



U.S. Department of Energy
Office of Fossil Energy (FE-30)
Attention: Trudy Transtrum or Nancy Johnson
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Inquiry Under Section 1818 of Energy Policy Act of 2005

Ladies and Gentlemen:

Section 1818 of the Energy Policy Act of 2005, P.L. 109-58 (EPAct), requires the Department of Energy (DOE) to report to Congress on natural gas supply and demand within 180 days of enactment. Section 1818(b) enumerates the purposes of the report, while Section 1818(c) outlines the scope of the analysis to be undertaken by DOE. On November 29, 2005, DOE posted a notice on its website soliciting comments from interested parties with regard to this study.

The American Gas Association (AGA) is pleased to have this opportunity to address the most pressing issue facing the natural gas industry today. AGA represents 195 local energy utility companies that deliver natural gas to more than 56 million homes, businesses and industries throughout the United States. Natural gas currently meets one-fourth of the United States' energy needs. The Energy Information Administration projects that U.S. demand for natural gas will grow by 4,710,000,000,000,000 Btus by 2025 due to its cleanliness, efficiency, reliability, and suitability for a wide range of uses. To meet this rising demand government policies will need to support increased production as well as efficient use of natural gas and other

energy sources. Adequate supplies of competitively priced natural gas are of critical importance to AGA and its member companies. Similarly, ample supplies of reasonably priced natural gas are of critical importance to the millions of customers that AGA members serve. AGA, therefore, effectively speaks for both those customers and its member companies when it comes to gas supply and demand issues.

Executive Summary

For a number of years, natural gas demand has been increasing more rapidly than our ability to produce more supply. The resultant market since the winter of 2000-2001 has exhibited higher and more volatile gas prices than was the case throughout the 1990s.

Since the beginning of 2005 the market has unexpectedly soared to historic highs, topping \$10 per MMBtu for sustained periods of time. For this reason, AGA discusses below possible actions that the DOE can take to help utilities deliver reliable service to their customers this winter – particularly those customers relying on natural gas for heating needs. These actions include helping us communicate with those customers who have bargained for service that might be interrupted so that they are prepared for that event this winter. Furthermore, DOE can encourage state governments to review the possibility of allowing for temporary waivers of air emissions requirements this winter to help maximize the amount of fuel switching that can occur.

Clearly, the market fundamentals will not turn around quickly and DOE actions this winter will not alter permanently the supply/demand imbalance. Indeed, without aggressive action by government, this unstable situation will persist into the indefinite future. A continuation of current circumstances will harm customers and will impose a

serious drag upon the economy. Increasing the ability of our nation to produce domestic natural gas is necessary for economic growth and customer well being. Moreover, doing so is compatible with environmental values.

The Lower-48 has provided about 85 percent of the total U.S. gas supply in recent years. This percentage likely will decline over time, but the Lower-48 will continue to provide the majority of our natural gas for the foreseeable future. Increasing or even maintaining current Lower-48 production levels without increased land access is, at the very best, problematic. Maintaining natural gas production levels, and increasing them, will require increased land access in the Lower-48, including access to offshore areas. Accordingly, AGA has recommended to Congress that it review existing restrictions on land access to determine which restrictions remain truly necessary to protect environmental values, given the considerable changes in exploration and production technology in the last twenty-five years. AGA also has recommended that Congress authorize and appropriate adequate funding for the agencies charged with these responsibilities.

New sources of supply, including Alaska and imported liquefied natural gas (LNG), also must account for a larger share of our gas supply portfolio in the future. In 2004 Congress took action to encourage Alaskan supply. This year, with the passage of EPAct, Congress encouraged additional liquefied natural gas supply by codifying certain federal policies concerning open-access at marine LNG import terminals and reaffirming exclusive federal jurisdiction over LNG siting.

There is no question that additional natural gas supply will be necessary to meet America's needs. Doing so, however, is only one part of addressing our current energy

situation. Bringing natural gas supply and demand into balance also requires that we devote resources and attention to promoting energy efficiency. The nation needs a portfolio of energy sources, with each providing a resource for the applications to which it is best suited. Electricity generators should be encouraged to seek greater fuel diversity. The near total reliance on natural gas for new electricity generation, particularly in light of severe constraints to the addition of new natural gas supplies, has had, and will have, severe repercussions in the natural gas market. No energy policy can be both sound and comprehensive unless it implements conservation and efficiency policies that are necessary to optimize the nation's use of its energy resources.

