It is a tradition of the American Public Gas Association to have one of the Federal Power Commissioners speak at its annual meeting. Your General Manager and General Counsel, Charley Wheatley, told me so when he invited me, and I am not one to defy tradition. Particularly when following it means a trip to Phoenix.

Nevertheless, these traditions carry with them a few extra burdens, and in the effort to assume one of these, I reviewed what was said by Federal Power Commissioners whose appearances before your earlier annual meetings made the tradition. And believe me, it is above and beyond the call of normal duty for a Federal Power Commissioner to read another commissioner's speech, much less five of them.

If you've remembered all the words of wisdom given you by my predecessors at this rostrum, you hardly need any more from me.

Unfortunately, the first one given by my good friend and recently departed colleague, Charlie Ross, was not available for me to review. In his first months in office, and at what I think was your first meeting in Washington, D. C., Commissioner Ross spoke from notes. Those who heard him say he had some positive ideas about municipal gas distributors. He later changed some of these ideas, so my informant told me, and the new ones were positive, too.

Later you asked Chairman Swidler to address you, and it was for him a sentimental journey back to Tennessee. Mr. Swidler, at Memphis, in 1963, asked you to face the question of your reason for being: "Should it be the city's purpose to siphon off the largest possible amount of revenues from natural gas consumers for the support of local government, or do you visualize the establishment of a reasonable earnings standard, including an amount in lieu of taxes for the support of local government, with the consumers receiving the benefit through improved service and rate reductions of earnings in excess of this standard?"

I shan't renew the question.

In 1965, at Colorado Springs, my predecessor as Commissioner, and my successor as Under Secretary of the Interior, David Black, described the marketing successes of the electric industry, the ten-times bigger research budget of the electric industry, and the continuing "segmentation" of the gas industry.
If the picture he painted in 1965 was accurate, there have indeed been great advances in cooperation within the gas industry of the kind he called for.

Commissioner Carl Bagge captivated you socially and challenged you oratorically at your French Lick, Indiana, convention. Nettled by something said by one of your officers when he was appointed to the effect that "it is by no means clear that he will be opposed to a consumer viewpoint," he eloquently described the pitfalls of assuming, either publicly or privately, that any member of any regulatory agency is affirmatively opposed either to consumer or to industry. But he also laid it on the line about responsibilities in market forecasts for new hookups, on safety, and competition.

Last year, our very able chairman spoke to you at New Orleans. Lee White's penchant for departing from his prepared text put me on notice that what he said and what our records say he said may not match well. But if they do, he gave you a thoughtful essay on where the gas industry is, and what we may expect in the "second generation" of regulation, with emphasis on the developing policy to open markets to additional suppliers.

What, then, do you expect of me at this moment of history? My predecessors have given you a lot of good advice, some of which I'm sure you have taken, and some of which you would have taken whether given or not by the Federal Power Commission. In your seven years, you've "grown accustomed to our ways"--you know quite well what we can and can't do for you. You've had the satisfaction of making special contributions to the big rate cases, and you've come of age, so to speak, in the matter of intervening and participating in regulatory processes, and in using the existence of regulation as a lever in your bargaining with your suppliers.

On the other hand, we've also grown accustomed to having you in our cases. We've come to have a "feel" for the fact that municipalities which engage in the distribution of natural gas vary greatly in size, in investment, in charter, statutory or constitutional authority in their states, and in amenability to regulation. Although your association is having only its seventh annual meeting, and although as those of you who are in the other two organizations know, your political muscle may be a little less than that of the American Public Power Association or the American Waterworks group, still you've flexed that muscle successfully in more than one situation.

Your number and your collective strength seem to be increasing. Municipal gas distributors played an important role in the Southern Louisiana area rate case, issued about a month ago, and an examination of the dockets of the Commission, the Courts of Appeal, and the Supreme Court show that
As I said earlier, many of you are probably more familiar with the FPC than with the regulatory agency in your state. You probably engage in that specialized indoor sport known as Commission-watching, and are therefore aware that beginning just a week ago, we have a new Commissioner. In the first change since my own appointment over two years ago, President Johnson appointed Albert B. Brooke, Jr., of Kentucky, to take the seat vacated when Commissioner Charles R. Ross resigned.

