UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Petition For Rulemaking To Amend The	**)**		
Uniform System Of Accounts' Treatment	**)**		
Of Industry Association Dues	**)**	**Docket No.**	**RM21-15-000**
	)		
Center for Biological Diversity	**)**		
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CORRECTED COMMENTS OF PUBLIC INTEREST ORGANIZATIONS

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I. INTRODUCTION

On March 17, 2021, the Center for Biological Diversity filed the above-captioned Petition for Rulemaking requesting that the Commission amend the Uniform System of Accounts ("USofA") to move industry association dues from Account 930.2 to Account 426. Pursuant to Rule 211 of the Commission's Rules of Practice and Procedure and the Notice of Petition for Rulemaking issued March 25, 2021, Earthjustice, Sierra Club, Clean Air Council, Friends of the Earth, POWER Interfaith, and Southern Environmental Law Center (collectively, "Public Interest Organizations") timely file these comments.[1]

Trade associations like the Edison Electric Institute ("EEI") and American Gas Association ("AGA") act in the interests of their corporate members, which are often contrary to the interests of those members' captive ratepayers. However, captive ratepayers are currently footing the bill for the lion's share of EEI and AGA's activities, even though they are unregulated entities whose expenditures escape regulators' scrutiny. As discussed below, AGA's activities illustrate the extent to which trade associations conduct extensive advocacy campaigns to advance the interests of utility shareholders, usually to the detriment of utility customers. In allowing utilities to categorize trade association dues in presumptively recoverable above-the-line ("ATL") accounts, regulators often end up enabling utilities' evasion of legal prohibitions on the recovery of promotional and political advertising expenses thereby forcing ratepayers to bear the cost of advocacy that is not in their interests. Recategorizing industry association dues to a presumptively below-the-line ("BTL") account appropriately would upend this assumption, placing the burden on utilities to identify and justify any portion of their trade association dues

[1] 18 C.F.R. § 385.211; RM21-15-000, *Notice of Petition for Rulemaking* (March 25, 2021) (setting comment due date at 5:00 pm Eastern time on April 26, 2021).

that corresponds with services whose costs may appropriately be recovered from ratepayers, such as safety and operations resources.

FERC should also clarify the impact of moving trade association dues to a presumptively BTL account by providing guidance on what the utilities would need to show to establish that recovery is appropriate. Public Interest Organizations recommend specific categories of expenses that FERC should recognize as being inappropriate for ratepayer recovery. This guidance could help avoid burdensome re-litigation of these issues and improper recovery of the costs of the associations' diverse political activities.

II. DISCUSSION

A. The Commission's Authority and the USofA

The USofA, first issued by the Commission's predecessor, the Federal Power Commission, in 1937, aids the Commission in carrying out its statutory mandate to ensure just and reasonable rates.[2] The Commission periodically updates and amends the USofA through rulemaking proceedings.[3]

While technically binding only on FERC-jurisdictional utilities, the USofA is widely accepted as the industry standard framework for utility accounting even outside of FERC's jurisdictional reach with regard to regulating rates.[4] Many state regulators rely upon the USofA and use it as the basis for their own utility accounting regulations in the interest of consistency

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[2] *See* APPA, *Public Utility Accounting: A Public Power System's Introduction to the Federal Energy Regulatory Commission Uniform System of Accounts,* American Public Power Association (2012), at 11, https://www.publicpower.org/system/files/documents/Public%20Utility%20Accounting%20Manual%202018.pdf. *See also* 16 U.S.C. § 824d(a).

[3] *See, e.g.,* FERC, *Accounting Matters: Accounting Rulemakings*, https://www.ferc.gov/enforcement-legal/enforcement/accounting-matters.

