

**UNITED STATES OF AMERICA
BEFORE THE DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY**

**COMMENTS OF THE
AMERICAN PUBLIC GAS ASSOCIATION**

Pursuant to the notice of the Department of Energy's Office of Fossil Energy, issued on November 29, 2005 via its website, the American Public Gas Association (APGA) submits the following comments. APGA appreciates this opportunity to submit comments to the Department of Energy regarding the outlook for natural gas supply and demand.

APGA is the national association of approximately 600 publicly-owned local distribution systems in 36 states. Publicly-owned gas systems are not-for-profit retail distribution entities that are owned by, and accountable to, the citizens they serve. They include municipal gas distribution systems, public utility districts, county districts, and other public agencies that have natural gas distribution facilities.

Background. APGA's number one priority is to bring natural gas prices back to an affordable level (*i.e.*, something resembling cost plus a fair rate of return, which is what result from a functioning market). Over the last five years, American consumers have seen the wholesale price of natural gas go up more than 600%. Such price increases will cost consumers over \$200 billion at today's current price compared to the price five years ago. Prior to 2000, these dollars went into the local businesses, community infrastructure and more importantly, were the disposable personal income that could have been used for savings or investing in such things as a child's education.

America's natural gas prices are the highest of any industrialized country in the world. As a result of these prices, tens of thousands of jobs and many companies have moved to foreign countries that have policies which recognize energy as the lifeblood of a successful economy. Simply put, the United States industry and economy are in a crisis.

Why is America in this crisis? Outdated federal policies have placed us in this current dysfunctional situation. The policies of the past three decades leave us today with volatile natural gas prices and indirect, de facto fuel use regulations that have resulted in natural gas being the dominant fuel for new electric generation. As a result of access restrictions to potentially prolific gas supply areas, a tightly regulated supply market has developed.

As a result of the federal government's failure to update, coordinate, and harmonize our environmental and energy policies, our policy makers are responsible for where we are today. After decades of developing energy and environmental policies on separate tracks with little to no harmonization or coordination, the traditional residential and commercial consumers of natural gas must now compete against the fast-growing segment of gas-fired electric generation facilities in a contest to see who is willing to pay the most. This broken scheme does a disservice to the more than 56% of all homeowners who heat with natural gas and have no viable alternative (and hence must pay whatever the price.)

Unfortunately, there is no quick fix available that brings natural gas prices back to an affordable level. But, the good news is that there is no need for the current high prices to continue indefinitely. Quick and decisive action in early 2006 by Congress and the federal government in several areas could provide relief to consumers by next winter.

Our comments focus on some of the immediate actions Congress and the federal agencies must take over the next few months to provide the relief from high natural gas prices that consumers so greatly deserve. Absent such action, it is unlikely American industry and consumers will see much, if any, relief in 2006.

Supply. Increasing domestic gas supply production is fundamental to solving the critical problems confronting this nation due to the current unfathomably high natural gas prices. We have abundant and untapped domestic natural gas resources currently off limits because of environmental concerns – concerns that have been overtaken by advances in technology. Given the advances in drilling technology, we can increase access and supply in an environmentally safe and sound manner. It is a self-defeating argument to say that we must make an “either-or” choice between drilling and environmental protection.

This restriction is ironic in light of other federal policies that favor gas use because of its clean-burning properties. These two conflicting federal policies (namely, encouraging gas use and limiting access to gas supplies) have contributed substantially to the current crisis, and they simply cannot coexist in a coherent energy plan.

In the lower 48 States alone, there is estimated to be over 300 trillion cubic feet (Tcf) of natural gas that has yet to be produced. That is enough natural gas to heat 75 million homes for 60 years. Unfortunately, limits on development (through Congressional and administrative moratoria) prevent exploration and production in most of the Eastern Gulf of Mexico and the entire Atlantic and Pacific Outer Continental Shelf (OCS). That means almost 90% of the OCS acreage off the lower 48 states is “off limits” to energy development. If our policy makers want to take a significant step to bring natural gas prices back to an affordable level, they must provide access to the significant domestic supplies that are currently considered “off the table.”

APGA recognizes that it will take some time before consumers receive natural gas from areas that have yet to be opened up to production. However, we believe enacting policies that lift access restrictions for new areas of production will send a clear message to the market that substantial new, domestic natural gas supplies will soon arrive. This message will have a positive impact upon prices and price volatility. Increasing domestic supply is a critical step towards enhancing domestic energy security and providing price relief to consumers. It is beyond disappointing that for more than a decade, both Democratic and Republican Congresses and administrations have failed to recognize the urgency to act.

Infrastructure. APGA views liquefied natural gas (LNG) as an important component in our nation’s gas supply mix and we support the construction of additional LNG facilities on the

east and west coasts as well as the Gulf of Mexico. However, we must not view LNG as a panacea that permits the government to sidestep the need for action to increase access to safely developed onshore and offshore domestic supplies. This nation knows too well the folly of over-reliance on foreign energy sources. Especially, when those energy resources are located in countries where a government-controlled monopoly arbitrarily sets different prices for different customers; or, without notice, will reduce or shut-in supply to express its displeasure with a customer. Since the early 1970s, the data to justify this concern has been clear and unassailable. One only needs to look at the incident that took place in Russia in late December 2005.

In addition the construction or expansion of natural gas storage facilities around the country where it makes strategic, geographic, and geologic sense will help ensure that excess supply delivered during the summer months is available to meet the increased demand of the winter months.