The Natural Gas Market Challenge

Natural gas currently meets one-fourth of the United States' energy needs. Yet the natural gas industry is balancing on a supply tightrope, bringing with it unpleasant and undesirable economic and political consequences—most importantly high prices and higher price volatility. Both consequences strain natural gas customers—residential, commercial, industrial and electricity generators.

As a result, adequate supplies of competitively priced natural gas are of critical importance to AGA, its member companies, and the millions of customers that AGA members serve. More than 63 million Americans rely upon natural gas to heat their homes, and high prices are a serious drain on their pocketbooks. High, volatile natural gas prices also put America at a competitive disadvantage, cause plant closings, and idle workers. Directly or indirectly, natural gas is critical to every American.

For the last five years the natural gas industry has been at a critical crossroads. Natural gas prices were relatively low and very stable for most of the 1980s and 1990s, largely as a result of ample supplies of natural gas. Wholesale natural gas prices during this period tended to fluctuate around \$2 per million Btus (MMBtu). But since 2000-2001 we are consuming as much natural gas as we produce and import. As a result, even small changes in weather, economic activity, or world energy trends have resulted in significant wholesale natural gas price fluctuations.

Since the beginning of 2003, the circumstances in which the industry has found itself are reflected in significantly higher natural gas prices. Natural gas prices in the period 2003-2005 hovered in the range of \$5-6 or more per MMBtu in most wholesale markets. In some areas with pipeline transportation constraints, prices skyrocketed for short periods of time to \$70 per MMBtu.

In mid-2005 prices unexpectedly increased dramatically as gas demand increased to meet summer needs to generate electricity. In August and September, 2005, Hurricanes Katrina and Rita hit the Gulf Coast in a one-two punch, seriously disrupting the nation's energy production infrastructure. Hurricane Katrina took offline a number of offshore platforms; Hurricane Rita, which also immobilized a significant portion of the Gulf Coast natural gas processing facilities, struck those that were spared. As a result of these events, natural gas prices unexpectedly soared in the last half of 2005 above \$10 per MMBtu for extended periods. As we enter the winter of 2005-2006 natural gas in many markets is trading in the \$14-15 per MMBtu range.

Simply put, natural gas prices have been high and volatile since the winter of 2000-2001. In the last half of 2005 they reached historic, and totally unexpected, levels.

Moreover, the marketplace predicts that they will stay high. Current NYMEX quotes for the next several years reflect prices in the \$9-11 per MMBtu range.

Coincidentally, in early 2005 the American Gas Foundation issued a new report entitled *Natural Gas Outlook to 2020*. The report analyzed future natural gas trends under three scenarios—(1) involving optimal changes for natural gas policy; (2) involving status quo policies for natural gas; and (3) involving the most likely policies for natural gas. (A copy of that report is attached to these comments.) In this latter scenario, the report predicted that natural gas prices would reach approximately \$14 per MMBtu in real terms by the year 2020. It was indeed a shock to all that the market for the last half of 2005 produced prices that the report had predicted would not occur until 2020.

The consensus of forecasters is that natural gas demand will increase steadily over the next two decades. This growth will occur because natural gas is the most environmentally friendly fossil fuel and is an economic, reliable, and homegrown source of energy. It is in the national interest that natural gas be available to serve the demands of the market. The federal government must address these issues and take steps to ensure that the nation has adequate supplies of natural gas at reasonable prices.

Meeting The Challenge This Winter

The preceding discussion makes clear, we are in uncharted territory in terms of unprecedented natural gas prices for this winter. On the positive side, storage inventories are full and ahead of the five-year average. Additionally, natural gas utilities' have extensive experience addressing challenging market conditions and weather. Over the past four decades this has included managing the nation-wide supply shortages of the

70's, well freeze-ups in the Gulf of Mexico, and extremely cold winters and ice storms. Given our reputation for reliability, we have every expectation that this winter, as with all winters, the nation's natural gas utilities will reliably meet their firm customers' need for natural gas to heat their homes and businesses. It is our primary responsibility and we will continue to serve our customers safely and reliably.

We must be prepared to address the consequences of a market where supply is just keeping pace with demand, however, so that we can properly plan for all contingencies. Accordingly, we are anticipating that if we have extended cold weather in certain regions of the country then we may be faced with the reality that interruptible customers will be interrupted and that possibly large volume firm customers other than residential and small business may be asked to curtail their use of natural gas. We stress that this very much depends on the severity of this winter's weather, and also will depend on how much of a conservation response there is to the high prices, and to the very public calls for energy efficiency and conservation being made by government and industry officials alike. DOE is to be commended for their leadership role in this effort. We recognize the important work of the Department in this area jointly with the Alliance to Save Energy. The Department's leadership role is critical to in order to maximize energy savings from energy efficiency and conservation efforts.

