

**Remarks by David McClanahan  
Chairman, American Gas Association  
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Presentation to NARUC Commissioners  
NARUC Winter Committee Meetings  
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*8:15 AM – 10:15 AM General Session featuring Victoria Clarke (Grand Ballroom South)*

*Victoria Clarke is a Senior Advisor for Comcast Corporation and an analyst for ABC News. She is well known to all of us as she served as Assistant Secretary of Defense for Public Affairs, where, on completion of her service, was awarded with the Defense Department's Medal for Distinguished Service in June 2003.*

*Ms. Clarke is also a published author – “Lipstick on a Pig: Winning in the No-Spin Era by Someone Who Knows the Game” – and is one of the nation's most innovative communications strategists.*

*Introduction: G. O'Neal Hamilton, Chair of NARUC Gas Committee and South Carolina Public Service Commissioner*

*Speakers: David M. McClanahan, AGA Chairman, President & CEO, CenterPoint Energy*

*David Sokol, CEO and Chairman  
MidAmerican Energy Holding Company*

Good morning ladies and gentlemen. Thank you for that nice introduction, Chairman Hamilton. It is indeed a pleasure to be here and to have an opportunity to discuss what I believe are the key issues facing the natural gas industry today. I very much appreciate being able to meet with NARUC and look forward to continuing to build upon the strong working relationships that AGA has established with the association, during my tenure as AGA Chairman. I know I don't have to tell you that this country is facing some big, energy-related challenges. The issues are important, complex and pressing. We simply must work together to find solutions that provide the greatest benefit to our customers and which are, at the same time, fair to our investors.

Let me begin by stating the obvious. We are in the midst of a seismic shift in how the nation views the issue of climate change, the impact of carbon emissions on our environment, and the way we use energy resources. A dozen states have already enacted legislation to address climate change, others are poised to do so, and Congress has made this issue a priority.

Like most important issues, this one is complicated, and the solutions elusive. We must consider not only the importance of protecting our environment, but also technological realities, economic impacts on both industry and consumers, the competitiveness of the U.S. in the

global market place, national security concerns and the basic tenets of supply, demand and price elasticity.

However, it is clear that we cannot wait to address the issue of greenhouse gas emissions until the perfect solution presents itself. We must strike a balance between available energy options, including energy efficiency; however we must acknowledge that a number of tools that will be important in this effort cannot have a significant impact until well in the next decade. The fundamental key is to use clean fuels and use them efficiently.

Let's look at a few.

### *Clean Coal Technology*

Our country has abundant supplies of coal, but the use of coal to generate electricity is a major contributor to the nation's carbon emissions. It is unlikely that public opinion will allow construction of sufficient coal plants to meet our economy's growing demand for electricity. Over 50 percent of the previously announced coal plants have already been cancelled. In my home state of Texas, we've seen a number of coal plants cancelled due, in large part, to environmental concerns. Furthermore, the carbon capture and sequestration technologies we all hope to see are currently unproven on a large

scale basis and will not be available until well into the next decade at the earliest.

### *Nuclear Power*

Nor will we see a significant increase in the contribution of nuclear power over the next ten to fifteen years. As you know, a number of proposed nuclear power plants have been announced but none have been licensed. While the current Congress and administration are supportive, the same forces that attacked the American nuclear power industry in the 70's and 80's have re-emerged. While I personally believe that we are on the cusp of a new nuclear era, new nuclear plants will not have a meaningful effect on the level of greenhouse gas emissions until the end of the next decade and beyond.

### *Renewables*

I believe part of the solution we are striving for rests with renewables, but it's unclear how significant they ultimately will be. This is an area in which we have made remarkable progress in a very short period of time. Renewables, primarily wind, are expected to play a growing role to provide the electricity needs in this country. However, as you know, electricity cannot be stored and the wind unfortunately usually does not blow when we need power the most. Add to that the cost and impacts of

building transmission to get wind power to market, especially when it crosses state boundaries, you can quickly see that there are challenges to the contribution that wind can make. Other renewables, like solar, show promise but they are unlikely to be a significant factor in our efforts to contain greenhouse gas emissions – at least in the near term.

My message today is not one of gloom, but one of reassurance. An overall solution to greenhouse gas emissions may be years in the future, but the energy industry is ready to work – and is, in fact, working – on these issues today, and I believe that the natural gas industry, in particular, can, should, and will make a significant contribution to the effort to slow greenhouse gas emissions in the near term.

