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Provide an executive summary of your proposal(s). ***Do not exceed the remainder of this page.***

The agricultural community's ability to be efficient and environmentally friendly farmers will face huge obstacles if our nation cannot come to grips with its desire to have limitless resources, like natural gas, for production and not realize that these resources have to come from somewhere. Our nation's current natural gas crisis has two solutions – increase supply and reduce demand. The 109th Congress is facing the daunting task of finding ways to balance our nation's dwindling supply of and rising demand for natural gas. The agricultural community can produce an abundant, affordable and healthy food supply, but we need Congress to produce the kind of policy that enables us to use the needed resources to do so.

Additional supply is available from three primary sources: onshore and offshore production, and liquefied natural gas (LNG). While there is considerable activity underway in each of these areas, Congress can do more to facilitate the timely development of these critical supply resources. To promote additional production, for example, Congress can adopt measures to ensure that potential federal lands and Outer Continental Shelf (OCS) areas are open for leasing, that leases and permits are issued promptly, that the appropriate tax and royalty policies are in place, and that the necessary pipeline infrastructure is available to bring supplies to market, while leaving behind as small an environmental footprint as possible. Alaska's North Slope is one area with significant potential reserves that can be unlocked in this way.

With regard to LNG, Congress can take action to ensure that the necessary terminal facilities are sited and built in a safe and expeditious manner, rather than becoming bogged down in vexing and time-consuming litigation with state authorities, local officials, and so-called "NIMBY" groups. The best way to accomplish this is to clarify that sole and exclusive jurisdiction rests with the Federal Energy Regulatory Commission (FERC), and to provide all interested parties with an opportunity to be heard in that forum.

The demand side of the equation requires equal attention from Congress. And while energy efficiency and conservation measures are necessary and important, they are not where the greatest potential benefit lies. The greatest opportunity to reduce (or moderate the rate of increase in) natural gas demand exists in the area where the greatest increase has occurred – new electric power generation. Driven in part by requirements under the Clean Air Act, utilities and independent power producers have largely abandoned other forms of power generation in favor of gas-fired plants. This trend cannot continue. Congress must take actions aimed at eliminating the disincentives for coal and nuclear power and creating new incentives for diversifying our nation's fuel portfolio.

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1. Increasing Domestic Natural Gas Supply
How can we increase domestic supplies from onshore and offshore resources?

Increasing domestic supplies will require action in three areas: (1) open additional federal lands and OCS areas to oil and gas exploration and production; (2) assure that these areas have access to the necessary pipeline infrastructure to bring supplies to market; and (3) make certain that producers have the financial incentives to develop these vast domestic supplies.

Some of our best long-term opportunities exist in Alaska's North Slope. At present, the lower 48 states have very limited access to Alaska's vast reserves of natural gas. Estimates of Alaska's total remaining recoverable reserves are in excess of 310 trillion cubic feet (Tcf) – as compared to a total of approximately 1460 Tcf in the lower 48 states combined. An Alaska Natural Gas Pipeline to the lower 48 states would make a very significant contribution to the nation's domestic natural gas supply. The construction of new pipelines, such as a pipeline to bring Alaska's North Slope natural gas to domestic markets, cannot be further delayed.

By continuing to support the proposed Alaska Natural Gas Pipeline, Congress can provide the American consumer with a dependable and secure source of domestic supply in an amount equal to the daily capacity of the line – currently estimated at approximately 4.5 Bcf per day. This volume is enough to relieve a significant amount of the demand pressure created by the growing number of gas-fired power plants.

In legislation enacted late last year, Congress approved a number of financial incentives, including an $18 billion loan guarantee (approximately 80% of the cost of the project) for the 3,500-mile pipeline that would take natural gas from the North Slope to the lower 48 states. Accelerated depreciation and investment tax credits were also part of the generous legislative package. FERC was directed to quickly permit the project once certain requirements are met, and provide for expedited judicial review. FERC was also designated as the lead agency for the National Environmental Policy Act process and requires a single environmental impact study. This was an important step, but it has not succeeded in moving the project forward. Congress should authorize any necessary additional financial or permitting assistance that is required for the Alaska Natural Gas Pipeline project to move forward as quickly as possible. With this project underway, Congress should also authorize environmentally responsible oil and gas production in limited areas of the Arctic National Wildlife Refuge (ANWR). **See Appendix 1**.

