

AMERICAN PUBLIC GAS ASSOCIATION

October 6, 2014

Office of Energy Policy and Systems Analysis
QER Meeting Comments
U.S. Department of Energy,
1000 Independence Avenue, SW
Washington, DC 20585-0121

RE: Quadrennial Energy Review Task Force

Office of Energy Policy and Systems Analysis Staff,

The American Public Gas Association (APGA) appreciates this opportunity to submit comments in response to the Department of Energy's (DOE) request for written comments for the Quadrennial Energy Review (QER) Task Force.

APGA is the national association for publicly-owned natural gas distribution systems. There are approximately 1,000 public gas systems in 37 states and over 700 of these systems are APGA members. Publicly-owned gas systems are not-for-profit, retail distribution entities 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.

We appreciate the opportunity to participate in both the panel discussion at the July 21st hearing in Pittsburgh and the July 28th hearing in Denver. APGA has long-maintained that natural gas, and in particular the direct us of natural gas, can play a critical role in meeting our energy needs, reducing greenhouse emissions, and increasing overall efficiency.

It is APGA's position that national policy should facilitate the use of natural gas, instead of other more carbon-intensive fuel, where appropriate. For example, using gas-fired water heaters for homes instead of electric resistance water heaters ultimately reduces greenhouse gas emissions by one-half to two thirds. Simply put, increasing the direct-use of natural gas is the surest, quickest and most cost-effective avenue to achieve significant reductions in greenhouse gases.

Unfortunately, over the years federal policies have moved the end-use market towards an all-electric society and this policy decision has failed to recognize the environmental and economic benefits of the direct-use of natural gas. One example of this can be found in the manner in which DOE calculates appliance efficiency. As a result of a 40 year law that came about due to

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the oil embargos of the 70's, DOE can only consider energy solely consumed at the "site" for test procedures and energy efficiency standards.

However, the QER could make an immediate impact on how consumers shop for appliances by recommending the disclosure of additional information on energy consumption on labels. By recommending listing the source energy consumption on labels it would give consumers not only the total energy used by an appliance but also the potential environmental impacts of the appliance.

The current site-based measurement of energy consumption ignores the energy spent in production, generation, transmission and distribution. For example, according to DOE's point of use consumer disclosure labels for appliances, an electric water heater may appear to consumers to be over 60% more efficient than a gas water heater despite the fact that current national generation, transmission and distribution efficiency for central station electricity is, according to the U.S. Energy Information Agency, only 29.3% efficient while the transmission and distribution of natural gas directly to the consumer is over 90% efficient. Ignoring these energy losses makes electric-resistance heating appliances appear more efficient (allowing them to receive a superior DOE efficiency rating). Simply put, this site-based measurement has placed natural gas appliances at a marketing disadvantage and as a result there has been a marked increase in shipments of electric water heaters and a decrease in shipments of natural gas water heaters.

Rather than a site-based measurement for energy consumption, APGA has advocated a "source-based" or "total energy" analysis that measures energy from the point at which energy is extracted through the point at which it is used. A total energy analysis provides a more accurate assessment of energy use, efficiency, as well as greenhouse gas emissions.

In terms of infrastructure issues, there are two items we would like to address. The first is tax-exempt financing. The primary way in which municipal LDCs raise capital is by issuing tax-exempt municipal bonds. APGA strongly supports the continued tax-exempt status of municipal bonds, as they are an efficient, stable, and effective means of building new public gas system infrastructure. However some members of Congress, as well as the administration, have proposed altering or eliminating the tax-exempt status of these bonds; APGA adamantly opposes any such alteration.

Beyond tax-exempt financing, public gas systems can raise capital by requesting that local officials raise natural gas rates for customers, or requesting that locally-elected officials raise taxes or cut other services to pay for upgrades. All of these options are generally very unpopular with the public and consequently, are very often practically impossible.

