago. And I suggest those who are concerned about the problem more in some kind of citizens action to get some support on the public official level to get some development of the Atlantic Seaboard because that additional reserve needs to be explored as soon as possible.

We believe this energy problem can be solved in America. It will take about five years leadtime to do it but we will have to relax or suspend environmental restrictions, because some of them are just too restrictive and too time-consuming, we will have to use more coal, do some development in shale oil and shale gas, where we indicate there are tremendous quantities but they have just not yet been tapped.

We will have to do some more development in every known area, including the Atlantic and the Pacific Seaboards where there is a possibility of additional reserves and we are going to have to embark upon a dedicated course of trying to make this country independent of fossil fuels by the year 2000, which I think we can do if we get on to the business.

Louisiana gas reserves have declined steadily for the past four years. We are experiencing a 12 percent decrease in production this year and unless we can get some relief in the marketplace to encourage and stimulate development that is very significant, then I don't see any possibility of resolving the problem on a short-term or a long-range basis, but I do believe there is hope if we get the government out of the business, and allow the marketplace to dictate the price of fuels, stimulate exploration and development and move the fuels, American fuels used and produced by American workmen for American people and keeping the $25 billion a year we are sending to other nations and draining our economy and contributing to inflation and recession at the same time.

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GOVERNOR CARROLL: Julian Carroll of Kentucky.

Let me say quickly, in our State there is a direct relationship between unemployment, the economy and energy. We simply do not want any more people unemployed this winter. We have all the unemployed we need.

With what the Federal Power Commission has done this morning and the 180-day rule, we can keep another 10,000 people off the unemployment rolls.

Thank you.

Q Mr. Zarb, are you ready?

MR. ZARB: Yes, Mr. Cowan.

Q Does the Administration endorse confining deregulation of new gas to five years?

MR. ZARB: The Administration heard the motion for the first time this morning and the President indicated that it was a suggestion which he would like to look at and examine in the context of some of the work that has been done within the Administration and we obviously haven't come to a conclusion on that point.

Q Which one was that?

MR. ZARB: The question was did the Administration approve of the confining of deregulation to a five-year period. You heard my answer.

Q Barring some rather quick action by the Congress that would bring on new supplies and make new supplies available to the States that need it, what would be your assessment of the impact, the magnitude of the shortage and the impact of the shortage this winter, given a fairly bad winter?

MR. ZARB: Well, when you are given a fairly bad winter and then your next question is how bad is fairly bad, if you are talking about a worse and more severe cold winter than we had last winter by some substantial amount, then we can have unemployment that would range into the thousands. I can't give you a specific number.

A lot depends on alternate fuels, the ability to convert. If there aren't any of the things we talked about, no 180-day program, no opportunity to negotiate in the interstate department as FPC indicated in its policy statement this morning, then we will have substantial unemployment especially in the top 14 States.

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Q Did any of these Governors think there were any gas wells they could untap now and turn into the market additional supplies?

MR. ZARB: The question was raised is there a possibility this is a contrived shortage and the gas is hidden somewhere and that is the source of the problem. We discussed that briefly, but we did discuss that point, and the judgment of those present, including the Chairman of the FPC, is these are issues we have looked at before, there are reviews underway as there are almost continually and from time to time there are spots and individual situations where that might be the condition.

But it was our response that it is fairly clear after two years of chasing down these stories that our energy crisis is not going to be solved by finding that kind of condition and solving it.

We simply have an energy shortage, a severe natural gas shortage relative its demand and that is the critical path.

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Q Can you explain what the 180-day modification is for those of us who don't cover energy on a day-to-day basis?

MR. ZARB: The 180-day modification is during a 180-day period inter State pipelines, that are short in terms of fulfilling its commitments, can buy this intrastate market at a higher price and pass that gas along to its consumers and role that higher price into its total base.

Q Is that 180 days over this winter?

MR. ZARB: Yes.

Q When does the period start?

MR. ERIC ZAUSNER (Acting Deputy Administrator, Federal Energy Administration): A maximum of 180 days, whenever it starts.

Q It is renewable?

MR. ZARB: It is not renewable, no.

Q Is this a program that the Administration would support?

MR. ZARB: Yes.

Q Who are the dissenting Governors?

MR. ZARB: Dissenting about what?

Q Dissenting on the 180 day rule?

GOVERNOR HOLSHOUSER: I didn't hear any dissenting Governors on the 180-day rule.

