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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 AM
TUESDAY, NOVEMBER 11, 1975

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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON ENERGY AND POWER
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES
ON THE [ECONOMIC AND ENVIRONMENTAL IMPACT
OF NATURAL GAS CURTAILMENTS DURING
THE WINTER OF 1975-76]

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE AT YOUR REQUEST TO DISCUSS OUR ASSESSMENT OF THE ECONOMIC AND ENVIRONMENTAL IMPACT THAT COULD RESULT FROM NATURAL GAS CURTAILMENTS THIS COMING WINTER SEASON. THIS IS AN AREA OF INCREASING CONCERN THAT HAS BEEN HIGHLIGHTED BY BOTH GOVERNMENT AGENCIES AND THE NEWS MEDIA FOR THE PAST YEAR.

ON OCTOBER 31, 1975, THE COMPTROLLER GENERAL RELEASED A REPORT (RED-76-39) TO THE CHAIRMAN OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS DEALING WITH THIS ASSESSMENT. THIS REPORT IS THE FIRST OF A TWO-PART STUDY REQUESTED BY THE CHAIRMAN FOR THE SUBCOMMITTEE ON CONSERVATION, ENERGY, AND NATURAL RESOURCES.

THE SECOND PART OF THE REQUEST WAS TO ASSESS THE SOCIAL, ECONOMIC, NATURAL RESOURCE, AND ENVIRONMENTAL IMPACTS THAT WOULD RESULT IF A DECISION WERE MADE TO DEREGULATE THE PRICE

OF INTERSTATE NATURAL GAS. THE RESULTS OF THIS ASSESSMENT ARE EXPECTED TO BE FINALIZED BY THE END OF NOVEMBER.

TOTAL SUPPLY AND PROJECTED CURTAILMENTS

IN 1973, THE DOMESTIC PRODUCTION OF NATURAL GAS PLUS NET IMPORTS REACHED A PEAK OF 23.6 TRILLION CUBIC FEET AVAILABLE FOR CONSUMPTION OR STORAGE. THE TOTAL AMOUNT AVAILABLE DROPPED TO 22.5 TRILLION CUBIC FEET IN 1974. ABOUT TWO-THIRDS OF THIS AMOUNT, ROUGHLY 15 TRILLION CUBIC FEET, IS SOLD THROUGH INTERSTATE PIPELINE COMPANIES. WITH MINOR EXCEPTIONS, IT HAS BEEN THIS INTERSTATE SUPPLY OF NATURAL GAS THAT HAS BEEN AFFECTED BY THE CURTAILMENTS.

THE FEDERAL POWER COMMISSION, BASED ON REPORTS IT RECEIVES FROM 48 MAJOR INTERSTATE PIPELINE COMPANIES, HAS PROJECTED A TOTAL NATURAL GAS CURTAILMENT OF 3.2 TRILLION CUBIC FEET FOR THE PERIOD APRIL 1975 THROUGH MARCH 1976. THIS IS AN INCREASE OF 1.0 TRILLION CUBIC FEET OVER CURTAILMENTS DURING THE PRIOR YEAR. ABOUT 1.4 TRILLION CUBIC FEET, OR 44 PERCENT OF THE TOTAL PROJECTED CURTAILMENT FOR THIS YEAR, IS EXPECTED TO BE CURTAILED DURING THE 5-MONTH WINTER HEATING SEASON, NOVEMBER 1975 THROUGH MARCH 1976. THIS REPRESENTS A 0.3 TRILLION CUBIC FEET INCREASE IN CURTAILMENTS OVER THE 1974-75 WINTER HEATING SEASON.

GAO ASSESSMENT OF THE IMPACT OF THE CURTAILMENTS

THE MAGNITUDE OF THE PROJECTED CURTAILMENT INCREASES FOR 1975-76 HAVE GIVEN RISE TO CONCERN THAT THE U.S. INDUSTRIAL

COMMUNITY WILL BE SEVERELY IMPACTED DURING THIS CURRENT HEATING SEASON, RESULTING IN LARGE-SCALE UNEMPLOYMENT AND WIDESPREAD PLANT CLOSURES.

THE RESULTS OF OUR REVIEW DID NOT SUPPORT THAT CONCERN IN ITS TOTALITY. ON THE BASIS OF ASSESSMENTS BY DISTRIBUTORS AND END USERS AND ASSUMING NORMAL WINTER WEATHER CONDITIONS, WE DID NOT IDENTIFY ANY BROAD AREAS OF PROJECTED LARGE-SCALE UNEMPLOYMENT OR WIDESPREAD SHUTDOWNS OF INDUSTRIAL OPERATIONS DUE TO THE NATURAL GAS CURTAILMENTS. HOWEVER, UNSEASONABLY COLD WEATHER EARLY IN THE WINTER AND/OR A SHORTAGE OF ALTERNATIVE FUELS COULD CONSIDERABLY INCREASE UNEMPLOYMENT LEVELS AND THE NUMBER OF PLANT CLOSURES WITH ADVERSE SOCIAL AND ECONOMIC CONSEQUENCES.

