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Subseries:	Zapata Oil File, Personal Alphabetical File

OA/ID Number:	25839
Folder ID Number:	25839-008

Folder Title:
Bush Personal: Harris Bill, 1958 [1958-1960]

Stack:	Row:	Section:	Shelf:	Position:
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Withdrawal/Redaction Sheet
(George Bush Library)

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION	CLASS.
01. Letter	From George Bush to Tom Sealy RE: Harris Bill investigations (3 pp.)	9/9/60	C	

COLLECTION

George Bush Personal Papers
Zapata Oil File
Personal Alphabetical Files

FILE LOCATION

Bush Personal: 1958 Harris Bill (File # 3) [1958-1960]

OA/ID Number

Date Closed 10/18/99

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]

F-1 National security classified information [(b)(1) of the FOIA]
F-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
F-3 Release would violate a Federal statute [(b)(3) of the FOIA]
F-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Sheet
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02. Letter	From George Bush to Tom Sealy RE: Harris Bill investigations (1 pp.)	9/9/60	C	

COLLECTION

George Bush Personal Papers
Zapata Oil File
Personal Alphabetical Files

FILE LOCATION

Bush Personal: 1958 Harris Bill (File # 3) [1958-1960]

OA/ID Number

Date Closed 10/18/99

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AS THE EDITORS SEE IT

How Much Is Too Much?

THE OPPONENTS OF THE GAS BILL most likely will bring up the arguments again this year that passage of the Harris-O'Hara legislation will result in a "price gouge" of consumers by producers.

Such an argument—which has no foundation in fact—has been the major weapon of attack by utility distributors, mayors' committees, and some consuming-state congressmen each time a gas bill comes before Congress.

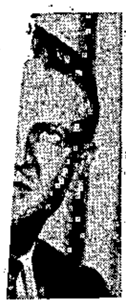
But some of those opponents to the much-needed natural gas legislation apparently see little wrong in a utility firm increasing its rates to consumers. One recent utility rate hike is enough to kill the use of such an argument again.

Consolidated Edison Co. of New York this month was granted a rate increase equivalent to $1 per Mcf. by the New York Public Service Commission. The commission permitted the intrastate utility to hike its minimum rate from $1.20 for 300 cu. ft. to $1.50.

The rate increase applies to customers in New York City, whose mayor, Robert F. Wagner, led the battle against passage of the Harris-O'Hara gas bill last year.

Con Edison said it needed such a large rate increase to cover the cost of serving its large number of minimum-user gas customers in New York City. PETROLEUM WEEK can't challenge the company's reason. Neither did Mayor Wagner, at least not publicly.

But, on the other hand, what right does a utility firm or a mayor's committee have to say what limit should be placed on producers' efforts to seek prices to cover exploration costs?

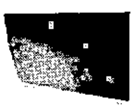


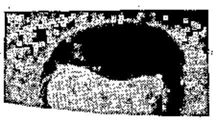
\merman J. Eldridge

AMERMAN has been promoted
iief engineer, and JACK ELD-
GE to chief engineer mechanical,
:ontinental Emsco Co., in Hou-
Amerman has been with the
pany since 1941, Eldridge since

BRUMDER, vice-president of
neering and manufacturing for
ssed Steel Tank Co., Milwaukee,
been elected a director. He also
resident of Downingtown Iron
rks, Inc., a division of the firm.

RLES NOBLE, formerly of
sa, has become district engineer
Dowell, Inc., in the Rocky Moun-
area. He has been a production
ineer for the company since 1955.
ier personnel changes in the
:ky Mountain area include Don
gerson, station manager, from
Angelo, Tex., to Williston,
D.; M. E. Heslep, to sales engi-
r in the Williston area; R. L.
kson, from sales representative
sales engineer in Billings; Ira
nm, from staff member to sta-
manager at Vernal, Utah; L. V.
sel, from service engineer to
pleum engineer, at Vernal.





. Since July, 1955, he has been special representative for the oil and gas industry, with headquarters in New York.

WALTER G. GEORGE and NELSON E. DAVENPORT have been promoted to newly created sales management posts in Rockwell Mfg. Co.'s international division. Davenport, assistant to the sales vice-president, becomes export sales manager, meter and valve products. George, with Rockwell since March, 1957, as assistant export manager of Delta power tools, becomes export sales manager, power tools and municipal products.

BRUCE DETERS, former assistant manager of operations for Johnston Testers, Inc., has been promoted to service manager of the export department, in Houston.

W. N. Gilliat C. J. Flint

WILSON N. GILLIAT becomes assistant vice-president, and CHARLES J. FLINT, assistant chief engineer, for Williams Bros. Co., Tulsa pipeline contractors.

WAUKESHA SALES & SERVICE, INC., Houston, has been appointed a distributor of the Climax line of gas engines. The parent company, Waukesha Motor Co., manufacturer of heavy-duty diesel, gas and gasoline engines ...

CLASSIFIED

DISPLAYED RATE

The advertising rate is $16.75 per inch for Equipment and Business Opportunity advertising appearing on other than a contract basis. Contract rates quoted on request.

