

WASHINGTON





“The Lost Decade”

Chapter III *1970–1979*

The company’s Springfield Operations Center opened for business in 1970.

As America entered the 1970s, the nation had been undergoing a fundamental change in the way it regarded the environment.

Environmental disasters such as Ohio's Cuyahoga River oil-slick fire in June 1969 had called attention to pollution as never before, sparking a new level of activism from citizens and government alike.

On March 21, 1970, environmental advocates celebrated the first Earth Day in San Francisco. And in December 1970, a new Environmental Protection Agency—created under President Richard Nixon to address growing concerns over pollution of air, water and land—officially set up shop.

By 1970, increased worries over pollution already had created a dramatic surge in demand for clean-burning natural gas. Ironically, this greater demand became one of the two factors most responsible for a nationwide gas shortage that would persist for most of the decade.

The other major factor—federal regulation of the price of natural gas at the wellhead—had discouraged the exploration and development of new sources of natural gas despite the potential presence of large additional supplies.

As the decade began, the immediate energy outlook already appeared grim. In its 1970 annual report to shareholders, Washington Gas reported that demand for every energy source—gas, electricity, oil and coal—was outstripping supply.

The gas shortage that had only been hinted at during the waning years of the prior decade finally was materializing.

The Squeeze Begins

Barring a gas shortage, the outlook for Washington Gas going into the 1970s could hardly have been brighter.

The company now served the seventh-largest—and fastest-growing—of the nation's most populous metropolitan areas. In 1970, gas heating was specified in 97 percent of new homes within reach of Washington Gas facilities. The market for outdoor gas lights for those homes was flourishing as well.

Other uses also were growing. Thanks in part to the company's marketing efforts, contractors' gas air conditioning sales in the region in 1970 were 58 percent higher than in 1969—3,271 units sold. This boosted the company's therm sales for gas air conditioning by 22 percent over the prior year. The accomplishment was significant, winning the company the American Gas Association's 1970 National Marketing Leadership Award.

The company's appliance dealer support program also continued to reap dividends during 1970: Gas appliance sales had grown 36 percent since 1969.

Then Came the Gas Shortage

In the initial years of the decade, Washington Gas obtained about 83 percent of its natural gas from Columbia Gas Transmission Corp., which had absorbed the operations of Columbia Gas System's Atlantic Seaboard subsidiary, and about 17 percent from the Transcontinental Gas Pipe Line Co., or Transco.

But curtailments of the gas supply materialized almost as soon as the decade began. Beginning in 1970, growing demand and lack of new supply already was squeezing the company's two suppliers. That year, Columbia asked Washington Gas to limit sales of gas to new retail customers to 300,000 cubic feet of gas per day. At the time, the move affected only a few large-volume customers and did not impact existing customers or projected growth in residential or commercial customers.

But soon, both pipelines would begin to restrict deliveries. By 1971, Washington Gas reported that its suppliers were unable to furnish enough gas to accommodate the normal growth of the business.

Washington Gas added 36 new interruptible rate customers in 1970, but by August 1971, the unprecedented demand for gas heating and cooling in large buildings prompted the company to suspend all new interruptible rate business.

In October 1971, Columbia informed the company that its additional supply for the 1972-1973 contract period would not be sufficient to serve the projected growth of the Washington Gas customer base.



WMAL Channel 7 meteorologist Louis Allen helps cook hot dogs on a natural gas grill at the inaugural Giant-Washington Gas Appliance Showcase.



The Hampshire Gas Company was formed to explore for gas in West Virginia. Today, Hampshire Gas serves as a key storage and peaking facility for Washington Gas.

Instead, Columbia said, it only could provide Washington Gas with allotments of “growth gas” for the period based on projected residential growth—a portion that constituted less than 50 percent of the company’s total projected growth.

Then—only two months later, Columbia in December 1971 notified Washington Gas that the supply situation was growing worse yet. Now Columbia feared that it might not be able to make as much growth gas available for the 1971–1972 contract period, either.

By February 1972, the true severity of the gas shortage finally became clear: Columbia advised Washington Gas that it could no longer provide the company with *any* gas for growth. That same year, Transco

also found itself unable to furnish Washington Gas with its contracted amounts of gas.

