(NATUAL GAS from page 1)
1992, the 102nd Congress passed the Energy Policy Act, comprehensive legislation containing provisions to decrease reliance on foreign oil. The new President, many believed, would promote natural gas development through executive order or rulemaking under the new statute. Increased production of "clean-burning" natural gas, coupled with a plan to decrease reliance on foreign oil, was one of the few concepts on which historical antagonists like the energy industry, environmentalists and regulators could agree. Besides, Mr. Clinton's pitch had the added advantage of at least, *seeming* like it was a key component of a Clinton economic plan.

Production Decline

Gas producers in particular were also given somewhat higher expectations. By 1993, domestic producers and well operators had experienced more than a decade of widespread pessimism concerning the future of natural gas production. Although decontrol of wellhead gas prices had been completed, large accumulations of gas had become more difficult to find. Poor returns in exploration and development programs and marginal wells had cut the appeal of natural gas as an investment. In 1992, the active "rig count" was less than 600 for the first time since national record-keeping began in 1940. In the same year, according to the *Congressional Research Service*, about 10,000 gas wells were drilled nationally compared with over 13,300 in 1991. In the late 1970s and early 1980s, 21,000 to 27,000 wells per year had been drilled in search of natural gas.

Pennsylvania production tracked the national decline. In the last ten years, oil and gas well drilling has dramatically decreased. According to the Pennsylvania Oil and Gas Association, in 1993, approximately 400 wells were drilled in Pennsylvania compared with 4,400 in 1985. Employment in the extraction segment of the industry decreased from 5,600 people in 1985 to 2,900 in 1992— nearly half. Data from Pennsylvania's Department of Environmental Resources shows that between 1991 and 1993 alone there was a 76 percent reduction in the number of gas wells drilled. Oil well drilling during the same period fell off 72 percent.

In recent testimony concerning foreign oil imports before the U.S. Department of Commerce, Mike Giglotti, President of the Independent Oil and Association of Pennsylvania (IOGA), called the situation in Pennsylvania a "serious depression". He and other producers asked the Commerce Department to recommend that President Clinton "declare an emergency regarding the domestic oil and gas industry." As Mr. Giglotti pointed out, the low wellhead price of oil and gas in Pennsylvania is kept low by the price of imported crude oil and gas. "Large industrial customers who burn the vast majority of natural gas produced in Pennsylvania," he continued, "have the ability to switch from natural gas to fuel oil." The price of fuel oil is in turn "tied almost directly" to the cost of imported crude oil. Mr. Giglotti also emphasized that over 90 percent of Pennsylvania oil and gas wells were low-volume or "stripper" wells (less than 10 barrels per day or 60 mcf per day). Although not fully depleted of their reserves, these wells are seldom economic due to the high costs of production relative to low wellhead prices. IOGA figures shows that, in fact, Pennsylvania wells average less than one barrel perday (oil) and less than 20mcf of (gas).

Administration "Initiatives"

Despite the initial enthusiasm for stimulating production, and the fact that Title 20 of the Energy Policy Act of 1992 gives the President wide-ranging flexibility to act, the Clinton Administration has done little about implementing its "aggressive natural gas substitution policy." It has *studied* but not proposed or pushed measures to encourage production or remove regulatory impediments to exploration. The Administration *has*:

- Proposed through the Department of Energy (DOE)—but done little about—the purchase and /or conversion of 5000 federal fleet vehicles using natural gas;

- Announced in December of last year a broad "initiative" through DOE under the Bush Administrations' Energy Policy Act to stimulate production and lessen U.S. dependence on foreign oil, including "review" of tax incentives for production; and

- Discussed lifting the 1973 ban on export of oil from the Northern Slope of Alaska (which could stimulate California exploration and production).

Reaction from the production side of the industry has been mixed. According to Cathy Van Way, Minority Counsel for the House Committee on Energy and Commerce, the Administration has done "virtually nothing" to stimulate exploration and production of available gas resources. Producers have also been disappointed by the Treasury Department's failure to propose solid tax credits for marginal oil and gas wells or advanced exploration, drilling (including off shore) and production techniques.

Producer Tax Credits

In June, President Clinton met with over 50 members of Congress from oil and gas producing states in what has been described as a "listening session". Most in attendance were disappointed. The President did say he favored ending the export ban on Alaskan North Slope oil *provided* that its transport on U.S. tankers would not breach international trade agreements. He also said he "might support" tax credits for the operation of marginal or stripper gas and oil wells.

In fact, producer tax incentives are probably the most