Outside of the state of Alaska, additional opportunities for natural gas development exist on federal lands in the Rocky Mountain area and on certain blocks of the OCS. Some of these areas have been offered for leasing; others have not. Some of the leaseholders have succeeded in obtaining drilling permits; others have not. What is needed at this time is a comprehensive inventory of the resource potential of all federal lands (including the OCS), together with a comprehensive review of federal leasing and permitting policies. To the extent that these studies identify resource-rich areas that have not been leased or permitted, further examination (and Congressional action) may be required. **See Appendices 2-9.**

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2. Liquefied Natural Gas

What should our expectations be regarding imported LNG as a supply source, and what policies should be considered on LNG terminal siting and safety?

Imported LNG can and should become an important natural gas supply resource. LNG cargoes are available for purchase throughout the world. Liquefaction, transportation and regasification technologies have seen rapid advancements and have become safer and more economical than those used in the original terminals of the 1970s and early 1980s. As a result, LNG can now compete at prices of $3.00-$3.50 per MMBtu, rather than the $6.00-$7.00 per MMBtu levels that were common decades ago.

While the future role of LNG as a resource appears promising, concerns linger on the subject of environmental and safety issues. LNG terminals are the latest victims of the "NIMBY" syndrome, and opponents to LNG development are using questionable science to suggest that the terminals present undue risks to nearby communities. In some cases, state and local regulatory agencies have attempted to block the construction of LNG terminals, even though they are needed to receive international LNG cargoes in order to address our national gas supply-demand imbalance.

FERC should have exclusive jurisdiction over all matters relating to the approval and siting of LNG terminals. All safety and environmental issues should be part of the FERC application process, and the Commission should carefully consider those issues in determining whether a proposal is ultimately in the public interest.

FERC has stated that its existing authority under Section 3(a) and Section 7 of the Natural Gas Act, 15 U.S.C. §§ 717b, 717f, is sufficient to confer exclusive jurisdiction and allow it to preempt state and local regulation in this area. Nonetheless, because neither Section 3(a) (governing imports and exports of natural gas) nor Section 7 (governing facilities for the transportation of gas in interstate commerce) explicitly mentions "LNG facilities," opponents have continued to challenge FERC's jurisdiction – and the California Public Utilities Commission (CPUC) has even gone so far as to claim that FERC has no jurisdiction whatsoever. FERC correctly rejected this claim in a Declaratory Order dated March 24, 2004, but CPUC has continued to press its argument in the United States Court of Appeals.

Congress should end this debate and eliminate any remaining ambiguity on the matter by making a simple and straightforward amendment to Section 3 (a) of the NGA. **See Appendix 14.** With this amendment in place, FERC jurisdiction would become clear and indisputable. Once FERC approved an LNG facility and issued its certificate, any state or local permits would be required to conform to the conditions of the certificate. Moreover, state and local agencies could not prohibit or unreasonably delay the construction of the facilities through the application of state or local laws. *See, e.g., Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293 (1988). The amendment, therefore, would streamline the approval process while still assuring a rigorous and comprehensive review of all legitimate environmental, safety and security concerns by FERC.

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3. Natural Gas Infrastructure
What legislative or regulatory policies should be implemented to encourage needed additional safe and adequate infrastructure for natural gas transmission and distribution lines and storage?

We have referenced this issue in connection with the question of supply (item 1 above). Obviously, natural gas transmission infrastructure is essential to the development of additional supply. The proposed Alaska Natural Gas Pipeline is one project that requires and deserves attention from Congress. Separate from that project, it appears that FERC has the right policies in place to assure that interstate pipeline companies build the necessary infrastructure to access additional supplies as they are developed.

