“Outlook for the U.S. Domestic Natural Gas Industry and its Role in a Global Energy Economy”

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Thank you. I am honored to be here among the leaders of the international gas community, especially given the unprecedented challenges and opportunities that we face, not only with respect to energy, but our global economic and financial systems as well.

It is more important than ever to come together in settings such as this one to address our mutual challenges and take advantage of our mutual opportunities. And with respect to natural gas we have plenty of both.

As we say in our business, energy is the lifeblood of the American economy.

I daresay it is the lifeblood of the world economy as well, which is why this year's conference theme, "The Global Energy Challenge: Reviewing the Strategies for Natural Gas," is so timely.

So let me share with you some of the strategies America's natural gas industry is pursuing and the unique market and regulatory conditions under which we are operating.

Perhaps never in its history has the U.S. domestic natural gas industry experienced more changes than it is experiencing right now, and we believe this is just the beginning.

Some of these changes we are seeking ourselves, some we are responding to, some are beneficial and some represent challenges that we must overcome. And still others are only beginning to come into view and are not yet fully understood.

I would like to begin with a discussion of U.S. natural gas supply and demand. As always, one of our most important challenges is balancing natural gas supply and demand in a way that keeps natural gas prices moderate and affordable to our customers.

What is a striking change on the supply side of our business is that our nation's natural gas supply portfolio is becoming more home-grown. Domestic production, led by unconventional onshore shale gas, has increased about nine percent over the last two years. At the same time, Canadian imports and global LNG imports have declined. As I will explain in a moment, there is renewed optimism about U.S. production capability based on transformational views of long term domestic resource abundance.

Rounding out the supply picture is our significant domestic natural gas storage capacity. Historically, about 16 percent of the gas consumed during the winter heating season comes from storage. During the peak winter heating season month approximately 30 percent of total gas supply comes from storage.

Working gas inventories at the beginning of our coming winter heating season are expected to be at record levels — about 3.8 trillion cubic feet — which underscores the ample supply of natural gas for energy consumers this winter and beyond.

And, unlike the summer of 2008 when we witnessed $140 oil and double-digit prices for natural gas, this summer we have injected gas into storage at substantially lower wholesale prices and that should be good news for America's homes and businesses this coming winter. In fact, average acquisition prices for this past June were 68 percent lower than in June of 2008.

Now, let's look at demand. The growth in domestic natural gas demand over the last few years has been led by power generation. The residential and commercial markets have seen relatively modest growth, with consumption dictated by winter weather conditions.

The striking change in U.S. natural gas demand is in the industrial markets. Year-to-date data for 2009 shows a seven percent decline in industrial consumption compared 2007.

That demand reduction is, of course, the result of the economic downturn. When higher industrial demand will return is anyone's guess, but many analysts in the United States, including the Energy Information Administration believe that some level of economic recovery will begin in 2010. That, in combination with lower near-term natural gas drilling activity, should firm up natural gas prices a little from the extreme lows we have seen in 2009.

So with that as background, let's look at the supply and demand picture over the longer term.

In both cases there are some rather interesting departures from our historical trends.

What is interesting about this slide—as I mentioned earlier—is the growing trend towards meeting future U.S. demand with increasing amounts of U.S. supply.

In fact, the EIA predicts that by 2030, we won't be relying on imports from Canada at all. As for global LNG, while the conventional wisdom of the past was that LNG imports would supply our future demand growth, here we see those supplies peaking in the year 2025 and declining thereafter.

Of course, we believe there will be significant growth in LNG liquefaction capacity worldwide, which could allow for

more imports of LNG to the U.S. in the future—should market conditions dictate.

What replaces Canadian imports and global LNG?

The Potential Gas Committee and other respected industry analysts point to significant increases in recoverable natural gas resources from onshore shale formations as a foundation for future U.S. production.

This slide shows the most recent resource assessment by the PGC, which exceeds 1,800 trillion cubic feet.

Coupled with known gas reserves reported by the EIA the total U.S. resource base is now estimated to exceed 2,000 Tcf –

that’s about one hundred years of gas supply at current U.S. demand levels and with current technology.

In short, the contribution that shale gas is making to our domestic production and supply resources is far greater than anyone could imagine just a few years ago.

Projections also call for more deepwater offshore gas, more gas from the Intermountain West and even growing amounts of biogas.

Finally, the latest EIA report forecasts a natural gas pipeline from Alaska that will bring natural gas to the lower-48 U.S. markets by 2020.

This bullish view of our domestic natural gas resources is a fundamental change - a paradigm shift - in conventional wisdom and it will have far reaching implications for our nation as we

work to meet our energy, environmental and national security goals.

In sum, we are extremely optimistic that there are abundant domestic and global natural gas supplies to meet long term U.S. demand. But to make this happen, we will continue to push for government policies that promote natural gas supply access, and pipeline and storage infrastructure development.

As for the long-term demand picture, an eventual global economic recovery will increase demand at some point.

But there are a number of mitigating factors that have caused many analysts, including EIA, to lower their demand

projections. In EIA's most recent forecast, for example, U.S. natural gas consumption never reaches 25 Tcf, even by 2030.

What accounts for this tempered outlook?

First, increased conservation and energy efficiency. American consumers are using less natural gas per household. They are using our product in more energy efficient appliances, homes and businesses. So although our residential and commercial customer base will continue to grow with a higher peak day demand, we do not expect significant annual consumption increases.

A second reason analysts are lowering their gas demand projections is that by 2030 there will be more alternative energy

sources, such as renewables, that become a more significant part of the overall energy mix. This is especially true in the power generation market.

But the demand for natural gas will continue to increase in the power generation market, even after accounting for the contribution of alternative energy sources.

