

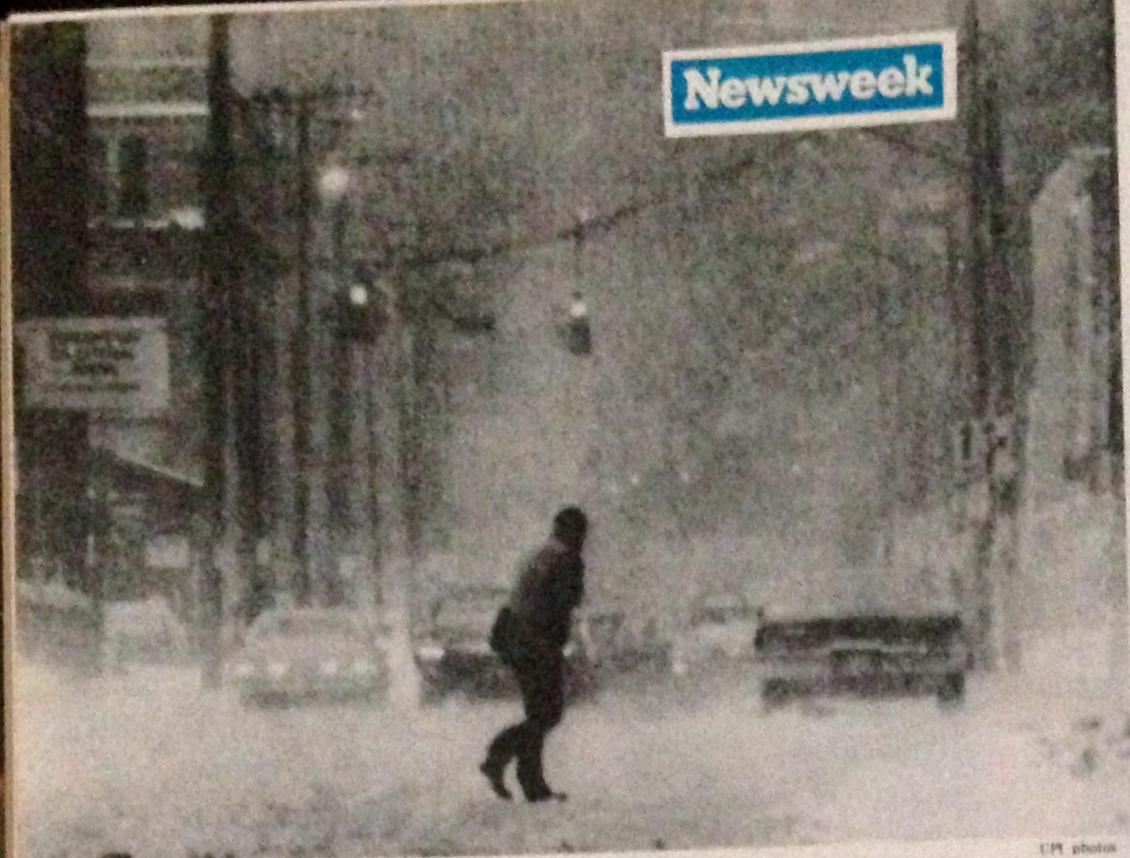
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Newsweek

The Gas Crisis



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Blizzard in Cleveland: Savage weather and a severe gas shortage paralyzed half the nation

The harshest winter in decades held more than half of the United States in a choking grip last week, and brought with it a new and grave danger: a natural-gas crisis every bit as serious as the 1973 Arab oil embargo. More than a score of states suddenly faced severe shortages of the country's most pervasive single source of energy. The results were immediate and punishing. Each day, more factories, businesses and schools were forced to close because they could not run their equipment or heat their buildings. Each day, more and more workers were laid off, and millions of Americans worried that the gas to heat their homes might be cut off. In office barely a week, Jimmy Carter was confronted by the first major challenge of his new Administration.