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4. Environmental
What environmental challenges and regulatory barriers are related to expanding our natural gas supply, and how can they be remedied?

The principal environmental and regulatory barriers to expansion of our natural gas supply are twofold: (1) issues relating to exploration and production on federal lands, including portions of the OCS; and (2) issues relating to the siting and permitting of LNG facilities.

Both of these problems are addressed in previous sections of our submission. With regard to exploration and production on federal lands, Congress should require a comprehensive survey and inventory to identify resource-rich areas where developers are willing to invest, but where leasing and/or permitting has been restricted due to environmental concerns. Arctic National Wildlife Refuge (ANWR) is one such area, but there are certainly others. **See Appendices 2-3.** Once these areas are specifically identified, Congress can determine whether to pass legislation requiring that they be offered for lease. With regard to LNG, Congress should clarify that FERC has exclusive jurisdiction over all siting and permitting issues, allowing FERC to be designated as the lead agency for the National Environmental Policy Act process and requiring a single environmental impact study. **See Appendix 14.**

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5. Diversification and Conservation
To what extent and how can demand be reduced through conservation and efficiency measures and through diversification of energy sources used for electric generation, industrial and other applications?

This important question has not received enough attention from Congress. In recent years, electric power generation has increasingly shifted to natural gas. Over 90% of the new generation capacity built in the past 20 years has been gas-fired. Moreover, not only are developers and utilities no longer building new coal and nuclear plants, but they are having difficulty even continuing the operation of their existing plants. Many utilities find themselves besieged by lawsuits and regulatory requirements. Among other things, both state and federal authorities have filed suit against coal plant operators, citing the "New Source Review" (NSR) requirements of the Clean Air Act and attempting to mandate the installation of expensive new pollution-control technology at existing facilities. It is no wonder that these utilities have become hesitant about the prospects of coal-fired generation.

This is a man-made public policy disaster. Environmental concerns have forced power plant operators to shift to natural gas at the very same time that other environmental concerns have impeded the development of new natural gas supplies. The net result is today's dramatic supply-demand imbalance. After all, when a new natural gas-fired power plant comes on line, that plant immediately and unceasingly begins to demand a gas supply of 50,000, 100,000 or 200,000 MMBtu per day -- 365 days per year. Unless comparable discoveries are made so that this volume of additional gas production also comes on line, the power plant operator simply enters the market and starts bidding for the limited supplies available. The operator, of course, will pay whatever price is required to obtain the gas -- his new power plant is worthless without it, and he often has the right to pass-through his fuel costs in electric rates. With more gas-fired power generation capacity coming on line, everyone loses as more demand is placed on one very limited fuel resource. Natural gas industrial and utility consumers and electricity consumers will pay more because they are all directly or indirectly competing for the same fuel resource.

It is important for Congress to focus on this supply-demand relationship, because it truly cuts both ways. Just as every MMBtu of additional demand requires an MMBtu of additional supply from the market (or leads to an increase in prices), so too does every MMBtu of reduced demand release an MMBtu of additional supply to the market. In other words, eliminating the need for a 100,000 MMBtu per day natural gas-fired power plant has the exact same economic effect as suddenly discovering a new 100,000 MMBtu per day natural gas well.

Coal and nuclear power plants unquestionably have the ability to displace gas-fired power. Every MMBtu they replace is one less MMBtu the nation will have to find. Moreover, it is considerably simpler and more straightforward to replace one form of power generation technology with another than it is to find and produce the ever-increasing amounts of gas that would be necessary to supply an ever-growing number of gas-fired plants. Accordingly,

Congress should look to any measure that would encourage the development of coal and nuclear power -- and eliminate the impediments to existing plants.

These measures can take the following forms: (1) clarification and revision of NSR requirements as they apply to existing coal-fired plants; (2) financial support for new coal and nuclear technologies, whether in the form of tax incentives, loan guarantees and/or research and development funding; and (3) federal assistance with persistent siting and permitting issues encountered by coal and nuclear plants.

