Energy Insider by William Engdahl

Natural gas: the Gordian Knot

Reagan planners face some complex issues on which the future health of the overall economy could hang.

With the fight to repeal the so-called Crude Oil Windfall Profits Tax a dead letter in the wake of the final Economic Recovery Tax Act of 1981, the issue of natural gas policy is emerging as one of the hottest topics in Washington.

The Cabinet Council on Energy and Natural Resources, chaired by Interior Secretary James Watt, is about to make its policy recommendation to President Reagan on natural gas decontrol. It's still far from clear what this will be. Let's examine some of the most important questions involved.

As recently as the winter of 1976, Carter's new energy czar, James Schlesinger, told us that we were "running out" of natural gas. Congress passed a compromise act, the Natural Gas Policy Act of 1978, which, among other things, brought intrastate gas in such producer states as Louisiana, Texas, and Oklahoma under federal regulatory control for the first time. It also created a byzantine array of 23 pricing categories, which depend on whether the gas in production was "vintage" (produced before Feb. 19, 1977), "new," "deep" (below 15,000 feet), or "stripper" (from wells producing 60 thousand cubic feet (mcf) or less daily).

The idea was to keep old gas, often sold in 20-year supply contracts with pipeline companies, under permanent price control while gradually allowing prices on new gas to rise each month until they were completely free of federal price control in 1985.

To complicate matters, the Carter no-growth strategists further hamstrung market growth in end-use by mandating in the Fuel Use Act of 1978 that electric and industrial boilers had to switch from gas and oil to coal by 1990, regardless of age. An amendment in the recent Reagan tax bill repealed the requirement for electric utilities but specified nothing about industrial boilers, thus providing some needed, though limited, change.

Now, as organizations of independent oil and gas producers such as the Independent Petroleum Association of America (IPAA) have pointed out in recent congressional testimony, the trend in recent months has been for an actual *decline* in gas well drilling, the first since the early 1970s. The rise in drilling had been focused on the search for the far more profitable oil, now fully decontrolled. Producer organizations such as IPAA are increasingly worried that unless the administration accelerates gas decontrol or removes controls entirely, the expanded rates of drilling for new deposits of gas won't happen.

Much of the major new onshore fields in the Rocky Mountain Overthrust Belt, the Anadarko Basin in the Oklahoma-Texas Panhandle, the Tuscaloosa Trend along the Louisiana coast, and the promising Frio Trend along the Texas Gulf, lie far deeper than the average depth of 5,000 feet for wells drilled to date. Therefore the industry must drill approximately twice the total footage in 1981 that it did in 1956 to yield the same reserve addition, according to one estimate. And, with annual cost inflation for drilling currently running 32 percent more than last year, the cost of gas drilling is keeping development restrained in all but a few areas.

Natural gas as an energy source has certain highly attractive advantages. It is one of the few primary energy sources representing useful energy in its natural form (oil must be refined, uranium processed, etc.). For this reason, it has been the fuel of preference for industry when available. Yet historically, natural gas has been the poor cousin to oil. It has been controlled since the 1950s at artificially low prices.

But, contrary to Carter-Schlesinger doomsday forecasts, according to Harry C. Kent, director of the Potential Gas Agency at the Colorado School of Mines, we have an estimated 820 trillion cubic feet of recoverable conventional gas in the United States alone, more than enough to last 40 years at present rates. And this is a highly conservative reckoning.

The problem is the overall economy. If the administration were to go for immediate decontrol even for new gas, it would clearly lead to an immediate surge in drilling. But unless that same administration has the political guts to take on the blackmail by David Rockefeller's banking cronies at the Federal Reserve, decontrol of gas will mainly occasion a 200 to 300 percent price jolt in natural gas feedstocks to industry, agriculture, petrochemical, and municipal users. That isn't cooking with gas.

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