The combination of the chilling temperatures and the shortage of natural gas—which provides energy for half of the nation's homes and 40 per cent of its industries—was devastating. Every school in Pennsylvania was closed, and 400,000 workers were laid off in Ohio alone. Nationwide, more than 2 million were already out of work and the total mounted every day. Throughout the eastern half of the country, thousands of factories were cut back to "plant protection" gas levels (only enough fuel to prevent pipes from freezing) and had to shut down. Eight states—Pennsylvania, Ohio, Indiana, Minnesota, Tennessee, Florida, New York and New Jersey—proclaimed states of emergency. And Tennessee Gov. Ray Blanton, among others, appealed to President Carter for Federal aid, saying that an effective response to the gas crisis "is beyond the capability of state and local government."

Carter moved quickly to do what he

could to relieve the gas shortages. He submitted emergency legislation to Congress that would temporarily waive Federal price controls on interstate sales of natural gas and thus encourage companies to shift supplies to regions in need; quick Congressional approval was expected. The President also directed his energy adviser James Schlesinger (page 16) to speed drafting of a long-term energy program to prevent future shortfalls.

'NOT WAITING TO BE BEGGED'

To dramatize his attention to the gas crisis, Carter unexpectedly called a weekend Cabinet meeting; the summons came on such short notice that only seven of the eleven Cabinet officers could be mustered in time. With the press looking on for the opening moments, Carter declared: "We're not waiting to be begged. We're taking the initiative." Little of substance developed, though he did make New York and Pennsylvania eligible for Federal disaster relief. He urged private industry to consider a four-day, ten-hours-a-day workweek to conserve energy. Carter had hoped that the government also could adopt that work schedule, but he said that "legal prohibitions" on the part of government unions made it impossible.

The President, who is expected to hold his first "fireside chat" this week clad in a sweater, came close to becoming a victim of the severe winter himself. He slipped on an icy patch of White House

UPI photo



School's out: For Pennsylvania

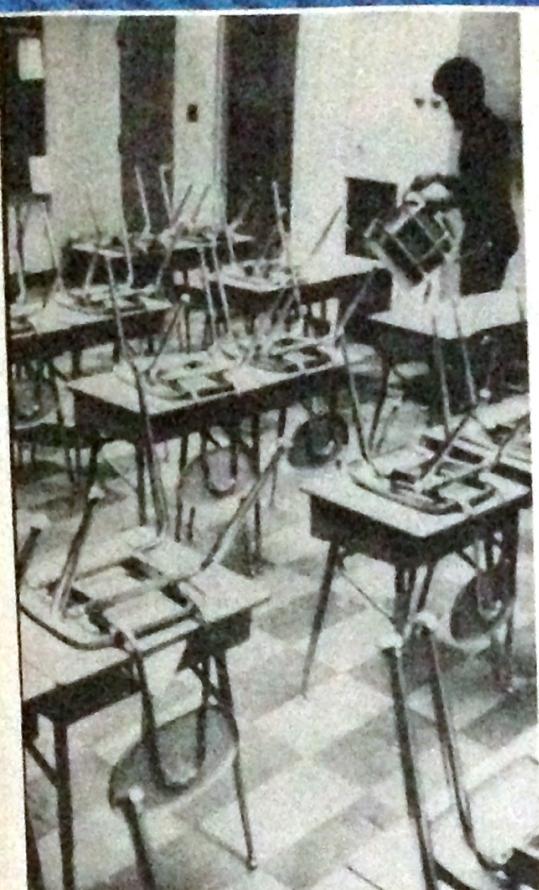
Now, the Gas

walkway, but after a momentary skid he regained his balance. "At least," he said, "it shows how nimble I am."

