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John A. Love to Senator James O. Eastland, 27 August 1973

John A. Love

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Energy

THE WHITE HOUSE

WASHINGTON

August 27, 1973

Dear Senator Eastland:

Thank you for your recent letter forwarding the correspondence on propane. This is a situation that concerns me greatly. Even with a normal winter, and a normal requirement for harvesting and crop-drying, it appears likely that a shortage of propane will exist this winter. My staff has been working on the propane situation with representatives of the several Executive Branch Departments and agencies that are directly involved. They will report to me problems and possible solutions so that we can determine, and take appropriate action as soon as possible.

To answer the question of why shortages of propane have developed, it is necessary to go back in history. About 70 percent of the domestic supply of propane is recovered from natural gas and the remainder is produced during the refining of crude oil. The actions of the Federal Power Commission resulted in reduced exploration and development of domestic gas reserves. The production of natural gas has now peaked in the United States, and will be declining in the future unless action is taken on legislation to deregulate new supplies. Under present conditions, the supply of propane recovered from natural gas decreases in the future, however, imports must increase significantly to retain total supply at current levels.

At the same time that the supply of propane from natural gas declined, the demand for propane to replace natural gas increased. Both utilities and industrial firms, who normally used natural gas for fuel, purchased and stored large quantities of propane as standby fuel to replace natural gas purchased primarily on an interruptible basis. At the same time, residential, commercial, chemical, and synthetic rubber markets continued to require large volumes of propane.

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Thus, the demand for propane has outstripped supply and inventories are at dangerously low levels. Unfortunately, it appears that residential, commercial, and agricultural markets may be hardest hit by this shortage of propane. Contributing to this situation were the price controls adopted by the Cost of Living Council prior to Phase IV. A large portion of the propane supply is provided by large oil companies to LP gas distributors who deliver the propane to the final consumer. These large oil companies have been under price controls since 1971 and could not pay as much for propane as other companies. Therefore, significant portions of the large oil companies' supply of propane was purchased by small companies not under Phase III controls.

At the same time, under Federal Power Commission regulations, the utility companies would pay very high prices for propane because they could roll these higher prices into their rate base. Also, industrial firms, for which fuel costs represent only a small portion of the total cost of doing business, could pay very high prices for propane as an alternative to shutting down during a period of gas curtailment. The result of all this has been that a large number of individual brokers have entered the propane market and have offered to buy propane from gas plants at prices significantly higher than the majors could afford to pay or were permitted under the price controls. These brokers have then sold this propane to utilities and industrial firms.

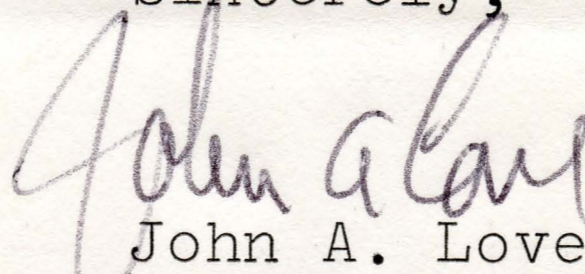
Past Cost of Living Council regulations have also prohibited purchasing higher cost foreign propane and rolling in the price to domestic sales. This has significantly reduced imports of propane.

As I mentioned at the beginning of this letter, and as I have stated publicly, I am greatly concerned about this problem. Propane does represent a very small

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fraction of our Nation's fuel supplies (about 3%), but it is critical to certain needs. The new Cost of Living Council ruling on rolling in import prices should help, but we may also have to take separate and appropriate action to provide for the equitable distribution of propane. Any such action must await completion of our analyses in order to ensure that we do the best that can be done.

Sincerely,

A handwritten signature in cursive script that reads "John A. Love".

John A. Love
Assistant to the President

Honorable James O. Eastland
United States Senate
Washington, D. C.