
Your program announces that I will give you "A Regulator's View". As all of you from the gas industry know with reference to the Federal Power Commission, and all of you in the securities and investment business know with reference to the Securities and Exchange Commission, a regulator's views may not always coincide with the views of the Commission upon which he serves. A member speaks for the Federal Power Commission only when two or more of his colleagues authorize him to do so, which usually is in the form of opinions announcing Commission decisions.

What is said in Commissioners' speeches should not be confused with what the Commission says and does. Only the latter counts.

My intention is to discuss regulation as I conceive it to bear upon the interests of this AGA-sponsored financial forum, in two parts: first, as one of the bundle of factors affecting investment decisions, and second, this regulator's views as to what might lie beyond the immediate horizon.

**Regulation -- the x-factor**

I do not need to spend time today on the general health of the natural gas business. But so that there can be no question that it is very good, let me insert here the words of E. Clyde McGraw, newly elected Chairman of the Board of Transco, at the Annual Meeting of that Company's stockholders on the 18th of last month:

"Since I talked with you last April, the gas industry -- nationwide -- has continued to make steady progress. Preliminary figures for 1966 show that the gas utility and pipeline industry continues to set new records in customer growth, sales, revenues and plant expansion. During the year over 900,000 new customers were added, bringing the total up to an average of 38.2 million. The industry held on to its ranking as the sixth largest industry in the United States in point of plant investment, and spent an all-time high of $2.4 billion in 1966 for plant improvements and expansion of services. This raised the total investment in gas utility and pipeline plant to approximately $31.3 billion at year-end."

It is a truism that investors and those advising investors, seek to inform themselves fully when making decisions
as to where to invest. The process of making these decisions is more art than science, and its practitioners are jealous of the secrets of their art.

Still, one of the cluster of considerations has to be "regulation", or the impact of the regulation on the performance of regulated industries.

This is not an easy task--the regulatory veil is not easily pierced. To mix the metaphor, it is more patchwork quilt than seamless cloth, and each viewer may see a different pattern in the patchwork.

The name of the game is forecasting what will happen from what has happened, and in the regulatory field differing interpretations of what has happened are more the rule than exception. In this media-dominated world, financial writers, industry writers, and plain writers--as they unravel and interpret regulatory actions each from his or his paper's viewpoint--have as much influence on the process, it sometimes seems, as the agencies they report.

The interpretations contradict each other enough to save us from the thought that we don't need the agencies at all.

Regulation means many things. It is practiced by both State and local authorities, as well as Federal authorities, and carries its own jargon. To the Federal Power Commission and the gas industry, terms like "jurisdictional" and "nonjurisdictional" have specialized meaning, not readily apparent to one not accustomed to the jargon.

Regulation in the utility field is two centuries old, and is cradle-to-grave. Yet Frederick Allen, President of the National Association of Railroad and Utility Commissioners, probably did not greatly exaggerate when he said recently that "in our cities, in our towns, even in our Congress, the people of America know less about regulation than probably any other facet of their government."

Is "regulation" a central issue for making investment decisions? Those of us who are charged with the responsibility of regulating perhaps think so, in part because the regulated industry often insists that it is. At least they say so in their arguments in cases before us, and in some of their speeches.

But the regulated industry doesn't lay all its ills to the regulatory stoop. The natural gas business is dynamic, and regulation is only one of its challenges. Regulators are aware of the challenges of our technology-dominated era. They strive to carry out their statutory mandate to protect the public interest on an active, not merely reactive, basis.
By and large, the regulated industry at this point in history, concedes good motives, if not ultimate wisdom, to their regulators.

This, as all of you know, is Annual Report time. Many of the regulated companies send copies to FPC Commissioners. I've found it interesting to go through them to see what corporate management tells the stockholders about relationships with the FPC. As little as they can get by with, would be one way to state my conclusion. This is entirely understandable. A company is entitled to indulge with its stockholders the presumption that regulation will be fair and equitable, and that regulators will recognize the merit of the company's plans for the future. Since they could not properly ask for more, they should be excused for not expecting less, at least not in a report to stockholders.