Austerity Measures

As the supply situation worsened throughout late 1971 and early 1972, Washington Gas gradually realized that it would have to use a measure of last resort to preserve service to its existing customers: It would ask regulators to allow it to declare a moratorium on acquisition of new customers.

Regulators granted the company’s request. On March 1, 1972, Washington Gas began a moratorium on new customers that would endure throughout most of the next six years.

Construction of the Washington Metrorail system in 1972. Washington Gas was a key partner in the development and construction of the WMATA system.





Of course, the freeze came with consequences.

With gas supplies tight and the size of its customer base now essentially static, the company cut back on marketing and advertising efforts, neither of which would be required as long as the company's growth remained on hold.

Cuts in marketing and advertising, together with the moratorium on new gas hook-ups, in 1972 forced the company to trim back its marketing, customer service and construction staffs, and compelled it to extend an early retirement offer to employees.

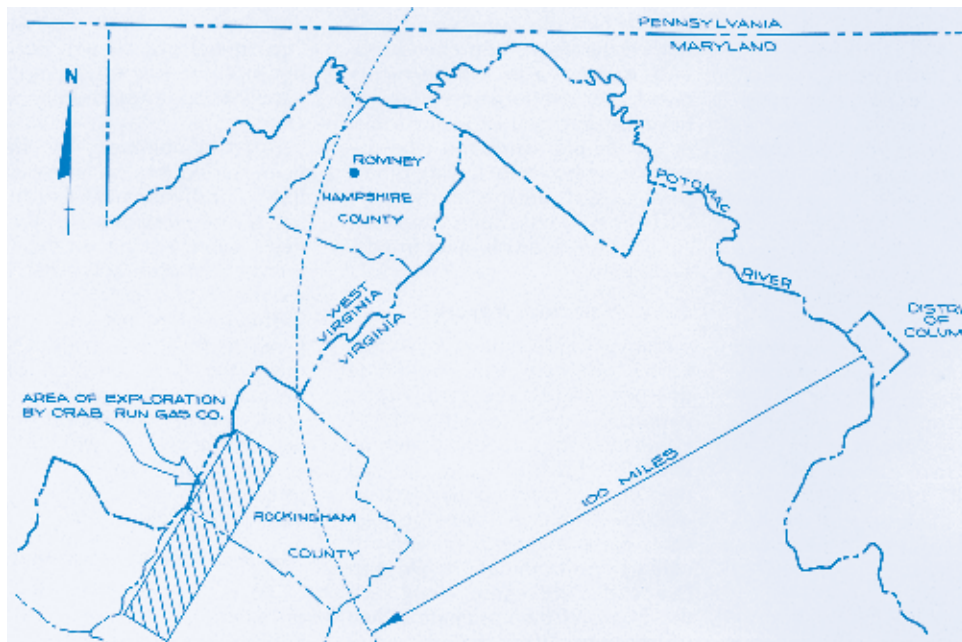
There were other effects. In 1973, President Nixon called on Americans to conserve energy. Long accustomed to promoting additional gas usage, Washington Gas now echoed the president's call. Customers responded. That year, Washington Gas announced that its customers indeed were using less gas, and in fact had extinguished as many as 10,000 gas lights.



Vietnam protests continued throughout the early 70s in the Washington, D.C., area.



Gasoline shortages were far too common, and natural gas also saw supply challenges in the decade.



Formed in 1970 to explore for gas in West Virginia, by the end of the decade, the Crab Run Gas Company also held exploration leases in Virginia, Oklahoma and Louisiana.

Because of the freeze on new customers—and new conservation measures being implemented among consumers—Washington Gas in 1973 experienced its first decline in sales of gas to customers in 50 years. The company posted another decline in 1974.

Sales would continue to lag throughout the decade. At the end of 1979, total gas sales still remained below 1972 levels.

Other Kinds of Growth

While curtailments of natural gas and moratoriums on new customers prevented Washington Gas from expanding its franchise area and customer base during the 1970s, the company nonetheless continued to change and grow internally throughout the decade.

In 1970, for example, the company formed a new subsidiary, the *Crab Run Gas Co.*, to explore for gas in West Virginia. Even in an era of price controls, this exploration market was part of the company's strategy to maintain a balanced portfolio of gas supply, rather than relying on a single source. In the years after its creation, Crab Run also participated in joint ventures to explore for gas in Louisiana and Oklahoma. By 1974, two Louisiana wells had proved successful, spurring Crab Run to enter drilling commitments in other states. By 1977, Crab Run gas from Louisiana began to flow to Washington.