[4] 16 U.S.C. § 825; *See also* APPA, *Public Utility Accounting*, at 3; NARUC, *Regulatory Accounting: A Primer for Utility Regulators*, United States Agency for International Development, at 5, 8 (2019), https://pubs.naruc.org/pub.cfm?id=EE6402E5-155D-0A36-31F8-36FEBB6D4E44.

and comparability.[5] As the Commission has noted, while the framework of the USofA does not "dictate the ratemaking decisions of this Commission or State Commissions," it "nevertheless support[s] the rate oversight needs of both this Commission and State Commissions" by providing clear information to inform ratemaking, policy decisions, and compliance and enforcement initiatives, while providing regulatory and public transparency into regulated entities' activities.[6] Accordingly, it is squarely within the Commission's authority to amend the USofA to better support and inform the development of just and reasonable FERC-jurisdictional rates, and to provide a framework to help state regulators adopt just and reasonable rates.

B. The Commission Should Categorize Trade Association Dues as Presumptively Unrecoverable and Place the Burden on Utilities to Justify Recovery of Any Trade Association Dues.

Utility trade associations conduct a wide array of activities that are solely in the interests of their corporate members, none of which are subject to regulatory oversight. But when reporting their activities to their membership, these trade associations only identify a miniscule portion of the utility's dues as not tax deductible because they meet the Internal Revenue Code's narrow definition of "lobbying." Even assuming that the trade associations correctly identify all the "lobbying" activities for purposes of the tax law, this category does not cover the full scope of political work the trade associations engage in. For instance, it excludes the following activities: their promotional and political advertising; the full suite of legislative and administrative lobbying at the federal, state and local levels; legal advocacy; advocacy for weak model building codes and appliance standards; and contributions to other advocacy groups.

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[5] APPA, *Public Utility Accounting* at 17. *See also, e.g.*, Cal. Pub. Util. Code § 793 (mandating that California's system of accounts for utilities be consistent with federal systems of utility accounting); Cal. Pub. Util. Comm'n, D.87-07-066, D.87-07-067 (July 29, 1987) (updating state USOA for gas and electric utilities to match amendments to FERC's USOA); 16 N.Y.C.R.R. §§ 167.1, 312.1 (New York state regulation incorporating FERC's USOA by reference for electric and gas utilities).

[6] 144 FERC ¶ 61,056 at 12, https://www.ferc.gov/sites/default/files/2020-05/E-22_0.pdf.

Longstanding precedent recognizes that utility political expenditures should not be treated as presumptively recoverable general operating expenses because a utility's political activities "have a doubtful relationship to rendering utility service," and because "on politically controversial matters, the opinions of management and the rate-payer may differ decidedly." Alabama Power Co., et al. 24 FPC 278, 286–87 (1960). These precise considerations should similarly bar the presumptive recovery of the costs of a trade association's advocacy on behalf of utilities. Thus, forcing customers to pay for the trade association's massive suite of public relations and lobbying activities (minus the tiny portion of expenses that the tax code defines as non-deductible lobbying) leads to unjust and unreasonable rates.

Though these comments focus on the associations' policy influence activities, the presumption against ratepayer recovery should extend to all areas of association activity. For example, AGA's payments for first-class air travel for its chairman should not be presumptively recoverable, regardless of whether the chairman is traveling for lobbying purposes.[7] Utilities should bear the burden of identifying and explaining what portions of the trade association's expenditures can be matched with activities the costs of which are proper to recover from ratepayers.

In practice, utilities commonly seek recovery of the entirety of their trade association dues, with small carve-outs for the trade associations' lobbying activities. The utilities presume that the bulk of their trade association dues are recoverable from ratepayers, while intervenors and regulators cannot access information that would be necessary to assess whether the associations' activities are actually in the ratepayers' interests. As a result, utilities often recover all or most of the costs of their trade association dues without demonstrating that these costs are

[7] *See* AGA Form 990 (2017), Schedule J at 37, ("The chairman of the board of directors and spouse are authorized for first class travel."), https://www.documentcloud.org/documents/5676895-American-Gas-Association-AGA-2017-Form-990.html#document/p37.

in their ratepayers' interests.[8] To address this problem, the Commission should recategorize the costs of these activities to presumptively BTL accounts for which shareholders are responsible. This change is necessary to ensure that rates are just and reasonable.