In summary, from now until 2030 EIA forecasts a 25 Tcf U.S. natural gas market, with 23 Tcf of that demand met by domestic production. That is an extraordinary change for our industry.

So, where does natural gas fit strategically in the complex total energy equation in light of emerging global energy and environmental policies?

Natural gas is a clean, efficient and abundant global and U.S. energy resource. And we believe that its direct use in America's homes and business will allow it to play a significant role in addressing the challenges of global warming, economic recovery and energy efficiency.

Its wide scale use in residential, commercial, industrial, power generation and transportation applications is good for the global environment, the global economy and good for the global energy consumer.

It is also good for natural gas distribution companies because the direct use of natural gas in more homes, businesses and industries will provide continuing investment and earnings opportunities for our companies.

It will also pave the way for energy consumers to reduce their carbon footprint by switching from higher emitting energy sources, such as electricity generated from coal, home heating oil or propane.

Speaking of reducing their carbon footprint, U.S. residential and commercial natural gas customers over the past several decades have led the way in energy efficiency and conservation.

While the number of residential households using natural gas has increased from 38 million in 1970 to about 65 million today — an increase of more than 70 percent — both aggregate residential consumption and greenhouse gas emissions from natural gas households over that time period have remained essentially flat.

In fact, residential natural gas consumption per household fell at a rate of 1 percent a year from 1980 through 2000, declined at an annual rate of 2.2 percent from 2000 to 2006, and dropped 4.9 percent per year from 2004 to 2006.

As a result, households across America today use 32 percent less natural gas than they did in 1980.

Clearly, natural gas is a leader in providing solutions to our global and U.S. energy and environmental challenges, and U.S. natural gas utilities have played an important role in this effort.

However, in order to address the declining use per customer in our industry and position our companies to more aggressively offer energy efficiency and conservation programs

to our customers, U.S. natural gas utilities are pursuing a change in the regulatory construct under which we operate.

Historically, most natural gas utilities have recovered their costs and generated a return on their investment based on the volumes of natural gas that we deliver to our customers.

These traditional volumetric rate designs incent utilities to seek increased energy consumption per customer and, in fact, discourage conservation and efficiency.

This clearly is at odds with America’s emerging federal and state policy objectives, which focus on energy efficiency, carbon emissions and climate change.

Traditional volumetric rate designs are no longer appropriate in today's new energy economy.

We should, instead, encourage the adoption of new regulatory rate structures that align the interests of energy utilities and their customers with energy efficiency and conservation.

For example, margin decoupling tariffs separate, or "decouple," a utility's collection of its margin revenue from the volume of gas that is delivered to customers.

This enables utilities to actively promote energy efficiency and conservation programs to help customers lower their energy bills without hurting the utility's bottom line.

As of July 2009, 53 utilities in 27 states are serving 32 million residential customers under some form of non-volumetric rate design. What is more, 12 additional companies and four additional states are considering some form of decoupling mechanism.

We also are seeking regulatory tariffs that provide for the timely recovery of costs and earnings opportunities associated with energy efficiency and conservation programs.

Now more than ever, increased conservation and energy efficiency is a global imperative. Indeed, the U.S. Congress has already proposed a series of new energy and environmental laws.

As I speak the United States Senate is preparing to debate the American Clean Energy and Security Act (ACES) of 2009,

better known as the Waxman-Markey climate bill, which passed the U.S. House of representatives in June, and which would put in place a cap-and-trade program designed to increase energy efficiency and reduce greenhouse gas emissions.

Whatever the outcome of the Senate deliberations on this bill, we believe legislation requiring more energy efficiency and fewer greenhouse gas emissions is inevitable in the United States, along with the rest of the globe.

We also believe, as this slide shows, that because of its clear environmental advantages, the use of natural gas will definitely increase in the wake of any climate change legislation. But as I have mentioned, the optimum use of increased natural gas is directly in America's homes and businesses.

In any event, regulatory innovation in the natural gas utility industry is important in both the U.S. and abroad.

And so is a greater emphasis on technology development. One of our industry's priorities is to determine how we can collectively fund an increase in research and development for new, cleaner, and more efficient end-use natural gas products.

The best way to reduce carbon emissions is to use the cleanest fuel available in the most efficient manner, and for our industry, that means combining natural gas with a new generation of more efficient end-use technologies.

That will make us the leader in meeting the energy demands of American consumers with low-carbon natural gas appliances and equipment.

We believe that can, and should, be a global priority as well. A priority that will help create a successful long term future for all of our companies.

We also believe that our government should contribute to that effort, not just with legislation that requires reductions in greenhouse gas emissions, but with funding support that will develop and commercialize more natural gas technologies needed to achieve those reductions.

Yet perhaps the most important contribution that the United States can make to the global challenges of climate change, energy efficiency, energy security, economic growth and a host of other issues—many of which will be addressed at this conference—is to pledge to do all that we can to integrate our energy strategies more closely with global energy strategies through increased collaboration and joint initiatives. After all, we are the world's largest consumer of energy, including natural gas.

If there is anything the 21st Century has taught us—it is that we are truly one world. No longer do geographic impediments such as mountains, or oceans, or even borders allow us to isolate ourselves from one another.

The challenges that affect one region, or continent, or country, sooner or later will affect the others. Fortunately,

sooner or later the solutions to those challenges should apply to all of us as well and that is especially true with respect to energy and the environment.

Therefore, the American Gas Association pledges to engage all participants in the World Gas Conference in a healthy exchange of ideas to create solutions to our mutual challenges and optimize our opportunities in this increasingly inter-dependent and inter-connected world.

THANK YOU VERY MUCH.