

190. 1983

STATEMENT OF SENATOR DOLE
NATURAL GAS HEARING
MARCH 31, 1983

IT IS A PLEASURE TO BE HERE THIS MORNING WITH THE OPPORTUNITY TO DISCUSS AN ISSUE OF GREAT CONCERN TO ALL OF US -- NATURAL GAS PRICES. I WANT TO THANK MY DISTINGUISHED COLLEAGUE, SENATOR KASSEBAUM, FOR INVITING ME AND FOR HER WORK TO MAKE THIS MEETING POSSIBLE.

I WAS IN THE SENATE DURING THE LAST BATTLE OVER NATURAL GAS POLICY, WHICH RESULTED IN THE NATURAL GAS POLICY ACT (NGPA) OF 1978. I VOTED AGAINST THE NGPA AND BELIEVE THAT IT STANDS OUT NOW AS A STARK EXAMPLE OF WHAT IS WRONG WITH FEDERAL INTERVENTION IN THE NATURAL GAS MARKET. PRIOR TO THE NGPA, FEDERAL PRICE CONTROLS LED TO MASSIVE GAS SHORTAGES AND CURTAILMENTS WHICH CLOSED DOWN MUCH OF THE INDUSTRIAL MIDWEST. SO CONGRESS PASSED, AND PRESIDENT CARTER SIGNED THE NGPA TO PROVIDE INCENTIVES FOR NEW GAS PRODUCTION. WHAT IT REALLY DID WAS ESTABLISH INCENTIVES TO PRODUCE THE MOST COSTLY AND EXOTIC GAS SUPPLIES WHICH WERE QUICKLY SIGNED TO LONG-TERM, INFLEXIBLE CONTRACTS.

THOSE CONTRACTS HAVE NOT RESPONDED TO THE CHANGED MARKET CONDITIONS OF THE LAST FEW YEARS AND CONSUMERS ARE NOW PAYING THE PRICE. I HAD HOPED WE MIGHT SEE SOME OF THOSE AGREEMENTS CHANGED VOLUNTARILY AND INTERVENED TO ENCOURAGE RENEGOTIATION

- 3 -

AND CURTAILMENTS OF THE MID-1970'S, WHEN GAS WAS UNAVAILABLE AT ANY PRICE. CLEARLY, GAS AT A MARKET PRICE IS PREFERABLE TO NO GAS AT ALL. IN OUR DESIRE TO ADDRESS THE PROBLEM OF CONSUMER PRICES, WE SHOULD NOT LOSE SIGHT OF THE NEED TO INSURE AN ADEQUATE GAS SUPPLY.

ALTERNATIVES

TO ADDRESS THIS PROBLEM THERE ARE CURRENTLY TWO GENERAL APPROACHES BEFORE CONGRESS. THE FIRST, ADVOCATED BY MANY OF MY COLLEAGUES HERE, IN BROAD TERMS CALLS FOR A FREEZE AND EXTENSION OF EXISTING WELLHEAD PRICE CONTROLS, AND A GRANT OF AUTHORITY TO PURCHASERS TO ABROGATE INFLEXIBLE CONTRACTS FOR HIGH COST GAS. THE OTHER APPROACH, ADVANCED BY THE ADMINISTRATION, ATTEMPTS TO INDUCE PARTIES TO GAS CONTRACTS TO VOLUNTARILY RENEGOTIATE THEIR AGREEMENTS AND PROTECTS CONSUMERS THROUGH A FLOATING GAS CAP PRICE AND A LIMITATION ON PURCHASED GAS ADJUSTMENTS TO NO MORE THAN THE RATE OF INFLATION.

THE ADMINISTRATION'S BILL HAS BEEN CRITICIZED BECAUSE IT PROVIDES FOR THE EVENTUAL DECONTROL OF ALL NATURAL GAS AND FOR THE IMMEDIATE DECONTROL OF NEW AND RENEGOTIATED GAS CONTRACTS. MANY INDEPENDENT PRODUCERS IN KANSAS ADVISE THEY CANNOT GET THE NGPA CEILING PRICE IN TODAY'S MARKET ANYWAY, WHICH SUGGESTS THAT CEILINGS MAY NOT BE NECESSARY. FURTHER, IN TESTIMONY BEFORE THE SENATE ENERGY COMMITTEE, THE NATURAL GAS SUPPLY

