

**Testimony of the American Public Gas Association before the
Energy and Power Subcommittee of the House Energy and
Commerce Committee Hearing, “Strategic Petroleum Reserve
Discussion Draft and Title IV Energy Efficiency”**

A Consumer Perspective

On behalf of the American Public Gas Association (APGA), thank you for the opportunity to submit testimony on “Strategic Petroleum Reserve Discussion Draft and Title IV Energy Efficiency.”

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 720 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 own and operate natural gas distribution facilities in their communities. Public gas systems’ primary focus is on providing safe, reliable, and affordable service to their customers. The long-term affordability of natural gas has been a focus of APGA and its members.

APGA has the privilege of representing the views of American natural gas consumers. We represent 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.

Our written testimony will focus on three provisions included in the discussion draft;

- Section 4115, Repeal of Fossil Fuel Consumption Percentage Reduction Requirements for Federal Buildings
- Section 4124, Residential Non-Weatherized Gas Furnaces and Mobile Home Furnaces
- Section 4131, Greater Energy Efficiency in Building Codes

Section 4115, Repeal of Fossil Fuel Consumption Percentage Reduction Requirements for Federal Buildings

Section 433 of the Energy Independence and Security Act of 2007 (EISA 2007) mandates elimination of all fossil fuel-generated energy use in federal buildings by the year 2030. The mandate covers new buildings and major renovations of at least \$2,500,000 (in 2007 dollars). This provision limits and ultimately eliminates the role of natural gas in federal facilities. Section 433 creates a bias in federal policy at odds with the important role that domestically abundant, clean and affordable natural gas can serve in meeting the energy needs of not only federal buildings, but the country as a whole.

The mandate seeks to reduce fossil fuel use by 65% by 2020 with total elimination by 2030.

DOE's own estimates project Federal construction costs will jump from today's level of \$30 million annually to over \$1.1 billion annually by 2030 as a direct result of this provision.

The mandate prohibits both the ultra-efficient direct use of natural gas in federal buildings and the use of gas-fired generation, which is the generation of choice today by most public utilities in the nation to minimize the effects of greenhouse gasses.

Federal agencies are already required to increase energy efficiency and attain sustainability by the Energy Policy Act of 2005, the Energy Independence and Security Act of 2007, and Executive Order 13514. Section 433 would restrict the adoption of high-efficiency technologies to meet these statutory mandates – technologies such as combined heat and power (CHP), which is often fueled with natural gas.

By restoring the ability of federal installations to utilize natural gas, federal energy managers will be able to use energy efficient, cost-effective end-use applications of natural gas in the long-term. The benefits will save money as well as provide measurable environmental benefits.

Section 4124, Residential Non-Weatherized Gas Furnaces and Mobile Home Furnaces

By way of background, the DOE proposed a direct final rule (DFR) in 2011 that, among other things, increased the federal minimum efficiency for natural gas furnaces from 78% nationwide to 80% annual fuel utilization efficiency (AFUE) in twenty southern United States and to 90% AFUE in thirty northern states. The end result of the proposed rule would have amounted to a

ban on negative pressure vented furnace systems (non-condensing furnaces) in northern states. For residential consumers in northern states, it would have eliminated the low cost option for heating homes and would have caused fuel switching, especially among lower income homeowners, away from efficient natural gas furnaces to much less efficient electric heating options due to the first costs associated with the 90% furnace mandated by DOE.

While APGA and its members are strong supporters of energy efficiency, we were concerned that this rule would ultimately undermine efficiency goals while significantly increasing consumer costs. The direct final rule would have deterred consumers from purchasing natural gas furnaces given that the furnaces that would meet these new efficiency standards are condensing furnaces which require additional venting. APGA believed that the additional venting costs that consumers would have faced as a result of this rule would deter consumers from purchasing replacement natural gas furnaces and result in fuel switching to less efficient electric heaters/furnaces in the retrofit market as the front cost to install condensing furnaces will be much higher.