Professional investors, of course, look more deeply into the subject than the annual report. I'm told that there are able and well compensated people in Washington whose job it is to keep abreast only of regulatory developments and to advise a firm specializing in fund management on this one topic.

As the newest Commissioner, I can testify that I have sometimes felt like a bug impaled under the scientist's microscope, as the "book" is compiled on me. At least some of the attention paid to my opinions, speeches, and thoughts comes from such analysts. I wasn't accustomed to so much attention when I was in the Interior Department.

If we agree that "regulation" is a factor which the knowledgeable investor evaluates, and that the process of evaluation will differ from situation to situation, we still have a full range of questions about whether the factor is a plus or a minus, a premium or a discount.

Here again, it must be said that "it depends". Regulation undoubtedly is one of the factors which have made electric utility stocks blue-ribbon. On the other hand, I've heard it said that there is an "FPC-discount" factor in gas securities.

You were given one appraisal of the question in the speech John R. Beckett, President of Transamerica, gave to a section of your Association in March:

"It is my personal opinion," says Mr. Beckett, "--supported by many investors with whom I have discussed the point--that your primary problem is not the regulatory one . . . Although it may cost you a little more, you nevertheless are getting all the capital you require for your current needs. If there were a great unfilled need clamoring for your
services, I am sure the regulatory climate would be more hospitable to you and to your present and potential investors. That is a familiar pattern in other industries."

Mr. Beckett goes on, demonstrating his familiarity with the frustrations of regulations: "We all have our regulatory problems." I shan't repeat his good speech here, beyond saying that he discusses regulation throughout his speech, belying a little his statement that the "primary problem is not the regulatory one."

Another investment source (Loeb, Rhodes & Co., March 1967) makes the point similarly:

"Despite the unfavorable publicity which has surrounded the Commission's policies, procedures, and litigation, the industry has experienced a consistent and not unfavorable rate of return on net plant * * * ."

Uncertainty is always a discount factor. Delay is a form of uncertainty. Regulation occasions delay. Thus I think it may be fairly said that the regulatory process has built-in negative aspects, although it by no means follows that these are not over-balanced by factors on the positive side.

A comparison of the state of the natural gas business prior to its first Federal regulation in 1938 and now, shows regulation may have served the objective of getting cheaper and more efficient natural gas to the markets then dominated by manufactured gas suppliers.

Differences between the distributors and the producers about whether regulation of price is good or bad for the industry merely underscores the dilemma.

So far, I haven't attempted to define regulation very precisely, beyond saying that it can mean much more than the activities of the Federal Power Commission. Depending on what part of the gas business you are interested in, regulation may mean primarily State or local regulation, the regulatory activities of the Justice Department's Antitrust Division, the supervision of the Securities and Exchange Commission, or even an investigation by the Federal Trade Commission. Not to be overlooked, whether your interests lie with the pipelines or with the distribution lines, is the prospect of another form of regulation, probably destined to become more stringent, namely, regulation by the Department of Transportation for pipeline safety.

On an even broader basis, the United States as customer
or competitor or supplier of a company in which you have an
investment interest may be carrying out a regulatory function,
particularly regulation of price. Oil import controls is one
obvious example. Management of public lands, including off-
shore areas, is a potent weapon to manipulate supply and thus
price of oil and gas. Coal interests complain that the
research activities of the Atomic Energy Commission are a
form of competitive subsidy. TVA and Bonneville Power Admin-
istration "yardsticks" have a "regulatory" impact on electric
energy pricing. The list could be expanded.

Because energy, cheap energy, is basic in our modern
technology, the natural gas business, as a major supplier of
energy in its primary form, is "regulated" in a variety of
ways which defies brief summary. Gas and electric utility
executives know that their operations are deeply related to
the national interest; they are proud of it, and accept
regulation as a necessary national interest commitment.