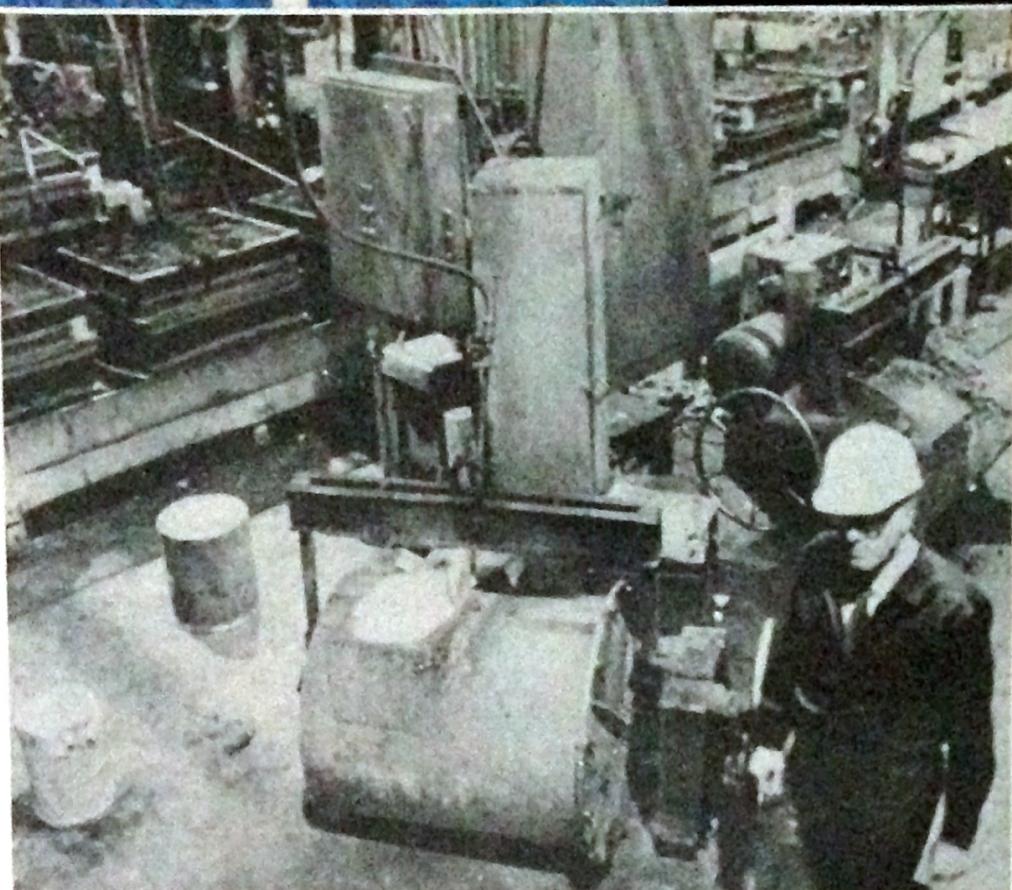
He will need to be nimble. The natural-gas crisis threatened to grow worse in coming weeks—and it could well create serious disruptions for months on end. The 30-day forecast issued late last week by the National Weather Service predicted that the cold wave and the heavy snows would continue through February, cutting even further into inadequate natural-gas reserves. Already, officials in Ohio, New Jersey, Delaware, Georgia and Tennessee have acknowledged that gas supplies to homes and apartments may soon be reduced, and Schlesinger warned that home deliveries might be cut off "in a few weeks, indeed in a few days." The National Guard was called up in Pennsylvania and Indiana, and emergency shelters were being reached in Ohio and West Virginia to house people forced to leave their homes.

The shortages inevitably will have economic consequences as well. Unemployment was rising so rapidly that state officials were unable to keep count. The crisis will cut into the spending power of tens of thousands of Americans, not only because of lost wages but because of increased prices—for natural gas itself, for some fruits and vegetables, due to crop damages, and for beef, due to the increased cost of feeding herds in frozen sections of the country.

The \$50-a-head tax rebates Carter has



pupils, an enforced winter vacation



A shuttered Ford plant in Ohio: Rhodes said the state's survival was at stake

Crisis



Susan T. McElhinney—Newsweek

A Presidential slip: 'It shows how nimble I am'

proposed would soon be eaten up by these expenses. Many economists believe that the weather and the gas shortfall have slowed the total gross national product by about 2 per cent over the past two weeks—a rate that, if continued, would knock \$35 billion from this year's GNP. But not all the experts are uniformly gloomy. Some note that there is usually a "bounce-back" from such temporary disruptions, as workers and factories operate overtime to replenish inventories.