Employment opportunities—$22.20 per inch, subject to Agency Commission.

UNDISPLAYED RATE

$1.80 a line. Minimum 3 lines. To figure advance payment count 5 average words as a line. (See¶ on Box Numbers.)

POSITION WANTED. Undisplayed rate is one half of above rate, payable in advance.

PROPOSALS, $1.80 a line an insertion.

INFORMATION

BOX NUMBERS count one additional line in undisplayed ads.

NEW ADVERTISEMENTS accepted 10 days prior to issue date.

I want to urge them to contact every single Member of the House of Representatives; to urge that this bill be defeated when it is brought to the floor, presumably later this month.

EIGHT GAS STATES VERSUS FORTY CONSUMING STATES

I want to urge people of the 48 States to ask this question: "Why should any Representative or Senator from a gas-consuming State vote for a bill that is solely for the benefit of a handful of interests in a few gas-producing States?"

There are no more than eight or so basic gas-producing States. Why should these 8 States get the arbitrary right to trample on the well-being of 40 other States? Is that fair? Is that democratic? Is that majority rule?

EVEN CONSUMERS IN PRODUCING STATES HURT BY H. R. 8525

For that matter, the consumers of Texas, itself, or of Oklahoma, Louisiana, or any other producing State, will be just as much harmed by this bill, as will the consumers of Wisconsin, and other consuming States.

I send to the desk now two items which tell the story of this bill.

EDITORIAL SPOTLIGHTS PUBLIC APATHY

The first, an editorial from the December 4, 1957, issue of the Stevens Point, Wis., Journal is entitled "Gas Lobby Busy While the Public Drowses."

The editorial points up some of the facts which I, personally, have made against this bill.

The second is an excellent analysis which was made in the Milwaukee Public Library regarding the harmful impact of this bill.

SALUTE TO MAYORS' COMMITTEE AGAINST GAS BILL

The analysis has come to me from one of the foremost fighters against this gas bill. I refer to the distinguished mayor of Milwaukee, the Honorable Frank Zeidler, vice chairman of the United States Mayors' Committee on Natural Gas Legislation. Despite the fact that Mayor Zeidler is busy with many municipal functions, he has given unstinting labor to opposition to this bill.

The same may be said of such colleagues as the disinguished Mayor Richardson Dilworth, of Philadelphia, secretary of the mayors committee; the Honorable Robert F. Wagner, of New York, chairman of the committee; and some other mayors of leading cities across the Nation. I ask that unanimous consent be given that these two items be printed in the body of the RECORD at this point.

The matters referred to were ordered to be printed in the RECORD, as follows:

[From the Stevens Point (Wis.) Journal of December 4, 1957]

GAS LOBBY BUSY WHILE THE PUBLIC DROWSES

Senator ALEX WILEY has made a new appeal to "stop the dangerous gas bill." He is referring to proposed legislation that would exempt gas producers from effective Federal regulation. Similar legislation was defeated in the past only by presidential vetoes.

Now, WILEY reports, the pro-price increase forces are gathering and expect to hit early and hard to drive the measure through Congress. Reportedly, he says, the gas bill is being used as "bait" for vote-trading to get greater support for other special interest legislation.

This is a pending matter that certainly should interest gas consumers, since they are the ones who will pay directly for any resulting price or rate increases. Yet Senator WILEY stresses in his current newsletter that there has been almost no activity on behalf of the public. And he issues this blunt warning:

"If consumers are to be protected from sky-rocketing of gas rates, we need to stir up grassroots protests. This means that folks not only in Wisconsin but throughout the Nation, must contact their Representatives and Senators to urge them to vote against the gas bill. The time to act is now—not after the bill is passed. Four hundred thousand Wisconsin consumers of natural gas are directly involved. If you don't want to pay higher rates the 1st of every month, then contact and write your friends in our State and in other States against the gas lobby."

Here we have an old story repeated again. Time after time taxpayers complain loudly about higher taxes—after they have been voted and levied. Many don't bother to register their opposition when it might be effective. If people don't bother on a local level about things that affect their pocketbooks, they are likely to be less concerned when the decisions are made away from home.

The fight to do away with Federal regulation of natural gas has been going on for years. There is every indication that the gas interests are headed for victory this time.

Stevens Point has a stake in the outcome, as it is destined to be served by natural gas, sooner or later. The local utility, as the distributor of the gas, will be helpless to keep prices down if they are raised at the wellhead.

The gas lobby never gives up. It is a sad commentary on the attitude of the public that all too often it becomes indifferent on vital issues, of which Federal regulation of natural gas is one.

UNITED STATES MAYORS' COMMITTEE ON NATURAL GAS LEGISLATION,
Washington, D. C., January 9, 1958.

Hon. ALEXANDER WILEY,
United States Senate,
Washington, D. C.

MY DEAR SENATOR WILEY: Early in 1958, the issue of adequate Federal regulation of natural gas producers will again be placed before the Congress.

This issue, if unfavorably decided for gas consumers, will cost the gas consumers of the Nation upward of $500 million a year. Most of these consumers live in the cities and incorporated areas, and they will have to pay the bill.

