The American Gas Association (AGA) is pleased to provide comments to the Subcommittee on Select Revenue Measures and the Subcommittee on Oversight, both of the Committee on Ways and Means, on the intersection of energy policy and tax policy.

AGA was founded in 1918, and represents 201 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which 91 percent — more than 64 million customers — receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas companies, pipelines, marketers, gatherers, international natural gas companies and industry associates.

We wish to thank Chairman Tiberi and Chairman Boustany for their leadership in holding this hearing and bringing attention to an important issue. We will focus our comments on the specific piece of legislation, H.R. 1380, the NAT GAS Act, which the Subcommittees have elected to consider as an example of energy tax policy.

AGA strongly supports greater use of natural gas as a transportation fuel. The shale gas revolution has supplied our nation with a new abundance of natural gas, and with it the potential to significantly reduce our reliance on foreign oil. Displacing petroleum fuels with natural gas for transportation can simultaneously help us improve our energy security, strengthen our trade balance, provide environmental benefits, and create jobs here at home.

We believe in comprehensive, technology-neutral policies to promote alternative fuel vehicles, infrastructure and fuels. That is why we strongly support the NAT GAS Act, because it represents an approach that can help achieve those results. It would level the playing field between natural gas vehicles and other alternative fuels and vehicles that already receive favorable treatment in the tax code.

We thank Representatives Sullivan, Boren, Larson, and Brady for introducing the NAT GAS Act and highlighting the role that natural gas can play in transforming our transportation sector and strengthening our economy.

Other nations in Europe, South America, and Asia are moving to advance natural gas as a transportation fuel, while the United States lags behind. There are over twelve million vehicles running on natural gas worldwide today, yet only about 120,000 are in the United States. To put this in context, in 2009, the United States overtook Russia to become the world's largest natural gas producing nation – yet only about one percent of the world's natural gas vehicles are in use on U.S. roadways.

Natural gas has a proven track record across multiple segments of the transportation sector. Light-duty natural gas vehicles are well suited both for fleet operators and for ordinary American households. In the medium- and heavy- duty segments, cities across the country are replacing diesel buses with cleaner-burning natural gas buses for public transit. Communities are also discovering the benefits of cleaner, quieter refuse trucks operating on natural gas. Switching more of our long-haul trucking to natural gas offers one high impact way to reduce foreign oil imports.

The new abundance of domestic natural gas supply, unimagined just a few years ago, means we can accommodate growing demand for natural gas in the transportation sector even as demand grows in other parts of the economy. Independent estimates of our natural gas reserves produced by the Department of Energy's Energy Information Administration and the Colorado School of Mines' Potential Gas Committee project that we have – within our own borders – more than a one hundred year supply at current rates of consumption.

Some industrial users of natural gas have expressed concerns about encouraging natural gas use in transportation. They argue that increased demand in the transportation sector would cause price spikes for natural gas. Recent analysis conducted by the National Petroleum Council at the request of DOE Secretary Chu suggests that these fears are unfounded. The just released (September 15, 2011) report of the National Petroleum Council finds that even under the most aggressive estimates of natural gas demand, including dramatic increases in gas demand for electricity generation, natural gas vehicles, LNG exports and exports to Mexico, U.S. demand for gas can be met for a minimum of 50 years. Furthermore, transportation fleets take many years to turn over, so the transition to greater natural gas usage for transportation will build slowly over time. The addition to the demand curve that natural gas will create will be one of measured, steady growth – exactly the type of signal that is needed to incentivize continued exploration and production and support supply.

Natural gas is available at about 500 publicly accessible refueling stations across the country, with an average price per gasoline gallon equivalent of about $2.00 nationwide. The projections of abundant natural gas suggest that prices are likely to remain low and relatively stable for years to come. But although natural gas is competitively priced as a fuel relative to petroleum, natural gas transportation must still compete with an entrenched technology. Gasoline and diesel-powered vehicles have significant advantages, with well-developed refueling infrastructures and nearly universal familiarity among consumers.

In the long run, the economics will drive us towards an expanded role for natural gas-fueled transportation. But markets alone will not move us quickly enough, because the price of oil does not reflect the true costs of our energy dependence.

Our reliance on foreign oil has placed our national energy security in peril. We have an urgent need to lessen, and eventually to eliminate, this dependence. It is because of this urgency that AGA favors tax incentives for a targeted program to support the adoption of alternative vehicles and fuels, including natural gas. Other vehicle technologies and fuels such as battery electric vehicles and biofuels already receive favorable treatment in the tax code. We should strive for parity between all the alternative fuel options, and level the playing field for natural gas to compete fairly.

As a nation, we face important choices that will determine our future. In this time of severe budget constraints, these choices are even tougher. We need to be strategic, take the long view, and consider carefully how our dependence on foreign oil will further constrain us going forward. For less than the cost of a single new aircraft carrier – $14 billion – we could fund a tax incentive program to transform our transportation sector. We could reinvent our refueling infrastructure and bring cleaner vehicle choices to consumers. We could transition away from foreign petroleum and towards greater energy security. The choice is ours. Let's make it count.