The crisis has been building for years, the result of government complacency and a clash between an industry that wanted to deregulate gas prices and a Congress that refused to do so (page 19). Natural-gas companies have long contended that an unduly severe winter could create perilous shortages. Since 1967, America's natural-gas reserves have decreased more than 25 per cent, and the gas companies have maintained that stringent price controls have denied them the profits necessary to finance new exploration and drilling. Opponents of deregulation, fearful of raising energy prices in the midst of a recession, charged that the industry was crying wolf.

That debate continued last week, with some still charging that the gas companies were holding back supplies

to prod Congress into ending controls—and the companies replying, in effect, "We told you so." But there was little doubt that the shortage was real, or that the main blame fell upon the political paralysis that had kept the country from preparing for the crisis now upon it.

As the crisis built, some businesses were able to switch to alternative fuels, but even those were often unavailable when frozen rivers and icy roads blocked coal and oil deliveries. Other industries—steel, glass and milk, for example—couldn't operate with other sources of energy, and plant after plant was forced to close. Shutdowns in the automotive industry cost the production of 30,000 cars, and further losses were expected this week. The hardest-hit areas of the nation were the northern industrial states, the border states and the South, and in some cases, the double blow of the gas shortage and the weather made the paralysis virtually total.

A 30-DEGREE DROP

The weather, if anything, grew worse: late in the week, a bitter new blizzard swept across much of the Midwest and reached into the Atlantic states. Winds gusted up to 60 miles an hour and temperatures plunged; in Pittsburgh, the temperature dropped 30 degrees in one hour. Swirling snow cut visibility almost to zero. Near Detroit, a 75-year-old man was killed by a snowplow as he stood by his stranded car. Four hundred motorists were stranded on one stretch of Interstate Highway 65 in Indiana, and a fleet of 23 snowmobiles was dispatched to rescue them. Buffalo, N.Y., which has already had 150 inches of snow this winter, was buried anew, and the National Guard was deployed to help the city dig



Schlesinger: Give me the facts

WHITE HOUSE POINT MAN

The day after Inauguration, Presidential energy adviser James Schlesinger excused himself from a meeting of gas-pipeline executives in the Roosevelt Room of the White House. It was clear to him from their talk that natural-gas shortages were "a lot worse than we had anticipated"—and he ducked into the Oval Office with a suggestion. The President, he said, should ask Americans to lower thermostats to 65 degrees. Jimmy Carter had not contemplated such a statement, but within hours he requested the nation to do just what his energy adviser recommended.

Schlesinger, 47, was indisputably Carter's point man in the Administration's first major crisis. As a former head of the Atomic Energy Commission, director of the Central Intelligence Agency and Secretary of Defense, he is an experienced crisis manager. But he says the gas problem is more "intractable" than most. To help solve it, he has been lobbying legislators, jawboning businessmen, and consulting constantly with a small group of aides who, unlike himself, have years of experience in energy problems. Late last week he also made a trip to Capitol Hill to urge

Congress to pass emergency energy legislation. "The Administration has moved with enormous speed," Schlesinger told NEWSWEEK. "One need not have assumed that it would act as expeditiously as it did."

Although some Congressional leaders were upset that Schlesinger did not consult with them on his fuel-saving legislation, his work at the White House has gone more smoothly. "I had heard that he tended to be a bit patronizing and condescending," said one Carter man. "But I haven't found him to be a difficult personality at all." Neither, it seems, has Carter who, like his energy adviser, is a highly disciplined, if sometimes arrogant, executive (they are "cut from the same bolt of cloth," says an old government hand). The two men have consulted frequently in the past ten days, and Schlesinger even spent time meeting with the President in the White House family quarters.

Apple: Until last week, some new Carter aides did not realize that natural gas is the nation's most pervasive fuel. Schlesinger—a just-give-me-the-facts sort—has also been frustrated by the difficulty of getting hard statistics on closed factories, gas reserves and the speed with which gas can be redistributed. Last week, he asked the Interstate Commerce Commission to relax rules prohibiting intrastate truckers from delivering gas across state lines. At his direction, the Federal Energy Administration also ordered Midwestern oil refiners to produce less jet fuel and more heating oil. Except for a lunch break, which usually consisted of an apple, he kept busy from 7 a.m. to 8:30 p.m., and sometimes later. "We stay until we finish," said one aide. "That's the way it is with Big Jim." Afterward, with no limousine at his service, Schlesinger drove home to Arlington, Va., in a blue Cutlass coupe.