Should a supply or infrastructure emergency arise, the responses will have to be local in nature, within a state or a region for most circumstances. For this reason, individual natural gas utilities have emergency response plans that have been developed in consultation with their state energy offices and state public utility commissions. These

plans address procedures for emergency load shedding, voluntary usage reductions, mandatory usage reductions in certain circumstances, and communication protocols for interaction with customers, regulatory agencies and the media. In addition, many utilities have in place resource-sharing agreements that provide access to shared resources in the event of supply shortage or severe disruption. Additionally, there are regional groups that play a significant role in coordinating any required response to an electric or gas emergency situation at a statewide level.

There also exist mutual aid assistance plans that are coordinated by interstate pipelines, intrastate pipelines, municipalities and utilities within a state or region. These plans can be implemented in the event of pipeline curtailment, failure of a critical distribution or pipeline facility, short-term loss of firm gas supply or certain extreme demand situations that exceed prudent peak-day or seasonal supply planning. Additionally, there are contingency planning groups whose mission is to plan and coordinate activities in response to emergencies. In all of this planning, the industry and its regulators place foremost emphasis on maintenance of service to high priority, essential human needs customers.

The procedures at the individual utility company level cover the spectrum from normally anticipated interruptions to customers served under an interruptible rate to totally unexpected interruptions caused by operational conditions either upstream or downstream of a city gate. Most importantly, customers that take service under a contract that is designated “interruptible” should know that they might indeed be interrupted. These customers have made a conscious decision to contract for an interruptible service for a lower cost. It must be emphasized, however, that with this cost

benefit comes the obligation and responsibility to suspend their use of gas when required. See Technical Assistance Briefs: NARUC Inventory on Gas Curtailment Planning, April 2005. It should be noted that, for this reason, natural gas utilities generally do not offer interruptible services to residential and other critical essential human need customers.

To stress these points, a recent brief prepared for the National Association of Regulated Utility Commissions (NARUC) with funding by DOE's Office of Electricity and Energy Assurance found that there is a strong collaborative process among state commissions, Governors and other state agencies to respond to a natural gas shortage or curtailment. The survey also found that most states follow a similar sequence in a supply emergency, which requires (1) a call for voluntary usage reductions by all customers prior to issuing mandatory curtailment, (2) interruption of all interruptible services, (3) issuance of operational flow orders, and (4) implementation of penalties for violations. The NARUC paper also found that in the event of a curtailment despite these actions, the majority of states responding had almost identical priorities for the use of natural gas. All placed a priority on protecting human health and safety. In general, priorities of usage contained in tariffs do not change under ordinary supply shortage circumstances, but during an energy emergency, priorities are implemented to ensure continued service to residential customers and other critical loads.

It is in that period prior to implementation of emergency plans that the DOE can have the greatest impact. To help the nation's natural gas utilities avoid supply impacts this winter, for instance, the Department can take some specific actions, in addition to what it is already doing to promote energy efficiency.

First, DOE should work with the state energy offices and state public utility commissions to ensure that there is a requirement for non-firm industrial and power generation sites to have adequate and operational alternative fuel capability. It is critical that customers who purchase interruptible service are prepared to be interrupted – and states must be able to enforce this expectation. Without a strong enforcement mechanism, the load shedding plans of utilities cannot produce the desired result.

Accordingly, DOE can help by directly encouraging interruptible customers to plan for an actual interruption this winter. Specifically, directly or through state commissions, DOE should call publicly for commercial and industrial users of natural gas to review their contracts to determine if they are interruptible. If they are, these facilities should be encouraged or required to act now to ensure that they have a contingency plan in the event of an interruption to their natural gas service. That could mean an alternative energy supply on site or otherwise available that is sufficient to provide fuel for several days, the likely period of an interruption, or it could mean plans to close for the period of the interruption. The important message is that facilities should test their procedures for alternative fuel switching and ensure that they are able to respond to a request or order to switch to an alternative fuel other than natural gas.