### *Natural Gas*

How can this be accomplished? Well, natural gas will be the bridge fuel to the future. There is no question that natural gas is the cleanest burning fossil fuel and produces the least amount of greenhouse gases – 30% less than oil and 45% less than coal. The electric industry is expected to turn to natural gas as a bridge until clean coal and nuclear generation are available. However, we should not rely on natural gas fired generation as the only solution.

## Priorities

The natural gas distribution industry has an important role to play and has established a number of priorities to ensure it can accomplish this role. Let me touch on each of these priorities.

*Energy Conservation* **First**, we must stress the importance of conserving energy and using it efficiently. The best way to address carbon emissions and costs to consumers is to simply use less energy.

*AGA/EEI Survey* Based on a recent survey by AGA, over 80% of its member companies have programs to assist customers in using energy more efficiently. These range from energy audits and weatherization programs to providing incentives for high efficiency natural gas products. Our industry is thinking broadly about this initiative, and we will continue to seek innovative ways to help our customers save energy.

Electric utilities are also focused on energy efficiency programs for their customers. It would appear to me that some form of coordination, and perhaps collaboration, may be helpful with respect to some energy efficiency and conservation programs. The recent announcement by Piedmont Natural Gas and Duke Energy, that they will be working together on this issue in South Carolina, certainly is a

good example of the kind of collaboration that we need to see between gas and electric utilities.

Direct Use of  
Natural Gas

**Second**, we should encourage the direct use of natural gas where possible, to promote the efficient use of energy and reduce carbon emissions.

Natural gas is the most efficient source of energy for heating homes, offices, schools and hospitals, for providing hot water for all uses, for cooking and for a number of process-related applications.

In a later session at this conference, Bill Cantrell will be reporting on an American Gas Foundation study addressing energy efficiency and the direct use of natural gas. It is clear from that study, that there are multiple benefits from the direct use of natural gas. When measured using a total energy efficiency analysis, the direct use of natural gas results in overall reduced energy consumption, reductions in the carbon footprint, and an overall lower energy cost to consumers.

Gas Water Heater

Let me use the example of a gas water heater. On average it is almost 50 percent less costly than its electric counterpart. Further, it has a carbon footprint that is from three quarters to one quarter the size of an electric water heater depending on the fuel used to generate the electricity. However, for the first time since AGA began

tracking water heater usage, more electric water heaters were shipped in 2006 than gas water heaters. AGA companies are focused on educating consumers and businesses on the benefits of the direct use of natural gas, not only from a cost standpoint, but a carbon standpoint as well. Regulatory barriers that discourage the direct use and marketing of natural gas need to be revisited given the serious issues we face.

*Decoupling*

**Third**, we must work with our regulators to make sure that the interests of our industry and our customers are as closely aligned as possible.

Historically, natural gas utility rates have been volume-based. This means that as volumes decrease due to conservation or energy efficiency, a utility's ability to earn its authorized return suffers. To ensure that utilities have the proper incentives to promote energy efficiency, changes will be needed in historical rate methodologies.

*Decoupling Map*

And we are starting to see change in this area. Around the country, "decoupling" initiatives and other innovative rate designs are taking hold. Decoupling and other non-volumetric rate designs allow natural gas utilities to continue to serve their communities safely and reliably, while stressing conservation and energy efficiencies. Today, 13 states have adopted some form of decoupling and others are considering it. Many

states are also considering special energy efficiency tariffs to remove barriers to energy efficiency and incent utilities to invest in new programs. In this new era of energy conservation, regulators should support rate designs that foster conservation of energy resources and align utility customers with utility investors.

*Gas Supply*

**Fourth**, we need to address the issue of high and volatile natural gas prices. This is perhaps the single largest issue facing our industry and our customers.

Domestic consumption of natural gas has hovered at about 22 Tcf annually for more than a decade.

Despite growth in the number of customers, residential natural gas consumption has been almost flat over that time frame due primarily to increased efficiencies of natural gas appliances, tighter home construction standards, and price elasticity, that is, our customers' response to higher natural gas prices.

Other sector demands, however, have changed over the past decade. In particular, industrial consumption has declined but this decline has been more than offset by increased usage in power generation. As you know, most of the new generating facilities built in the 90's were gas fired. Gas consumption used in power generation

tends to be more weather-sensitive and less predictable than historical industrial consumption.