In another move at the end of 1972, the company merged *Martinsburg Gas and Heating*—which it had acquired in 1965—into the *Shenandoah Gas Co.* A year earlier, Washington Gas had obtained 100 percent ownership in Shenandoah by acquiring a small outstanding interest in the firm, which Washington Gas had controlled since 1959.



City Homes, Inc. was formed by Washington Gas in 1969 to purchase deteriorated homes in the inner city and restore them for low- and middle-income families. Ken Tracy celebrates the sale of one of the first restored homes (at right).

The company also expanded its operating facilities during the 1970s. The Springfield Operations Center, under construction since 1968, opened its doors in the fall of 1970. The facility, which boasted its own total energy plant, served as the new operational headquarters to 1,100 Washington Gas employees, accompanying the corporate headquarters at 1100 H Street in D.C. Concurrent with that opening, the company sold its Shirley Station, as well as its 30th Street property in Georgetown.

The company also opened a new substation in 1970—Northwest Station in Rockville—to serve as home base for employees in that part of the company's service area. Several years later, in 1975, the company's Southeast Station, also known as the Forestville Station, went

into service in Prince George's County, Md. That year the company also expanded its Chillum, Md., station.

One initiative failed to take hold, however. In 1973, Virginia's Prince William County approved the company's request to build a synthetic natural gas (SNG) plant five miles north of Quantico. But before the new project could gear up, the federal government issued new regulations governing the allocation of petroleum products. The rules failed to give priority to naphtha (a liquid mixture of hydrocarbons necessary to synthesize natural gas) as feedstock for SNG plants. With a steady supply of naphtha now in doubt, the company halted and eventually abandoned the project.



Employee George Swindell is recognized for decades of blood donations to the American Red Cross.



Washington Gas employees have been supporting area students through Junior Achievement since the 1970s.



Employee Salome Whitney received the company's President's Award for Humanitarian Service for her dedication to repairing and donating used clothes to those in need.



WHITELAW

WHITELAW
HOTEL

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The company's brand new Springfield Operations Center seen from the air in 1970.

During the 1970s, Washington Gas also shifted its focus on another venture—its *Brandywood Estates* project. Since the late 1950s, the company had been acquiring acreage in Prince George's County, Md., for its underground structure, which it intended to use for gas storage.

But later studies cast doubt on the property's suitability for gas storage. Abandoning its plans to use the 3,200 acres for storage, the company in 1972 sent county officials plans to build a "New Town" development on 1,800 acres of the property. But those plans also fell through when the county government rejected the necessary zoning proposal in 1978, leaving the company to re-examine its options for disposing of the property.

Cultural change saw the end of D.C.'s historic Whitelaw Hotel in 1977. Built in 1919 as a hotel for African Americans, the end of legal segregation spelled the hotel's demise. It has since been restored as a historic landmark.

Washington Gas also pursued other non-gas ventures during the decade. In 1971, the company created *Rock Creek Properties* to develop about three acres of Washington, D.C., property—the former site of its Georgetown office facility.

In 1973, the company organized another new company, *Washington Gas Approved Services*, to provide insurance services—initially a group hospitalization plan—in the District of Columbia and Maryland.

As part of the move toward energy conservation, Washington Gas in 1975 also initiated an "Energy Conservation Services" program through which it would inspect insulation in homes and recommend improvements. Customers could have new installations done through firms under contract to Washington Gas, and then pay for the work directly on their gas bills.



In 1977, Washington Gas made a more direct entry into the insulation business through the acquisition of *Davenport Insulation, Inc.* and that company's subsidiaries. In addition to selling and installing all types of insulation, Davenport manufactured cellulose insulation through a subsidiary.

Throughout the decade, Washington Gas also participated in various research projects to explore new or alternative energy sources. These included projects related to coal gasification, natural gas fuel cells, and the use of solar-generated heat to supplement conventional gas space and water heating.

Changing the Ground Rules

Throughout most of the 1970s, natural gas supplies were severely constricted. Curtailments of gas from Columbia Gas Transmission Co.

to Washington Gas cut ever more deeply into the company's supply as the decade progressed—rising from a 2 percent reduction in late 1973 to a 22 percent reduction in 1975.