Second, and related, in the event of extended cold weather nationally, or even regionally, DOE may want to consider a direct call to all customers with alternative fuel capabilities to switch to that fuel for a period of time, regardless of whether they are actually interruptible customers. In this way, additional demand for natural gas may be dampened in an effort to ensure that natural gas is available for high priority heating needs.

Finally, in order for power generators and large industrial plants to maximize their ability to move to an alternative fuel other than natural gas, it may be critical for state air offices, or the Governor's office, to expeditiously grant waivers to air emissions regulations for a short period. DOE should encourage this result so that more users of natural gas for other than high priority heating needs can switch to another fuel. Generally, governors can override emissions regulations of their states' – it may be necessary for them to do so this winter. The Department should communicate directly with the Governors' offices and ask them to assess whether temporary waivers to air emissions regulations for a short period this winter would help its individual state or region implement broader based use of alternative fuels. The goal is to implement policies that will see us through this winter. Actions should be taken that can help preserve natural gas use this winter for its highest priority use –continued service to residential and other high priority customers.

The Gas Supply Mis-opportunity

Many of the fields from which natural gas currently is being produced are mature. Over the last two decades, technological advances have greatly enhanced the ability to find natural gas as well as to produce the maximum amount possible from a field. While technology undoubtedly will continue to progress, technology alone will not be sufficient to maintain or increase our domestic production.

Today's tight natural gas markets have been a long time in coming, but there are still numerous unexploited sources of gas in the United States. We are not running out of natural gas; we are not running out of places to look for natural gas; we are running out of

places where we are *allowed* to look for gas. The truth we must confront now is that, as a matter of policy, this country has chosen *not* to develop much of its natural gas resource base.

Without prudent elimination of some current restrictions on U.S. natural gas production, producers will struggle to increase, or even maintain current production levels in the Lower-48. Yet, if America's needs for energy are to be met, there is no choice other than for exploration and production (E&P) activity to migrate into new, undeveloped areas. There is no question that the nation's natural gas resource base is rich and diverse. It is simply a matter of taking E&P activity to the many areas where we know natural gas exists. Regrettably, many of these areas—largely on federal lands—are either totally closed to exploration and development or are subject to so many restrictions that timely and economic development is not possible. As we contemplate taking these steps, it is important that all understand that the E&P business is enormously more environmentally friendly today than it was 25 years ago thanks to such technological improvements such as 3-D and 4-D seismic imaging, CO₂ sand fracturing, coiled tubing, and slimhole drilling.¹ In short, restrictions on land access that have been in place for many years need to be reevaluated if we are to address the nation's current and future energy needs.

Congress has finally enacted a comprehensive energy bill. Several of the provisions of EPLA will assist in expediting the environmentally sound exploration and development of the nation's natural gas resources. But EPLA did not take the decisive action that is necessary to bring natural gas prices down: opening up the prolific gas fields found in the Outer Continental Shelf. These areas contain vast quantities of natural

¹ For more detail see www.naturalgas.org/environment/technology.

gas. Opening them to responsible, environmentally sensitive production of natural gas is necessary to help consumers and the economy.

The existing universal prohibitions on all E&P activity on the East Coast, the West Coast, and the Eastern Gulf of Mexico must be reevaluated with an objective, dispassionate eye to determine if these areas can be explored without adverse environmental consequences.

A gigantic swath of federal lands, much of which is known to overlay large deposits of natural gas, has been placed off limits to any form of E&P activity, no matter how environmentally sound and sensitive. The nation's pressing need for energy to warm its homes, to supply its businesses and to generate its electricity mandates that this blanket prohibition must be lifted. The U.S. E&P industry has been transformed by technology over the last quarter century such that drilling for natural gas today is an entirely different venture compared to thirty or forty years ago. A process must begin where individual offshore areas are evaluated to determine, with a dispassionate and objective eye, whether sound environmental stewardship continues to mandate the universal prohibition of E&P activity offshore.

There are undoubtedly many avenues that could be followed to achieve this objective. AGA has, over an extended period of time, reviewed the "SEACOR" proposal, which grew into the recent bill drafted by the House Resources Committee, to restructure the current regulatory scheme for the offshore areas of the United States. These proposals represent a sound means to begin the process of striking the environmental balances that the United States needs. To be clear, however, undoubtedly there are other proposals that could also harmonize the nation's energy needs with the protection of environmental values.

An integrated, omnibus review of restrictions in the Intermountain West must be undertaken to harmonize and rationalize overlapping and duplicative restrictions that make many areas effectively closed to E&P activity.