This week Schlesinger will keep just as busy as he and Carter begin work on long-term energy proposals, including, perhaps, a recommendation for permanent deregulation of new natural-gas prices. Another top priority will be energy conservation. "The basic problem is whether we are going to get serious or not about reducing energy demand," said Schlesinger, whose favorite phrase is "energy frugality." He is disturbed that during the Nixon-Ford years the nation failed to develop an energy policy. When he left the AEC for the CIA in 1973, he told a visitor that "I could go across the river for two or three years and when I come back, nothing much will have changed [in the energy area]." Now, he says, things must change. "We have simply got to succeed. We have no alternative."

—SUSAN FRAKER with JAMES BISHOP Jr. in Washington

out. The weather may inflict a second blow. Forecasters worry that the heavy snows in the Midwest, the Ohio Valley and the Appalachian Mountains may bring on disastrous spring floods—creating still more unemployment and crop failure.

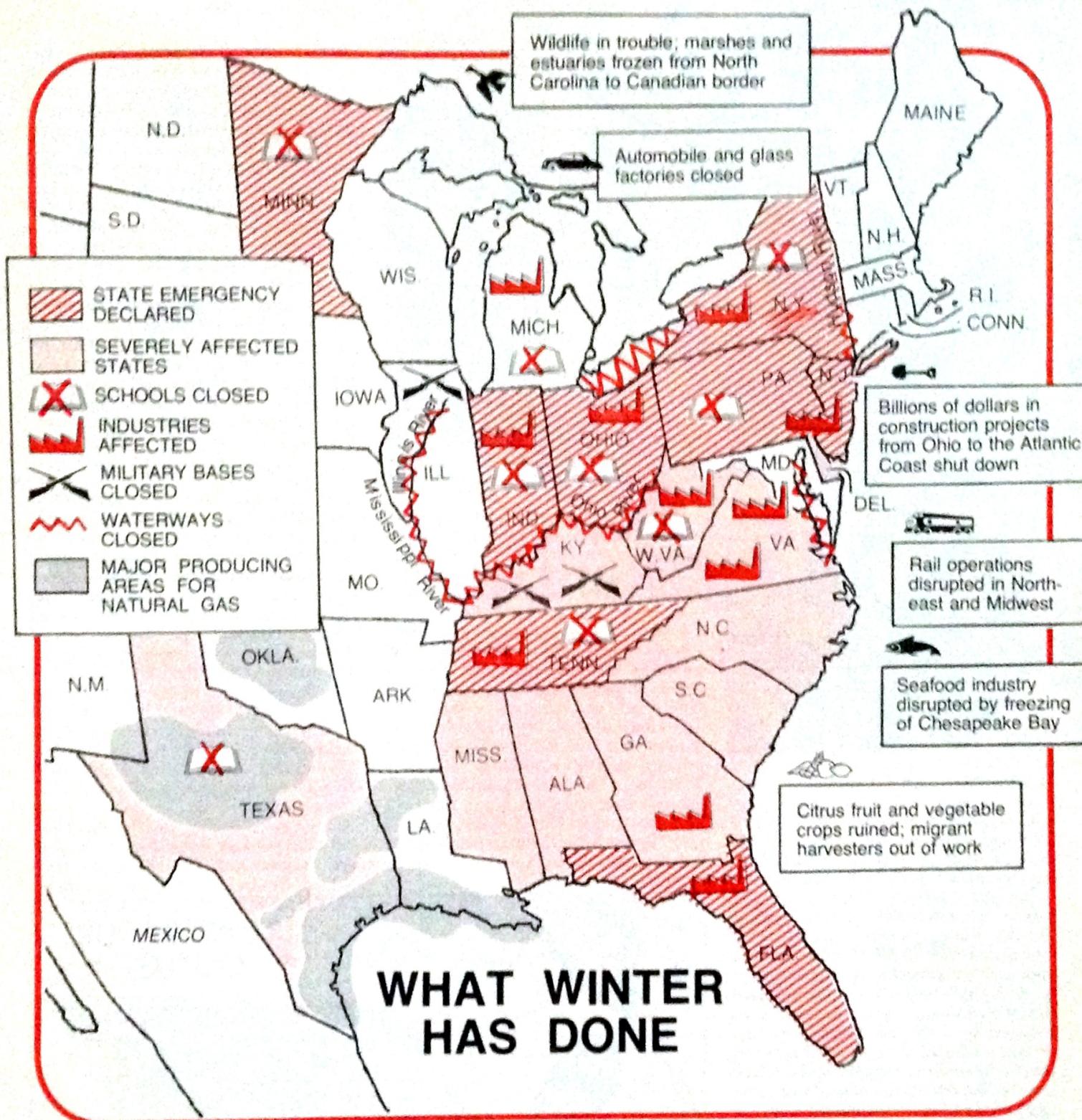
The governors of New York, New Jersey and Pennsylvania issued "state of emergency" decrees as gas companies escalated their cut-offs to industrial and commercial users. By the weekend, more than 100,000 workers in New York were on unemployment as a result of the gas crisis, 340,000 were laid off in Pennsylvania and 275,000 in New Jersey. A New Jersey Public Utilities Commission official said that gas supplies had been cut by 45 per cent. New Jersey had already used the gas it had budgeted for February, he added, and plans were under way to evacuate people from some coastal areas where supplies are nearly depleted.