Q How about the five-year deregulation.

GOVERNOR SALMON: The motion was put at our meeting on the four points I outlined earlier and the only dissent I heard was that of Governor Shapp of Pennsylvania on the entire motion that contained four parts.

He will have to speak for himself, but he is troubled by the perceived manipulation of natural gas, the contrived shortage, and I sense, from what he said at that meeting, what he said to the President, that was an overwhelming factor in his negative vote.

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Q I am unclear as to what preventions you will take to avoid shortages of gas in the producing States. There will be such an invitation to send this gas interstate.

GOVERNOR SALMON: I will let a producing State Governor answer that.

GOVERNOR BOREN: The way the proposal was made, it will not create shortages in the producing States because what we are asked to do is any gas not committed in short-term, we are asked to commit that into the interstate market.

For example, let's suppose we have a utility that has a commitment to a new plant opening in Oklahoma in four months, but that plant is not open yet. That gas is committed to them, and they made the investment in that plant on the basis of that commitment.

During that three months or three and one-half or up to the four-month period that gas could be committed on an emergency basis to another State without any hardship on the producing State.

What we will do in the producing States is work as hard as we can to find any kind of situations like that where we can make this kind of gas available. This has been done before, and I think Mr. Zarb spoke to this. It had a substantial impact last winter in getting what we might call emergency gas into the areas where it was most needed.

Q This will not increase the price of gas in the producing States?

GOVERNOR BOREN: No, I do not think it will because we would be selling -- we are already paying a much higher price at the wellhead in the producing States than is the interstate market. That is why all the gas being produced in Oklahoma today, for example, is going to the market inside Oklahoma because we are paying a dollar and a half for it instead of 51 cents.

The producer can't produce it for 51 cents.

Q Do you have any idea how much gas we are talking about?

GOVERNOR BOREN: Mr. Zarb, you estimated 200 billion cubic feet is an approximate estimate based upon the experiences last year and the year before.

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Q What does that figure apply to?

GOVERNOR BOREN: That might be available on an emergency basis under the 180-day rule over a six-month period.

Q What is the shortfall?

GOVERNOR BOREN: 1.4 trillion. I would like to let Mr. Zarb answer this because he spoke to the fact while this, of course, is not nearly the amount of the shortfall, if put into strategic areas and strategic industries it could do a great deal to lessen the unemployment impact.

MR. ZARB: The 180-day provision does provide for one role over by vote of the Commission. I misinformed you a moment ago.

Q What do you mean?

MR. ZARB: One additional 180-day period upon vote of the Commission.

The question of the 1.4 trillion, youknow we have to keep in mind -- that is why we ought to be cautions of these numbers -- under certain circumstances there are opportunities for substitutability, so the shortage varies within that framework.

I again say with respect to producing States there is a reshifting of priority use or relatively low priority use that has an easy transition to another fuel within a producing State might do so under these circumstances.

Q Governor Boren indicated earlier there were two or three Governors that dissented from all or part of this five-year plan.

GOVERNOR BOREN: The four points made were, one, that we endorse strong conservation measures; two, that we ask for an increased role for the Governors and actually sitting in on the negotiating process of making energy policy; three, endorsement of legislating the 180-day legislative rule because it has been tied up in the courts in the past, if necessary, to legislate; and four, the five-year suspension for all time, as far as the wells drilled during that five-years, they would be decontrolled forever the life of those wells.

As I recall, Governor Shapp dissented from the total motion. This doesn't mean he was opposed to parts of it. I don't recall whether Governor Mandel voted on all of it or not.

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Q May I ask several of the Governors, any one of them, I am impressed by your concern for deregulation and the amount of unemployment that will result and your industry that will shut down if you don't get it, but I haven't heard any of you speak forcefully on protection guarantees for the small consumer, the residential user and the commercial user.

Do you have any kind of ideas on that?

GOVERNOR EDWARDS: Let me try that. We are the ones going to be on the consuming end of all this. It is obvious that there will be some trade-offs in this proposal. You can't expect gas to come in from the intrastate market at a higher price without somebody paying for it.

It is spread across the board, and that will probably vary from State to State by the Public Service Commission rules. Somebody will have to bear that price, but keep in mind we are only talking about new natural gas, which is going to be a small fraction of the total supply available to us at the consuming level.