1. Trade Association Dues Are Commonly Used to Cover Activities that Are Not in Ratepayers' Interests.

As discussed above, many of the activities that trade association dues support are not in the interests of ratepayers; indeed, they are often exactly the activities for which cost recovery through rates is already statutorily prohibited when undertaken by utilities directly. By outsourcing these activities to a trade association and charging the dues to ratepayers, utilities are able to evade scrutiny and statutory prohibitions. In the following sections, Public Interest Organizations highlight some key categories of activities undertaken by AGA and EEI that are not in the public interest and should not be recovered from ratepayers. These examples are in addition to the trade association activities presented in the Center for Biological Diversity's Petition.

a. Advertising

By funneling ratepayer funds into trade associations, utilities are skirting the statutory prohibitions on using ratepayer funds for promotional and political advertising. Federal law prohibits both gas and electric utilities from recovering "direct or indirect" expenditures for "promotional or political advertising" from "any person other than the shareholders (or other owners)" of the utility.[9] "Promotional advertising" is defined as "any advertising for the purpose of encouraging any person to select or use the service or additional service of a [gas or electric] utility, or the selection or installation of any appliance or equipment designed to use such utility's

[8] *See infra*, Section 2.
[9] 15 U.S.C. § 3203(b)(2) (prohibition on gas utilities' recovery of advertising costs); 16 U.S.C. § 2623(b)(5) (prohibition on electric utilities' recovery of advertising costs).

service,"[10] and "political advertising" is defined as any advertising "for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance."[11]

Despite this prohibition, including for "indirect expenditures," trade association dues support a variety of activities that fall under the statutory definitions for promotional and political advertising. For example, AGA's October 2019 Board Finance Committee Meeting Book described the work of the AGA Communications Department as "support[ing] the advocacy goals of the Association and its members through communicating key messages and data with key audiences," including "emphasizing the role of natural gas as the clean and reliable foundation fuel for America's economy," as well as "work[ing] to educate and influence targeted media outlets and key influencers about natural gas . . . ."[12] The Communications Department also works with "reporters and media outlets to position the association and industry positively in the media," and "leads the branding and advertising campaigns targeted at key audiences in Washington, D.C., with the goal of reaching key influencers and decision-makers in the federal arena, and in local areas as needed . . . ."[13]

AGA's ad campaigns are textbook examples of this. Reporting in June 2020 revealed an AGA campaign that hired YouTube and Instagram "influencers" to promote natural gas.[14] These sponsored posts, part of AGA's "#cookingwithgas campaign," promoted gas to general

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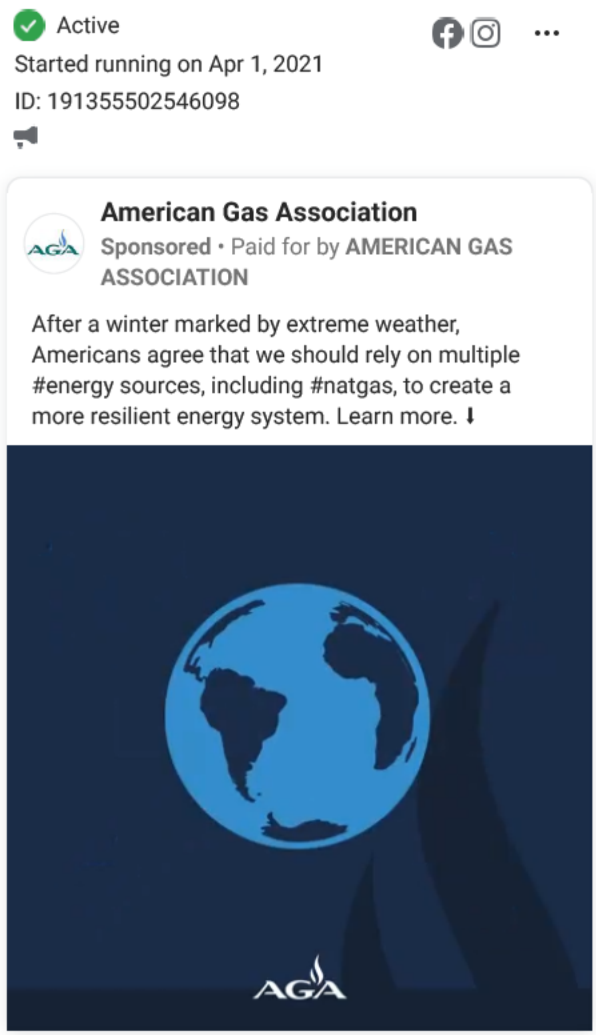
[10] 15 U.S.C. § 3204(b) (defining "advertising," "political advertising," and "promotional advertising" for the purposes of the prohibition on gas utilities' recovery of advertising costs from ratepayers); 16 U.S.C. § 2625(h) (defining "advertising," "political advertising," and "promotional advertising" for the purposes of the prohibition on electric utilities' recovery of advertising costs from ratepayers).
[11] *Id.*
[12] AGA 2019 Board Finance Book at 13 (attached as Exhibit A).
[13] *Id.*
[14] Rebecca Leber, *The Gas Industry is Paying Instagram Influencers to Gush over Gas Stoves*, Mother Jones (June 17, 2020), https://www.motherjones.com/environment/2020/06/gas-industry-influencers-stoves/. This reporting also notes AGA's sister trade group—whose membership is primarily, but not entirely, made up of municipal gas utilities—the American Public Gas Association, which has spearheaded its own promotional advertising campaigns, such as its "Natural Gas Genius" campaigned aimed at millennials in 2020.