PLEAS AND PRAYERS

In Pennsylvania, Gov. Milton Shapp called on stores, restaurants, factories and movie theaters to close. (His request had no force of law, and voluntary compliance was decidedly mixed.) Philadelphia's gasworks cut all supplies to its 2,300 largest industrial and commercial users. "We are losing so many jobs right now that I'm afraid our marginal industries will never reopen," Shapp said. Some Pennsylvania cities, such as Erie and Johnstown, were virtually shut down as violent winds reduced temperatures to an effective 50 degrees below zero just as gas supplies were being curtailed. In Fayette County, the National Guard was dispatched to deliver 50-gallon emergency fuel allotments, and contingency plans for "mass care centers" were being prepared.

The situation was just as bleak in Ohio, where all gas service to industry was ended. Temperatures throughout the state had been below normal every day since mid-October (Columbus had not had one day with temperatures above freezing in more than six weeks). Gov. James Rhodes called on the citizenry to turn to prayer "to get us through the coldest days of our time." Residential consumption of natural gas was 30 per cent above normal last week, and Rhodes warned that entire communities might lose all heat soon. "The survival of Ohio is at stake," he said. NEWSWEEK'S James C. Jones was with the governor as he took personal charge of Ohio's battle against the gas shortage. Jones reported:

Rhodes's oak desk was all but buried under stacks of papers; the latest natural-gas cut-offs, the latest devastating weather reports, the latest figures on unemployment, factory closings, blocked roads, available National Guardsmen. As each new report landed in front of him and each hour passed, Rhodes's mood darkened. He had invited eight governors from neighboring states to attend an emergency week



end meeting on the gas crisis, but had to call it off when travel became impossible. He frequently criticized Congress, environmentalists and Federal energy officials. "We're going to ask for disaster-area classification," he said. "We're going to ask for more food stamps, loans and unemployment compensation funds from the Federal government."

Rhodes's unilaterally lifted the Environmental Protection Agency's ban on burning high-sulfur coal and insisted that all states be allowed to use coal as an energy source from Dec. 1 to March 31. Although his action appeared somewhat impractical for Ohio (a state survey showed that only 113 firms are equipped to switch from natural gas to coal), the

governor contended that the use of coal was essential. "People talk about [using] alternative fuels in 1982. We can't wait that long. The gas supply is going down every day; we're approaching a catastrophe. We're at the end of the road as we know America," Rhodes told me that he had been informed he was risking arrest by permitting the burning of coal, but he remained defiant. "Coal can save Ohio. If this is what we needed—a public arrest to save the state—I'm willing to accept arrest."