THIS OVERALL ASSESSMENT DOES NOT MEAN THAT THERE WILL BE NO ECONOMIC DISRUPTIONS RESULTING THIS WINTER FROM THE NATURAL GAS CURTAILMENTS. WE DID FIND INDICATIONS THAT SOME SMALLER INDUSTRIAL COMPANIES AND SOME LOCALIZED AREAS, SUCH AS SOUTHERN NEW JERSEY AND NORTH CAROLINA'S PIEDMONT AREA, WOULD BE SEVERELY IMPACTED ECONOMICALLY IF ACTUAL CURTAILMENTS WERE TO REACH PROJECTED LEVELS AND IF ALTERNATIVE FUEL SUPPLIES WERE NOT AVAILABLE. CERTAIN INDUSTRIES EXPECT TO BE AFFECTED MORE THAN OTHERS, BECAUSE THEY ARE UNABLE TO USE NONGASEOUS ALTERNATIVE FUELS, SUCH AS FUEL OIL OR COAL. FOR EXAMPLE, THE GLASS, BRICK, CHEMICAL, AND TEXTILE INDUSTRIES REQUIRE A MINIMUM PERCENTAGE OF GASEOUS FUEL FOR PROCESSING OR AS FEEDSTOCK. LARGE GAS CURTAILMENTS OR RESTRICTED

AVAILABILITY OF OTHER GASEOUS FUELS TO THESE COMPANIES WERE EXPECTED TO RESULT IN LIMITED PRODUCTION CAPABILITIES AND DECLINING EMPLOYMENT LEVELS. OTHER SMALL COMPANIES THAT COULD USE OTHER FUELS EXPECT TO BE AFFECTED BY CURTAILMENTS, BECAUSE THEY CANNOT ABSORB THE ADDITIONAL COST REQUIRED TO CONVERT THEIR FACILITIES AND PAY THE HIGHER PRICES FOR ALTERNATIVE FUELS.

APART FROM LOCALIZED UNEMPLOYMENT--ASSUMING NORMAL WEATHER CONDITIONS AND THE AVAILABILITY OF ALTERNATIVE FUELS--THE MOST IMPORTANT ECONOMIC IMPACT OF THE GAS CURTAILMENTS WILL BE IN TERMS OF HIGHER INDUSTRY-OPERATING COSTS CAUSED BY INCREASED FUEL COSTS. THE INDUSTRIES PLAN TO PASS ON THESE INCREASED COSTS TO THE CONSUMER WHEREVER POSSIBLE.

OUR ASSESSMENT OF THE ECONOMIC AND ENVIRONMENTAL IMPACT OF THE PROJECTED CURTAILMENTS WAS BASED ON DISCUSSIONS WITH 26 GAS DISTRIBUTORS AND 62 INDUSTRIAL END USERS IN AN EIGHT-STATE AREA GENERALLY COMPRISING THE MIDDLE AND SOUTH ATLANTIC REGIONS IN THE EASTERN UNITED STATES. IN ADDITION, WE CONTACTED REPRESENTATIVES OF 50 TRADE ASSOCIATIONS AND OBTAINED, WHEN POSSIBLE, THEIR ASSESSMENT OF THE ECONOMIC IMPACT OF THE CURTAILMENTS. ALTHOUGH THESE STATES ACCOUNTED FOR ONLY 15 PERCENT OF ALL GAS CONSUMED IN 1974, THEY ACCOUNTED FOR 25 PERCENT OF TOTAL CURTAILMENTS DURING THE SAME PERIOD. THEY ALSO HAVE CONCENTRATIONS OF INDUSTRIES THAT ARE HEAVY GAS USERS AND/OR WERE PROJECTED FOR LARGE PERCENTAGE INCREASES IN CURTAILMENTS THIS YEAR OVER ACTUAL AMOUNTS CURTAILED IN

1974-75. THIS EIGHT-STATE AREA RECEIVES 68 PERCENT OF ITS INTERSTATE GAS SUPPLY FROM FOUR PIPELINE COMPANIES THAT WERE PROJECTING MAJOR INCREASES IN CURTAILMENTS OF GAS DELIVERIES THIS YEAR.

