

Summary testimony of
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Before the

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Subcommittee on Energy and Mineral Resources
Oversight Hearing on
Energy Supply and the American Consumer
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Madam Chairman and members of the Subcommittee.

Thank you for the opportunity to address the Subcommittee today on the issues of Energy Supply and the American Consumer. First, I must state that the following comments are my own and do not represent the views of my employer Deloitte & Touche LLP. These comments do, however, reflect views based on a thirty year career in the energy industry with service as: an energy and environmental engineer, Commissioner on the State of Wisconsin Public Service Commission, member of the Federal Energy Regulatory Commission and chief executive officer of the largest distribution gas company in Connecticut.

Natural Gas is an important component of US energy supply. It represents about a quarter of the direct energy consumption in US and is growing. The American consumer uses natural gas directly for home heating and cooking and 60 million households are connected to the vast natural gas distribution network. These same consumers have recently come to depend more and more on electricity produced from natural gas as natural gas is now the preferred fuel for newly constructed power plants.

America experienced one natural gas crises in the 1970's when misguided federal pricing policies resulted in a combination of sustained natural gas shortages in interstate markets and high prices. Congress responded with the Natural Gas Policy Act of 1978 eventually deregulating natural gas in 1985. This resulted in a sustained period of low natural gas prices and adequate supplies demonstrating the benefits of well-head price deregulation.

However the recent combination of "natural gas price volatility and increasing dependence on natural gas for electricity generation" has created problems. It has been designated one of the top five concerns of state public service commissioners.² At the core of the problem is the issue of declining domestic supply from currently accessible areas. New fields are smaller, deeper and further offshore. It has been calculated that the US must, each year, develop new gas fields equal to what we produce from the Gulf of Mexico just to stay even.

¹ For identification purposes only.

² National Regulatory Research Institute Executive Briefing February 3, 2004

Increasing the domestic supply of natural gas is one solution. Congress can do this by removing land access restrictions on federal lands and take other measures to increase domestic exploration, production, transmission and delivery so that natural gas can be produced from US federal onshore and offshore locations to meet the growing needs of American consumers. In addition it has been demonstrated that domestic production can be economic and developed in an environmentally sound manner.

The benefits of increasing domestic production of energy supply are

- 1) Increased security of supply
- 2) more price stability
- 3) lower outflow of dollars overseas
- 4) creation of jobs in the US

These attributes are based on common sense:

More supply is better than less supply
Closer supply is better than supply further away
More reliable supply is more valuable than less reliable supply
Supply affects price. (The more supply the better the price to consumers.)
Demand for natural gas is increasing and forecast at 1.8% annually
Consumers are more efficient at about 1%/year but,
Conservation and efficiency gains have been made but alone are not enough.
Liquefied natural gas (LNG) will help in the medium run, 11%/ year growth
Alaska pipeline would help in the long run (+10 year)
In the short run only domestic gas is viable

Domestic natural gas will still be needed for the foreseeable future to meet this country's energy needs. Other witnesses will, no doubt, provide volumes of statistic demonstrating current energy usage and future trends. In the near future however, we still need more natural gas. Alternative energy technologies are either not yet available (fusion power, hydrogen) or not fully competitive on their economics (wind and other renewable sources.).

As a PSC commissioner in Wisconsin from 1981-1986 I voted, reluctantly but responsibly, to pass along large federally mandated natural gas price increases to consumers. The PSC also considered rationing of natural gas during shortages so that critical uses could be fulfilled. At that time the problem was solved by reliance on market forces in spite of consumer skepticism that markets would not work to their benefit. Markets did work then and markets will work now.

Thus I believe that the public policy decision to allow consumers access to all available US supplies will have a positive affect on the market and subsequently on the price of natural gas.