The icy winter and the gas shortages also enveloped a number of border and Southern states. Gas supplies to all of North Carolina's industries were re-

duced to the minimum required to protect equipment. Tennessee officials said that at least 50,000 homes were in immediate danger of having gas cut off, and a Kentucky official said that the state had been able to meet "essential human needs"—but added that he was not certain it could continue to do so. President Carter designated portions of both Maryland and Virginia as disaster areas. His action will primarily benefit about 10,000 oystermen, who had already lost an estimated \$20 million because their boats are imprisoned in the frozen waters of the Chesapeake Bay, the nation's largest estuary. In West Virginia, officials were scrambling to ready National Guard armories to house and feed people

another round of energy-price increases would fuel inflation and partly because of lingering suspicion that the industry is withholding gas supplies to force deregulation. "The oil and gas companies have no interest in dealing with the current emergency," James F. Flug, director of the Energy Action Committee, told a House subcommittee last week. "The more people who are cold and out of work and out of school, the easier it is to stampede the nation into a deregulation frenzy."

A SECRET SUPPLY?

Most energy experts reject the notion that the industry is deliberately withholding supplies of natural gas—though it is true that some gas is too costly to pump at today's prices. The FPC recently heard charges that Shell Oil Co. had shut in 2 trillion cubic feet of gas. Shell admitted that it had such reserves, but it explained that production of 31 per cent

pipe that made long-distance pipelines possible, natural gas became a valuable commodity.

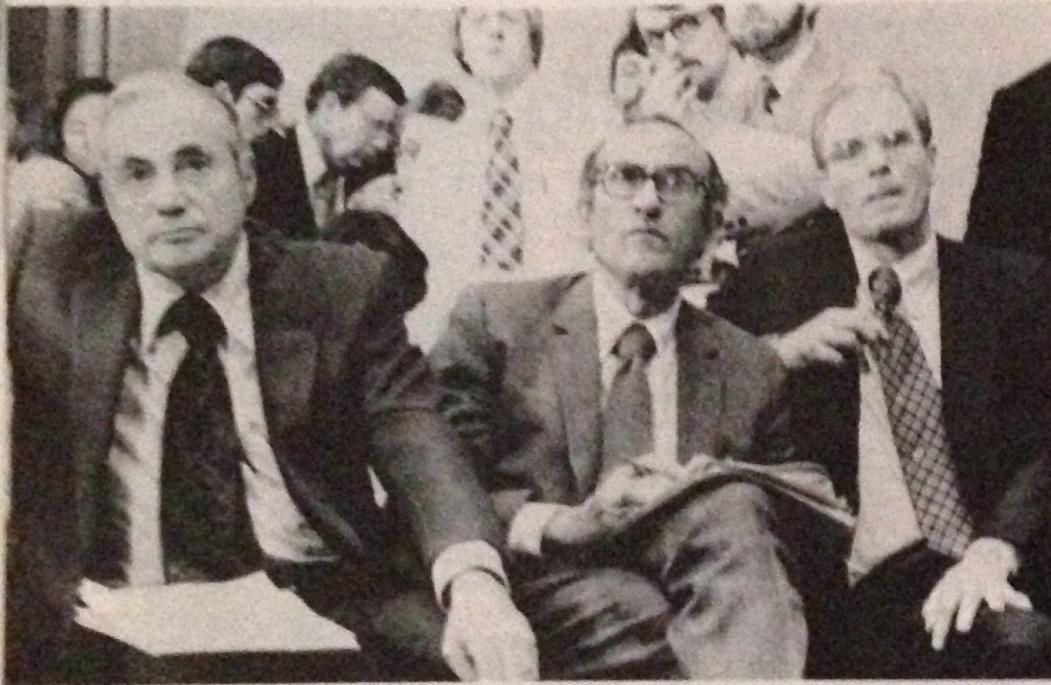
From the very beginning, the FPC regulated the prices that pipelines could charge utilities and industry. But the all-important wellhead price that the producers charged the pipelines was free of control. Then, in the early 1950s, the Phillips Petroleum Co. jacked up wellhead prices and the state of Wisconsin and other states promptly sued the firm. In a landmark case in 1954, the Supreme Court ordered a reluctant FPC to set rates for gas sold to the interstate pipelines. Two years later, the industry got Congress to pass a deregulation bill—only to have it vetoed by President Eisenhower when it turned out that industry lobbyists had allegedly tried to bribe Sen. Francis Case of South Dakota. The industry has never been able to get another deregulation bill out of Congress.