A STATE-BY-STATE ANALYSIS IS PRESENTED IN OUR REPORT. THE ANALYSES ARE RATHER DETAILED AND IT WOULD BE TOO TIME-CONSUMING TO DISCUSS EACH ONE. THERE ARE SEVERAL STATES, HOW-EVER, THAT PERHAPS WE SHOULD COMMENT ON SPECIFICALLY, PRIMARILY BECAUSE THEY HAVE BEEN HIGHLIGHTED AS CRITICAL AREAS OR OUR ASSESSMENT OF THE CONDITIONS FOUND DO NOT NECESSARILY AGREE WITH OTHER REPORTS.

<u>OHIO</u>

OHIO RELIES HEAVILY ON NATURAL GAS AS AN ENERGY SOURCE FOR MANY OF ITS INDUSTRIES. ALTHOUGH WE CONTACTED ONLY FOUR DISTRIBUTORS, THEY ACCOUNT FOR NEARLY 94 PERCENT OF ALL PRO-JECTED CURTAILMENTS. THESE FOUR DISTRIBUTORS HAVE ARRIVED AT DIFFERENT METHODS OF SPREADING THE CURTAILMENTS AMONG THEIR CUSTOMERS, BUT ALL ARE ATTEMPTING TO LIMIT CURTAILMENTS TO CUSTOMERS WITH ALTERNATIVE FUEL CAPABILITIES, WHICH WILL TEND TO LESSEN THE OVERALL IMPACT. WHERE THIS POLICY IS NOT POSSIBLE, THE DISTRIBUTORS FORESEE SOME ECONOMIC DIS-RUPTIONS AMONG THE SMALLER COMPANIES.

OUR DIRECT CONTACT WITH 11 END USERS TENDED TO VERIFY THE DISTRIBUTORS' STATEMENTS. THE INCREASED COST AND AVAILABILITY OF OTHER FUELS WAS A PRIMARY CONCERN OF END

USERS, PARTICULARLY FOR THOSE INDUSTRIES THAT FIND IT DIFFICULT TO PASS THE ADDED COST ON TO THEIR CUSTOMERS.

NEW JERSEY

OUR INITIAL CONTACTS WITH A MAJOR DISTRIBUTOR AND FOUR INDUSTRIAL END USERS IN SOUTHERN NEW JERSEY INDICATED A MAJOR IMPACT FROM PROJECTED CURTAILMENTS ON LOCAL INDUSTRIES IF ALTERNATIVE FUELS WERE NOT AVAILABLE. MORE RECENT REPORTS INDICATE THAT THESE ALTERNATIVE FUELS WILL PROBABLY BE AVAILABLE ALTHOUGH AT A MUCH HIGHER COST TO THE END USERS. THEREFORE, ALTHOUGH THE CURTAILMENT LEVELS PROJECTED ARE HIGH, THE ECONOMIC IMPACT DOES NOT APPEAR TO BE AS SIGNIFICANT AS INITIALLY ANTICIPATED.

NORTH CAROLINA

NORTH CAROLINA REMAINS AS PROBABLY THE MOST CRITICAL AREA COVERED IN OUR REPORT. THE NUMBER OF FIRM CONTRACT CUSTOMERS WITHOUT AN ALTERNATIVE FUEL CAPABILITY IS RELATIVELY HIGH, AND THE SIZE AND TYPE OF INDUSTRIAL OPERATIONS PRECLUDES MANY COMPANIES FROM ABSORBING THE EXPENSE OF CONVERTING TO ALTERNATIVE FUELS. WE FOUND THAT COMPANY OFFICIALS WERE UNCERTAIN AS TO THE EXPECTED CURTAILMENT LEVELS AND THEREFORE FOUND PLANNING FOR A FIRM COURSE OF ACTION DIFFICULT.

AVAILABILITY OF ALTERNATIVE FUELS

DURING OUR DISCUSSIONS WITH NATURAL GAS DISTRIBUTORS AND END USERS, WE FOUND THAT MOST OF THE INDUSTRIAL COMPANIES ON INTERRUPTIBLE-SERVICE CONTRACTS, AND EVEN A NUMBER OF

COMPANIES WITH FIRM CONTRACTS, HAD THE CAPABILITY FOR BURNING SOME TYPE OF FUEL OTHER THAN NATURAL GAS. SOME COMPANIES ARE LIMITED TO USING PROPANE OR OTHER GASEOUS FUELS, BUT MANY COMPANIES CAN ALSO BURN FUEL OIL. A COMMON CONCERN EXPRESSED BY INDUSTRY REPRESENTATIVES, IN ADDITION TO THE INCREASED COST, WAS THE AVAILABILITY OF THESE ALTERNATIVE FUELS TO MEET THEIR HEATING REQUIREMENTS.

