

SUMMARY OF TESTIMONY:

**John Somerhalder, President and CEO, AGL Resources
Past Chairman, American Gas Association**

AGA and its member companies are strong advocates for energy efficiency in all direct use applications of natural gas. Nationwide, natural gas utilities supported energy efficiency programs with investments nearing \$1.1 billion in 2012, and similar investments in 2013 reached \$1.5 billion. Since 2011, AGL Resources has invested \$188 million in energy efficiency programs, helping our customers save over 58 million therms in just four years.

AGL Resources and the American Gas Association wish to express strong support for:

- Section 4124, which addresses the development of fair, effective, and non-regressive energy efficiency standards for residential natural gas furnaces.
- Section 4115, which will restore the ability of federal installations to benefit from the use of energy efficient, cost-effective, end-use applications of natural gas in the long-term.
- Section 4131, which reaffirms the U.S. Department of Energy'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.
- Section 4142, which would clarify the Federal government's use of utility energy service contracts (UESCs).

AGA is concerned that DOE's current proposal for a new energy efficiency standard for residential natural gas furnaces standard significantly overestimates the associated energy savings and greenhouse gas emission reductions the new standard would achieve, while also unfairly imposing significant economic burdens on many American consumers – especially low-income households. The rule could actually cause some consumers to switch away from natural gas to less efficient forms of heating, with the net effect of causing *increases* in total energy usage, carbon dioxide emissions, and consumer costs.

Implementation of the "Section 433" fossil fuel ban will severely limit – and ultimately prohibit – adoption of highly efficient technologies using natural gas at federal facilities, such as combined heat and power, fuel cells and waste heat recovery systems. The statute also creates a counterproductive bias in federal policy against clean and affordable natural gas. The United States is now the world's leading producer of natural gas. The Federal government should serve as an example to homes and businesses across the country by demonstrating how this abundant, domestic resource can increase energy efficiency, decrease overall emissions, improve our energy security and save money.

**WRITTEN TESTIMONY OF
JOHN SOMERHALDER**

**PRESIDENT AND CEO
AGL RESOURCES**

**PAST CHAIRMAN
AMERICAN GAS ASSOCIATION**

Good morning, Chairman Whitfield, Congressman Rush, and members of the Committee. I am John Somerhalder, President and CEO of AGL Resources, and past Chairman of the American Gas Association. I am pleased to appear before you today.

The American Gas Association, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 72 million residential, commercial and industrial natural gas customers in the U.S., of which 94 percent — over 68 million customers — receive their gas from AGA members. Today, natural gas meets more than one-fourth of the United States' energy needs.

AGA and its member companies are strong advocates for energy efficiency in all direct use applications of natural gas. Nationwide, natural gas utilities supported energy efficiency programs with investments nearing \$1.1 billion in 2012, and similar investments in 2013 reached \$1.5 billion. Through these energy efficiency investments, AGA members helped customers save 136 trillion Btu of energy and offset 7.1 million metric tons of carbon dioxide in 2012.

I am proud to say that my own company, AGL Resources, is a recognized leader in our commitment to energy efficiency. Since 2011, AGL Resources has invested \$188 million in energy efficiency programs, helping our customers save over 58 million therms in just four years. That amount of natural gas saved is enough to heat 80 thousand homes in one year. Also since 2011, our programs have helped nearly 45,000 customers to purchase and install high efficiency furnaces.

AGL Resources and the American Gas Association support the Committee's discussion draft. In particular, we commend the inclusion of elements that will remove barriers to the use of clean,

energy efficient, cost-effective natural gas. I will direct my comments to four specific legislative provisions included in the discussion draft:

- The first of these, section 4124, addresses the development of fair, effective, and non-regressive energy efficiency standards for residential natural gas furnaces.
- The second, section 4115 will restore the ability of federal installations to benefit from the use of energy efficient, cost-effective, end-use applications of natural gas in the long-term.
- The third, section 4131 reaffirms the U.S. Department of Energy'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.
- And finally, section 4141 would clarify the Federal government's use of utility energy service contracts (UESCs).

I will begin by explaining why section 4124 is so critical. First and foremost, AGA is concerned that DOE's current proposal for a new energy efficiency standard for residential natural gas furnaces standard significantly overestimates the associated energy savings and greenhouse gas emission reductions the new standard would achieve, while also unfairly imposing significant economic burdens on many American consumers – especially low-income households.

AGA worked with the American Public Gas Association and the Gas Technology Institute (GTI)¹, to analyze the real-world emissions and energy usage levels that would result if a significant number of consumers respond to the rule by switching away from natural gas furnaces in favor of other less efficient fuels. The analysis incorporates the results of a national survey of builders and contractors that AGA conducted to assess the appliance and fuel choices that would likely occur under a national condensing furnace standard. According to the survey, about 22 percent of homes with existing non-condensing furnaces cannot be easily retrofitted with a condensing furnace, either because of prohibitive expense or due to local building codes that would prevent the new venting systems. The added cost of buying and installing a condensing furnace to replace a non-condensing furnace ranges from \$1850 to \$2550. GTI's impact analysis indicates significant adverse

¹ an independent, not-for-profit technology organization

consequences are likely to accrue under a national condensing rule standard, if the rule is not structured to minimize the likelihood of fuel switching from natural gas to electrical appliances.