Yet our free enterprise, competitive system must con-
tinue to operate. In this connection, it should not be for-
gotten that the very profusion of regulation may constitute
a beneficial check or balance. Former Currency Comptroller
James Saxon last month addressed himself to proposals to
consolidate bank regulatory functions now scattered among
seven agencies, and said this proliferation may be good for
the regulatory process. On the same panel, Federal Trade
Commission Chairman Rand Dixon, and Securities and Exchange
Commission Chairman Manuel Cohen emphasized the broad con-
tributions of the regulatory agencies to the health of a free
economy. Mr. Dixon particularly emphasized the checks and
balances in a regulatory process divided among Congress,
independent agencies and courts--to which list I added the
executive branch when I dealt with the same subject in a
recent speech to the Natural Gas Men of Houston.

Regulation, I suggested earlier, is the x-factor for
investment decision-making. As defined broadly, it boils
down to your taking into account as best you can the rela-
tionships between business and government. To do that, you
must understand government, and to understand government you
must study it carefully.

The Next Horizon

We are fond of saying that ours is a changing world.
The Canadian Marshall McLuhan psychoanalyzes our society to
come up with ideas like "the medium is the message" and other
obscurities. A colleague in the regulatory field, Lee
Loevinger of the Federal Communications Commission, had one
of his speeches carried as a full-page ad in the New York
Times on April 24th, wherein he was critical of regulation
as its own excuse for being. "Loevinger's law of irresistible
"use" says that if a boy has a hammer this proves something needs pounding; its political science analogue is that if there is a government agency this proves something needs regulating.

This is pungent prose, but really only restates the question—how are business and government respectively to meet the new circumstances we see developing.

Here we find ourselves again within the occult world of investment decision-making—outguessing the future.

The Oil and Gas Journal reported a few days ago what they called a "clash" between Chairman Lee White and President Stanley Learned of Phillips Petroleum on whether rival fuels will have a greater impact on gas industry development than supply considerations. The Chairman suggested to TIPRO that liquefied natural gas might some day compete with pipeline gas in the United States. This was most tentative, and I doubt that even Mr. Learned would dispute that not only LNG, but coal gasification and possibly gasification of oil from shale, or oil from tar sands, may come to have a place in the energy picture—the question is not whether but when. A subordinate matter questions the role of the Federal Government in accelerating or decelerating the process.

It is important, in this connection, to remember that "scarcity" of natural resources has an economic dimension. Economic considerations may be more important than the physical limit on supply, because in our market economy, scarcity induces price changes which in turn stimulate alternative materials which may be not only as cheap, but both cheaper and better. Innovation continually places at our disposal more alternatives from which to make resource substitutions. Market forces tend to assure that the substitutions will be superior in terms of price per unit of benefit received, to the resources being replaced.

Outguessing the future in the energy field is a popular game which everybody likes to play, government investor and entrepreneur. At the FPC level, we are guessing about the future in these ways, to name a few:

AIR POLLUTION. This problem has been discussed by our staff with ten federal agencies, one municipal authority, and two industry groups. We think (speaking in the most general way in terms of the nature of our staff's efforts to formulate a position) that the FPC ought to have its own expertise concerning methods of abatement of air pollution originating in electric power plants, and that we ought to be better equipped to evaluate air pollution considerations in gas pipeline certification proceedings. We recognize a duty of articulating the impact of government air pollution
programs on the regulated industry, particularly back to the agency administering the program.

We are not really outguessing the future, for in terms of national consciousness of the problems of air pollution, the future is here. The Federal Power Commission is committed to cooperation with the national clean air program; it is also aware (as is the natural gas industry) that the role of natural gas in air pollution abatement is not wholly beneficent. Economic limits related to use patterns of pipelines, physical limits on the contribution of pollution amelioration, and unanswered questions about pollutants other than sulphur dioxide, are all present.