The Intermountain West has been, and is expected to continue to be, a growing supplier of natural gas. However, this can only be the case if access to key prospects is not unduly impeded by stipulations and restrictions, which are often conflicting and overlapping. Two separate studies by the National Petroleum Council and the U.S. Department of the Interior have reached a similar conclusion—that nearly 40 percent of the gas resource base in the Intermountain West is restricted from development, in some cases partially and in other cases totally. On this issue, the Department of the Interior noted that there are nearly 1,000 different stipulations that can impede resource development on federal lands.

It is essential that energy needs be balanced with environmental impacts and that this evaluation be complete and up-to-date. Finding and producing natural gas is accomplished today through sophisticated technologies and methodologies that are cleaner, more efficient, and much more environmentally sound than those used in the 1970s. Many restrictions on natural gas production in the Intermountain West have simply not taken into account the important technological developments of the preceding thirty years. The result has been policies that deter and forestall increased usage of natural gas, which is, after all, the nation's most environmentally benign and cost-effective energy source.

AGA believes that Congress should mandate a from-the-ground-up review of the various restrictions and limitations applicable to federal lands in the West with the goal of rationalizing and harmonizing the restrictions and reviews currently involved.

Adequate authorizations and appropriations are essential for the various federal permitting agencies to perform their functions responsibly, efficiently, and promptly.

A number of federal agencies are charged with responsibility for reviewing and acting upon applications for permits for E&P activities. These include the Minerals Management Service, the Bureau of Land Management, the Fish & Wildlife Service, and Forest Service. AGA is aware of numerous instances where these agencies have not been able to perform their necessary functions in timely fashion simply for lack of fiscal resources. This represents an unnecessary and unwarranted barrier to sound energy and resource development. Additional fiscal resources that are miniscule in amount—when compared to the scope of so many federal programs—would, if applied here, provide major benefits for the nation’s energy customers. AGA believes that it is sound national policy for Congress to authorize and appropriate sufficient funds for these agencies to undertake their functions responsibly and in a reasonable time frame.

As suggested above, the most important action that can be taken to bring new gas supplies to consumers, and, therefore, to bring prices down, is opening to exploration and production the many areas throughout the United States that we know to contain significant natural gas resources. Many of these areas have been closed to exploration or have been made the subject of so many restrictions that they are *de facto* closed to exploration. At heart, these closures and restrictions are ostensibly grounded in environmental concerns. The nation needs to review these restrictions. Most importantly,

it needs to review them with a contemporary view that reflects the fact that the exploration and production business is enormously more environmentally friendly today than was the case thirty or forty years ago. Equally important, these assessments must be made with an understanding of the importance of energy production to the nation, particularly as it bears upon economic prosperity and well being.

Increasing the Supply of Liquefied Natural Gas

LNG will be an important source of supply, and, it could, even in modest quantities, have a significant effect upon natural gas prices.

Given the policy choices that the nation has previously made with regard to gas supply and with regard to land access, imported LNG will be an essential incremental supply of natural gas. Although several dozen such import projects have been announced, in all likelihood a far smaller number will actually be constructed. Even if only several projects are ultimately brought online, the impact of these imports upon U.S. natural gas prices could be material and significant. Accordingly, it would be sound policy for the government to take whatever actions it can to facilitate the siting and construction of LNG marine import terminals.

The Gas Demand Opportunity -- The Importance of Fuel Diversity and Energy Efficiency

While it may seem unduly elementary, it is important to remember that the market relies upon two countervailing forces to operate: supply and demand. Price is determined by the intersection of the two, and volatility, which has become a challenge for all energy stakeholders, is a result of the particular intersection of those two factors. As the

discussion above notes, additional gas supply is both necessary and desirable. Nevertheless, we must also continue to serve the interests of customers by taking actions with regard to reducing natural gas demand. In terms of the market and prices, a unit of natural gas not consumed is indistinguishable from a unit of natural gas produced and consumed. Clearly, there are opportunities to capitalize on gas demand reduction.

Encourage conservation. Efficiency measures can, in the near term, moderate demand and therefore moderate prices. Market-driven conservation can have an impact in the short term, but true efficiency measures can only be effective in the longer term. Over the last twenty years, America's households have decreased their natural gas consumption one percent per year on average. Similarly, commercial and industrial concerns have made great strides in improving their efficiency. These trends will undoubtedly continue, but government can take steps to make quantum leaps in efficiency.

