

## HOW NATURAL GAS PROPOSALS ZAP THE CONSUMER

So-called perfecting amendments to the 1978 Natural Gas Policy Act (NGPA) have been introduced in the House Energy and Commerce Committee. Quick action is expected by the committee and the full House. If approved, these measures would wreak havoc with the domestic natural gas industry, cause widespread shortages within a few years, and add billions of dollars to consumers' gas bills. Moreover, the amendments would eliminate much of the incentive to explore for natural gas in the U.S., opening the door to an increased dependence on foreign sources of supply.

While the amendments are billed a "pro-consumer compromise," they are nothing of the sort. They will zap the consumer and benefit a few, large interstate gas pipelines, and a handful of independent gas producers who own reserves of "deep gas" in wells drilled below 15,000 feet. Consumers, producers of conventional gas, and many gas utilities will be hurt by the move.

The heart of the effort to extend controls is a proposal by Representative Philip Sharp (D-IN) to halt the decontrol of about half of America's natural gas supplies--now scheduled for next January--and instead impose a two-year price freeze. During the freeze, prices would be renegotiated. This renegotiation would be imposed unilaterally by gas purchasers, subject to binding arbitration if no agreement is reached within six months. At the same time, there would be a mandatory reduction in the amount of gas that pipelines are obligated to accept under "take or pay" contracts, effectively abrogating them.

The harmful effects of the enactment can hardly be overstated. At present, there is a surplus of natural gas. But under the proposed recontrol, the surplus would be exhausted quickly due to the removal of incentives to find more gas. Some categories of gas included under NGPA limit producers to prices as low as 21 cents. As a result, much of the gas in wells covered by these severe price constraints is not worth extracting. Continuing the controls, as the Sharp plan would do, will only perpetuate this barrier to production. Moreover, the continuation of controls would reduce the amount of cash flow to gas producers, and thereby the amount of capital available to reinvest in search for new supplies.

The provisions in the amendments that would abrogate existing contracts create an especially dangerous precedent. If a producer cannot be assured that the contract he enters into with a pipeline will be

honored, then the risks associated with such transactions will increase enormously. At the very least, producers will limit severely the duration of contracts, and many will simply choose to invest their money elsewhere.

One area in which the changes proposed will have an immediate impact is on the amount of natural gas the U.S. imports. Recently, imports began to decline, thanks to the increased availability of domestic reserves, and the refusal of exporting nations significantly to lower their prices. Should domestic production decline as a result of the Sharp proposals, many utilities will have little recourse but to seek foreign gas supplies for their customers. Large industrial gas users will be able to switch to alternate fuels in most cases, but residential customers will not. Therefore, an enormous burden of increased costs will fall most heavily on residential consumers. Even if import prices remain stable, each 5 percent of domestic supplies they supplant will result in an additional \$2 billion on consumer gas bills. If the cost of imports goes up, or if expensive liquified natural gas takes on an increased role, the impact would be greater.

The painful irony of the current move to extend controls is that the NGPA was enacted mainly because Congress recognized that controls do not work. The 1978 Act was an attempt to eliminate such controls while softening the price consequences to consumers. Although NGPA's mechanism for achieving decontrol was flawed, the concept behind its enactment was not. Controls simply do not work, and the best step Congress can take is to remove them.

Most important, reimposition of controls would come at a time when it is evident that a move in the opposite direction would soon lead to self-sufficiency in natural gas for the U.S. Although there once was a widespread fear that domestic natural gas supplies were in danger of exhaustion, mounting evidence proves that there is more than adequate natural gas to meet domestic needs. This is doubly important since natural gas is a ready substitute for oil in many applications.

In short, the "perfecting amendments" under consideration in the House Energy and Commerce Committee are a giant step in the wrong direction. Rather than helping the consumer, they would hurt him; rather than eliminating confusion in the gas market they would add to it; and rather than improving America's energy security they would serve to undermine it.

Milton R. Copulos  
Senior Policy Analyst

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For Further Information:

"Natural Gas Legislation," Research Bulletin (New York: Jenrette Corporation, 1984).

"Is U.S. Pricing Legislation Set for Quick Passage," World Gas Report, April 2, 1984, p. 4.

"Cooked Up Facts," Reason, August 1983.

"Natural Gas Controls Are No Bargain," Consumer's Research, March 1983.

Milton R. Copulos, "Natural Gas Deregulation: Giving the Consumer a Choice," Heritage Foundation Backgrounder No. 250, March 1, 1983.