What does all this mean for agriculture

Regulations blamed for natural gas shortage

By Bill Brier
Director of
Energy Resources
National Council of
Farmer Cooperatives

This winter several areas of the county will come face to face with the reality that we have a severe natural gas shortage in this country.

The impact of this reality will be particularly great in the Mid-Antlantic States from southern New York to South Carolina, and in Ohio, Kentucky and West Virginia. Spot shortages are also expected in Missouri, Iowa and California.

Some industries in the affected states will probably have to shut down production, and the unemployment rolls will grow as a result. And the sad point is, this crisis could be reduced to a great extent by changing current government policies regulating the natural gas industry.

Much of the shortage situation in natural gas can be traced to a 1954 Supreme Court decision which essentially held that all independent gas producers would have their wellhead prices regulated by the Federal Power Commission (FPC).

Since then, the FPC has struggled to regulate some 3,700 gas producers. Generally, this was done by equating protection of the public interest with low natural gas prices for consumers.

The FPC currently holds interstate market prices at roughly 50 cents per 1000 cubic feet of gas, while non-regulated intrastate prices are running two to four times that amount. These prices have provided interstate producers with little incentive for additional exploration or development of reserves.

Yet, in contrast to other energy sources, the United States is still reasonably self-sufficient in natural gas supplies. The U.S. Geological Survey has forecasted that, a current production rates, there are at least 63 and possibly 100 years of natural gas supplies yet to be discovered in this country.

To unlock these undiscovered domestic reserves will require a monumental commitment from the gas industry involving billions of dollars.

It will take an average of 22 trillion cubic feet of new reserves annually just to maintain current production levels. This amount was reached only once - in 1956. To achieve this result will require a 250 percent increase over the discovery rate between 1968 and 1972.

What does all this mean to agriculture?

While natural gas as a direct energy source is used on a limited basis on farms and ranches, it is a critical source of LP gas and anhydrous ammonia, the primary source for nitrogen fertilizer.

LP gas, primarily propane, provides 15 percent of all energy consumed on-farm. This includes such on-farm uses as family living (primarily space heating and food preparation), irrigation, crop drying, tobacco curing and space heating for certain livestock and poultry production areas.

Of direct importance to farmers is the fact that natural gas shortages could reduce propane production by as much as 8 percent over the next year.

In addition, the cabinet-level task force on fertilizer has estimated that natural gas curtailments could reduce anhydrous ammonia production by 680,000 tons.

Gas shortages could also affect the pertochemical industry, hurting supplies of herbicides, pesticides and plastic wrappings used in food processing. Essential food processing for which there is no acceptable substitute, such as milk drying, could be limited.

Several bills pending before Congress are designed to help relieve shorterm interstate shortages. One, S. 2330, would permit interstate pipelines to make emergency purchases of natural gas at unregulated prices from the intrastate market where surpluses now exist.

Other legislation would allocate natural gas among interstate pipelines to permit a more equitable sharing of the shortage.

However, it's important to remember that none of the emergency legislation will generate the production of more gas. It will only allocate existing gas. So, it's essential that long-term legislation be developed to encourage maximum exploration and development of domestic natural gas supplies.

After considerable study, the National Council of Farmer Cooperatives supports deregulation as the best long-range solution to the gas shortage problem.

We concur with a Federal Power Commission statement of February, 1975 which noted that, "Deregulation of new natural gas at the wellhead is the single most effective measure that can be taken today to alleviate the nation's severe supply-demand imbalance." The FPC also stated that, "Federal regulation has played a major role in inhibiting the ability of the industry to locate, develop and deliver needed gas supplies."

The NCFC believes that past regulatory policies have forced establishment of gas rates at minimum cost-based levels. This isn't

(Continued on Page 79)