*Gas Supply Sources*

Natural gas supply over the same timeframe has been adequate. Domestic gas production together with imports from Canada have been able to meet natural gas demand for the most part. We have seen changes in our gas supply with shallow-water Gulf of Mexico production declines and production from the Rockies and Canada increasing.

We've also seen some very positive gas supply trends recently as shown on this slide. In 2007 we experienced one of the larger increases in domestic gas production in recent years. This increase was primarily the result of the success in developing less conventional sources of gas – shales, coal seams and tight sands - due to recent technological advances. Many experts believe that this success will sustain domestic production during the next decade.

If future gas consumption for power generation increases as anticipated, however, the historical sources of natural gas are not expected to be adequate. Many experts believe LNG will need to play a larger role.

Although LNG is currently a small source of supply for U.S. customers, it is growing. LNG imports increased 32 percent in 2007 over 2006 and are expected to grow once again in 2008. A number of new U.S. gasification facilities are expected to be put in service during the next several years and the world-wide capability to supply LNG to an expanding market is expected to grow. Clearly, the question that remains unanswered regarding LNG imports is “what price will be required to attract sufficient quantities of LNG to this country?” Global competition will clearly drive the price and availability of LNG delivered into the U.S.. If we are going to avoid relying on LNG to fully meet our supply gap, we must turn to other options.

The two most apparent options are first, Alaskan gas that requires the construction of the Alaska Natural Gas Pipeline and second, access to deep water offshore continental shelf gas, where significant reserves are known to exist.

Alaska gas would add 4.5 Bcf per day to North American supply. Unfortunately, getting this gas to market is ten plus years in the future if we would start construction of the pipeline today.

Opening up access to reserves closer to home would enhance domestic supplies much quicker. Experts tell us there are significant domestic reserves that lie untouched and untouchable in

various parts of our country especially the offshore continental shelf. If natural gas is to make the contribution that I believe it should make in reducing greenhouse gas emissions, those areas must be opened to exploration and development in the near term so they will be available as future gas demand increases from electric generation.

*Capital Investments* My **fifth** priority is an issue each of you can address. If my expectations of the next few years are correct, our AGA companies will be required to make billions of dollars of investment in the infrastructure necessary to delivery natural gas to our customers and to replace aging infrastructure.

*Growth In  
Capital Investments* These investments are important and should be encouraged. The best way to encourage these investments are through rate structures that ensure timely recovery of prudently incurred investments. Several states have implemented new rate recovery techniques in order to increase the speed of the utility investment in their states. I encourage NARUC to support these types of mechanisms.

*LIHEAP*

**Finally**, we must continue to help those of our customers who need help with their energy bills.

AGA has long been an advocate for Low Income Home Energy Assistance (LIHEAP) funding for low income and fixed income consumers. Because we expect natural gas prices to remain higher than historical norms, increased LIHEAP funding will be critical.

Low-income families today spend 33 percent more on their home energy costs than they did a decade ago. Since its creation in 1981, the number of households eligible for the programs increased by 78 percent – but LIHEAP funding has increased by just 17 percent.

While pleased that we were recently able to help secure an increase in LIHEAP funding to \$2.57 billion, it is still not enough. AGA will remain a loud voice for our low-income and fixed-income customers most impacted by these high prices. And, I would like to compliment NARUC on its commitment to this issue as well. AGA remains committed to being a partner with NARUC in this important initiative.

During my year as Chairman, AGA will be working toward the achievement of each of the priority issues I have just outlined.

Our industry has great opportunities before it. We can play a significant role in the climate change debate and toward using energy more wisely; indeed, we are an industry that can bring immediate solutions to these issues. While we remain concerned about high natural gas prices, timely recovery of infrastructure investments, and affordability for low-income customers, our industry is focused on these issues, and we are committed to working with our regulators to find solutions that are right for our customers and our investors.

I firmly believe we are ready to play a key role as part of the solution to the energy challenges that our nation will face – both in 2008 and 2028.

I hope you will agree with me that the future for the natural gas distribution industry is very bright. Just as natural gas utility companies built a pipeline network and connected communities across America that led to the growth of the country, AGA's members are well positioned to lead in solving our nation's environmental and energy challenges. The members of AGA look forward to working with all of you to do this.