With gas prices artificially held down,

not. It takes up to three years to bring new onshore gas fields into production, up to seven years offshore. But eventually, experts say, deregulation would ease the crunch somewhat. According to the Federal Energy Administration, production will fall from more than 19 trillion cubic feet in 1976 to 16 trillion cubic feet by 1985 if prices are not deregulated. If they are, domestic production would increase, but only to 21 trillion cubic feet—the level of 1974.

NO BONANZA IN SIGHT

Gas from the North Slope of Alaska could add 1.2 trillion cubic feet annually, but there is as yet no pipeline to carry it south. Imports of liquefied natural gas might account for an additional 1.1 trillion cubic feet a year. But experts expect virtually no help before 1990, if then, from the much-discussed schemes to produce gas from coal. Nor do they think there are many large gas fields just wait-



Pennsylvania's Governor Shapp, (left) and New Jersey's Byrne (right) at Washington gas hearing: Begging for more from less

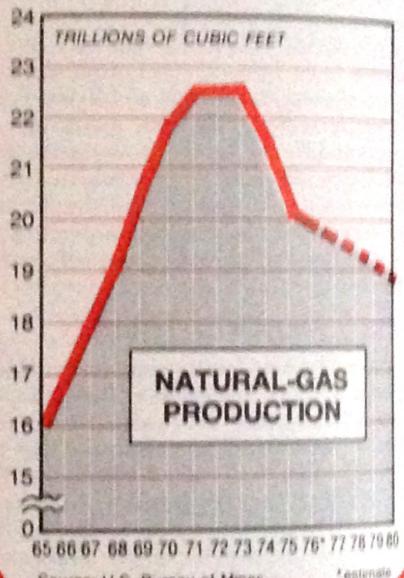
of them was awaiting the proper equipment, that 25 per cent couldn't be produced until nearby fields were worked, that 25 per cent more was awaiting the construction of pipelines, and 19 percent wasn't entirely proved out. "I keep hearing about gas that's being squirrelled away," says President Carter's energy coordinator James Schlesinger, "but whenever we get close to it, it becomes evanescent."

The great irony is that natural gas was once nothing more than an annoying byproduct of oil, and drillers burned it off at the wellhead. Wayne Gibbens, now president of the Mid-Continent Oil & Gas Association, recalls watching the blazing spectacle from his Texas home in the 1940s: "For 50 or 100 miles on the horizon, so much gas was being flared it was like daylight at midnight." But after the development of a strong, seamless

users quickly switched from coal and oil to gas. Demand soared, and by 1967 it began to outrun the industry's ability to find new supplies. Reserves available to interstate pipelines dropped from 198 trillion cubic feet in 1967 to 107 trillion cubic feet in 1975. "The interstate system has eaten away at existing reserves for eight consecutive years," says former FPC commissioner Rush Moody Jr. Finally, last summer, the FPC nearly tripled the price of newly discovered gas—to \$1.42—in an effort to spur exploration, but consumer groups have since blocked the move in court. President Carter pledged during his campaign to deregulate new gas on an experimental basis, but the issue is now so controversial that Congress may not go along despite the emergency.

Would deregulation reduce the chronic shortage? In the short run, probably

ON THE DOWNSIDE



Source: U.S. Bureau of Mines

*estimates

Bon. Brack

ing to be discovered. "There's still gas to find," says John McDonnell, a vice president for marketing at Gulf Oil. "But we can't expect any of the bonanzas of the past."

In the end, it's clear that the nation will just have to make do with less gas—which may mean allocating the available fuel to users that have no suitable alternative and switching everyone else to coal or electricity or solar power. More immediately, the Carter Administration is stressing conservation of all energy. And once the emergency allocation legislation clears Congress, it is likely the President will push for at least partial deregulation of gas prices. But unless the nation learns more from the current gas crisis than it did from the oil crunch of 1973-74, the outlook is not very hopeful.

—DAVID PAULY with JAMES BISHOP Jr. in Washington
and bureau reports