GAS SUPPLY--A NATIONAL GAS SURVEY. Chairman White has spoken for the Commission in saying that it will do what it can to improve the volume and character of data relating to the gas industry--past, present, and future. Recognizing and applauding the establishment of the Potential Gas Agency at the Colorado School of Mines, and the Future Requirements Agency at Denver Research Institute--both by a unified industry--the Chairman has emphasized the desirability of governmental attention to investment allocation, financial planning, regulation and consumer relations, among other aspects of the problem.

The action of the President two weeks ago in asking for a supplemental appropriation to begin a Natural Gas Survey naturally is most pleasing to the Commission, since the desirability of having a national gas survey was one matter about which we all agreed.

Here again, let me emphasize that we want no monopoly on the responsibility of outguessing the future. The American Gas Association has always played a leading role in the gathering and presentation of natural gas statistics, and good data are a necessary starting point for any forecasting operation. This will be a cooperative effort.

ATOMIC ENERGY. The Commission will be an interested observer when the AEC executes Project Gasbuggy, utilizing a nuclear explosion to fracture tight formations in the Four Corners area of New Mexico, and possibly opening up new gas supplies. Our Chairman has shown a different phase of a regulator's responsibility by facing the implications of a too-sanguine an approach to the promises of nuclear generation of electric energy. He told the electric power industry that its wisest course at the moment was to continue to develop and build all types of generating plants on a balanced basis dictated by economics and reliability of service, while expanding the search for new, improved methods of power production.
SAFETY. The regulatory horizon has been considerably broadened in the field of safety. Pipeline safety was one of the major elements of President Johnson's consumer message this year, and the Senate Hearings which have been underway disclose the great public interest in this subject. Secretary of Transportation Boyd, a regulatory agency veteran who served as member and chairman of the Civil Aeronautics Board, and understands as well as any man in government how to get the best public interest results in cooperative efforts of business and government, made a presentation which allayed many worries and doubts about broadened federal activity in this area.

COMPETITION FOR MARKETS. As pipelines have brought natural gas service to virtually all of the United States, growth and expansion efforts will more and more often find them seeking to enter each other's markets, for the increments or for the base load. The Natural Gas Act specifically calls for market competition; the regulatory efforts in this field will call for the wisdom of Solomon and the patience of Job, for administering competition with the tools of regulated monopoly is not easy. The big challenge here, of course, is in the mastery of rate design, allocation of commodity and demand components of service, and other traditional problems of utility regulation.

In this particular era, government is planning-conscious. Regulatory agencies are strongly motivated to make a greater contribution to the greater good of society than passively adjudicating the individual cases which march before them.

Natural gas facilities have a shorter capacity leash than rail, highway, communications, or airline facilities. The desirability of their optimum use is more nearly comparable—at least to this product of the irrigated economy of the arid West—to the use of irrigation canals. Management and state utility commissions are well along in exploiting opportunities for short or mid-term exchanges of either gas or capacity at both the market and the producing ends of the pipelines. The Commission, as recent opinions and dissents have indicated, is grappling with the methodology of minimizing unused capacity to the advantage of consumers and stockholders, and the economy generally. But it is a complex field, not subject to the application of pat formulas.

Conclusion

The General Electric Forum recently called this the "high-energy civilization". If, by the year 2000, 33 years from now, we must build housing and community facilities equal to all those built since the first settler arrived, we are going to require energy in unimagined quantities. The task of harnessing the social, economic, and governmental
structures to accomplish goals of this magnitude inevitably means the application of programs and policies consciously designed to keep our traditional balance between public and private, State and Federal, voluntarism and enforcement, legislative and executive, national and international.

The regulatory commission will be in the mainstream of meeting the challenges of our age. Most of us in it think the role will be useful.

In the view of this regulator, ours is an effective system which has proved its value thus far. With continued attention, loyalty, imagination, effort and cooperativeness, it will carry us through trials which are likely to be greater than those weathered so far.