

promised an announcement in November of this year concerning pricing provisions for natural gas.

There is a range of interpretation about precisely what "market-sensitive" pricing is to mean. In the short run, once the government's administered price regime is withdrawn, the terms of existing contracts likely will be honoured for their full duration, since this would be a legal requirement. Contracts between the pipeline company and its suppliers already provide for periodic price renegotiations.

Most parties to existing contracts envision a system of ongoing price administration for gas sales in Central and Eastern Canada. Companies would set prices at levels which would maintain natural gas as a competitive alternative to other fuels in each regional market.

Only incremental transactions would have the full benefit of decontrol, with contract duration, quantity and price being negotiated directly between buyer and seller/producer. These new contracts would arise as additional towns or industrial users are added to the gas pipeline. Under existing carriage arrangements, a priority system would be required for transmission as independent consumers attempt to rent pipeline space to move gas east from their supplier. The implications of making TransCanada PipeLine a common carrier should be examined.

As long-term contracts expire, the natural gas market could approach the deregulated environment now in effect for oil. But a policy decision will be required to determine the extent to which free market arrangements will prevail. This also holds implications respecting monopoly gas distributors in local centres.

The Committee is cognizant of the high costs of the natural gas infrastructure and recognizes that large investment expenditures were based on contract price guarantees. Long-term contracts may be the only means by which private investors will commit themselves to building future extensions of the pipeline system. Consideration will have to be given to both the investment and consumer aspects of this issue, and a delicate balance will have to be struck.

The present one-price system for natural gas in eastern Ontario and Quebec should be abandoned. Transportation costs should be made explicit, and transportation subsidies should be eliminated. The Committee believes that Canadians would be willing to purchase natural gas at competitive wellhead prices with transportation costs to their place of business or residence added. This makes clear the cost of consuming this resource and promotes efficient allocation and informed judgment when fuel requirement decisions are made.