THE FEDERAL ENERGY ADMINISTRATION (FEA) HAS BEEN GIVEN THE RESPONSIBILITY FOR ALLOCATING FUELS OTHER THAN NATURAL GAS AND ELECTRICITY. FEA OFFICIALS ARE PROJECTING ADEQUATE SUPPLIES OF FUEL OIL NATIONWIDE, ALTHOUGH SOME LOCALIZED SHORTAGES ARE POSSIBLE DUE TO TRANSPORTATION AND DISTRIBUTION PROBLEMS.

THE AVAILABILITY OF PROPANE IS STILL UNCERTAIN, PARTICULARLY WITH REFERENCE TO THE EIGHT STATES INCLUDED IN OUR ASSESSMENT. FEA OFFICIALS TOLD US INITIALLY THAT IF THEY RETAINED THEIR ALLOCATION AUTHORITY, SUFFICIENT PROPANE WOULD PROBABLY BE AVAILABLE TO MEET THE NEEDS OF USERS WHO REQUIRE A GASEOUS-TYPE FUEL TO CONTINUE OPERATIONS. FEA'S OCTOBER 1975 REPORT NOW INDICATES THERE MAY BE AN INADEQUATE SUPPLY OF PROPANE IN SIX OF THE EIGHT STATES SURVEYED. FEA REPORTED, HOWEVER, THAT IT DID NOT KNOW THE EXTENT TO WHICH USERS CAN SUBSTITUTE OTHER FUELS FOR PROPANE OR THE AMOUNT OF OTHER FUELS IN USER'S STORAGE WHICH COULD BE A SIGNIFICANT FACTOR.

CURTAILMENT DATA QUESTIONABLE

THE CURTAILMENT FIGURES REPORTED BY THE PIPLINE COMPANIES HAVE BEEN EMPHASIZED IN NATURAL GAS STUDIES AND REPORTS PRE-PARED BY FPC AND FEA. HOWEVER, WE BELIEVE THESE FIGURES MAY BE MISLEADING IF USED AS AN INDICATOR OF THE IMPACT OF NATURAL GAS CURTAILMENTS FOR END USERS OR AS A MEASURE OF GAS CONSUMPTION THAT WILL BE CURTAILED.

IN GENERAL, THE REPORTS SUBMITTED DO NOT SHOW THE ECONOMIC IMPACT OF THE CURTAILMENTS ON THE AREAS INVOLVED. THIS DEFICIENCY WAS DISCUSSED IN A RECENTLY PUBLISHED GAO REPORT ON "NEED FOR THE FEDERAL POWER COMMISSION TO EVALUATE THE EFFECTIVENESS OF THE NATURAL GAS CURTAILMENT POLICY" (RED-76-18, DATED SEPTEMBER 19, 1975). WE FOUND THAT THE FPC REPORTS (1) CONTAINED NO INFORMATION ON THE INTRASTATE DELIVERIES AND CURTAILMENTS OF NATURAL GAS TO END USERS, (2) DID NOT CONSIDER TO WHAT EXTENT ALTERNATIVE FUELS OR STORED GAS WERE AVAILABLE TO OFFSET THE CURTAILMENTS, AND (3) CONTAINED NO INFORMATION ON WHAT GAS SUPPLIES THE CUR-TAILED PIPELINE CUSTOMERS MIGHT THEMSELVES OWN OR PURCHASE DIRECTLY FROM PRODUCERS.

THE CURTAILMENTS REPORTED BY PIPELINE COMPANIES GEN-ERALLY SHOWED REDUCTIONS IN NATURAL GAS SUPPLIES BASED ON REQUIREMENTS OR DELIVERIES AND NOT REDUCTIONS IN ACTUAL CONSUMPTION BY END USERS. IN OUR SEPTEMBER 19, 1975, REPORT, WE FOUND THAT INDUSTRIAL CUSTOMERS CURTAILED BY ONE INTERSTATE PIPLINE WERE GENERALLY TAKING LESS GAS THAN THEIR

ENTITLEMENT AND THAT CUSTOMERS IN GENERAL WERE TAKING LESS THAN THEIR CONTRACT AMOUNTS. IF THIS SAME SITUATION WERE TRUE FOR CUSTOMERS OF OTHER PIPELINE COMPANIES, REQUIREMENTS DATA SUBMITTED COULD BE OVERSTATED. SINCE CURTAILMENTS GENERALLY ARE COMPUTED AS REQUIREMENTS LESS DELIVERIES, THE QUANTITIES REPORTED AS CURTAILED WOULD ALSO BE OVERSTATED.

MR. CHAIRMAN, THIS COMPLETES MY PREPARED STATEMENT; WE WILL BE GLAD TO RESPOND TO YOUR QUESTIONS.