Historically, the mayors and municipal law officers and State public service commissions have fought the attempts of gas producers (and oil companies) to escape Federal regulation. A Supreme Court decision in June 1954, placed the producing companies under regulation, but they are seeking again and again by an act of Congress to escape regulation in the public interest, by the Federal Power Commission.

They are now seeking to pass bill H. R. 8525 which will make FPC regulation of little protection to the consumer. As the history of the natural gas regulation problem is most complicated, there is attached a short summary of that history as it pertains to regulation of producers.

Knowing of your personal interest and concern regarding this matter I hope very much you will find it possible to call this document to the attention of the Members of the Senate and the House of Representatives.

Yours very truly,

FRANK P. ZEIDLER,
Mayor of Milwaukee, Vice Chairman, United States Mayors Committee on Natural Gas Legislation.

Chairman: Robert W. Wagner, mayor of New York City; Secretary: Richardson Dilworth, mayor of Philadelphia; vice chairmen: Will E. Nicholson, mayor of Denver; Ben West, mayor of Nashville; Frank P. Zeidler, mayor of Milwaukee.

A REPORT ON PROPOSED AMENDMENTS TO NATURAL GAS ACT AS SET FORTH IN H. R. 8525

(Prepared by Peter J. McCormick, Milwaukee Public Library)

The new Harris bill, H. R. 8525, to amend the Natural Gas Act will be before the coming session of Congress. This bill was introduced at the last session on July 5, 1957 and reported out by the House Interstate and Foreign Commerce Committee on July 9 by a 15 to 13 vote. It was shelved for that session by a decision made and announced on August 13 by Speaker RAYBURN.

During the last session of Congress, a number of bills were introduced which sought to exempt or drastically curb FPC (Federal Power Commission) control over natural gas sales to pipeline companies. The Harris-O'Hara bills (H. R. 6790 and 6791), companion bills, were the principal measures. Hearings were held by the House Committee on Interstate and Foreign Commerce during May and June. After these hearings, it was decided to introduce H. R. 8525, which is termed in congressional parlance, "a clean bill". It is essentially the Harris-O'Hara bills with section rearrangement and with certain amendments. H. R. 8525 was returned to the House accompanied by House Report 837 which analyzes the bill and outlines majority and minority views.

BACKGROUND DATA

H. R. 8525 is but the latest of many attempts to eliminate or to drastically curb FPC control over prices paid at the wellhead for natural gas sold to interstate pipelines. The following is a résumé of significant facts and action taken to date.

IMPORTANCE AND GROWTH OF NATURAL GAS INDUSTRY

Since 1948, the natural gasline companies have been engaged in a tremendous expansion program and now practically cover the entire Nation. Continued and uninterrupted growth is forecast through the next 10 years, reflecting population increase, anticipated economic expansion, increased use of gas for industrial and residential purposes, and extension of pipelines into new areas. In 1945 natural gas supplied 13 percent of the country's total energy needs; today it supplies approximately 26 percent and this is expected to rise to 29 percent by 1960.

Natural gas consumption in 1956 increased to 10,275,000,000 thousand cubic feet over 9,405,351,000 thousand cubic feet in 1955. The 1956 consumption rate was 1.56 times that of 1950. Two-thirds of 1956 consumption was for commercial or industrial purposes and one-third, residential.

Because of the higher rates, the residential classification is the major single contributor to revenues of natural gas companies. For the country as a whole, in 1956, residential sales made up 56 percent of the revenue, while constituting only 33 percent of sales volume.

In 1956 there were 27,300,000 residential customers of natural gas in the United States, with 56 percent of these using gas for home heating. By 1965, the American Gas Association anticipates 35,530,000 natural gas customers with 75 percent heating homes by gas.

TRANSMISSION AND DISTRIBUTION OF NATURAL GAS

The natural gas industry can be grouped into three major classifications—production, interstate transmission, and local distribution.

Local distributing companies are utilities subject to regulation by State utility commissions, and in some instances, by municipal or local agencies.

Interstate transmission is by pipeline companies. Since enactment of the Natural Gas Act of 1938, supervision and regulatory control of these companies has been vested in the FPC. The general policy of the FPC is to allow pipeline companies to earn 6 percent on net utility plant, after Federal income taxes, and rate approvals have been based on the conventional rate base approach.

PRODUCTION OF NATURAL GAS

Because of the close production relationship between gas and oil, all leading petroleum companies hold extensive reserves of natural gas, and have been increasingly interested in the production and sale of natural gas. While there are about 5,000 independent natural gas producers, major oil companies are reported to hold natural gas reserves approaching 60 percent of the United States total. A National Municipal Law Officers' Association study shows that 85 percent of the gas sold via interstate pipelines is supplied by 100 producers—mostly big oil companies, either from their own resources or by gathering from other producers. Originally, natural gas had very little value and in many instances was burned at the wellhead. The great demand that has grown up, chiefly because of facilities for long distance transmission, has made it one of the chief resources of revenue for many of the oil companies, since 60 percent of natural gas produced comes from oil wells.

