

**WRITTEN TESTIMONY OF
HON. DAVE MCCURDY
PRESIDENT AND CEO
AMERICAN GAS ASSOCIATION
400 NORTH CAPITOL, NW
WASHINGTON, DC 20001**

Good morning, Chairman Bingaman, Ranking Member Murkowski, and members of the Committee. I am Dave McCurdy, President and CEO of the American Gas Association (AGA), and 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. More than 65 million residential, commercial and industrial natural gas customers or more than 175 million Americans receive their gas from AGA members. Today, natural gas meets almost one-fourth of the United States' energy needs.

I've been asked by the Committee to use my remarks to do two things: First, to explain why using natural gas to offset a measure of our petroleum dependence is a smart path forward for our nation. Second, to describe the momentum we are seeing today in building a national fueling infrastructure to support natural gas vehicles, and to outline the policies we need to keep that momentum going.

We are pleased that the Committee has decided to hold today's hearing, because it is critical that the Congress remains current on the dynamic discussion regarding natural gas brought about by the shale gas revolution. The new abundance of natural gas

reserves in our country has fundamentally shifted our energy landscape. A decade ago, it seemed inevitable that the United States would become a major importer of natural gas. Instead, today, we are the world's leading producer of natural gas. As the President noted in his state of the union address earlier this year, we have at least a hundred years supply of domestic natural gas right here at home.

We have made great strides in “turning down the curve” of petroleum imports, through increased domestic petroleum production and landmark fuel economy standards for light duty vehicles. But energy security means more than reducing our petroleum imports below the fifty percent mark. In past decades, we have successfully reduced – or virtually eliminated – petroleum use in other sectors, such as electrical generation, and home heating. Yet our transportation sector depends on petroleum for 94 percent of its primary energy.

Our singular dependence on oil for transportation fuel makes us vulnerable to economic and national security risks. Every American recession over the past four decades has been preceded by—or occurred concurrently with—an oil price spike, including the most recent. Our armed forces expend enormous financial and human resources ensuring that oil transit routes remain open and critical infrastructure is protected. Our relations with foreign governments are too often influenced by our need to minimize disruptions to the flow of oil.

In 2011, the U.S. trade deficit in oil was \$327 billion – and accounted for 58 percent of our total trade deficit. The size of the U.S. trade deficit means we are

incurring an international debt burden that dampens the prospects for our long-term economic health.

The path that we are on is not sustainable, and it is not smart. A smart path forward includes diversifying our transportation energy mix, and seeking to displace high cost imports with lower cost domestic alternatives. Greater use of natural gas as a transportation fuel delivers on both of these objectives.

And while natural gas provides 24 percent of the primary energy used to drive our economy, only 0.1 percent of transportation energy is supplied by natural gas. Natural gas has tremendous potential as for the transportation sector, and many nations are ahead of the United States in grasping this opportunity. There are over thirteen million natural gas vehicles (NGVs) in use worldwide today, up from just four million seven years ago. Yet only about 120,000 vehicles – less than one percent of the global total – are on U.S. roadways.

Here is the good news –the market is recognizing that switching from gasoline or diesel to natural gas can mean significant cost savings. Major fleet operators like Waste Management, Verizon, Ryder, and others are switching to natural gas vehicles because the business case is there. Thirteen governors are working together to coordinate a multi-state purchase program for natural gas vehicles for their state fleets.

Natural gas utilities are also in the lead in providing early markets for NGVs. Many of our companies have ambitious vehicle purchase programs aimed at transitioning their own fleets to run on clean burning natural gas.

As this market continues to grow, AGA member companies will play a key role in supplying the fueling infrastructure needed to support these vehicles. The gas utilities in our membership maintain over two million miles of natural gas distribution pipelines nationwide. This distribution network means that we can place compressed natural gas fueling stations around the country without the need to truck in fuel. Currently, there are over 1,000 compressed natural gas (CNG) stations in the United States, and many of these are owned and operated by gas utilities.

AGA member companies can play a vital role in the next phase of building our national fueling infrastructure for natural gas vehicles. Working with their regulators, a number of our companies are exploring innovative approaches to utility participation in this market. Natural gas utilities are pioneering new business models, forming creative partnerships and investing in cutting edge technologies.

We believe that in the next few years, home refueling for natural gas vehicles will become increasingly available and attractive to residential consumers, and our companies will be involved in ensuring the safe and reliable operation of these refueling appliances.

The attractive price of natural gas – about half the cost of gasoline or diesel – is creating momentum in the market that is translating into growth in our fueling infrastructure for natural gas vehicles. Since 2008, the number of CNG stations has grown by over 10 percent each year. This sustained growth has occurred even as we have weathered the worst economic recession our nation has seen in decades.

In addition to utilities, natural gas producers have committed to building refueling stations along our nation's highways. Two companies recently announced hundreds of millions of dollars in investments in 250 LNG fueling stations by the end of 2013.

To stay on the smart path forward, we need policies that help us sustain the momentum we are seeing in the adoption of natural gas vehicles and fueling infrastructure. The most important component of this is maintaining a level playing field that allows natural gas vehicles to compete fairly in the market. Unfortunately, some current policies – and some recent policy decisions – have failed to give adequate weight to the new opportunities presented by the new abundance of domestic natural gas. The heavy duty fuel economy and greenhouse gas standards finalized a year ago are an unfortunate example of a significant missed opportunity. The resulting program fails to create manufacturing incentives to accelerate adoption of natural gas vehicles in the heavy duty segment.

The Administration is working now to finalize the second round of the Obama Administration's fuel economy and greenhouse gas standards for light duty vehicles, which will apply from 2017 to 2025. This is a critical, once-in-a-decade opportunity to get the policy right. The natural gas industry has asked the Administration to include the same manufacturing incentives for natural gas vehicles that their proposed rule included for electric drive vehicles. Equal incentives make sense, because both alternative technologies provide the same energy security and environmental benefits. It is vital for the success of the natural gas and alternative fuel sector that this rule expands consumer

choice in the marketplace for alternative fuel vehicles, rather than being weighted to favor one technology.

There are two areas where changes in the tax code could remove barriers to growth in the natural gas vehicle market. Currently, each gallon of LNG sold incurs an effective excise tax rate of \$0.41 per diesel gallon equivalent versus \$0.243 for diesel fuel. This is because LNG has a lower energy density per gallon than diesel, but the tax is applied on a volume (gallon) basis rather than an energy equivalent basis. This discrepancy has been corrected for the sale of CNG, but not for LNG, and provides an unfair disincentive to the sale of LNG.

Also, heavy duty natural gas trucks cost \$30,000 to \$60,000 more than diesel trucks. The federal excise tax rate of 12 percent is imposed on the full cost of a truck. The effect is an additional cost premium of \$3600 to \$7200 towards a new natural gas truck.

On a positive note, AGA strongly supports a new \$30 million ARPA-E program aimed at engineering light-weight, affordable natural gas tanks for vehicles and develop natural gas compressors that can efficiently fuel a natural gas vehicle at home. We applaud the MOVE program and encourage the Department to develop a similarly focused, enhanced effort within the Vehicle Technologies Program on NGVs.

Developing the market for natural gas vehicles enhances our energy security, our competitiveness, and encourages the expansion of transportation fueling infrastructure

and technologic advances. We urge the Congress, and the Administration, to ensure that we set policies that set us on the path to capture these benefits to our nation.