We face the trade-off of saying to each consumer you are going to have to pay a slightly higher price, perhaps, for your natural gas, those of you who heat your homes or whatever by natural gas as opposed to losing your job. I think that choice becomes very clear.

GOVERNOR BOREN: I think we should add one point on this consumer thing. You read so much bunk about that will be to the benefit of the consumer. The only thing that will help the consumer is to have an adequate supply so that the price can go down.

You don't help the consumer when you keep a shortage. This is what Governor Edwards meant a while ago. When we are paying a dollar and a half for gas in Oklahoma, we have an adequate supply, and with an adequate supply, our residential utility bills have gone up less than 5 percent a year.

When you are paying 51 cents, no one will drill the gas for 51 cents, so you don't have any gas, and you are putting it through a pipeline that is half vacant and has to be amortized for $30 billion. That is how much we owe on those pipelines.

You are making the poor consumer in the Northeast pay that amortization cost and not have any gas, either. If we are talking about what is in the interest of the consumer, we should talk about something that will increase production, that is the only thing that makes sense. I think this does it with adequate protection to the consumer with prevention against a rapid increase in prices.

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GOVERNOR HOLSHOUSER: That is very true. Those trade-offs we are talking about are on a near-term basis and the long-range benefit to the consumer isn't going to be served by keeping down prices artificially and supply, therefore, artificially.

GOVERNOR SALMON: Could I make a brief comment complimentary to the question? Our staff at the National Governor's Conference on Energy estimates the increased per residential household, after the decontrol, be it on a five-year basis or be it on any basis, would be about 6 percent a year, not a dramatic or shocking increase.

The American consumer comes in on the other subject we discussed with the President; namely, what he is going to do about vetoing the six-month extension bill that the Congress will be sending up.

As we say in Vermont, that is an equine of a different hue. That is going to have, in my judgment, a profound effect on the American consumer if and when it happens.

Q Mr. Zarb, is there any chance the President will sign the extension control bill?

MR. ZARB: No.

Karen?

Q You mentioned a while ago legislation to make these issues more clearcut for a court challenge. Is the President going to send legislation to the Hill that asks for this 180-day rule and asks for this five-year deregulation?

MR. ZARB: The legislation for the 180-day rule is already up there. It went up in July. It might be repeated in some other form of legislation that might be designed to accommodate the emergency and take care of some of the other details this time around.

Today's policy statement is that in legislative form up there yet? That is also up there. So, we may be repeating it on any omnibus bill should the President decide on letting one go forward.

Q Does it deal with that? You give a figure of 200 billion cubic feet of excess in the producing States and 1.4 trillion cubic feet shortage, which is clearly not enough to go around.

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MR. ZARB: It does not allocate it, if that is what you are asking. It will go to the highest priority industries in our view, and it does not attempt to --

Q Who will set the priorities?

MR. ZARB: In our view and our experience last winter, the available gas went to those that needed it most. In those States where it didn't occur that way, those were a lesser priority because of some State action, such as Kentucky. They pooled that and made sure that the industries that needed it most got it. We are not anticipating --

Q So you will decide who needs it most?

MR. ZARB: No.

Q Who does?

GOVERNOR SALMON: FPC.

Q What are some of these industries and what will be the effect on consumer goods?

MR. ZARB: With respect to what?

Q The bidding up in the market for this natural gas. If you pay high prices in Oklahoma, you will have to pay an awful lot on your goods in New Jersey.

GOVERNOR HOLSHOUSER: If our textile industry in North Carolina can't get natural gas this winter, they will have to shift to a fuel that costs better than 100 percent increase in costs and that will be passed on to the consumers.

That is a lot worse than a 6 percent increase no matter how you cut it.

In terms of processed gas that goes into the textile product itself or that goes into brick or into glass or goes into fertilizer -- and we have one plant that supplies the majority of fertilizer for four Southern farm States -- there is no substitute except propane.

Propane is a derivitive of natural gas and as natural gas gets shorter, propane gets shorter. There will not be an alternate fuel available for processing feedstocks gas for some of those things at any price.

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Q Tell us again, my question is this: There has to be more than 6 percent of an increase when you start bidding on gas down in Oklahoma for North Carolina. You don't know what the price is going to be?

GOVERNOR HOLSHOUSER: That is not correct.

Q You say you were going to bid on the market.