The second infrastructure issue is related to just and reasonable rates. Under the Natural Gas Act, the charge for transporting energy across state lines is required to be just and reasonable. However, current law does not provide the Federal Energy Regulatory Commission (FERC) the authority to protect natural gas consumers from paying unjust and unreasonable rates to

pipelines, in contrast to the manner in which just and reasonable rates are maintained by FERC under the Federal Power Act for consumers of electricity.

Under current law, if a customer files a complaint at FERC to address excessive rates and if at the completion of the proceeding, the customer has been found to have been charged an unjust and unreasonable rate, FERC can only adjust the rate downwards prospectively. That is to say, FERC can only change the rates going forward from the completion of the complaint proceeding and cannot provide refunds to the overcharged customers.

This lack of refund authority stands in contrast to the standing of electric consumers, who do have FERC protection that includes refund authority under the Federal Power Act section 206. If electric customers are found to have been overcharged, FERC can require interstate electric transmission companies to provide a refund back to the date of the filing of the complaint at FERC (known as the "refund effective date"), as well as changing the rates prospectively. This refund authority removes the incentive for interstate electric transmission companies to charge unjust and unreasonable rates and to delay the complaint proceedings, as delay simply means enhanced refund obligations to customers resulting from rates that are found to be unjust and unreasonable. This is an important issue for public gas systems, since 95% of them are captive to one interstate pipeline.

The issue of gas-electric interdependency/coordination is important for public gas systems since it will, among other things, change the manner in which interstate natural gas pipelines provide their services to local gas distribution companies and potentially raise the cost of these services. Given that 95% of public gas systems are captive to single natural gas pipelines, the importance of this issue to public gas systems cannot be overstated.

The current system of nomination cycles has worked well for our public utilities. However, APGA members are very concerned that efforts to improve gas-electric coordination should not result in unintended adverse consequences. These prospective consequences include daily operating difficulties and cost increases. In short, the current gas transportation system works well for existing long term customers and any mandates to significantly change this system to accommodate substantially different customer requirements should also include protections for existing customers' operations and costs.

As it came up during the FERC technical conferences, a lack of adequate regional gas pipeline infrastructure can create market challenges to accommodating the needs of gas-fired power generators as well as other customers. Many of the concerns expressed at the FERC conferences are due to problems associated with a generator's inability to secure gas pipeline capacity in a constrained capacity market. In other words, there is insufficient pipe in the ground to serve all willing customers. However, with a robust physical infrastructure in place many of the operational scheduling concerns raised would likely be resolved. One problem, especially in New England, appears to be a missing capability for generators to collect the cost of firm physical gas pipeline capacity in their service charges.

APGA recognizes that some electricity generators could benefit during their morning ramp up period by an earlier start to the gas day. However, changing the gas day from 9:00 AM central time to 4:00 AM central time, all else being equal, will have adverse impacts on many gas systems. These impacts include hiring additional employees and potential pipeline imbalance penalties, as well as one-time costs related to systems modifications, field equipment, reprogramming gate-stations, meters, SCADA systems, and even contract renegotiations. These impacts need to be considered.

Ultimately, gas system customers can be burdened with these costs while receiving no benefit from the changes if the changes are simply implemented to benefit one customer class at the expense of another.

Public gas systems have maintained that solely focusing on natural gas industry changes will not solve the operational and cost recovery problems in regional power markets and ultimately stands to deflect from the central issues that could be addressed in those markets. That said, it does appear that FERC is attempting to follow up on their changes to gas market regulations with conforming changes by RTOs and ISOs. For example, regional electric transmission organizations currently have a wide disparity in their electric scheduling deadlines and appear to have made no uniform effort to synchronize with existing natural gas pipeline schedules. However, recent FERC order EL-14 appears to be designed to promote scheduling conformity subsequent to the gas pipeline changes currently under discussion in FERC's March NOPR (RM 14-2). This would be most helpful.