Until the Supreme Court decision in the Phillips case, June 7, 1954, the FPC held it had no jurisdiction over independent producers, and, hence, the prices they charged at the wellhead for gas sold to pipeline companies. However, the FPC did exercise control over the value placed on gas produced by integrated pipeline companies—those engaged in production as well as transmission of natural gas.

The price of natural gas at the wellhead has been steadily advancing during the postwar years. In 1945 the average price of wellhead gas was 4.9 cents per thousand cubic feet; in 1948, 6.5 cents; 1953, 8.3 cents; and in 1956, 11.5 cents. Furthermore, producers are now asking FPC approval for new contracts calling for 21 cents or higher, and have placed valuations on gas reserves as high as 40 cents per thousand cubic feet.

Contributing factors to this steady rise have been the lack of FPC controls until 1954, intense competition among pipeline companies to tie up reserves and the stipulated step-ups provided in escalator and other clauses which were included in producer sales contracts.

There has been a widespread policy of setting up escalator clauses in long-term sales contracts to pipelines, providing for regular increases in the field or wellhead price every 5 years or so, and protecting the producer in the event of new excise or other taxes levied at the wellhead. A majority of the contracts also contained favored Nation clauses providing pipeline companies would pay the supplier a price equal to the highest price received by any other producer in the area. Thus, an increase by one producer automatically sets off price increases for nearby producers.[1]

Gas-purchase cost is the major single expense item of pipeline companies and amounted to about 50 percent of their revenues in 1956. All increases, of course, are ultimately borne by the consumer. For northern cities, the cost of gas at the wellhead averages out to about 10 percent of the consumer rate.

REGULATION OF INDEPENDENT PRODUCERS BY THE FPC

As mentioned previously, the Federal Power Commission, until the Supreme Court decision of June, 1954, did not exercise jurisdiction over independent producers. By majority vote on several occasions, the Commission refused to take this jurisdiction, contending that the provision in the Natural Gas Act excluding "production and gathering of natural gas," exempted independent producers. There were, however, members of the Commission who differed in this interpretation. In 1948 an investigation was started to determine whether the Phillips Petroleum Co. was a natural gas company under the meaning of the act. The investigation was terminated by the Commission in August, 1951, with a majority holding that although Phillips was engaged in the sale in interstate commerce of natural gas for resale, the sales were part of production and gathering to which the Commission's jurisdiction did not extend.

The State of Wisconsin and its Public Service Commission, the city of Milwaukee, and various municipalities of Michigan and Missouri, appealed the decision of the FPC to the United States Court of Appeals which ruled in their favor. Phillips appealed to the United States Supreme Court and on June 7, 1954, a decision was handed down against Phillips, in which the majority opinion concluded:

"We believe that the legislative history indicates a congressional intent to give the Commission jurisdiction over the rates of all wholesalers of natural gas in interstate commerce, whether by pipeline company or not, and whether occurring before, during, or after transmission by an interstate pipeline company."

Immediately after the Supreme Court decision, the FPC temporarily froze field prices of natural gas and ordered an estimated 4,100 producers to file sale contracts in effect, and to apply for certificates.

On December 7, 1954, the FPC issued order 174B which, among other things, condemned certain types of escalator and "most favored nation" clauses. The order does not outlaw these clauses but such clauses per se will not be accepted as evidence to support certificate applications or proposed rate changes.

On January 11, 1955, the FPC held a hearing at which all interested parties were invited to present views and recommendations. David Searles, one of the chief representatives of the producers, recommended that the FPC in setting gas rates for the natural gas producers, should accept contracts made at arm's length between producers and pipeline companies as prima facie evidence that the rates covered in such contracts are just and reasonable. Representatives of public utilities commissions in general favored a rate base method of regulation, but the Illinois commission favored a commodity value concept. Eastern utility companies on the whole looked with favor on a commodity value base. A case by case investigation, beginning with the major purchasers of interstate gas, was urged by William E. Torkelson, speaking for the Wisconsin Public Service Commission. This commission appears to favor a cost-of-service rate base. Small producers supplying less than 1 billion cubic feet per year could file proof of cost or accept the average price paid producers in the same area.[2]

Since the Phillips decision the FPC has been proceeding on a case-to-case basis deciding each case on the evidence and facts presented in formal hearings. It is the contention of the FPC that inasmuch as the regulation of independent producer rates is a new and vastly complicated undertaking, any predetermined standards arbitrarily fixed without the aid of clarifying legislation would, in all probability, require substantial revision at a later date, thereby leading to confusion and instability.[3]

At the present time the Commission is confronted with a considerable backlog of pending and suspended cases.

CONGRESSIONAL ATTEMPTS TO AMEND THE NATURAL GAS ACT

Even prior to the Phillips decision, efforts were made in Congress to eliminate or curtail FPC control over producer sales. A bill to this effect was introduced in the 80th Congress, passed in the House, but not approved by the Senate.

In 1950, the Kerr bill was passed by the 81st Congress. This bill specifically exempted independent producers, including Phillips Petroleum, from FPC regulations. The measure was vetoed by President Truman and its supporters failed to override the veto. In his veto message President Truman stated: "There is a clear possibility that competition will not be effective, at least in some cases, in holding prices to reasonable levels. Accordingly, to remove the authority to regulate (producers) as the bill would do, does not seem to be wise public policy."