The DFR process is intended to be an expedited rulemaking process for noncontroversial issues. If DOE received any adverse comments, it was supposed to withdraw the DFR and proceed with notice-and-comment rulemaking. Despite receiving comments opposing the DFR 90% standard from over 30 stakeholder groups, including APGA, DOE ruled that it did not receive adverse comments warranting withdrawal of the DFR. The furnace rule was supposed to take effect in May 2013.

In December, 2011 APGA filed a petition for review of this rule in the U.S. Court of Appeals for the D.C. Circuit. APGA was asked to engage in a mediation process with DOE and the Department of Justice, which was representing DOE, to avoid going to court. The mediation resulted in a joint settlement, approved by the U.S. Court of Appeals on April 24, 2014, that resulted in the DFR being vacated. As part of the settlement motion, DOE agreed to undertake a new rulemaking proceeding within one year to consider the appropriate standards.

Unfortunately, DOE's new proposed standard issued in March adds insult to injury. It is now proposing a 92% AFUE nationwide, which will require all homes, nationwide, to utilize the higher cost condensing furnace. The high initial costs associated with the purchase and installation (including in many homes challenging and costly venting issues) will force many residential customers—particularly those in warmer climates—to forego the use of natural gas fired furnaces and instead install less expensive and less efficient home heating alternatives. By DOE's own numbers, which are, we believe, very much understated, over 20% of the homes nationwide will experience a net cost (versus a net saving) by being required to install 92% AFUE furnaces, which percentage skyrockets to 31% in the South on average and to 39% for low-income households in the South. It was, of course, to prevent such lopsided adverse regional results that Congress, at the request of the efficiency groups, among others, amended the Energy Policy and Conservation Act in 2011 to authorize DOE to set regional efficiency standards – an option that DOE has ignored in the pending NOPR despite the demonstrably adverse impacts in the South.

The language in Section 4124 of the discussion draft would allow the stakeholders to engage in meaningful conversations to develop a proposal that will continue us to promote energy efficiency while not adversely impacting homeowners. This provision would require the Department to halt its current rulemaking on residential natural gas furnaces, and to instead initiate a negotiated rulemaking involving a diverse group of stakeholders. By establishing a negotiated rulemaking process, this section 4124 would provide all of the stakeholders time to develop a successful a successful approach that benefits all American households.

APGA is a longstanding supporter of energy efficiency and will continue to be. In fact, the direct use of natural gas is 92% efficient on a source-to-site basis. Unfortunately, DOE's proposed furnace rule would push many consumers to purchase less efficient heating alternatives.

Section 4131, Greater Energy Efficiency in Building Codes

Model building energy codes are developed by private organizations (e.g. the International Codes Council (ICC) and the American Society of Heating, Refrigerating and Air-Conditioning Engineers), updated every three years and then adopted by state and local governments. DOE plays a significant role in their development, and also works with states to encourage adoption and enforcement.

DOE's role in code development has expanded, moving beyond the original authorization of a "technical advisor" to pushing energy goals, and at times advocating for certain products or technologies. DOE has used federal funding to "incentivize" states to adopt the latest codes. These then become mandates in the states.

Earlier versions of the energy codes were far more cost-effective and consumers saw a big "bang for their buck." But now, the codes include very costly requirements that do not have the same return on investment. An average home built to the 2012 energy code, compared to the 2009 energy code, would add thousands of dollars in construction costs, and it would take up to 17.3 years to recoup the additional cost assuming the technology does not need to be replaced.

The Blackburn-Schrader provision reaffirms the DOE's appropriate role as a source of technical expertise in the development of energy efficiency codes and standards for buildings and appliances – and the importance of maintaining a bright line between technical consultations and policy advocacy.

Conclusion

APGA appreciates the opportunity to testify before the House Energy and Commerce Committee's Energy and Power Subcommittee regarding these critical natural gas and public interest issues. We stand ready to work with the Committee on these and all other natural gas issues.