Besides recalling Carl Bagge's wise words of two years ago, let me emphasize that the beneficial characteristics of an independent regulatory agency include a built-in mechanism for change. Our staggered five-year terms expire, one each year. Professor Landis recommended to President Kennedy that the terms be lengthened to ten years. Various other proposals have been made, seriously and in jest, about reforming or reorganizing these agencies, and undoubtedly certain reforms are in order.

But on balance, let me say that my two years on the Federal Power Commission have shown me many times and in many ways the wisdom of the authors of the basic ideas—the bipartisan requirement, the staggered terms, the group dynamics of the decisional process, the assignment of an independent public-interest advocacy role to staff, the involvement of the public, and procedural protections of the Administrative Procedure Act. In a word, I think warts and all, the system is a good one.

It may seem that this is a time to be just a little smug. The American Public Gas Association is strong and getting stronger: The Federal Power Commission has been sustained in the Permian 4/ case, has issued Southern Louisiana, 5/ and is considering a couple of the remaining area rate cases. The courts have ruled that the pipelines must pass along the benefits of liberalized depreciation. The Commission's "equitable entitlement" ruling against Texas Eastern 6/ will push along many of the producer refunds, and nobody has yet said that municipal distributors have to go through the misery of figuring out how to get the fund of money into the hands of consumers either by way of refunds, or rate reductions.

You've won a significant FPC victory (again over my dissent) in the Continental-Cities Service case, 7/ which I alluded to earlier.

5/ Area Rate Proceeding (Southern Louisiana Area), Opinion 546, issued September 25, 1968, 40 FPC .
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It is undeniable that many costs have gone up, and particularly the cost of borrowing money. Pipelines, historically financing by the issuance of bonds maturing in about ten years, must not only finance expansions, but re-finance old debt issues, and current interest costs are high.

Other costs, like the cost of steel, labor, and even the cost of gas, have been edging up. Managerial ingenuity and technological advances and marketing vigor have put off the pressure for rate increases, but these opportunities tend to become rarer, and cash flow opportunities in accelerated depreciation and other tax law provisions have been denied the pipelines in favor of the ratepayers.

In a word, inflation has caught up with the industry, and the process of informal surveillance, negotiation and settlement, and rate design compromise doesn't offer a useful flexibility at this time.

Unless every segment of the industry is to suffer, the process of resolving such issues as rate of return, treatment of changes in cost of purchased gas, and perhaps some other knotty and recurrent issues are going to have to be settled (I use the word administratively, not judicially), in a manner other than having protracted and costly litigation of each and every case.

It is not appropriate for me to spell out specific solutions which I would favor at this time. Some of my ideas are already reflected in dissenting or separate statements which I have filed.

What is more important than the merit or demerit of any given solution is a wider understanding of what kind of regulatory crisis we face, and an appreciation of the stake which everyone--industry and ratepayer alike--has in avoiding a paralyzing breakdown of the rate-approving process.

In this field, the municipal distributors have a rather special kind of responsibility. You are not, as Chairman Swidler pointedly told you, subject to the same constraints on your investor-owned counterparts. Your presentations on rate of return issues, in both the area rate and in the rate cases, do not give you the problems which the investor-owned distributors have.

With that comparative independence, akin to that which staff counsel enjoys in many of these cases, goes an extra measure of responsibility, in my opinion. In a very real sense, you have the opportunity to make a unique contribution to various of the administrative problems I've outlined.

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For example, one suggestion which has been kicked around in a couple of pending cases 12/ is to have a "purchased gas adjustment" provision in rate orders or rate settlements. There are arguments for and against, and I don't here take a stand on anything except the desirability of your looking at any proposal which is made to avoid paralysis of the regulatory process with an open and constructive attitude.

It won't do you much good to figure that you will always be able to do better in the eventual rate case, if the rate case itself is a part of a backlog which may run for years.

We are not in any dire situation at the moment, and we may never get into it. But the danger is there.

So, although I promised not to preach, perhaps I can end with a plea. See the problem as whole as you can; take the lead in looking for the way out of this great crunch of rate cases; help us to avoid the hardening of attitudes and the calling of names.

We're all in this together.

12/ Natural Gas Pipeline Co. of America, RP 67-21, RP68-17, Phase II; Panhandle Eastern Pipe Line Co. RP68-15, Phase II.