Several bills with similar intent were introduced in the 84th Congress in 1955. Impetus to this type of legislation was provided by a report of the President's Advisory Committee on Energy Supplies and Resources Policies, which recommended that the Federal Government should not control the production, gathering, and processing of natural gas prior to its integration into an interstate transmission line. Approval to this type of legislation was also given by FPC.

After Senate and House hearings, Congress passed the Harris-Fulbright bill, but it was vetoed by President Eisenhower on February 17, 1956.[4] In his message, the President stated that he favored the objectives of the bill but emphasized that any new legislation, in addition to furthering the long-term interests of consumers in plentiful supplies of gas, should include specific language protecting customers in their right to fair prices.

Hearings on the above bill indicated considerable opposition to its provisions, not only by consumer groups and State utility commissions, but also by many pipeline companies and gas distributing companies. In order to present a more united front, representatives of various segments of the nat-

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[1] See article by James R. Durfee in Public Utilities, January 20, 1955, for clauses in the contract entered into by Phillips Petroleum Co. and the Michigan-Wisconsin Pipe Line Co.

[2] Information in this paragraph is based on a news article appearing in Gas, February 1955, p. 130 plus.

[3] Information obtained from H. Rept. 837 of 85th Cong., 2d sess.

[4] A contributing cause to this veto was the charge that unfair and illegal lobbying was done in support of the measure.

ural-gas industry production, transmission, and distribution, met and drew up a general declaration of principles which future legislation should follow. This meeting of minds met with FPC and administrative approval and became the basis for the Harris and O'Hara bills introduced in 1957. Unfortunately, representatives of consumer groups were not consulted at these meetings.

The Harris and O'Hara companion bills, H. R. 6790 and 6791, were the principal bills for amending the Natural Gas Act introduced in early 1957. As mentioned previously, hearings were held on these and a clean bill, H. R. 8525, was reported back to the House with a 15 to 13 committee vote of approval. It is this bill that will be considered by the House and Senate in the next session.

The bill is reported to have administration backing and has been substantially endorsed by the FPC.

PRINCIPAL PROVISIONS OF H. R. 8525

1. Exempts producers from public utility regulation

The present law is modified by the bill so that transportation and sales in connection with the processing and gathering of natural gas in or within the vicinity of the producing field or fields will no longer be subject to the public-utility type regulation provided for by the present provisions of the act. Producers would no longer be required to obtain certificates of public convenience and necessity, or to file rate schedules in order to sell gas to interstate lines.

2. Restricts FPC control over producer sales

The FPC would still retain control over producer sale contracts but in a more restricted sense. Such sales are divided into new producer contracts and existing producer contracts, depending on whether they were entered into after or prior to enactment of this legislation. FPC control over new contracts is more inclusive than that provided for existing contracts. The FPC has no jurisdiction over prices provided for by a definite pricing clause in existing producer contracts, but any future amendments to an existing producer contract, is subject to regulation as a new contract.

With respect to pricing clauses in contracts, the bill makes a classification between definite and indefinite pricing clauses. A definite pricing is any provision which sets forth in terms of a specific price per unit, the prices to be paid and includes the initial price, any increase in the initial price by specific amounts at definite future dates, and tax reimbursement clauses. Other pricing clauses are termed indefinite and may be either proper or objectionable. The bill specifically terms as objectionable, two party favored nation, third party favored nation, better market or price determination, and spiral escalator clauses. Such clauses are not to be included in any new producer contract or in any amendment to an existing contract. (A ruling somewhat similar to this already has been made by the FPC under existing law.) Clauses of this type in existing contracts are not voided but are subject to FPC regulatory procedure. Every new producer contract must be filed with FPC by the pipeline company purchaser within a designated period, and notice given by publication and mail.

Objections may be filed by interested parties on one or more of the following grounds:

1. The contract results in a price which exceeds the reasonable market price;
2. the contract contains a prohibited indefinite pricing clause or an indefinite clause contrary to public policy;
3. the duration of a producer contract is shortened.

The FPC may also initiate proceedings on any of these grounds. If any of the objections are sustained by the FPC, the new producer contract becomes null and void, or if it is an amendment to an existing producer contract, the amendment becomes null and void. If approved, any definite pricing provisions held valid are removed from regulation, but the FPC retains jurisdiction over indefinite pricing provisions.

With respect to indefinite pricing clauses which operate to increase prices, whether in new or existing contracts, the procedure is similar to that of a new contract. The FPC determines the reasonable market price. Although this bill does permit the Commission to void price increases resulting from indefinite pricing clauses in existing producer contracts, jurisdiction over definite price increase clauses in existing producer contracts is denied even though the definite price increases go above reasonable market prices.

Also, sales by a producer to a gathering company, which transports natural gas to a processing plant, is exempted from regulation by this bill, although the sales after completion of processing are covered.

