

# Natural Gas—New Perspective For A New Decade

By John Kean

You're all familiar with the expression "one picture is worth a thousand words," which might be true in some cases but it certainly doesn't apply when it comes to describing our country's energy situation.

Wouldn't it be great if I could simply flash a picture on the screen and say, "There it is—that's what this energy problem is all about?" Not even a *thousand* pictures, let alone a *thousand* words, could fully tell the story of our current energy problems, our needs, or for that matter, indicate the role which natural gas will play in the '80s and well into the future.

Barely three years ago, the Eastern two-thirds of the country was throttled by a near-crisis shortage of natural gas—or more accurately, *not* by a *real* shortage of natural gas but by an *economic* shortage which in turn caused a deliverability problem.

Yet today we hear such terms as "golden age," "optimistic" and "renaissance" used by people inside and outside the gas industry to describe the dramatic turnaround that has occurred.

What brought about this seemingly sudden reversal? Certainly, it didn't happen overnight. It didn't *just* happen. It took the dedication and untiring efforts of literally thousands of industry and non-industry people who were vitally concerned with the growing energy needs of our nation.

The '70s indeed brought many serious concerns for our industry. But as the decade ended we had sound reasons for optimism and enthusiasm not only for our industry but also for the consumers we serve. During 1979, favorable regulatory, legislative and business decisions were made to ensure that gas would play a vital role in the nation's energy future.

The American Gas Association (AGA) recently held a conference that was entitled "Marketing Initiatives—Roaring Into the '80s." Perhaps people in marketing are by nature somewhat more exuberant than most of us, but the theme of that conference nevertheless shows a new, vigorous and positive attitude in our industry—a far cry from that *infamous* day a few years ago, when one of the major TV networks proclaimed the end of our indus-

try (by visually extinguishing the blue flame).

Possibly the best news of last year actually came in the closing months of 1978 when the Natural Gas Policy Act (NGPA) was approved by Congress and signed by the President. The first full year of the NGPA has been marked as a year of improved gas supply for all markets. It was a year which proved that "the gas option" could make a vital contribution to this country's energy future. Without a doubt, the NGPA has exceeded expectations not only by spurring new natural gas exploration but also by transferring gas between markets. Natural gas well completions this past year increased by 13 percent over wells completed a year ago.

Exploratory drilling and seismic activities are at record levels. In offshore areas of high gas potential, gas completions are up by about 10 percent. Another area favorably affected through deregulation under NGPA involves drilling for gas below 15,000 feet, or "deep gas." Deregulation of the price of this gas has led to a 10 percent increase in deep well completions. The Potential Gas Committee estimates that these deep horizons comprise 20 percent of the potential U.S. gas supplies.

The Western overthrust belt is also experiencing a major increase in drilling activity for both gas and oil. Recent gas finds in Wyoming attest to the vast untapped potential of this region. Deregulation of Devonian shale gas has brought about intense development of the Appalachian Basin. Gas well completions in 1979 have increased 20 percent.

In addition to providing effective incentives for the increased production of natural gas, NGPA has also made it possible for the Federal Energy Regulatory Commission (FERC) to adopt a reasonable regulatory approach by allowing intrastate pipeline sales to the interstate market and by retaining the pre-existing rule permitting 60-day emergency purchases. By this action, they substantially improved the flow of gas to the nation as a whole. *Today*, there is truly *one* market for natural gas.

This flow from the *intra* to the *interstate* market reached a level of one trillion cubic feet (TCF) in 1979, contributing both to the expansion of sales to existing customers and to the displacement of imported oil by all classes of customers. In fact, since January 1979 it is estimated that natural gas has displaced more than 160 million barrels of foreign oil. To my way of thinking, switching from oil to gas *wherever feasible*—makes good sense economically, is supported by the Federal government, and in fact—is the patriotic thing to do. The big question which remains unanswered is: Can conventional gas supplies alone meet *all* of our growing needs? The answer for the residential customer is yes, *now*, into the foreseeable future. For other classes of customers, *maybe*, and for some, *no*. A substantial part of future gas supplies must come from supplemental sources if we are to meet the growing needs of every class of customers.

Last year, we made good progress toward developing some of the supplemental sources that will be required to meet these future energy demands. For example, a favorable decision by the FERC in August 1979 removed the last major barrier to the start of construction of a liquefied natural gas (LNG) facility at Point Conception, California. The plant will regasify LNG from Southern Alaska and Indonesia. LNG is important to our nation's supply mix.

In 1978, only 100 billion cubic feet of LNG was imported. By the end of the '80s the U.S. may import as much as two TCF of LNG each year. By the year 2000, this figure could rise to three TCF and provide about 10 percent of the estimated demand of between 30 and 35 TCF. LNG imports unlike foreign oil have employment and balance of payments advantages. Imports of gas in its natural form are also important. In December of 1979, the Canadian government approved the export to the U.S. of an additional 3.75 TCF of natural gas. This amount, coupled with the nine TCF already under contract for export to our country adds significantly to our supply availability.

The door has also been opened to an additional supply from Mexico. Although initial volumes are small, there is the promise of substantial quantities in the future.

