Your President, Bill Murray, can vouch that I accepted your invitation to address this meeting with considerable reluctance. I told him that I didn't think a speech of mine would be any great contribution to the solution of any TIPRO problems.

He insisted and I'm here, and now I am further embarrassed because recently I used a speech to say publicly what I told Bill privately, that there was altogether too much speechmaking at the Federal Power Commission. You Texans know how to get a rope on a speaker—recently I was called by another executive of a Texas association interested in natural gas. He had asked Commissioner "X" and had been turned down, then Commissioner "Y", who also turned him down, and finally he tried to get Mr. "Z" of the Natural Gas Bureau who also turned out to be unavailable. "So, Commissioner Carver," he said, "I've no place to go for a speaker but you." Such honesty turned away all my wrath.

Right now isn't a very good time to talk about gas supply. As most of you know, a divided Commission recently requested the Fifth Circuit Court of Appeals to send the Southern Louisiana area rate case back to the Commission in order to make it possible for us to comply with the Court's instructions. Some of those instructions related to making findings about the relationship of price to supply, and on the supply situation itself. Furthermore, the Commission heard oral argument late last month on the Other Southwest Area Rate Case, and it is still considering the Texas Gulf Coast and Hugoton-Anadarko area rate cases. Supply sufficiency is an issue in each of these cases.

Consequently, in order to avoid matters which are before us in cases, I have decided to talk about the natural gas supply which might be imported from Canada.

This is not a new subject. TIPRO has a long history of participation in various Commission proceedings involving import of gas from Canada, and as an organization has shown the same kind of interest in proceedings before such agencies as the Interior Department which deals with the import of crude petroleum.

I particularly remember one example of your participation as an intervenor jointly with the State of Texas to oppose a 1967 proposal of El Paso Natural Gas Company to import gas under a long-term contract with a Canadian firm. I wrote a dissent to the Commission order in that case, saying:

"... Between the Federal Power Commission and the Canadian regulatory counterpart, today's opinion says it is "high noon." The Commission apparently expects the Canadian Energy Board to concede to the Federal Power Commission the larger role over border transactions. The premise is that federal regulators can
negotiate a better deal for the United States than Canadian regulators can negotiate for Canada."

It really doesn't matter how the case came out, but it would be fair to say that in 1970 the Federal Power Commission is not challenging the National Energy Board to any more "shoot-outs."

Your association took the position in that case that "total dependence" on high-cost Canadian gas would be bad for both consumers and the pipeline, but you were careful to claim that you had consistently advocated "a provident policy of utilization of natural gas from the most dependable and economically available source, wherever it may be found."

Three years makes quite a difference in perspective. TIPRO has not recently intervened in Canadian import proposals. And far from brandishing the big stick of threatening not to allow the import of Canadian gas unless the Canadians agreed not to charge more than they were charging their Canadian customers, the PPC recently meekly amended an order to make it clear that its approval of a contract for Canadian gas included all of its terms, including escalations.

Among the list of changes, public and private attitudes about the role of Canadian natural gas in meeting U. S. energy needs in both countries are different. For one thing, the Canadian supply of natural gas is not now considered a limitless resource. Whether the limits are political or geological may remain in doubt, but there is now no doubt that there are limits. In a word, no one now fears that vast quantities of cheap Canadian gas threaten the integrity of the U. S. natural gas industry. As to natural gas it must be said that Canadian supplies alone will not fill the projected "gap" between U. S. consumption and production ten years from now.

One estimate of the size of that gap is fourteen trillion cubic feet by 1980. This estimate takes the low side of projections of U. S. growth in demand, the estimates of which range from 3.5% to 5.3% annually. If we do not permit the reserves-to-production ratio to drop below ten to one, and I certainly think we dare not if we are to have anything like security of service, we will still need over the next decade new discoveries totaling between 300 and 400 trillion cubic feet--a staggering task. It is particularly frightening, when you consider that for two years in a row, the findings-to-production ratio has been below one. We not only are not gaining, but at the moment at least we are falling behind.

In this context, American producers have little to fear from a Canadian effort to flood the market with natural gas.

On the other hand, it now seems that natural gas has become a trump card in the Canadian negotiating hand. On May 12, 1970, the Canadian Minister of Energy, Mines and Resources, Honyorable J. J.
Greene, spoke to the Independent Petroleum Association of America meeting in Denver, and said almost as much. Senator Henry Bellmon of Oklahoma selected some quotations from that speech for emphasis, and added his own interpretation to them, when he inserted the whole speech in the Congressional Record. He said:

"When Mr. Greene says:

'Canadian gas will be available to supplement United States supplies only if our petroleum industry as a whole receives the incentives of progressive growth and assured stability of access to export markets for oil and natural gas liquids.

'We have recently determined that a major proportion of a resource essential to our future well-being, uranium, will remain in Canadian hands. We are currently undertaking a complete review of foreign ownership of our resource and industrial entities.'

"And--

'Canadians are now determined that the time has come to take stock and to assure that a substantial proportion of the future growth remains in Canadian hands.'