3. Sets up a reasonable market price formula for determining producer prices

The bill directs the FPC to determine the reasonable market price of the natural gas at the point of delivery to the pipelines. In determining producer prices, natural gas is to be considered a commodity and the FPC is not to consider costs or use the public utility concept in arriving at this price. In determining price, the FPC is required to consider:

(a) whether the price as determined by it will assure to consumers of natural gas a continuing adequate supply thereof;

(b) whether the contract price was arrived at competitively and in arm's-length bargaining;

(c) the reasonableness of all the provisions of the contract as they relate to prices under a definite pricing clause;

(d) The quality of the natural gas being purchased;

(e) conditions of delivery.

In addition, the current level of field prices under other contracts in the same field or in other fields which contain terms and provisions generally comparable to those of the contract under review, shall be considered.

Finally the bill states:

"The reasonable market price is not necessarily the price of the last sale, the highest price, the lowest price, the weighted highest price, the average field price, or other price arrived at by the mechanical application of a single criterion. Instead, it is a price which the Commission, exercising its judgment and discretion in weighing, among other things directly relevant to the issue, all factors enumerated above, determines is the reasonable market price."

The bill, thereby, substitutes reasonable market price for the presently prescribed just and reasonable standard for determining the reasonableness of producer prices. It eliminates cost of production which has been basic under the just and reasonable standard.

This reasonable market price standard would not only apply to the gas purchased by pipeline companies from independent producers, but also to the gas which they or their affiliates produce. In respect to gas owned by pipeline companies or their affiliates, the present policy of FPC is to allow a price greater than that determined under the public utility concept, in order to stimulate exploration and development of their own reserves. This has been upheld by the courts providing that the starting point for this additional allowance is the cost-plus-fair-return formula on the allowance is reasonable.

ARGUMENTS ADVANCED FOR AND AGAINST H. R. 8525 AND SIMILAR BILLS

In general supporters of the bill state that there is no basic difference between the producer of natural gas and the producer of oil, coal, livestock, lumber, and other commodities.[5] They contend that utility regulation of producer gas will lead to Federal controls of oil and eventually rigid control of the entire petroleum industry. There has been some modification of this stand as shown by the fact that some FPC control over price is provided in H. R. 8525.[6]

Those opposing contend that there is no free market at the production level, no full interplay of the forces of supply and demand. Pipeline companies, in many instances, cannot move freely in an open competitive market in search of lower prices. They are largely bound to one or a very limited number of suppliers by the physical location of their pipeline and by long-term contracts entered into when there was a limited amount of natural gas available for distribution.

REGARDING REASONABLE MARKET PRICE VERSUS RATE-BASE METHOD

Those advocating the reasonable market price formula contend that costs incurred by the producer should not be given consideration. That doing so would result in varying prices for the same gas in the same field and would result in a hodgepodge of prices. It is further contended that in many instances costs are impossible to determine and fixing costs is a cumbersome and time consuming operation. They point to the backload of FPC cases as evidence of this.

(In committee hearings on the bill the FPC has advocated that the bill should make cost a permissive but not a mandatory factor in determining costs).

Opponents of the bill contend that no definite criteria are established in the bill for determining a reasonable market price, and that eliminating cost as a determining factor deprives the FPC of any quantitative measure in determining reasonableness of rates. While agreeing that costs may not be ascertainable in all instances, they point out that cost figures are available and have been used by oil and gas companies that have appeared before congressional committees and cited increased costs to justify higher prices for crude oil.

They further contend that the reasonable market price concept will run into as many legal or court difficulties as the present fair value concept and will prove unworkable.[7] On the other hand, the utility rate concept is well established, has proved to be equitable and can be modified to reflect factors other than costs.

With respect to the volume of work of the FPC, it is pointed out that use of the reasonable market price formula will substantially add to the FPC workload rather than diminish it. As a method of expediting FPC cases, it is advocated that emphasis should be placed in establishing prices of the largest independent producers under the present formula and the present just and reasonable standard.

Opponents of the bill pointed up the provision in the bill that requires the reasonable market price formula also be applied to gas produced by the pipeline companies and their affiliates. They point

[5] See "Natural Gas Regulation From the Producer Viewpoint" by George W. Hazlitt, Public Utilities Fortnightly, Sept. 26, 1957, pp. 494–500.

[6] This stand has also been taken, but not insisted upon, by the Eisenhower administration.

[7] See Current Problems in National Gas Regulation—A Consumer Viewpoint by William E. Torkelson, Public Utilities Fortnightly, Sept. 26, 1957, pp. 482–487.

up the fact that consumers through FPC established rates have already paid for the exploration and development costs of the reserves of these integrated pipeline companies, and that revaluing these reserves would be an unwarranted burden on the consumers. Moreover, in bargaining with independent producers, it would be to the advantage of pipeline companies owning reserves to keep up the producer price and thereby enhance the value of their own reserves. Under a ruling by the United States Supreme Court in October, 1956, the FPC obtained this right to determine a fair field price for company produced gas, giving due consideration to the original cost of production method but the higher rates resulting must not be any higher than required to maintain the production end of the business.

RE NATURAL GAS RESERVES

One of the chief arguments advanced for H. R. 8525 and similar legislation has been the need for additional incentives for further exploration and development of gas reserves.