The analysis shows that even small degrees of displacement of natural gas appliances would result in outsized adverse effects including greater overall energy usage, higher consumer costs, and increased carbon emissions. In the first year of the program alone, GTI estimates the rule would result in the emission of nearly 350 thousand additional tons of carbon dioxide, an increase of 463 thousand decatherms of energy usage, and added consumer costs nationwide totaling \$45 million. We are deeply concerned that, if not appropriately structured, this rule could prove to be the first energy efficiency standard issued in the history of the Department that has the real-world impact of *increasing* our nation's overall energy consumption and carbon footprint.

If finalized, AGA believes the rule would impose burdensome costs and renovations on many homeowners replacing their natural gas furnaces. According to the Department's own analysis, 66 percent of affected households would see no benefit or bear higher net costs under the proposed rule. Specifically – and again according to DOE's own analysis – 20 percent of households nationwide would see a net life cycle cost increase, and in the South, nearly a third of affected consumers would actually have higher costs under the proposed rule. Low-income consumers would be the hardest hit – 39 percent of low-income consumers in the Southern United States would bear higher costs for home heating as a direct result of the proposed rule.

DOE is required by statute to demonstrate that any new proposed standard is economically justified. It is hard to understand how the Department can continue on its present course that will clearly leave many Americans worse off than they are today.

Section 4124 of the discussion draft would right the course. 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. For the past several months, AGA has participated in discussions about the furnace rule with a diverse group of environmental and energy efficiency advocates and industry representatives. In these discussions, we are considering alternative pathways for the rule that would meet our shared goals for energy savings and consumer benefits. By establishing a negotiated rulemaking process, this section 4124 would provide an

opportunity for all stakeholders to contribute to a successful rule that benefits all American households.

The next section I will address is the discussion draft's section 4115. This section would repeal section 433 of the Energy Independence and Security Act of 2007, a provision which mandates elimination of all fossil fuel-generated energy use in new and renovated Federal buildings by the year 2030.

The section 433 fossil fuel ban is deeply flawed. Its implementation will severely limit – and ultimately prohibit – adoption of highly efficient technologies using natural gas at federal facilities, such as combined heat and power, fuel cells and waste heat recovery systems. The statute also creates a counterproductive bias in federal policy against clean and affordable natural gas. The United States is now the world's leading producer of natural gas. The Federal government should serve as an example to homes and businesses across the country by demonstrating how this abundant, domestic resource can increase energy efficiency, decrease overall emissions, improve our energy security and save money.

In fact, the Department of Energy's analysis of the fossil fuel ban indicates the provision will impose unacceptably high costs on the Federal government, which will ultimately be borne by tax payers. DOE estimates that Federal construction costs will jump from today's level of **\$30 million** annually to **\$536 million** in 2019, when fossil fuel-generated energy must be reduced by 80 percent. Construction costs for Federal buildings jump again to **\$1.135 billion** annually by 2030, when fossil fuel-generated energy must be eliminated.

This projected surge in federal construction costs amounts to an increase of **3,783 percent**. What the American people will get for this exorbitant expense is a Federal government turning its back on an emerging source of national strength and security: our abundant reserves of natural gas. It is equally vexing that these high costs mean that funds will be diverted from other projects that could meaningfully and cost-effectively increase energy efficiency and reduce greenhouse gas emissions from federal buildings.

Next, I will speak to the importance of the discussion draft's section 4131. This provision was introduced as a stand-alone bill, the Energy Savings and Building Efficiency Act (H.R. 1273). We thank the sponsors of that legislation, Representative Blackburn and Representative Schrader, for their leadership.

Model building energy codes are developed by private organizations like the International Codes Council (ICC) and the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE). These codes are updated every three years and then state and local governments choose to either adopt the new standard, or to maintain their current standard. While the federal government does not specifically adopt codes, DOE does play a significant role in their development, and also works with states to facilitate adoption and enforcement.

The Blackburn-Schrader provision addresses concerns expressed by AGA and others that DOE has too often taken on an inappropriate advocacy role in code development. The provision would institute greater transparency in the U.S. Department of Energy's technical support of code development, specifically prohibiting DOE funding or personnel from involvement in any advocacy relating to code adoption.

Finally, section 4141 states that the term of a contract can extend beyond 10 years, but not exceed 25 years, correcting a belief within the U.S. Department of Defense (DOD) that contracts with USECs can only be up to 10 years. The 10-year contract severely limits utilities' ability to help the DOD reach its energy security, energy efficiency and renewable energy goals.

This concludes my testimony, Mr. Chairman. I look forward to questions from the Committee.