Alaska, on the other hand, has vast domestic sources of clean, efficient natural gas ready for delivery now. Once financing arrangements for the Alaskan Natural Gas Pipeline project are completed, construction can begin on this 4800-mile pipeline.

Talk about "right-of-way" problems. A recent Federal estimate of the cost of the Alaskan pipeline was \$23 billion, up some \$8 billion from the original estimate. To put that \$23 billion figure in perspective, it represents more than 35 percent of the total \$65 billion capital investment of the entire U.S. gas industry. Gas from Alaska will be expensive, but it won't be controlled by a foreign cartel.

In addition, there are new technologies—some nearly developed, others still experimental—which can add enormous amounts of natural gas to our overall supply. These include coal gasification, gas from land and marine biomass, gas from organic and municipal wastes, gas from geopressurized brine and others.

It would be nice to conclude my article at this point on such a positive note and ignore the cloud that hangs over our head. At the time the National Energy Act was signed into law, Congressional leaders and other supporters of the bill, including the AGA, acknowledged that this landmark legislation contained imperfections that would have to be addressed in the future. Federally mandated incremental pricing is, perhaps, the most glaring of these problems. AGA and other interested parties testified before the Federal Energy Regulatory Commission and convinced them to minimize the adverse impact of the first phase of incremental pricing. Instead of boosting industrial gas prices to the level of number two fuel oil, the commission decided to tie industrial gas prices to high-sulphur number six fuel oil.

However, this first step was followed by proposals to implement phase II, which extends incremental pricing to 95 percent of all industrial users on a three-tier system based on high/low number six oil prices. If ever there was a need for one picture to be worth a thousand words it certainly is *right now*!

Unfortunately, if incremental pricing is ultimately implemented we shall see substantial fuel switching with a resulting

negative economic impact. Again, we look to legislative history for the reasoning behind incremental pricing.

"At the time it seemed like a good idea," said the re-election hungry congressman.

So we see the idealistic objective, to incrementally price gas so as to shield residential and commercial customers from the costs of more expensive sources thereby assuring *our* re-election and industrial users will bear the burden. In practice, the complex mechanism of Phase II incremental pricing will actually work to the detriment of everyone. It seems clear that it will work to our nation's disadvantage by encouraging an increase in the country's demand for oil at a time when a reduction in oil consumption is not only a national priority but also a matter of national economic survival.

Incremental pricing will force residential consumers to pay more money than they would have otherwise not only for natural gas but also for their entire basket of goods and services. Perhaps at the time of the passage of the NGPA the idealistic goals envisioned by Congress might have been attainable, but that was before most of us knew the true meaning of the word—Ayatollah. That was before the Russian invasion of Afghanistan and before OPEC went on their giddy spiral of *increases* in oil prices and *decreases* in production.

If Phase II is implemented—and the FERC has ruled on this matter recently—it will cause the annual inflation rate during this decade to rise by about one percent each year. If Phase II is implemented it will reduce the Gross National Product and cause unemployment to rise. At a time when Federal regulatory reform is a major policy goal, Phase II represents a typical Bureaucratic boondoggle filled with confusion, error and unnecessary hardship for industry and consumers alike.

The arguments for repeal of this section of the legislation are very compelling. I call upon the Congress of the United States to *act* with courage rather than *reacting* with voter appeasing platitudes. We must recognize and admit the inherent hazards of incremental pricing and repeal Title II of the NGPA. To do otherwise would be to strike at the very heart of our national energy policy and our economic goals. I also respectfully urge you to support our position and bring about the repeal of this leg-

islation for your benefit and for mine and for the nation as a whole.

There are strong reasons for optimism and confidence in the future of gas energy in America. The gas utility industry realizes that there is work still to be done. There is no doubt, however, that gaseous energy will make an essential contribution to the nation's priority goal of energy independence. Much of that goal will be met with the help of clean, efficient, and potentially abundant natural gas, some with more expensive supplementals, some through the cooperation of our hemisphere neighbors, and some through imports. But the important thing to remember is: We will meet our goal—to provide gas to a growing America.

## CBS Replies

Dear Mr. Benson:

Please accept my apologies for this delayed response to your letter regarding the CBS WEDNESDAY NIGHT MOVIE "Ohms." Our mail has been exceptionally heavy this year and we have been unable to reply to our viewers as promptly as we would wish.

We regret your disappointment with "Ohms." Although this film drew on a contemporary situation for its plot, it did not purport to be a documentary or a didactic vehicle. As a dramatic portrayal of one specific situation, it was designed only to entertain. Its presentation by the CBS Television Network in no way implied that we were taking a position for or against any segment of the utility industry. During the production of "Ohms," CBS received advice from a prominent utility company.

You might be interested in knowing that the writer, Gene Case, based his script on news stories from Upstate New York about local resistance to a planned high-voltage power line. Mr. Case stated that his investigations revealed similar struggles had occurred around the country and are still an issue in many locations.

Thank you for taking the time to share your thoughts with us. It is our hope that you will come to think better of CBS in the future.

Cordially,  
Marjorie Holyoak, Director  
Audience Services