Concurrent with the natural gas shortage, the fragility of America's energy structure was clearly demonstrated when the Organization of Petroleum Exporting Countries, or OPEC, imposed an embargo on oil shipments to Western countries that lasted from October 1973 to March 1974. The embargo produced gasoline shortages, sent oil prices soaring, and the following year forced the United States—and most of the world—into an economic slump.

As the situation worsened, efforts to cut back natural gas usage continued. In 1975, for example, the Maryland Public Service Commission issued an order forbidding the use of gas to heat residential garages or



■
Washington Gas' Dispatch Control and Communications Center.

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Washington Gas developed its own microwave system for increased communications efficiency and security.

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Video Display Terminals (VDTs) helped customer service representatives call up information more quickly than ever before.

outdoor swimming pools, or for gas fireplaces or outdoor decorative lighting. The order also banned the conversion of coal, oil or electric appliances to gas.

In the midst of this tight supply, extremely cold weather in January and February 1977 resulted in 11 days of emergency curtailment. During the emergency, Columbia limited its gas distribution in a seven-state area to serve only “essential human needs.” Homes, hospitals, nursing homes and restaurants satisfied this criterion.

The situation was dire. In the middle of the crisis, weeks after taking office, President Jimmy Carter signed the Emergency Natural Gas Act of 1977, which allowed interstate pipelines and distributors to buy emergency gas in the intrastate market at virtually unregulated prices.

In announcing the act, Carter, who at the time famously ordered thermostats turned down in federal buildings, claimed that 400,000 workers had been laid off because of natural gas shortages.

During this period, Washington Gas continued to seek out alternatives to straight natural gas. By 1977, the company was buying a portion of its gas supply from the Columbia Green Springs synthetic natural gas plant.

In 1978, Washington Gas also gained access to a new source of liquefied natural gas through a just-completed facility built by Columbia Gas and Consolidated Natural Gas at Cove Point, Md., on the Chesapeake Bay.





Employee Robert Burroughs (second from left) is recognized by D.C. Police Chief Jerry Wilson for rushing to extinguish a gasoline fire at D.C. Fifth District police headquarters in 1970.

But stop-gap measures would not sustain the American gas industry forever. By this point, it had become abundantly clear that Congress had to act to end the federal government's control of gas prices at the wellhead—one of the main culprits in the gas crisis.

Congress in fact did begin to tackle energy issues in a big way, first by creating the Department of Energy in 1977.

But it was not until Nov. 9, 1978, that President Carter finally would sign the Natural Gas Policy Act as part of the National Energy Act of 1978. The law created a remedy to one of the key drivers of the gas shortage: It would gradually escalate the wellhead price of newly discovered natural gas until the end of 1984, at which time the price of that gas would be totally deregulated.

