

Energy Insider by William Engdahl

Natural gas and price decontrol

Increasing production without massive inflation; some thoughts on a very complex issue.

The recommendation contained in the Reagan Energy Task Force report to begin phased decontrol of "all gas prices as soon as possible" has received a good deal of publicity. That language was primarily the work of noted Houston independent geologist Michel Halbouty, who chaired the task force. It raises some tricky issues that need clarification if we are to work our way out of the dead-end energy policies of the previous four years. Let me point to the most important.

Under the Natural Gas Policy Act (NGPA) of 1978, a price regulatory nightmare established more than 30 categories of natural gas ranging from "vintage" (pre-1978) to "new." Prices of gas under NGPA are undergoing a phased decontrol, to be completed by 1985.

Numerous sources in the gas-producing business, in addition to Michel Halbouty, have pointed to a fall in drilling and discovery rates as the result of price controls on gas since 1954. Historically, the production and distribution of natural gas in this country has been manacled by some of the most bizarre restrictions. Exemplary is federal energy legislation which requires a gas-rich state, Oklahoma, to import coal from Montana for utility needs.

The head of the U.S. Geological Survey, Dr. McElvay, was fired by Carter in 1977 for stating publicly that this nation had some 1,100 years of natural gas potential left.

It is understandable that experienced geologists and producers such as Halbouty call for an orderly and expedited end to controls. Pre-1978 prices for the regulated interstate market were below economic breakeven in such a large range of cases that the supply side began a dangerous decline, producing such effects as the natural-gas shortage of 1977 and more long-term diseconomies.

But I took special notice when I saw the convergence of certain "free market" conservatives and environmentalists around immediate price decontrol. Reality is more tricky. Environmentalists favor decontrol to force more industrial stagnation which they find so beneficial to their "environment." This is precisely why it is necessary to proceed with caution.

The petrochemical industry alone feedstocks more than 5 percent of all gas consumed in the U.S. Synthetic fibers and fertilizers are heavily dependent on this. An immediate, sharp price escalation in the face of the present industrial decline, aggravated by 21 percent interest rates, would indeed be catastrophic to the nation.

I spoke with Ben Schlesinger, vice-president of the American Gas Association. While endorsing most of Halbouty's recommendations on natural gas, he pointed to the inclusion of vintage gas as economically indefensible at this point.

The vintage gas now under con-

tract from producers for a typical 20-year contract term, will constitute an estimated 60 percent of total gas supply by 1985. The NGPA keeps price controls on this gas from already discovered fields. It reserves relative price incentive, then, for development of new reserves. There are signs this is yielding results.

In 1979, we increased our proved reserves by 35 percent more than the previous year, a 12-year high. Gas production itself also increased in 1979, reversing a downward trend since 1972. In short, the basic policy of fostering more production and building reserves is succeeding with establishment of a predictable wellhead price decontrol, phased over several years.

Government regulation has reached an unprecedented degree of absurdity and destructiveness over the last several years, particularly under Carter's neo-Malthusian economy of scarcity. The new administration comes in with a clear mandate to reverse this. In the heat of battle however, some producers occasionally seek to throw the baby out with the bathwater. A complex economy requires strong central government leadership to unleash this nation's productive potential. There are regulations and there are "regulations." Immediate and full price decontrol of vintage gas right now could tip the economic scales irreversibly. This must clearly be avoided, while we meantime bring gas prices more into line with pricing on a BTU-equivalent basis, to reflect its energy value. That doesn't mean there aren't other regulatory knots that should not be cut to further spur production.