"He is making a pronouncement of immense importance to the investors of this Nation and to citizens of this Nation whose ability to meet its energy needs from domestic sources has been sharply reduced by recent congressional action and which is facing an imminent critical shortage of natural gas and electrical energy."

When the shoe seemed to be on the other foot, I had commented on our relationships with Canada on natural gas as follows:

"This is not the case for such a confrontation. I believe it sets a bad precedent. We ought to look to the economics on our side of the boundary line, just as the Canadians ought to look to the economics on their side of the line. De-escalation, not escalation, is in order, for the time will come when our two countries will have to plan together in several important natural resource areas, of which natural gas is only one."

That reads pretty well; I thought so when I wrote it on August 10, 1967. In 1967, our decision was debated in the Canadian Parliament; Mr. Greene was questioned by the opposition about his foray when he got back to Ottawa in the question-period of the same
Mr. Greene received some sharp questioning about his "tough" line, but he stuck to it, and insisted that whatever the honorable members might be reading in the papers, there were no discussions at the ministerial level with the United States about a "continental energy policy."

There is a lesson for all of us in reading the Canadian papers about the Greene speech. For the man-in-the-street, in Toronto at least (I have not checked the Calgary papers, where things might be expected to be a little different), Minister of Energy Greene seemed to be saying something that needed saying. His reference to Prime Minister Trudeau's metaphor about a mouse sleeping with an elephant caught the attention of editorialists.

I must interject at this point one paragraph from one editorial about Mr. Greene's speech which quite took my fancy, for unrelated reasons:

"Americans came to know their [Canadian] neighbors mainly as guest-speakers. The bilateral trade in oratory was as lopsided as the trade in tourists--except that it ran the other way. Not that Canadians had more to say, only that Americans were greater gluttons for punishment. 'There are many things my fellow Canadians and I admire about the people of the United States,' C. D. Howe told an audience in New York City, 'but the thing that fills us with the greatest wonder and respect is the willingness of Americans to listen to public speeches.'"[Toronto Daily Star, May 26, 1970, column by James Eayrs]

One of the letters Mr. Greene received, quoted in a Toronto paper, captured the spirit of most of them:

"Obviously, it took a great deal of courage on your part and on the part of the federal government to say what had to be said. Perhaps we need American capital to develop our country, but if so let it be on our terms. Let us not be raped by the grasping and greedy Americans and wind up in the same social, political and environmental problems as they have created for themselves."

A student of the subject of natural gas and petroleum resources of the North American Continent might be confused by the variation in the predictions and forecasts about how much Canadian natural gas is available, and how much is available for export. As in the United States, of course, all such predictions suffer from a severe deficiency if they are tied to some price standard--not necessarily in dollars and cents, but relative to some other energy source. The trouble with most of our forecasts is that we generally make them in terms of a continuation of historical
relationships, and if these are skewed by some outside force, such as government regulation, odd results are inevitable.

For example, predictions of the demand for natural gas which assume a continuance of an artificial relationship to coal, or to oil, ought to be reviewed if we assume that the imbalance might be eliminated. How much natural gas does Canada have? Or, to state a more tactful question, how much natural gas does Canada have to export? The first question presents a problem of stating assumptions. A statement of assumptions accompanied a report on Canadian natural gas potential presented by a Canadian, Mr. D. W. Axford, at the Phoenix meeting of the Potential Gas Committee last April. He pointed out that his calculations of natural gas potential were derived from data assembled for oil reserves, assuming six thousand cubic feet of recoverable gas per barrel of oil, and on this basis he came up with potential reserves for all of Canada of 724.8 trillion cubic feet—a very large figure.

As to the second or tactful question, Canada's National Energy Board issued a report last year forecasting an export level of 2.3 trillion cubic feet in 1980. Energy Minister Greene apparently drew upon the NEB study in his Denver discussion, but his figures were different—1.6 trillion cubic feet available for export in 1990, from Western Canadian sedimentary beds, and a potential of 5.4 trillion by the same 1990, if supplemented by Canadian "frontier areas."

It is clear that the exportable figure contains also a number of other assumptions, including the expected growth of Canada's own gas markets, its judgment of the optimum level of reserves to production ratio, and assumptions of the level of future exploration and development. On this last point, as on others too, the price expected to be realized has to be taken into account.

How, then, should TIPRO or the FPC or a pipeline like Northern Natural or Natural Gas Pipeline, or anyone on the United States side of the boundary treat the Canadian potential as they consider how they are to meet their differing responsibilities to their members, customers, stockholders, or the public at large?

First, I agree wholeheartedly with Mr. Greene of Canada that hunting around or waiting around for a "continental energy policy" is not the best way to approach the matter.

Both the United States and Canada have capitalistic systems, and particularly they both rely on private enterprise to discover, develop, and market natural resources which, in other countries, might be governmental monopolies. Understanding how this private enterprise system works is an exercise which includes, in the situation of appraising availability of Canadian reserves to meet United States demand, remembering that a potential customer and a potential seller have to get together. The government of Canada doesn't sell gas to the government of the United States. The process is one of
business negotiation. Such negotiation takes place in the context of all sorts of regulatory rules and requirements; regulatory and other governmental approval on each side of the boundary is necessary. But as between each other, the contracting parties will make their judgments and decisions in a much narrower frame of reference than exists when two governments undertake to deal with each other.