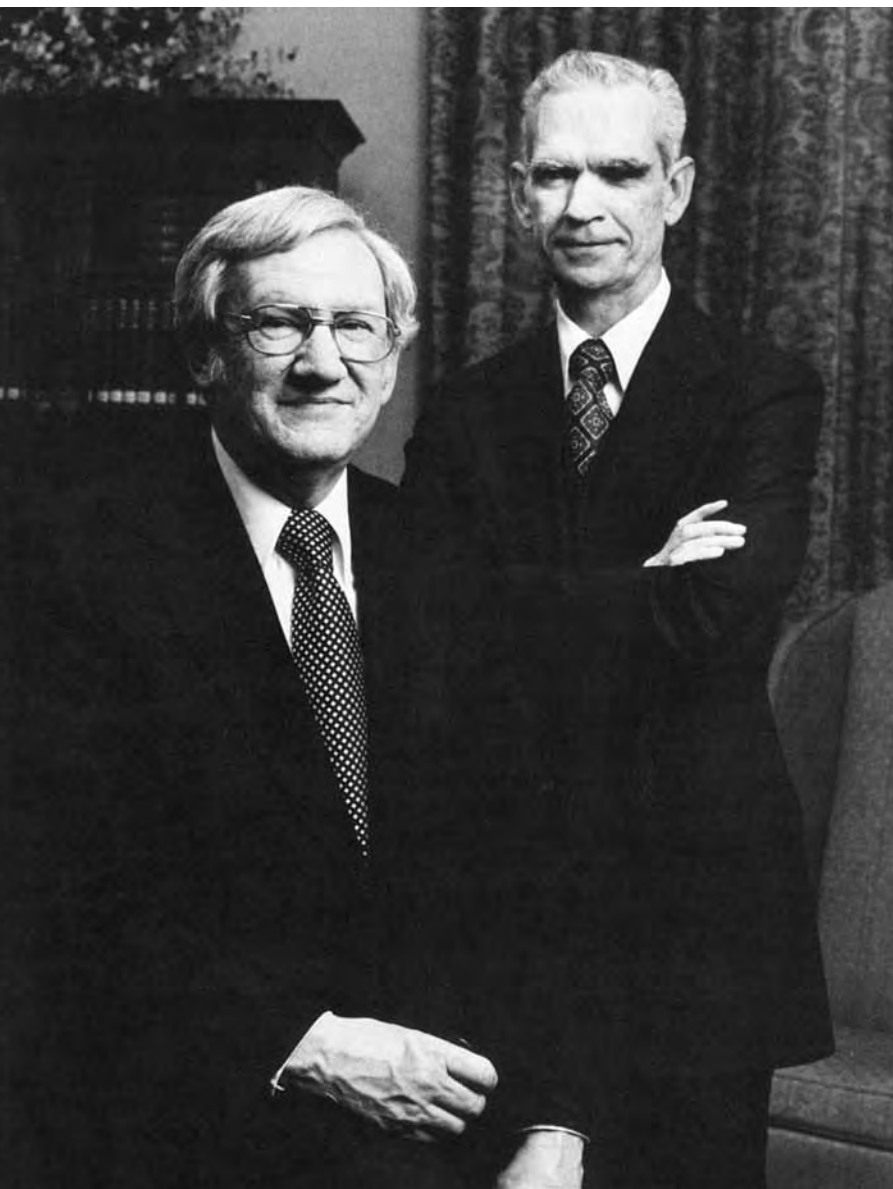
Some extremely cold winters in the 1970s didn't slow down Washington Gas employees, shown here installing a new service line to a high-rise office building.

As part of the Energy Act, Congress in 1978 also adopted the Power Plant Industrial Fuel Use Act, which preserved gas supplies for residential users by prohibiting its use by certain industrial and power-generation facilities.

The roadmap to recovery had been drawn.

Putting it Back Together

Washington Gas President Paul Reichardt, who also had become chairman and chief executive officer at the retirement of Donald Bittinger in 1973, had led the company throughout the most challenging years of the 1970s. Reichardt would continue to serve out the decade as chairman and CEO after the board elected Donald Heim as the company's president in October 1977.



Chairman and CEO Paul Reichardt with President Donald Heim, elected in 1977.

It was Reichardt and Heim who led the company as it prepared for the future under the new regulatory regime.

The introduction of this leadership team also coincided with the inception of one of the company's most impressive records for shareholder performance. Even through the challenges of the 1970s, Washington Gas was able to increase dividends in three years, 1970, 1973 and 1977. And in 1977, the company began a string of consecutive dividend increases which has continued through 2012.

With an improved supply situation on the horizon, Washington Gas began to test the waters. In 1978, in a move designed to offset some of the erosion of sales and revenues the company had experienced throughout the decade, the company gained regulatory approval to begin providing service to a limited number of new residential and small commercial customers.

As 1979 began, it became evident that natural gas supplies were improving; the company filed for and received regulatory approval to accept about 12,000 new customers a year. The company's Frederick Gas and Shenandoah Gas subsidiaries made similar filings.

Implementation of the National Energy Act began to have a major national impact on supply later in the year as gas supplies began to flow in from Canada and Mexico, and the number of newly drilled wells increased.

With new incentives to explore, discoveries of new U.S. gas fields also came quickly—in the Rocky Mountain Overthrust Belt, the Appalachian region and offshore in the Atlantic Ocean.

After a decade of austerity, the pieces were falling into place once again.

As the 1980s approached, it was now time for Washington Gas to make up lost ground. ④

Legislation in the latter half of the decade to help alleviate energy shortages included the Emergency Natural Gas Act of 1977 and the National Energy Act of 1978.