Today U.S. consumers enjoy natural gas prices that are the product of both the newly accessible supplies of natural gas and the fact that our natural gas market is largely limited to North America. At these prices, natural gas vehicles are price competitive with gasoline; manufacturing is re-shoring; and natural gas is also replacing coal and oil for electric generation both because of price and its clean-burning characteristics.

However, these benefits are predicated upon the domestic availability of affordable natural gas which is directly threatened by unfettered exports of liquefied natural gas (LNG).

To date, over 30 applications have been submitted to DOE to export domestic LNG from the United States to free trade agreement (FTA) or non-FTA nations based on the promise of huge unconventional domestic gas reserves and huge profits for the few affected companies. Of those applications, eight have already been approved, meaning that 11.55 Bcf/day has been approved by DOE for export to non-FTA countries. Also to date, the total export capacity applied for is 40.96 Bcf/d and 37.6 Bcf/d to FTA and non-FTA nations, respectively. Total natural gas production was approximately 69 Bcf/d in the U.S. in 2013[1]; therefore, based on current data, the total applied-for export capacity, if authorized, would have the potential effect of increasing the demand for natural gas by nearly 54 percent.

[1] See: http://www.eia.gov/naturalgas/issuesandtrends/production/2013/

This large-scale export of natural gas via LNG will not only play havoc with the current supply/demand situation (and hence the price of natural gas) but also, because the price of LNG abroad is tied to the international oil market, will inevitably link the domestic price of natural gas to international oil markets, which are substantially more volatile and less transparent than our domestic market. The effect of this on the domestic price of natural gas (and hence on efforts to broaden the use of natural gas to displace foreign oil) is as self-evident as it is self-defeating.

Moreover, since commodities such as natural gas are sold where the price is the highest, irrespective of national boundaries or geopolitical considerations, and since many foreign nations have substantially higher prices for natural gas, U.S. natural gas would likely flow abroad in times of shortage, further increasing prices for domestic consumers and further undermining efforts to maintain domestic gas prices at competitive levels.

The impact of LNG export is not merely APGA speculation. On January 19, 2012, the Energy Information Administration released its study on the price impact of LNG exports entitled, "Effect of Increased Natural Gas Exports on Domestic Energy Markets." The study verified the fact that export of LNG causes domestic price increases, concluding that consumers could see a 3-9% price increase for natural gas and 1-3% increase in electricity prices due to LNG export.

Similarly, the DOE-commissioned NERA Economic Consulting study, titled *Macroeconomic Impacts of LNG Exports from the United States,* succinctly stated that "U.S. natural gas prices increase when the U.S. exports LNG."[2] The NERA study also demonstrates that other significant negative externalities occur when exporting LNG, including:

> -Wages and return on capital for individuals and businesses outside of natural gas production decline.[3]
>
> -Almost all sectors of the economy (other than natural gas production) suffer job losses and decreased output.[4]

The consequences of unfettered exports of LNG are clear: energy price increases, a lost opportunity to reduce our dependence on foreign oil, and a squandered manufacturing renaissance. Given these costs, APGA believes that the wise policy choice at this time is to prohibit the export of domestically-produced LNG.

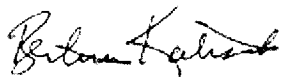
The APGA and its large membership of public gas systems recognize the need to prepare our natural gas pipeline systems to meet the needs of all customers. We are prepared to be flexible. However, we also are compelled to aggressively represent our customers with respect to challenges to system operations and cost increases not fairly allocated to the benefitting customers.

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[2] *Macroeconomic Impacts of LNG Exports from the United States*, NERA Economic Consulting (Dec. 2012), ("NERA Study"), p. 2.
[3] NERA Study, pgs 7 and 9.
[4] NERA Study, pgs.7-9

APGA thanks the Department of Energy for its consideration of these comments. Please do not hesitate to contact us if you would like to further discuss our comments and recommendations.

Respectfully submitted,



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