

**EXHIBIT K**

**to**

**AFFIDAVIT OF WILLIAM R. EDMONDS  
IN SUPPORT OF MOTION FOR SUMMARY DETERMINATION**



## American Gas Association

### **Recommendation of the American Gas Association on the Lieberman/Warner Climate Change Bill (S. 2191) March 25, 2008**

The American Gas Association, founded in 1918, represents 202 local energy companies that deliver natural gas throughout the United States. There are nearly 70 million residential, commercial, and industrial natural gas customers in the United States, of which 92 percent – more than 64 million customers – receive their gas from AGA members. Today, natural gas meets almost one-fourth of the United States' energy needs.

AGA believes that natural gas utilities and their customers could, and should, contribute to reducing greenhouse gas emissions. However, we believe the current structure of the Lieberman/Warner bill should be modified in order to reduce potentially serious negative impacts on residential and commercial natural gas customers and on local natural gas utilities, while still protecting the desired results of the proposal.

#### **Recommendation**

We recommend that residential and commercial natural gas customers not be subject to an emissions cap at the outset of the program. Rather, until the year 2020 these sectors should be covered through the aggressive promotion and implementation of various greenhouse gas reduction programs, including, but not limited to, state or utility sponsored conservation and efficiency programs, tightened building codes and standards, and appliance efficiency standards. The U.S. Environmental Protection Agency (EPA) shall, in the year 2020, review the progress of natural gas utilities and their residential and commercial customers in terms of maintaining the pattern of reduced greenhouse gas emissions per household that has been demonstrated over the past four decades. This review also shall include an analysis of the availability of low-carbon electricity generating options other than natural gas, and the state of natural gas markets and natural gas prices at that time, in order to ensure that the benefits of including these customers under the cap would exceed the costs. Upon completion of this review, the EPA shall recommend to Congress whether or not residential and commercial natural gas customers should fall under the cap. If residential and commercial natural gas customers are covered by the cap at that time, local natural gas utilities shall be deemed "covered facilities," making them responsible for obtaining the allowances necessary to serve their residential and commercial customers. Industrial facilities and electricity generators that use natural gas, and are of a threshold size set out in the legislation, shall be covered facilities at such time as prescribed in the legislation.

#### **Supporting Background**

**Natural gas is used to meet essential human needs for small-volume customers.** The majority of the homes in this country use natural gas and, in the residential sector, 98 percent of all gas is used for space heating, water heating and cooking, while the remaining 2 percent is used for clothes drying and other purposes.

**Residential/commercial natural gas consumption accounts for less than 6 percent of total U.S. greenhouse gas emissions.** Natural gas provides nearly half of all energy consumed in the residential and commercial sectors. It is the most efficient and lowest carbon-emitting fossil fuel.

**Emissions from residential use of natural gas are at 1970s levels.** While the number of natural gas customers has grown substantially, greenhouse gas emissions have been reduced. In fact, the average annual residential natural gas consumption is lower today than it was in the 1970s, despite the fact that the number of natural gas households has increased from 38 million to more than 64 million. Customers of natural gas utilities continue to lead the nation in reducing energy consumption and the accompanying greenhouse gas emissions.

**The greenhouse gas emission reductions per household experienced during the past four decades are largely attributable to tighter homes and more efficient natural gas appliances.** These factors could, and should, provide the foundation for continued future reductions. Placing these small-volume customers under a "cap" would only force these homes, businesses, schools and hospitals into competition with electricity generators and industrial facilities for limited allowances, thereby significantly increasing their energy costs. We believe these customers should be covered by the proposed legislation, but "covered" does not mean "capped."

**Natural gas utilities are aggressively promoting decoupled rate structures that allow them to promote conservation and efficiency.** Nearly 40 percent of all residential natural gas customers are served by gas utilities that have decoupled rates, or that are engaged in state proceedings that are considering decoupled rates. There was almost no decoupling prior to 2002. The EPA evaluation of continued progress by residential/commercial natural gas customers in 2020 would allow adequate time for an examination of the efficiency programs and strategies, as well as the regulatory approaches that are now being tested. The most successful program elements could therefore be identified and problematic approaches could be weeded-out.

**Use of natural gas in homes and businesses is part of the climate change solution. Converting small-volume customers to high efficiency natural gas applications is one of the best ways available today to reduce greenhouse gas (GHG) emissions.** For example, converting electric resistance water heaters to natural gas can reduce GHG emissions by one-half to two-thirds, while also helping to reduce the need to construct new electricity generating plants.

**Climate change legislation will significantly increase the demand for natural gas-fired electricity generation and it will increase the cost of gas to all consumers.** Although not covered in the earlier version of the S. 2191 cap-and-trade program, residential and commercial natural gas customers would be adversely affected. Surveys of electric companies and a study prepared for the Natural Gas Council (NGC) of the McCain/Lieberman bill agree that natural gas will be a principal means of compliance for electricity generators, particularly during the next 10-20 years. For example, the NGC study, using the NEMS model of the Energy Information Administration (EIA), projected that, if 25 new nuclear plants are built by 2030 (a scenario far more realistic than EIA's assumption of 145 plants), natural gas demand would increase by 3.6 Tcf/year from 2020-2029 – a 16 percent increase over current annual consumption. Increasing natural gas demand by 16 percent, especially when most potential natural gas supplies remain severely constrained, would cause dramatically higher prices for all natural gas consumers.