Storage continues to play a vital role in maintaining the reliability of supply needed to meet demand. However, APGA strongly believes that there are adequate incentives currently in place, particularly in light of provisions in the Energy Policy Act of 2005, that allow the use of market-based rates for the construction of new storage facilities. Any federal government efforts in this area should be focused on facilitating the siting and permitting of such new storage facilities, especially downstream on the pipeline near the consuming areas.

The construction of the Alaskan natural gas pipeline is also critical. According to DOE, the gas reserves in the Alaska North Slope equal 20 % of the total gas reserves -both onshore and offshore - in the lower 48 states. Construction of the pipeline will help bring this gas to the market to meet future demand.

Fuel Diversification. Over the last five years, more than 90% of the new electrical generation facilities constructed have been fueled by natural gas. Primarily due to various environmental policies (e.g., air, water, and emissions) that favor natural gas use for power generation over coal, electricity generation remains the fastest growing sector of natural gas demand. Unfortunately, this growing demand is now taking place while domestic production remains stable or declines. The results have been obvious and disastrous – skyrocketing prices and unprecedented price volatility, with no offsetting public benefits.

Our energy policies must not rely on a single fuel to meet our electricity generation needs. Environmental policies must not be promulgated in a vacuum. There must be coordination and harmonization that result in a truly comprehensive energy policy.

Clearly, a more balanced approach to power generation is needed. Our nation's energy policy must recognize that America's future electricity needs cannot be met almost exclusively with natural gas. Rather, there must be a reasonable combination of conservation efforts, renewable energy, clean coal technology, and safe nuclear power.

Investment in New & Unconventional Natural Gas Resources. In order to meet our growing energy needs, we as a nation must continue to invest in new resources and technologies. Current technologies allow us to recover large, unconventional gas resources with minimal, if any, adverse environmental impacts. These technology investments will pave our way into the future. Unconventional gas resources include gas found in coal seams, low-permeability or “tight” sandstones, and ultra-deep resources. These unconventional sources are estimated to be approximately 700 Tcf.

APGA also strongly supports investments into coal gasification and methane hydrate technologies. Coal gasification technologies are attractive because they are virtually non-polluting. APGA also believes that methane hydrates hold tremendous potential as a fuel of the future. With over 200,000 Tcf of natural gas in the form of Methane Hydrates (natural gas in a frozen state) off the coasts of the United States, this energy resource alone could serve as the last bridge between fossil fuels and renewables. But, to achieve this reality in our lifetime, it will take the political leadership and national commitment last seen in the 1940s for the Manhattan Project and the early 1960s when President Kennedy pledged to send a man to the moon.

Conservation. As a nation, we must develop and maintain a conservation ethic. APGA believes that any coherent national energy policy must address the demand side as well as the supply side.

Conservation plays a critical role in reducing demand and by doing so, further stretching our energy supplies. Public education and awareness remain key challenges to substantially increasing energy conservation. Both the federal government and the private sector must work together in our communities to build greater public awareness about the need to conserve energy.

Energy Efficiency. Like conservation, energy efficiency also plays a critical role in stretching our energy resources. The appeal of energy efficiency is that while it does not eliminate behavioral changes, it focuses on technological solutions to improve our energy use.

National policy must stimulate those energy efficiency programs that encourage the most efficient utilization of all energy forms through the matching of each energy task with the most appropriate fuel (e.g., running computers with electricity and heating homes and businesses with natural gas). Additionally, incentives should be incorporated for more efficient energy use through tax credits for the purchase of energy efficient appliances and the construction of energy-efficient homes and commercial buildings. Congress and the federal government should further accelerate the effective date of energy efficiency tax incentives in the Energy Policy Act and fund energy awareness programs at the Department of Energy.

High natural gas prices continue to negatively impact consumers, businesses and our economy as a whole. Until measures, such as those identified in these comments, are implemented to bring natural prices back to an affordable level, consumers will continue to be

denied the relief they so richly deserve. The leadership to accomplish and implement these measures must come from Congress and the federal government. The longer it takes to act to provide relief, the more it will hurt our consumers and industries. APGA stands ready to work with the Department of Energy, Congress and others towards bringing natural gas prices back to an affordable level.

Conclusion. Energy is the lifeblood of our economy. High natural gas prices negatively impact our economy, and the quality of life and well-being of our fellow citizens— both in their homes and their workplaces. There is no need for high prices when America is blessed with abundant supply sources of natural gas.

Coal was king in the 19th century, oil in the 20th, and natural gas could be the successor in the 21st because we have such an abundance of natural gas.

For example:

- America uses about 22 to 23 Tcf per year.
- We have about 190 Tcf in conventional reserves, and these reserves have grown every year in the last 20 except one.
- We have more than 650 Tcf in unconventional reserves.
- We have more than 200,000 Tcf in methane hydrates.

The current grossly inflated natural gas prices are simply unacceptable. Consumers can no longer tolerate the conflicting policies which underlie the broken hybrid energy model that has caused this dilemma. Steps must be taken to bring prices back to an affordable level. But, the longer it takes Congress and the President to act decisively, the more it will cost and the more harm it will cause our industries and consumers.

We must move forward with policies that successfully remedy the problems created by the energy policies of the 1970s, 80s, and 90s. The problems created by those policies include—

- A completely unregulated price,
- Prohibitively high prices where producers recover far in excess of the cost of production,
- A fully-regulated scheme that limits or restricts access to our known gas supplies, and
- A de facto regulated use of natural gas for new electric generation.

One thing is certain for the next several months, when homeowners receive their heating bills reflecting higher natural gas prices heating bills, the fallout will, and rightfully so, extend far beyond the local communities served by APGA members. The duty and obligation to respond accordingly clearly resides with our policy makers. It will also be clear to the American public in short order whether they respond in a meaningful way or continue to posture.