



# Advancing the Gas Industry Agenda

**JAMES DEGRAFFENREIDT COURTS ALLIES**

*By Martin Rosenberg*

THE ENERGY WORLD faces unprecedented challenges. To solve them, James H. DeGraffenreid Jr., who became chairman of the American Gas Association this year, believes in building bridges. Thus, he seeks opportunities to make common cause with groups like the Natural Resources Defense Council, which fashions itself “the nation’s most effective environmental action organization.” DeGraffenreid, the chairman and chief executive of WGL Holdings, parents of Washington Gas Light Co., is intent on advancing efforts to bolster the nation’s natural gas supply and fund federal heating assistance for low-income consumers. He is passionate about jazz, the blues, and art – and making it widely accessible to a diverse population. DeGraffenreid, 53, recently spoke with *EnergyBiz* about the priorities of the natural gas sector, and his comments edited for style and length follow.

**ENERGYBIZ** What are your top priorities as chairman of the American Gas Association?

**DEGRAFFENREIDT** Well, my priorities are going to be focused on continuing to push for legislation and regulations that open up access to supplies of natural gas. We were successful in getting some legislation passed that allowed drilling on the outer continental shelf, and we’re looking to get more access to supplies to address the high-priced environment that we’ve been experiencing.

**ENERGYBIZ** What’s the main hurdle?

**DEGRAFFENREIDT** There has been a lack of focus and a lack of good information about both the value of increasing supply and the fact that you can access known supplies and still remain in harmony with our environment.

**ENERGYBIZ** Florida doesn’t seem to be very interested in developing it. Why is that?

**DEGRAFFENREIDT** You’ll have to ask the Floridians. But I do know that although the Floridians would prefer that nobody drill within 200 miles of the coastline, the Chinese, under leases from the Cuban government, are already drilling within 60 miles of the Florida coast.

The second priority that I’ve got relates to the first in the sense that we need to allow and encourage fuel diversity for electric generation. Demand for gas for electric generation has further exacerbated the supply and demand imbalance that pushed up prices.

My third priority is promoting energy efficiency. Energy efficiency measures offer customers an opportunity to mitigate the effect of higher prices on their bills almost immediately. Along with promoting energy efficiency, we have to promote the notion of decoupling utility revenues from increased consumption of energy. The traditional approach to regulation requires that utility companies recover their cost on a volume-sensitive basis when most of our costs are actually fixed. That’s a disconnect that provides a very powerful disincentive for utility companies to become part of the advocacy group promoting energy efficiency.



Photo by Rick McCleary

**CC** I think that there's a lot of work that's going to have to be done to connect the ultimate consumers of natural gas with the suppliers of LNG.



## WGL HOLDINGS

### 2006 OPERATING REVENUE:

Utility >> \$1.6 billion

Non-utility >> \$1 billion

Total >> \$2.6 billion

### 2006 PROFITS

\$87.6 million

### EMPLOYEES

1,673

### CUSTOMERS IN MARYLAND, VIRGINIA AND WASHINGTON, D.C.

1,031,916



THE AMERICAN GAS ASSOCIATION REPRESENTS 200 UTILITY COMPANIES THAT DELIVER NATURAL GAS TO MORE THAN 64 MILLION HOMES, BUSINESSES AND INDUSTRIES.

**ENERGYBIZ** What specifically can the AGA do to promote decoupling in the 50 states and the District of Columbia?

**DEGRAFFENREIDT** Basically educate and work together with the state regulators. There are currently nine states that have decoupling mechanisms, and there are several proposals pending in other jurisdictions. Each state commission has the ability to customize a decoupling approach that's appropriate for its jurisdiction, and for the companies and customers in that jurisdiction.

**ENERGYBIZ** How many states do you think will decouple in the near future?

**DEGRAFFENREIDT** Well, my personal goal at Washington Gas is to increase that number by at least two because we've got decoupling mechanisms pending in two of our jurisdictions, Virginia and the District of Columbia. We already have a decoupling mechanism in Maryland.

**ENERGYBIZ** What needs to be done to make LNG a greater resource in your industry?

**DEGRAFFENREIDT** It starts with infrastructure, but it's closely followed by access to the world commodity market for LNG, and the United States is not a major player yet in the international LNG marketplace.

**ENERGYBIZ** How do we make that happen?

**DEGRAFFENREIDT** I don't think there's an easy answer to that. I think a lot of work must be done to connect the ultimate consumers of natural gas with the suppliers of LNG.