Under the present law, the FPC has the authority to grant rate increases needed to encourage exploration and development, but must show the reasonableness of such allowances.

It should be pointed out that from 55 to 60 percent of the natural gas sold to transmission lines is obtained from oil wells and that exploration and development of these wells were primarily intended for obtaining additional petroleum reserves. Furthermore, producers are allowed a 27½ percent depletion Federal tax allowance which is specifically intended to encourage such exploration and development.

There is no evidence that the Phillips decision (1954) has discouraged exploration and development of natural gas reserves. According to testimony at the 1957 House committee hearings, gas well completions have actually increased. In 1954, 3,974 gas wells were completed and 4,275 in 1956. Natural gas production shows a similar trend.[8]

Standard & Poor's Investment Advisory Service of July 4, 1957, reports:

"As has been the experience of the oil industry, new discoveries, development and exploration, have consistently tended to increase estimates of natural gas reserves, despite the pronounced rise in production. The American Gas Association and American Petroleum Institute jointly estimated proven recoverable reserves in the United States at over 237 trillion cubic feet at December 31, 1956. Based on indicated net withdrawal of 10.9 trillion cubic feet in 1956, these proven reserves indicate a life of 21 years. Moreover, new discoveries and revisions of previous estimates of recoverable reserves through extension of known fields, indicate that the Nation's natural gas reserves are more than adequate to satisfy demands for many more years.[9]

Williard F. Stanley, president of Corporate Services, Inc., in the Harris-O'Hara 'Bill—Boon or Bonanza, Public Utilities Fortnightly, October 10, 1957, questions—

"Why is it necessary in order to induce drilling of a new well or development of a new gas field, to provide for increasing the price of gas produced from old, presently existing wells already drilled? The extension of the bill to cover these existing wells, as to which there can be no need of inducement, would seem an unnecessary and regretable bonanza for the benefit of the owners of those existing gas wells (who may or may not be the owners of new wells), at the expense of the gas-consuming public (and, indirectly of the electric-consuming public) throughout the Nation."

[8] Hearings, p. 1324 and 1331.

[9] Standard & Poor's Industrial Surveys—Utilities—Gas, July 4, 1957, p. U33.

REGARDING CURTAILMENT OF NATURAL GAS SUPPLIES TO INTERSTATE PIPELINES

Opponents of FPC regulation have warned that such regulation would discourage sales of natural gas to pipeline companies. This has been one of the major threats of the petroleum companies. Producers of gas in some cases have preferred to use natural gas, or gas found in association with crude oil, for repressuring of oil pools, rather than contract for sale to others at present prices. Moreover, some companies, such as Phillips, are using an increasing amount of natural gas from their reserves in chemical operations. Prices realized for natural gas on that basis may reach 4 or 5 times the amount realizable from direct sales to pipelines.

While there has been some curtailment of natural gas commitments to pipelines, it is doubtful that substantial quantities of natural gas would be converted to other uses, particularly if FPC sets fair and reasonable rates. Some leading natural gas transmission companies believe that the fair value formula, together with Phillips' decision, will tend to encourage their segment of the industry to take over natural-gas fields and to intensively engage in exploration and development programs.

REGARDING INCREASED CONSUMER PRICES

Marshall C. Howard, University of Massachusetts, states:

"Since there is no one going open-market price, a market-value determined price would have to rely on reference to several prices in the field as a guide, through, for example, an average (perhaps weighted) field price. Such reference price making would tend to be inflationary. First, price might be expected to cover the full costs of the higher cost, less lucky speculation producers whose output is still in demand in the market at such a price. Second, prices will tend to be drawn upward whenever new higher prices are granted; for, except where such price making is applied only to a minor part of the total supply, prices become based on each other in a circular fashion. By the same token, however, prices might become stabilized after an initial period of adjustment, with any higher prices being justified only on the basis of new, large volume, and higher cost production. But the Federal Power Commission would be presented only with requests for approval of price increases; lower prices, conceivable under the rate-base method, would be unlikely to occur."

There appears to be a general agreement as to the rise in consumer gas prices if H. R. 8525 is enacted but no consensus as to the probable amount.

Producers have been anxious to have the producer price reach a competitive level with other fuels and it is for this reason they stress the commodity aspects of gas. At present prices of other fuels, natural gas at the wellhead would be at a competitive level at about 20 cents per thousand cubic feet.[10]

If the average price at the wellhead was to increase by 8 cents, that is, go from 12 cents (present approximate price) to 20 cents per thousand cubic feet, this would mean an annual cost to consumers of $520 million. A 10-cent increase would be $650 million. These are based on the 1956 natural gas consumption and would be much higher if based on projected consumption. This is a conservative estimate as it does not include additional cost, which would be bound to occur as the gas went from pipeline to local utility to customer. It also does not take into account the added consumer cost for electricity in areas where natural gas is used for generating electric power. And finally, it does not point up the spiralling effect increases in gas would have on other fuels.

A study by the St. Louis Post Dispatch in 1957 estimated the annual increase as between $500 million and $900 million. The minority report on bill H. R. 8525 estimated on increases in consumer prices of $1 billion per year and that a field price increase averaging 15 cents would mean a boost of $30 billion in the value of natural gas reserves.[11]

[10] Regulation and the Price of Natural Gas, by Marshall C. Howard, The Southern Economic Journal, October 1956, p. 148.

