Energy

Texas' immunity from crisis probably at an end

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On Jan. 1, 1970, Texas whipped Notre Dame in the Cotton Bowl for the Longhorns' 20th straight football victory, Sharpstown was a Houston shopping center, not a political scandal, and Texans waited for "double Green Stamp day" at gas stations.

Regular gasoline had broken the 30-cent barrier, but a thousand cubic feet of natural gas still sold in the field for a dime less. There wasn't a utility in the state that burned lignite and uranium was such a novelty that it hadn't even occurred to the legislature to tax it.

A decade later "Texas" and "energy crisis" no longer are mutually exclusive. It is not surprising that in a state where energy abundance was taken so much for granted, residents who recently idled their engines in gasoline lines would be asking what happened to energy during the 1970s.

The answer: a little bit of everything.

In 1972 the Texas Railroad Commission, regulatory agency overseeing oil and gas production, made an historic break with the past. For more than 40 years, the commission had controlled the rate at which oil could be removed from Texas fields and kept it below what physically was possible.

Indiscriminate pumping lessened reservoir pressure, shortening the life of a field. Overproduction glutted the market and resulted in depressed prices ever since the original Texas gusher — Spindletop — was brought in in 1901.

But in April 1972, with the national thirst for oil unquenchable, the monthly oil allowable was increased to 100 percent (of the amount that the laws of physics prescribed would guarantee the maximum longevity of the field). Only four months earlier, the allowable had been 67.5 percent.

Of all of the elements of energy production and consumption in the 1970s, nothing outside of price is as dramatic as the fact that the flow of oil from Texas wells has decreased in each of the past seven years despite all-out production.

"It's very simple," Railroad Commissioner Mack Wallace said in explanation. "Texas fields are maturing. Pressure is declining in various areas throughout the state. Texas is the most picked over state in the union. Texas declines at 3 to 4 percent per year. There's no way to arrest that decline.

"We leave in the ground 68 percent of all the oil. We only recover 32 percent. That's not because of lack of desire, but because of technology. They're using water, chemicals, everything conceivable to make the earth give up this oil. That's what Texas does continuously is try to recover this oil. But at best, we get 32 percent, which is 4 percent better than the other states average."

The state taxes the flow of oil from its wells at the rate of 4.6 percent of market value. In the 1970s, that meant revenues of $3.273 billion.

But at only 5 cents a gallon — the lowest gasoline tax in the nation — Texans bought enough fuel (including diesel and liquefied petroleum gas) during the same period to produce $4.009 billion in revenues.

Add the natural gas occupation tax (7.5 percent of the market value of the gas produced) of $2.783 billion and the state's energy production taxes for the decade totaled $10.065 billion.

The prospect for a similar revenue bonanza in the next decade is uncertain. Oil production may continue to skid but could be offset by a higher market value for each barrel. If Congress determines the nation is to be free of foreign dependence on oil, price controls could be dissolved and exploration increased. In Austin, declining production might stimilate the legislature to include lignite or uranium among the natural resources to be taxed.

Of the 25,026 exploratory wells drilled in the state from 1970 to 1978, fully 18,159 — 72.5 percent — were dry holes. Last year, 396 wildcat wells found oil, 780 brought in gas and 2,708 struck out.

Throughout the '70s, the incentives designed to spur energy exploration (and conservation) never quite seemed to match the restrictions placed on producers.

Two weeks before the beginnings of the 1970s, a strategic disincentive cited by the industry (and the Railroad Commisson which traditionally has mirrored the industry) was signed into law by President Richard Nixon.

Since 1926, Texas oilmen benefitted from a federal tax provison known as the oil depletion allowance. To offset the exhaustion of a natural resource, 27.5 percent of the gross income derived from oil was not taxed. In 1950 President Harry Truman said no tax loophole was "so inequitable." But he wasn't able to remove the allowance.

The 1969 Tax Reform Act signed by Nixon Christmas week cut the allowance to 22 percent. In early 1975 Congress finished the job, repealing the 22 percent allowance retroactive to Jan. 1, though retaining it until June 1976 for natural gas sold under federal price regulations, or until the controlled price was raised to take into account the repeal of the allowance.

The change raised oil industry taxes an estimated $2 billion per year immediately.

"The removal of the oil depletion allowance probably was the most disincentive action taken by Congress," said Railroad Commissioner John Poerner. "From 1902 to 1974 the United States led the world in oil production (and Texas led the U.S.) but that year (and every year since) we took second seat to the USSR."

The decline in exploration had far-reaching results.

"The number of rigs running decreased each year because those involved in gambling on finding additional oil and gas did not see any way to make a profit on their gamble," said Jim Nugent, the third commissioner.

"They simply put their exploration money into the bank or some other investment and only now, and I'm speaking of the last three months, do we find an upsurge in the number of rigs that are running and the number of people who are willing to gamble their money on exploration. The benefit from this renewed activity can't be judged for at least another year."

The end of the decades-long era of plentiful natural gas sent Texas' power generating companies scrambling for short-and long-term solutions to the supply dilemma. Some, notably in North Texas, fared better than others, notably in Central Texas.

"Texas had a strong natural gas fuel base as far as utilities were concerned that enabled them to postpone the need to develop alternate fuels longer than other parts of the country," said Dick Ramsey of Texas Utilities, a holding company for Dallas Power & Light, Texas Power & Light and Texas Electric Service that serves 4 million persons.

Every electric company in the state fueled its boilers with natural gas in 1970. The largest companies saw nuclear energy as an integral part of the mix of the future, but one that could not be added overnight. The interim solution demanded utilization of something other than natural gas.

That something was and is coal and it is difficult to imagine the degree to which Texas Utilities cornered the market.

Within 200 feet of the surface of a broad belt of Texas terrain lies an estimated 12.2 billion tons of lignite, a low grade coal that was popular until natural gas became the state's fuel of record after World War II.

"If you took the total energy produced in Texas in those (post-war) years, it would be 99 percent natural gas and oil (generated) and lignite was just no factor," said Ramsey.

But Texas Utilities never forgot its earlier experiences with lignite.

"You've got to have a substantial amount in one area to support a power plant for 30-40 years," Ramsey said. "Those are the kinds of deposits we pursued 30-40 years ago. There's no question we got some of the better deposits in the state because nobody was interested at the time."

Cleopatra's gems might be 'fakes'

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NEW YORK — Some of Queen Cleopatra's dazzling jewels probably were imitations, according to some jewelry experts.

The artisans of Alexandria in ancient Egypt were skillful workers in glass gems and their craft was carried over and further developed in the days of the first two centuries of the Roman empire, according to researchers at Trifari jewels.

Thus, they say, it is probable that the dazzling trappings used by Cleopatra included many cut glass and imitation stones.