

**OPENING STATEMENT FOR JIM SULLIVAN AT THE JULY 21ST DOE
QUADRENNIAL ENERGY REVIEW MEETING**

MY NAME IS JIM SULLIVAN AND I AM THE CHAIRMAN OF THE NORWICH, CT BOARD OF PUBLIC UTILITIES COMMISSIONERS. NORWICH PUBLIC UTILITIES (NPU) PROVIDES FOUR UTILITIES TO THE CITY OF NORWICH – NATURAL GAS, ELECTRICITY, WATER AND WASTEWATER COLLECTION. ESTABLISHED IN 1904, NPU IS MUNICIPALLY-OWNED AND GOVERNED BY A FIVE MEMBER BOARD OF COMMISSIONS AND SEWER AUTHORITY, WHO REPRESENT THE BEST INTEREST OF THE CITIZENS THEY REPRESENT.

I AM HERE TODAY AS A REPRESENTATIVE OF THE AMERICAN PUBLIC GAS ASSOCIATION (APGA). APGA IS THE NATIONAL ASSOCIATION FOR PUBLICLY-OWNED NATURAL GAS DISTRIBUTION SYSTEMS. THERE ARE CURRENTLY APPROXIMATELY 1,000 PUBLIC GAS SYSTEMS LOCATED IN 37 STATES. PUBLICLY-OWNED GAS SYSTEMS ARE NOT-FOR-PROFIT, RETAIL DISTRIBUTION ENTITIES OWNED BY, AND ACCOUNTABLE TO, THE CITIZENS THEY SERVE. PUBLIC GAS SYSTEMS' PRIMARY FOCUS IS ON PROVIDING SAFE, RELIABLE, AND AFFORDABLE SERVICE TO THEIR CUSTOMERS. APGA REPRESENTS THE HOMEOWNERS AND SMALL BUSINESSES THAT RELY ON AFFORDABLE NATURAL GAS TO HEAT THEIR HOMES, COOK THEIR MEALS, POWER THEIR RESTAURANTS, OPERATE SMALL MANUFACTURING ENTITIES, AND SERVICE BUSINESSES.

I APPRECIATE THE OPPORTUNITY TO PARTICIPATE ON THIS PANEL. APGA HAS LONG-MAINTAINED THAT NATURAL GAS, AND IN PARTICULAR THE DIRECT-USE OF NATURAL GAS, CAN PLAY A CRITICAL ROLE IN MEETING OUR ENERGY NEEDS, REDUCING GREENHOUSE GAS 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 FUELS 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 HAS MOVED THE END-USE MARKET TOWARDS AN ALL-ELECTRIC SOCIETY AND THIS POLICY DECISION HAS FAILED RECOGNIZED 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 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 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 AN

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 I WOULD LIKE TO BRIEFLY 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.

I AGAIN THANK YOU FOR THE OPPORTUNITY TO PARTICIPATE ON THIS PANEL AND LOOK FORWARD TO THE UPCOMING DISCUSSION.