GOVERNOR HOLSHOUSER: You are not going to be buying all of your supply out of new gas. Less than 20 percent of your supply of natural gas is going to come from those new wells or from intrastate market wells and the remaining bulk of the supply is going to still come in at that 51 cents. When you merge it all together, it is all at the 6 percent increase, which is what is estimated by our staff at the National Governor's Conference.

Q You said in your statement that 96 percent of the basis -- that only 4 percent of the industry would have all the natural gas it needed, so that is a 96 percent industry shortfall in your statement.

GOVERNOR HOLSHOUSER: That is correct. We expect a total 96 percent shortfall in North Carolina, and industry, of course, being lower priority than residential, will bear a 96 percent shortage.

Q Governor Salmon, the Democratic-controlled Congress has refused to go along with the President's request to decontrol natural gas. Is it your reading of the Democratic Governors that nearly all of them, or an overwhelming majority of them, favor some decontrols of the price of natural gas?

GOVERNOR SALMON: I think that is a fair statement, but it has to be part of the program and I would make this refinement: We are talking about near-term initiatives, short-term initiatives to get us through the winter that we are committed to, the longer term decisions which become an integral part of an emerging national energy policy we would like to be consulted on.

If there is going to be a bill to decontrol on the long-term on a basis other than the plan outlined by Governor Boren, we would like to sit at the head table as that evolves.

Q Mr. Zarb, how is the industrial priority system going to work? Is it going to come down the same as last year?

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MR. ZARB: It will be a determination by the FPC and I would expect roughly the same as last year.

Q Will there be enforced allocation?

MR. ZARB: Enforced allocation of intrastate gas?

Q Right.

MR. ZARB: It is technically not a feasibility.

Q Is that oil?

MR. ZARB: We are not talking about oil, we are talking about gas with pipeline configurations which have no similarity. The ability to allocate natural gas is simply not there and would just cause more disruption.

Q Then the Administration will not seek emergency authority to allocate intrastate natural gas?

MR. ZARB: You are talking within the context of the winter?

Q In the context of the winter or a longer term.

MR. ZARB: I think the answer is no. I told you before, the only time it has ever been raised for consideration --a decision on that point hasn't been made yet -- would be whether it fits into an embargo standby act, which would have such authority present in the event of an embargo, and that is under real consideration.

Q Did you discuss at this meeting a more rapid phase-out of the use of natural gas as boiler fuel in producing States?

MR. ZARB: We didn't get that far. I don't know whether the Governors did. It relates to the conversion to other fuel.

GOVERNOR HOLSHOUSER: We endorced the conversion concept.

MR. ZARB: The ESECA program extended to gas, from gas to oil, as one of the Governors told as they endorsed and we didn't get into any conversation.

There was a question here about propane.

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Q Are you seeking authority either to allocate or continue control prices of propane?

MR. ZARB: I don't want to get into details of that now because they will be before the President within the next several days but there are a few other pieces, including the propane question and the options available to us and he will be looking at that and I might add, also looking at what other options he might want to consider with respect to the independent sector of the petroleum market and what additional steps we might or might not initiate in view of the decontrol program.

Q What is the expected industry shortage of natural gas nationwide this winter?

MR. ZARB: Industry alone?

Q Yes.

MR. ZARB: 1.3 would virtually all go to industry. The point 3 is different between last year and this year and keep in mind last year we kept things down and cool because of a mild winter and because of our ability to substitute fuels. When you start getting into industries sometimes in some areas that have no hardware capability to substitute fuels and that is why we get a little bit more exercised as the shortage enlarges itself.

Q Has your General Counsel looked at the question of whether you do have authority under the FEA Act to go ahead and control propane, allocate it and pricing?

MR. ZARB: Well, the allocation authority, of course, has been there all along and that will be no longer with us as of August 31 and for that reason we are looking at a separate consideration with respect to propane.

Q Governor Boren, under your five-year plan would there be a mechanism to prevent the withdrawing of old gas from the market and the substitution of new, higher priced gas across the board? Would you have a mixed percentage of some kind?

GOVERNOR BOREN: Yes, what would happen, let me explain this again and then I will take another question directed to me back there. What I am advocating here is not a phase-out of regulation, it is not a phase-out deregulation, it is different. It is a five-year suspension.

Now the principal cause of people not investing right now -- I know of people, or reports that people were ready to invest up to $50 million in Western Oklahoma a while back in drilling deep wells, and they quit.

