
Your invitation to me specified an informal talk, a sort of get-acquainted session which surely would require no special preparation. I know you meant well, but I can't see it as quite that simple. For among your ranks are companies subject to FPC regulation, and some of them, probably, are involved in cases now pending before the Commission.

I am quite aware that these are real cases, involving real dollars, expended or anticipated. Decisions of the Federal Power Commission, because it is one of the "expert agencies", are not easily or often overturned in the Courts, which gives you a rather more than casual interest in the personalities and other traits and characteristics, of the Commissioners.

If I'm on view in that context, I shouldn't expose ignorance or superficiality; and avoidance of this, except for the most expert Washingtonians, requires advance preparation. Prudence has coverted a hoped-for informal talk into a written script.

And yet I must begin by confessing a measure of ignorance. The intricacies of the subject to which many of you have given your lives is not capable of being mastered in time periods as short as my incumbency, even if my "time served" in Interior should be counted. Indeed my good reaction to my new job grows out of this ignorance--I find, to my considerable satisfaction, that my responsibilities are so ordered as to permit me to begin an intensive educational experience in the fascinating area of regulation of two basic energy forms--electricity and gas. I emphasize the word "intensive". My past governmental experiences have been educational, too, but few of them have permitted the relative luxury of getting so deeply into a subject in the way I now find possible.

You might be interested in the educational process as I am experiencing it. The norm in American education is one teacher for several pupils; I have the luxury of being one pupil tutored by many teachers. My colleagues are my teachers, and good ones. Their background of Commission and individual experiences gives texture to Commission deliberations. I assure you that blandness is not the hallmark of this part of the educational process.

Then there is the Commission's staff. Within the propriety bounds of the adversary role which the staff has the duty to assume in contested cases, the combined knowledge of this truly expert group of engineers, lawyers, accountants, and economists contributes to the educational process. The staff is the backbone of the Commission's reputation for expertise. I am tremendously impressed with what I have seen of them, and they teach willingly and well.
In many ways the most exciting part of the process grows out of the adversary nature of some of the proceedings. I have not yet sat with the Commission in formal hearings, but I've seen the work product of the Commission's corps of examiners, and I understand why it is honored for its skill, its impartiality, and its devotion to a particularly man-killing job.

The hearing process brings to my education the ranging information and insight which only the art of advocacy, expertly practiced, can produce. The federal power bar is a fine one, and the briefs and other materials including the transcripts and the examiners' decisions, which come to me as part of the package in every case, is a most useful part of the educational process.

All together, it is veritable waterfall of information, bound to get me a little bit wet, even in six or seven weeks.

So, perhaps so wet as not to be dry behind the ears, I shall endeavor in the rest of this talk to share with your some of my thoughts about relationships, objectives, and problems of the industry which most of your care about. How the natural gas industry is affected by the regulatory activities of the Federal Power Commission is a big subject--I shall only touch upon one or two matters which have occurred to me as I've tried to absorb all the material which has come before me.

To start out with a point illustrating the importance of the learning process, let me confess that I've had to change my mind on some things. For example, in my maiden speech as a Federal Power Commissioner, before the Rocky Mountain Oil and Gas Association, I said I thought there should be a natural gas survey. I reasoned that it would complement the National Power Survey. I still think there should be such a survey, but I'm less sure than I was then about then about the relevance of the National Power Survey -- or, to put it the other way, I suspect that under existing statutes and authorities a gas survey is only superficially equatable with the electric power survey.

I now surmise that the emphasis of the power survey, so heavily on interconnections, economies of scale, universality of electric service and political and economic pluralism, all pointing in the direction of a lowering of costs across the board, if uncritically applied to the gas business, would lead to some odd results. The present development and form of natural gas industry is that different from the electric industry.

For specific example, take the question of a policy on reserve capacity. A week before I was appointed, the Commission announced its decision not to issue a proposed general policy statement on natural gas pipeline reserve capacity, thus ending proposed rule making procedures begun ten months earlier. In November 1965 it had announced it was considering adopting a general policy to encourage established interstate natural gas pipeline companies to plan their future expansion so as to provide reserve capacity in the order of market growth for a specific time period, in the proposed rule, one year.
It is my guess now, which I may modify as I get even more information and insight, that the reserve capacity question in the gas industry is a problem relatively difficult to grapple with because the gas industry is relatively much younger than the electric industry.

Perhaps the natural gas industry has passed its major market expansion phase. But I would say that a national equilibrium in the industry has not been reached, and doesn't appear imminent.

The relatively older electric industry has full geographical coverage, and its technological emphasis is related to reliability and economies of scale -- in the electric industry, there is not a problem, from either the industry side or the regulation side, with forward-planning far longer than one year.

Whether the gas industry or the Commission or both can grapple with reliability and reserve capacity in the near-term future is a question-mark. But I would agree with one of my colleagues who says we ought to be every bit as concerned about gas failures as about power failures -- the legal concept of adequacy of service has a new and broad perspective, not to be confined only to an historic geographic dimension.

A wise and experienced leader on the Commission's staff has described service expansion in the gas industry as the practice of brinkmanship -- by the companies, and by the regulatory commissions, state and federal.

This brinkmanship is related to some basic differences between the industries. Assuming reserves, getting gas to a market is relatively simple. Pipeline installation technology is stable, and pipeline installation is unbelievably fast; right-of-way acquisition problems aside, gas delivery systems impinge hardly at all on the total environment in the ways that plague the electric industry.

On the other hand, the consequences of a gas distribution system going flat are relatively more horrendous, because restoration of service involves men and time in frightening quantities.

There is no regulated monopoly philosophy in the gas industry. For that reason, and because the industry is young and still somewhat brawling, regulatory commissions have concentrated on cost of service. The emphasis on critical examination of "above the line" charges which directly affect rates is fully understandable, indeed absolutely necessary.

Nevertheless, the challenge of regulation is not rate-making alone, in either industry. In the gas industry, the imponderable of financing further exploration is always present.

So forward-planning is very different between the two industries, although critically essential in both.
In this context, one of the direct factors is the time required by the regulatory process itself. If a pipeline construction application requires more time for processing than one year, forward-planning on a term as short as one year is inconsistent. Because proceedings are formal and adversary, because interveners may represent a range of adverse interests from citizen and environmental on the one hand to competing energy sources, and other governmental agencies and the Commission's own staff on the other, as well as competitive applicants for the same kind of service, and because each must have his day in court, formal certificate proceedings may devour all the forward-planning time budget. It's no wonder the Commission is plagued with the untidy device of "temporaries."

I am not here recommending any solutions, or any changes in the Commission's operations, philosophy, rules or procedures. This is not the time or place, and besides, I'm only reflecting a stage of my own education. When I get more, I may feel differently.

Nevertheless, I think I can state both for me and for my colleagues that there is a vital concern that the gas industry grow, and grow well, with the public interest uppermost. In this, I know we are joined by the industry, unified as never before. Its producing, transporting, and distributing components are engaged in an effort which parallels the Commission's own, to see that the American people are well served.

The heartening part about it is that there is cooperation and understanding, and a respect by industry and government of each other's special role and responsibility.