**ENERGYBIZ** Who takes the lead role on this? Is it the Department of Energy, the Federal Energy Regulatory Commission, state regulators or the industry?

**DEGRAFFENREIDT** In different ways, each of the stakeholders that you mentioned has been working at addressing that issue. Beyond that, it's going to take work on the international front for suppliers to want to sell into this market.

**ENERGYBIZ** How much can we rely on LNG?

**DEGRAFFENREIDT** LNG is a helpful increment of supply, but it's not going to change our situation materially.

**ENERGYBIZ** What about federal support for low-income gas customers?

**DEGRAFFENREIDT** It's very important for Congress to appropriate funds for the Low Income Home Energy Assistance Program, LIHEAP, at the authorized level of \$5.1 billion. Proposed LIHEAP funding



is now stuck at the pre-2006 level of \$2.2 billion. That means that there are about 600,000 households eligible for LIHEAP that received the funds last year, but will not be funded this year. And that's only at the \$3.1 billion level. Congress authorized \$5.1 billion in the energy policy act. One of the AGA's highest priorities this year is to get full funding for the LIHEAP program to help people who are in great need of energy assistance.

**ENERGYBIZ** Is there a natural gas shortage on the horizon?

**DEGRAFFENREIDT** I don't see it as a physical shortage. But if we don't address the supply and demand imbalance, we're going to remain unnecessarily exposed to increasingly more volatile and higher natural gas prices on a long-term basis.

**ENERGYBIZ** How do natural gas utilities view the debate over global warming?

**DEGRAFFENREIDT** At AGA, we don't take a position on whether global warming is or is not happening. That train has left the station. Our position is that whatever you're going to do will involve promoting energy efficiency and finding alternative sources of fuel for electric generation. We should promote end use of natural gas at the burner tip over indirect use in the form of natural gas for generation.

**ENERGYBIZ** What about distributed generation and fuel cells?

**DEGRAFFENREIDT** If you have decentralized energy generation based on fuel cells, one of the feedstocks that is used is natural gas. That would be beneficial to natural gas distribution companies and the natural gas industry as a whole. As you get more efficient appliances, you're going to have less natural gas consumption. The fuel cells themselves don't consume great quantities of natural gas. On a net basis, you're going to have increasing demand for natural gas. However, it's not going to be increasing at the same rate as it is today. It will flatten that curve.

**ENERGYBIZ** How many utility members does AGA have now and is the number changing over the years?

**DEGRAFFENREIDT** We have 200 members and the numbers have changed over the years. In some measure, it is related to consolidation, mergers and acquisitions.

**ENERGYBIZ** Do you see that picking up?

**DEGRAFFENREIDT** There's really nothing out there that says that there's going to be an accelerating trend. There will continue to be merger and acquisition activity, but it's going to be driven by circumstances that are specific to the companies involved.

**ENERGYBIZ** Describe WGL Holdings and Washington Gas Light.

**DEGRAFFENREIDT** We serve some of the fastest-growing counties in the United States, and we also serve some of the most affluent jurisdictions in the United States. We've been adding, on average,

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between 20,000 and 25,000 customers a year, and all indications are that rate of customer additions will continue for the next 20 years.

**ENERGYBIZ** How would you describe your corporate culture?

**DEGRAFFENREIDT** It's a high-performance culture. We are all oriented toward achieving dramatic improvements in the utility company and growing our profitable unregulated businesses. We have good line of sight between service to the customers, performance for the investors, and the rewards for employees.

**ENERGYBIZ** Do you have any new strategies for advancing the agenda of the American Gas Association and its members?

**DEGRAFFENREIDT** We strategize on a regular basis about ways to build coalitions and alliances with people who wouldn't be expected to work with a utility group. I was able to bring the Alliance to Save Energy, the Edison Electric Institute, the National Resources Defense Council and AGA together on decoupling and energy efficiency.

**ENERGYBIZ** Do you think such new alliances mean we are in a new era in terms of energy and how we approach it?

**DEGRAFFENREIDT** The short answer is yes. The longer answer is we've been in that new era for about 30 years, and we're only now beginning to take it seriously.

**ENERGYBIZ** Why is that?

**DEGRAFFENREIDT** This is the first time that people have begun to react to the impact of the cost of energy on their utility bills and their other household expenses. It is the first time that people are starting to talk emphatically about what's happening to the environment.

**ENERGYBIZ** What are some of your hobbies?

**DEGRAFFENREIDT** I play the piano and I like going to hear music. I like to play jazz and the blues. ☺