

**SOLVING AMERICA'S NATURAL GAS CRISIS
THROUGH A BALANCED PORTFOLIO OF POLICIES:
*PRINCIPLES THAT SHOULD GUIDE CONGRESS AND THE ADMINISTRATION
IN DEALING WITH THE NATION'S NATURAL GAS CRISIS***

January 3, 2005

Dear President Bush and Members of Congress:

The undersigned organizations and companies endorse the following views and positions calling for new U.S. natural gas policies and measures to strike a much needed balance between growing natural gas demand and limited supply while ensuring that gas development takes place in an environmentally responsible manner. Energy efficiency and conservation represent the most important near-term option for beginning to rebalance natural gas markets. This letter frames the issues and outlines the principles we believe are needed for a sound natural gas policy.

The Natural Gas Crisis Will Not Go Away

Over the last several years, domestic natural gas prices have more than doubled to historically high levels, and fundamental resource and market forces appear likely to keep them high for the foreseeable future. Manufacturers, farmers, small businesses, local governments, retailers and residential consumers are struggling, while factories are shutting down and jobs are moving offshore.

Price pressures show no signs of abating, and may in fact get much worse, as all manner of energy consumers increasingly rely on natural gas to heat homes, fuel businesses, and generate electricity. Gas production is not keeping pace with the growing demand for this environmentally important fuel. While the U.S. still has substantial reserves of natural gas, we produce less natural gas today than we did 30 years ago. Production is declining in currently developed areas.

Action is required to rebalance this important market and ensure that the environment is protected. While the Administration and state governments are also part of the solution, Congress needs to act quickly to keep high natural gas prices from reversing the economic recovery and destroying more American jobs.

America Needs Lawmakers to take Urgent Action

Federal policies that restore U.S. natural gas to globally competitive prices must be developed to relieve the economic burdens now borne by consumers and manufacturers. Sound natural gas policy should adhere to the following principles:

- Use market-based approaches rather than direct market interventions.
- Recognize that there is no simple, single solution. A balanced portfolio of policies will be required to temper demand growth for natural gas, diversify our national fuel mix, and ensure adequate supplies.

- Identify energy policies that are environmentally sound, continuing the national trend towards cleaner and more sustainable energy use.
- Be comprehensive, addressing demand, supply, distribution, storage, and the transparency of natural gas markets.

Policies that increase conservation and energy efficiency will reduce demand pressure on natural gas markets. Greater incentives are needed for all consumers to use energy more efficiently and apply innovative energy technologies. Research has documented that a near-term commitment to efficiency will deliver significant benefits in reducing demand, and thus will reduce upward price pressures. Policies to achieve this goal should include, but are not limited to:

- Utility energy efficiency performance targets and expanded public benefit funds
- Aligning incentives for utilities' financial health with encouragement of energy efficiency
- Encouraging dispatch of generation based on efficiency and environmental considerations, and policies that encourage load shifting and peak reduction to reduce the need to operate inefficient peaking generation, which is predominately gas-fired
- Implementation of policies to encourage continued operation and expansion of combined heat and power (also known as cogeneration) that meets thermal needs while also generating electricity in a highly efficient manner
- Expanded federal funding for energy efficiency implementation and R&D
- Appliance efficiency standards and promotion of more energy efficient building codes
- Performance-based incentives for efficient buildings and equipment, and for recycling of materials to reduce energy required in materials manufacturing
- Public awareness campaign by state and national leaders

Diversification of our national energy supply portfolio, particularly for electricity generation, is critical to avoid over-reliance on a single fuel such as natural gas. As our energy consumption continues to grow, we must invest in clean, renewable options such as solar, biomass, geothermal and wind. Market driven fuel flexibility, premised on enhanced efficiency efforts, must be the basis of sound energy policy development. Alternative supply options should include, but are not limited to:

- Support of clean and efficient distributed generation
- Increasing the use of renewable energy through tax credits and other incentives for investment and production
- Developing and deploying promising new, clean and efficient fossil-fuel generation technologies
- Developing renewable and/or "clean" generation policies that ensure a substantial increase in the use of the cleanest, most efficient and sustainable generation technologies,
- Expanding federal R&D funding for renewable and advanced alternative fuels technologies
- Pursuing, where possible, least cost strategies that consider full life cycle costs.

As important as increased efficiency, renewable energy and innovative fossil fuel technologies are, we recognize they are not likely by themselves to supplant the need for new gas sources. To ensure that the United States has adequate supplies of natural gas to meet demand and to moderate prices, it must:

- Pursue new gas supply options in a timely and environmentally responsible manner with reasonable government oversight and meaningful public input,
- Diversify domestic sources of gas supply,
- Expand imported sources of gas (including LNG) with a commitment to safety, the environment and siting done in cooperation with affected communities.

These activities should be pursued in a manner that minimizes their impact on the environment and on people in affected communities.

Beyond producing new gas supplies, we also need to build and maintain the infrastructure needed to get the gas to market through pipelines and storage. Our current storage, transmission and distribution infrastructure was designed to meet yesterday's needs, and requires investments to reflect current market realities. In addition, reducing losses of natural gas in transmission and distribution pipelines represents an economic opportunity for the industry and increases available supplies of gas to meet consumer needs.

The signatories of this letter have come together on behalf of energy consumers to ask lawmakers to take responsible action now. These views expressed are those of the signatories and do not represent an affiliation with any alliances or coalitions. We hope you will join us in an honest and robust discussion of the needed range of policy options to address the natural gas crisis.

Sincerely,

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Alliance to Save Energy
American Chemistry Council
American Council for an Energy-Efficient Economy
American Forest & Paper Association
American Iron and Steel Institute
Bayer Corporation
The Dow Chemical Company
DuPont

National Environmental Trust
Natural Resources Defense Council
The Northeast Midwest Institute
PPG Industries
Rohm and Haas Company
The Society of the Plastics Industry
Union of Concerned Scientists
U.S. Combined Heat and Power Association
Utah Clean Energy

[Visit <http://aceee.org/energy/natgasprinciples.pdf> for an updated list of signers]

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