The NSR program is particularly ripe for review. Under this program, an existing power plant that was not subject to the strict pollution control requirements of the Clean Air Act (because it was built before the passage of the Act) may nonetheless become subject to those requirements if it undergoes a subsequent "modification." This, in turn, can require the installation of expensive pollution control technologies in order to bring the "modified" plant into compliance. As a result, many power plant operators have avoided any work that an environmental group or state attorney general could later characterize as a "modification" – even if that work would have improved the efficiency of the plant. The EPA itself has recognized the problem, finding in 2002 that "the NSR program has impeded or resulted in the cancellation of projects that would maintain or improve reliability, efficiency or safety of existing power plants." However, when the EPA attempted to issue new rules clarifying and providing certainty on what would (and would not) constitute a plant "modification," environmental groups and state attorney generals promptly challenged the rules in court.

It is time for Congress to provide the clarification itself. With a simple and straightforward amendment to the Clean Air Act, Congress can provide certainty to the utilities (and their opponents) on when a project rises to the level of a plant "modification." **See Appendix 15.** Plant operators can then undertake repair and maintenance work without worrying that it will bring an onslaught of litigation. In this way, existing coal plants will maintain their important place in the nation's power generation portfolio – and the rush to gas-fired power can be curtailed.

In addition to this relief for existing coal facilities, however, Congress should also adopt measures to ensure that new coal and nuclear facilities are constructed. Congress should provide federal loan guarantees and other incentives for the retrofitting of existing natural gas-fired facilities with the new integrated gasification combined-cycle (IGCC) and next-generation nuclear technologies. **See Appendices 16-20, 23-28.** Moreover, Congress should also provide tax incentives for new investment in these technologies. **See Appendices 21-22.** It is vitally important that these forms of power generation be developed and deployed. Without them, the demand from gas-fired plants will continue to grow and place an ever-increasing burden on the nation's supply base. Support, through long-term extension of tax credits and other incentives, for other emerging technologies, including wind and biomass, is also an important element to diversifying our nation's fuel portfolio.

In enacting these measures, Congress should recognize that power generators can shift from gas to other fuels. Presently, the vast majority of nitrogen fertilizer producers, however, cannot without major capital investments. Natural gas is the raw material for producing anhydrous ammonia, the basic building-block chemical for producing all other nitrogen fertilizers. Natural

gas accounts for 70% to 90% of the cost of producing anhydrous ammonia. Nitrogen fertilizer producers have no way of curtailing or reducing their gas demand other than shutting down the production process itself. This not only destroys their businesses, but it drives up fertilizer prices to the American farmer and food prices to the American consumer. Some fertilizer manufacturers have had to take this step. Others have maintained their production in the face of higher and higher gas prices. For these manufacturers, in particular, it is important for Congress to take action aimed at relieving the pressure on gas prices created by the policies surrounding the electric power generation sector.

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6. Tax Incentives
Could tax incentives help increase supply and/or reduce demand of natural gas?

We have discussed this issue in previous sections of our submission. As stated therein, tax incentives can help in several ways: (1) they can provide an incentive to produce from marginal wells or difficult areas (e.g., ultra-deep water Gulf of Mexico); (2) they can potentially assist in the construction of the Alaska Natural Gas Pipeline; (3) they can encourage power plant developers – both utilities and independent power producers – to shift their focus from gas to coal or nuclear; and (4) they can provide incentives for building new underground natural gas storage capacity.

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7. Investment
What is needed to encourage more investment in natural gas supplies and infrastructure?

We have discussed this issue in previous sections of our submission. If opportunities are opened and unwarranted regulatory hurdles are eliminated, private companies will make significant additional investments in both supply and infrastructure. While thoughtful and appropriate action by Congress may help bring prices down from the current $6.00 - $7.00 per MMBtu levels, it is doubtful that we will see gas prices return to the $2.00 - $2.50 per MMBtu range of several years ago. Among other things, the growing number of applications for LNG facilities shows that companies are willing to make long-term investments. These investments will continue as long as Congress assures that the opportunities exist (particularly for additional production) and that regulatory certainty is provided.