THE PRICE OF GOLD—LETTER FROM THE LIBRARY OF CONGRESS

Mr. KNOWLAND. Mr. President, I ask unanimous consent to have printed in the body of the RECORD a letter relative to the price of gold over a period of years since 1933. The letter was received by me from the Library of Congress.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

THE LIBRARY OF CONGRESS,
Washington, D. C., January 3, 1958.

The Honorable WILLIAM F. KNOWLAND,
United States Senate,
Washington, D. C.

DEAR SENATOR KNOWLAND: This is in response to your request for information about the world price situation of gold in free markets from the time when the United States repriced gold.

The gold prices we have been able to locate do not meet all of your requirements. Some of the prices are official prices, when no other market except a clandestine market was operating; with one exception they are available for part but not all of the period; and some of the prices are convertible into dollars only at artificial exchange rates.

The price of gold in 400-ounce bars, 99½ percent fine, in London has averaged as follows (in shillings and pence):

1933	126	
1934	137	6.8
1935	142	0.9
1936	140	3.4
1937	140	8.8
1938	142	6.7
1939	154	4.7
1940–44	168.0	
1945–48	172.3	
1949–53	248	
	(from Sept.)	
1954	249	
1955	250–51	

Black-market prices at end of June each year were: 1948, $47; 1949, $49.75; 1950, $41.50; 1951, $40.75; 1952, $39.50; 1953, $37.20.

Gold bars in Switzerland in June of each year were bought and sold at $42.50 per ounce in 1948, $44.50 in 1949, $40.50 in 1950, $40.25 in 1951, $37.40 in 1952, $36.55 in 1953, $36.10 in 1954, $35.05 in 1955, $35.03 in 1956. Prices in 1941–43 increased from about $35.50 to slightly below $36.

Sincerely yours,
ERNEST S. GRIFFITH, *Director.*

TRANSPORTATION OF FISH OVER BROWNLEE DAM SITE

Mr. DWORSHAK. Mr. President, a report has been compiled by the Idaho Fish and Game Department on the number of fish transported over the Brownlee Dam site last fall.

This report is significant, as it reveals the efforts being made to devise a means of bypassing dams with fish runs, and it

[11] H. Rept. 837, 85th Cong., 1st sess.

Senate Bill Exempts Small Gas Producers

Associated Press

Sen. Russell B. Long (D-La.) introduced yesterday a bob-tailed natural gas bill to exempt more than 5000 small independent producers from price regulation by the Federal Power Commission.

He conceded in an address to the Senate that broader legislation extending the exemption to the big producers is "as dead as a door nail" for this session of Congress.

Sen. Estes Kefauver (D-Tenn.) and Joseph S. Clark (D-Pa.), who fought bitterly against the bill which was passed in 1956 and vetoed by President Eisenhower because of what he described as the "arrogance" of the lobbyists, joined Long and Sen. Ralph Yarborough (D-Tex.) in sponsoring the watered-down substitute.

Long said it was "identical" to the substitute offered by Sen. Paul H. Douglas (D-Ill.) at the time of the 1956 debate.

Long said he still favored the original bill exempting big and little producers alike but declared that it has been "dead as a door nail" ever since Jack Porter, GOP National Committeeman from Texas, sent our requests for a $100,000 fund-raising dinner for Rep. Joe Martin (R-Mass.), the House minority leader, a supporter of that measure.

Long said that in joining him in the measure, Kefauver and Clark "have demonstrated their sincerity in their repeated statements that they are willing to exempt the small independent producers from FPC price regulation."

The bill would exempt producers who are selling less than 2 billion cubic feet of gas annually in interstate commerce.

...their pay rates. Agency heads have the authority to adjust pay of Wage Board employes in line with local prevailing rates.

...ter Red Subs
...y Sounding

...C. Fay...

SUBMARINE SEAWOLF

...this submarine is searching ...undersea prowlers ... the first time the Navy has ...le into an operation closely

...must direct not only the operation of his own ship, but of other subsurface, surface and air searchers, and work them in complex patterns over an area of ocean large as two states.

In these past few days there have been investigations of a number of possible "contacts." Most of them were "soft," the definition of vague electronic images.

But it was different...

...neers, rivers and harbors and flood control work and ... surprise $46,200,000 ... for the Health, Education and Welfare Department.

At the Capitol meanwhile Democratic leaders advanced their own broad-gauge anti-recession program another notch. The Senate Public Works Committee by unanimous vote approved a highway bill designed to pour an extra $1½ billion into road building this year. A 7-to-6 committee split over a controversial billboard provision threatened to prevent the bill from coming to the Senate floor for a week, however.

Two Republican Moves

The congressional Republican struggle to take back the anti-slump leadership from hard-driving Democratic leaders broke out in two sectors:

1. Sen. Clifford P. Case (R-N.J.), backstopped by a solid bloc of Eisenhower Republicans, rose on the Senate floor to urge immediate congressional...