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They didn't invest it because of the uncertainty. Someone is not going to invest and sink great costs into a $2 million or $3 million well if they don't know where the price is going. So rather than phase-out the controls, what I am saying is that a well drilled during this five-year period, let's say the price is negotiated at a dollar and a half, the people investing in that well will have the certainty for the life of the well that the price will be a dollar and a half.

Maybe at the end of the five-year period, the controls would go back on if the experience was bad. I think it will be a good experience and wells after that would be controlled again. It would be a suspension of control of wells coming on line. Now the old contracts could not be renegotiated under this so you would have an average price which would result -- the big bulk would be the old contracts still, right, and the new wells coming on the line in the five-year period, that would average into the average price and that's a protection for the consumer.

So the average price to the consumer would not go up too rapidly. This is what Governor Holshouser was talking about.

GOVERNOR HOLSHOUSER: This last point is the key on your question, that the old wells are subject to contract now and those contracts would remain in force.

Q Those wells drilled in the next five years would forever be decontrolled?

GOVERNOR BOREN: Yes, because if I am going to invest in an oil well or gas well, I don't want to invest in one that may have a price of $1.50 today and 85 cents tomorrow, 50 cents the next year because I will loose money.

Q Governor Boren, is there any provision for unitized fields in these proposals?

GOVERNOR BOREN: No, I haven't gotten into that technicality.

Q What provisions do you have to guard against having someone drill a new well in an old field, and shut down the old well?

GOVERNOR BOREN: The individual well measurement is what we would have to write into it.

Q You would have to put in a safeguard.

GOVERNOR BOREN: Yes, we would have to put in a safeguard like that, individual well measurement to make sure you didn't have that kind of spreading, that you were dealing only with that well. This was a new proposal and we haven't refined it yet, but it is hopefully something that will move us toward decontrol, protecting the consumer. And it still needs a lot of refining but, try to get some more supply but not alarm the consuming States and confine it.

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MR. NESSEN: Let me say the FEA is going to have a briefing of its own at 3 o'clock and they can deal with some of your more technical questions. It will be in Room 3000 B at the FEA, located at 13 and Pennsylvania. Eric Zausner and Bruce Pasternack will do that. Maybe we ought to wrap this up with two more questions to the Governors.

Q Just so this doesn't count as one of the questions, does this replace the Governors' scheduled press conference at 1:45?

GOVERNOR SALMON: Not as far as I am concerned. (Laughter)

Q What are you going to do with Alan Greenspan? Are you going to let him talk to us?

MR. NESSEN: You didn't ask him anything?

Q We are ready, Mr. Greenspan, for you to tell us what will be the effect of this 180-day business on prices.

MR. GREENSPAN: I think the impact of this -- you are talking about the national price level?

Q Yes.

MR. GREENSPAN: I would say it would be extremely small and perhaps so modest as to be not a critical question of discussion.

Q Have we ever experienced this 180-day thing before?

MR. GREENSPAN: Yes.

Q When?

MR. ZAUSNER: About two years ago it was done for almost six months during the year of the embargo, 200 billion cubic feet of natural gas did move during that period. It was then enjoined in the courts and was ceased after roughly six months.

Q Governor Edwards, am I correct in my understanding that you will be willing to share any surplus Louisiana gas only if you have the assurances that the Pacific and East Coast will go into their own production?

GOVERNOR EDWARDS: My proselyting on offshore development is for the benefit of the Easterner, not the Southerner, we have already benefited from it, the Nation has benefited from it. We are willing on an emergency basis to share whatever surplus gas we might have for limited periods of time to help other people out in other States in a period of crisis.

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But don't walk away from here believing this will open the floodgates of gas and everybody will go home happy wallowing in cheap gas. That won't happen. There are some areas in Texas, Oklahoma, Louisiana and possibly Kansas, that isolated pockets of gas could be used for possibly 180 days, committed to interstate markets so long as we are given the legal assurance,and this has been the hooker up to now, that would not constitute a permanent categorization of that gas supply to the interstate markets and the 180-day rule would merely provide a vehicle through which we could flow that gas through interstate lines to other States during periods of emergencies and crisis.

Q Governor Boren, do you share that view?

GOVERNOR BOREN: Yes, that is exactly my view and this does have a built-in protection that it will not be a permanent commitment to interstate markets because that gas is already committed within our State. It is a temporary flow-through mechanism and gives us a way to be of help to the areas that are so hard hit.

THE PRESS: Thank you.

END AT 1:38 P.M. EDT