By way of oversimplified example, Mr. Axford's study may seem more useful to the two negotiating companies, than the NEB report or Mr. Greene's forecasts.

If negotiations proceed on premises which don't seem to track with governmental pronouncements from either country, one reason may be that the governmental frame of reference is often national, allowing for regional variations. Whether wisely or not the negotiating parties are likely to figure that their particular deal can be accommodated within the national figures.

This can be illustrated by considering the fact that by 1968 Canadian gas was filling almost one-sixth of the consumer demand consumption of the Pacific Northwest and Pacific Southwest market regions of the United States. In that year, Canadian gas was only 3.6% of the consumption in the Great Lakes and Northern Plains market regions. Since 1968, each figure has grown, but the latter has grown much faster, and from all indications many additional projects are being negotiated by the parties.

Furthermore, it is plainly evident that even though it may be Canadian policy to tie the export of gas to other considerations, each individual proposal for an export license will be looked at in the light of circumstances existing at the time it is presented—the same is true in the United States—and the parties are entitled to be optimistic about being able to convince the regulatory authorities when the proper time comes. And finally, the NEB and the FPC, each on its own way, enjoys a measure of independence under its charter.

Getting a "continental energy policy" by definition is a government-to-government matter, and there is simply no way to keep the frame of reference as narrow and directed as the private enterprise companies do in their negotiating. When the international negotiators take over, oil has to be balanced against gas, petroleum against timber, pipeline rights-of-way or shipping lanes through archipelagoes against trade concessions.

Your own organization through the years has tried to remind officials engaged in government-to-government dealings on petroleum that it is not sound government policy to assume that foreign countries will always act in the way our own economists say they ought to react in their own best interests. Nationalism isn't always economically rational. A subsidiary point you have been making is that we ought to be careful about becoming too dependent
upon even the friendliest of foreign nations.

These remain good warnings, but I suggest a distinction ought to be made in situations like that presented by natural gas, as between the United States and Canada. That distinction lies in the similar role each government has given to private enterprise in the development of natural resources. In other words it is possible that Canadian gas can contribute to meeting the demands for energy in the United States in a manner highly advantageous to each country, each looking at it from its own point of view. I certainly think that a lot of capital and other resources have been committed by private companies which look toward getting Canadian gas under normal market conditions. These companies know well that regulatory approval will be necessary, and they know that an upsurge of nationalism and reaction to nationalism won't make their tasks any easier. But each side believes that patriotism and good business are compatible, and each is willing to take some risks pending the day when the approvals have to be sought.

What then is the message, if any, for TIPRO?

TIPRO at the moment seems to have abandoned its policy of intervening in opposition to various natural gas import proposals, even though I think that some of your past opposition was unpersuasive, I would still give you high marks for having a proper concern about your own interests, even in proceedings geographically far removed from Texas.

As I see it, that interest subsists today. It does not take the same form, now. But your brief in the West Coast import case of 1967 stated a principle every bit as pertinent today as it was then. You said:

"There is a double standard between domestic gas and imported gas and it is the duty of the Federal Power Commission to erase this standard and to set down certain guidelines for gas imported into the States so that domestic producers can compete on an equal footing with the producers in Canada."

Respectfully, I would disagree with the possible implications of the middle part of the sentence, about setting down guidelines for imported gas. If it means that we should deny a certificate if the gas costs more than the cheapest domestic alternative, everything else being equal, I would agree. But that guideline is the inexorable one of economics, and need not be stated. If, on the other hand, it means that the FPC should substitute its judgment for that of the contracting parties as to the exact margin between the best deal and no deal, I think it beyond our capability. But most importantly, I am firmly of the opinion that it is an aspect of the public interest to assure that domestic producers are able to compete on an equal footing with the producers in Canada.
The problem is American, not Canadian. We need more gas than we see readily available domestically, and our objective must be to assure fairness. Although Canadian supplies, as I've tried to point out, pose no overhanging threat to the economic self-interest of domestic producers, the pricing treatment of these incremental supplies does pose a threat to the economic self-interest of domestic producers.

It is no easy prescription to say you should assert this interest. Your bargaining position tends to get worse while the bargaining position of the Canadian suppliers gets better, as time goes on. Furthermore, the matter is not capable of simplistic solution, principally because backing the price up the supply stream in two different directions from the market center to determine comparability is an extremely complex analytical exercise, much more so with reference to Canadian gas than with reference to LNG.

The very worst thing you could do, in my opinion, is intrude yourselves into any contest of competing nationalisms. This approach is fruitless.

I believe I should close by quoting one more letter from Mr. Greene's mailbag concerning his Denver speech. One man wrote him:

"If we could only all become aware and proud of the way our country has developed through conversation and consultation, rather than through 'revolver on the hip' thinking, and do our own thing in a fully functioning, humane manner, we will be able to set a wonderful example to the world."

- FPC -