- 2 -

IN OUR AREA. I FIRMLY BELIEVE THAT THE PARTIES TO INDIVIDUAL CONTRACTS ARE BEST SUITED TO ALTER THOSE AGREEMENTS. TO DATE THAT HAS NOT HAPPENED, ALTHOUGH I AM ENCOURAGED BY THE RECENT RATE REDUCTION FILED BY NORTHWEST CENTRAL PIPELINE. SO NOW WE ARE LOOKING FOR LEGISLATIVE SOLUTIONS TO HIGH PRICES AND BIZARRE CONTRACTS WROUGHT BY PREVIOUS LEGISLATIVE SOLUTIONS. WE ALL AGREE THAT SOMETHING MUST BE DONE TO HALT, IF NOT ROLL BACK, INCREASING NATURAL GAS PRICES. THE REAL ISSUE IS HOW WE DO THAT BETWEEN THE WELLHEAD AND YOUR THERMOSTAT.

OBJECTIVES

IT SEEMS TO ME THAT WE MUST FORMULATE LEGISLATION THIS YEAR TO MEET THREE OBJECTIVES. FIRST AND FOREMOST, CONSUMERS MUST BE PROTECTED FROM FURTHER RAPID PRICE ESCALATION. NATURAL GAS IN MOST PARTS OF THE COUNTRY IS ALREADY AT, OR HAS EXCEEDED, ITS ESTIMATED FREE MARKET PRICE. FURTHER PRICE ESCALATION WOULD BE INTOLERABLE.

SECONDLY, MARKET PRESSURES MUST BE BROUGHT TO BEAR ON ALL SEGMENTS OF THE GAS INDUSTRY -- CONSUMERS SHOULD NO LONGER BE FORCED TO PAY FOR BAD BUSINESS DECISIONS OR UNMARKETABLE GAS.

FINALLY, WE MUST ACT RESPONSIBLY TO INSURE AN ADEQUATE SUPPLY OF NATURAL GAS IN THE FUTURE. ALTHOUGH WE HAVE A CURRENT SURPLUS OF DELIVERABLE NATURAL GAS, THE DECISIONS WE MAKE THIS YEAR, IF IMPROVIDENT, COULD SPELL A QUICK RETURN TO THE SHORTAGES

- 4 -

ASSOCIATION, WHICH REPRESENTS GAS PRODUCERS, ARGUED AGAINST INCLUDING RENEGOTIATED CONTRACTS IN THE GAS CAP BECAUSE THOSE PRICES WOULD BE ARTIFICIALLY LOW. THAT SUGGESTS THAT OLD GAS CONTRACTS MAY NOT INCREASE AS DRASTICALLY AS SOME HAVE ARGUED. THE DEPARTMENT OF ENERGY ESTIMATES THAT PRICES UNDER THE PRESIDENT'S APPROACH WOULD DECLINE BETWEEN TEN AND THIRTY CENTS PER MCF DURING THE FIRST YEAR AND POSSIBLY MORE IF THE PRICE OF OIL CONTINUES TO DECLINE.

BOTH APPROACHES, THEREFORE, HOLD OUT INITIALLY THE PROMISE OF IMMEDIATE CONSUMER PRICE RELIEF. BOTH PROPOSALS ALSO SEEK TO BRING ACCOUNTABILITY TO ALL SEGMENTS OF THE GAS MARKET. CURRENTLY, PIPELINES CONTINUE TO EARN THEIR RATE OF RETURN DESPITE DECLINING SALES. PRODUCERS ARE ALLOWED TO HIDE FROM THE MARKET BEHIND INFLEXIBLE LONG TERM CONTRACTS. AND THERE ARE NO INCENTIVES TO BRING LOW COST GAS TO THE MARKET. UNDER THE ADMINISTRATION PROPOSAL THAT WOULD CHANGE. BY ALLOWING EITHER PARTY OUT OF A CONTRACT IN 1985 AND REQUIRING PIPELINES TO ACT AS CONTRACT CARRIERS ON A SPACE AVAILABLE BASIS, WE OPEN THE MARKET TO BADLY NEEDED PRICE COMPETITION. THE ULTIMATE CONSUMER PRICE FOR GAS IS HEAVILY INFLUENCED BY THE PRACTICES OF PIPELINES AND DISTRIBUTORS. WE SHOULD NOT LIMIT OUR FOCUS TO WELLHEAD PRICES AND PAST CONTRACTUAL PRACTICES. WE SHOULD PROPERLY FOCUS A PORTION OF THE DEBATE ON RESTRUCTURING THE RULES BY WHICH NATURAL GAS IS BROUGHT TO THE CONSUMER.