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8. FERC and EIA Natural Gas Market Data
Is storage and market information adequate to ensure well-functioning natural gas markets?

Three important categories of information deserve attention: (1) current price information as reported by index publishers in the trade press; (2) futures price information as determined on the New York Mercantile Exchange (NYMEX); and (3) storage information as assembled and reported by the Energy Information Administration (EIA).

Great strides have been made on the current price information reported in the trade press. Over the past two years, FERC has conducted a public inquiry on exactly this topic, examining the best way to assure the accuracy, reliability and usefulness of the natural gas price indices compiled by trade press publishers. FERC began this inquiry after it became evident that certain gas traders were reporting fictional transactions and/or fictional prices in an attempt to manipulate the published indices. As a result of this inquiry, FERC has now come forward with a Policy Statement on price reporting for those companies that wish to report their fixed-price purchase and sale transactions to the index publisher. This Statement not only specifies the information that must be reported (price, date, volume, delivery point), but it also requires that all reporting be performed by "back-office" employees who have no personal financial interest in the movement of gas prices. In addition, the Statement contemplates that trade press publishers will not only calculate an index price at the various delivery points, but that they will disclose the volumes on which their calculations are based. These measures have gone a long way toward restoring confidence in the published indices of current prices.

While the accuracy of physical deal price reporting has improved, the ability of traders to manipulate prices still exists. Due to a combination of factors, the NYMEX Henry Hub natural gas futures contract has become a popular instrument for financial speculators -- NYMEX rules not only permit them to control a very large number of contracts with very low margin requirements, but they also allow an unusually high degree of price volatility. At present, the price can move as much as $3.00 per MMBtu above or below the previous day's closing price before there is even a five-minute pause in trading. With current gas prices in the range of $7.00 per MMBtu, this translates into a permitted price spike (or price drop) of more than 40%. Financial speculators can profit from this volatility by moving in and out of the contract without ever thinking about taking delivery of the underlying commodity; for these operators, the NYMEX is nothing but a giant casino. However, for those companies that wish to use the futures market for its intended purposes -- as an accurate signal of future gas prices, and as a tool to hedge those prices -- NYMEX has lost its value. When prices can careen up and down without even a pause to reflect, no one can be certain where the market really belongs.

This was illustrated on November 24, 2004, when an inadvertent error in EIA's Weekly Gas Storage Report caused futures prices to spike dramatically – first by 60 cents per MMBtu (between 12:00 and 12:30 PM) and then by an additional 50 cents per MMBtu (immediately after 2:00 PM). The market ultimately closed up $1.183 per MMBtu for the December contract.

Because November 24 was NYMEX month's close, any gas purchaser with a NYMEX-indexed contract for December deliveries now faced this higher price – which had resulted from a spike based on erroneous information. Over one billion dollars was lost (and made) on this error. However, if the NYMEX price fluctuation limit had been set at a reasonable level (50-75 cents per MMBtu), the market would have had an opportunity to pause, assess the situation, and ask appropriate questions about why the EIA Report was so dramatically out of line (reporting a net withdrawal of 49 Bcf rather than the correct figure of 17 Bcf). It seems entirely possible that the error might have been discovered during such a pause, rather than after the end of a particularly wild and hectic day. This would have served the interests of everyone but the financial speculators who profited from the volatility.

To address this issue, Congress should direct the Commodities Futures and Trading Commission (CFTC) to perform a complete review of all NYMEX rules relating to the Henry Hub natural gas futures contract. The CFTC should assure that futures markets perform their appropriate functions, rather than transforming themselves into gambling parlors.

Finally, recent events also suggest that Congress should provide EIA with the additional resources to make its Reports more frequently and without inadvertent errors. Although the November 24 error stemmed from erroneous data provided to EIA by a reporting entity, it is not unreasonable to suggest that EIA should be in a position to detect such errors, particularly when they are so dramatic. Moreover, because the Storage Report has become such a mover of gas prices, Congress should see that this report is issued on a daily (rather than a weekly) basis.