Encourage diversity in fuels for power generation. AGA also believes that the nation should rely upon a full portfolio of energy sources to meet its energy needs. A balanced portfolio of energy sources is in the national interest. A major factor in the run-up of natural gas prices over the last five years has been the demand for natural gas to fuel electric generation. Moderating this demand for natural gas will benefit other natural gas consumers. AGA believes that it is sound policy for government to encourage gas-fired electric generation plants to have backup fuel capability. Additionally, EPAct contains a number of provisions that will encourage alternate fuels for generating electricity, including coal gasification. AGA believes that the federal government should take steps to encourage the use of a diversity of fuels in the generation of electricity.

Adopt full-fuel-cycle energy-efficiency analysis. Moreover, energy policy should seek to put each fuel to its most effective use. Regrettably, our energy policy today is not founded upon this principle. In most instances, for example, on a life-cycle basis and from the perspective of allocative efficiency, natural gas is most efficient in direct-flame applications—space heating, cooking, and water heating. On a life-cycle, full-fuel-cycle basis, electricity generally is considerably less efficient for these uses. Thus, by ignoring this fundamental precept, our energy policy today misallocates resources. Energy policy would make a great step forward in this regard by performing its analysis on a full-fuel-cycle, full life-cycle basis.

Congress is moving forward in this realignment of the nation's approach to energy efficiency. In Section 1802 of EPLA it has directed DOE to conduct a study of this subject. In October 2005 the American Gas Foundation issued its report "Public Policy and Real Energy Efficiency." (A copy is attached to these comments.) This report illustrates the strides that could be made in energy efficiency if the nation changed its analytical framework for measuring energy efficiency.

To make federal energy usage measurement accurate, AGA believes that Congress should direct the federal agencies that sponsor promotional and rating programs for energy-efficient appliances, homes, and buildings (*i.e.*, DOE, EPA Energy Star, etc.) to base those programs on total energy usage (in addition to measuring the energy usage at the site of consumption). All other things being equal, this shift would tend to shift gas toward direct flame applications and somewhat away from consumption in generating peak electricity, resulting in a more efficient usage of the nation's resources.

Reliance on market forces. AGA believes that government policy should not interfere in the market decisions that result in the nation's energy portfolio. High natural gas prices such as those we are now experiencing tend to produce calls for energy allocation schemes (*e.g.*, suggestions that government policy should affirmatively discourage the use of natural gas in the generation of electricity). Past events should provide ample proof that such calls, if accepted, always produce new, unintended, and unforeseen deleterious consequences. AGA believes that the market, if left unhindered, will produce a diverse and robust energy portfolio for the nation. Government policy may soundly point the invisible hand in one direction, but mandating a direction has invariably produced inefficient, undesirable consequences.

Encourage innovative regulatory structures that reward natural gas utilities for encouraging energy efficiency. Additionally, from the perspective of AGA and its members, the goals of energy efficiency often are ill served by the rate and cost recovery mechanisms mandated at the retail level by local natural gas utilities. More often than not utility rates are designed on a volumetric basis, meaning utility efforts to encourage efficiency and reduce natural gas consumption can result in financial harm to the utility. These traditional rate mechanisms run counter to public policies regarding energy efficiency. This need not be the case. Recently several states adopted innovative rate structures that align the utility's economic interests and the goals of energy efficiency. Other state public utility commissions soon will be considering similar proposals. Indeed, in November 2005, the NARUC adopted a resolution urging the various state commissions to review their policies on rate design to determine whether changes could lead to advances in conservation. (A copy is attached.)

Adoption of these innovative mechanisms should reduce natural gas consumption and reduce overall customer bills, while allowing natural gas utilities an opportunity to earn their authorized returns. Last year leading environmental and energy conservation organizations joined the American Gas Association in supporting such innovative gas utility proposals. (A copy of the statement involved is attached.)

Summary and Conclusion

These are challenging times in the natural gas industry. Natural gas prices are both high and volatile. Natural gas consumers across America are counting on government and industry to bring them a solution. The market stage has been set for this winter. Government can assist natural gas utilities to communicate that customers who have bargained for interruptible service should be prepared for that contingency this winter. For the long-term, the solution lies in taking action in Washington that encourages:

- Taking the necessary steps to allow and stimulate natural gas exploration and production off the East Coast, off the West Coast, in the eastern Gulf of Mexico, and in the Intermountain West.
- Taking the necessary steps to encourage fuel diversity, stimulate new advances in energy efficiency and new methods of conservation.