audiences of potentially 1.3 million viewers.[15] Here is a sample of an ad AGA sponsored in this campaign:[16]

AGA runs numerous other promotional advertisements for gas on Facebook, including the following:[17]

[15] *Id.*
[16] *Id.*
[17] Facebook Ad Library, https://www.facebook.com/ads/library/?active_status=all&ad_type=all&country=US&view_all_page_id=140877979844&search_type=page.



AGA has also disclosed a $4.5 million contract with DDC Public Affairs in its 2017 IRS 990 filing that coincided with a DDC-managed, AGA public relations campaign promoting midstream pipelines called "Your Energy America," which included astroturf groups masquerading as grassroots organizations of local residents supporting natural gas in states where pipeline battles were intensifying, such as Virginia.[18]

[18] AGA 2017 IRS Form 990 at 8, https://www.documentcloud.org/documents/5676895-American-Gas-Association-AGA-2017-Form-990.html#document/p8/a473832; Steve Horn, *Here's the PR Firm Behind 'Your Energy America' Front Group Pushing Atlantic Coast Pipeline*, DeSmog (June 14, 2017), https://www.desmogblog.com/2017/06/14/your-energy-america-ddc-advocacy-atlantic-coast-pipeline/; Alexander Kaufman, *Natural Gas Industry Brings a Fake Grassroots Group to Eastern Pipeline Fights*, Huffington Post (June

AGA's Communications Department constituted between more than 9 percent of AGA's total annual expenses in 2019, or more than 11 percent of its 2019 program budget.[19] A significant—if not entire—portion of utilities' AGA membership dues allocable to the expenses of the Communications Department is plainly an "indirect expenditure" on statutorily prohibited advertising.

b. Legislative and Administrative Advocacy

AGA engages in lobbying at the federal, state and local level to advance the interests of its corporate members. This portion of AGA's activity far exceeds the percentage it reports in the IRS lobbying disclosures on its member invoices, which only cover a narrow statutory definition of lobbying, and range from 6.4 percent in 2017 to 3.8 percent in 2021.[20] This statutory definition of lobbying comes from the Omnibus Budget Reconciliation Act of 1993, codified in the Internal Revenue Code, and includes only: "influencing legislation," "participation in, or intervention in, any political campaign on behalf of (or in opposition to) any candidate for public office," "any attempt to influence the general public, or segments thereof, with respect to elections, legislative matters, or referendums," or "any direct communication with a covered executive branch official in an attempt to influence the official actions or positions of such official."[21]

12, 2017), https://www.huffpost.com/entry/natural-gas-pipeline-your-energy-virginia_n_593afeb1e4b0240268793e8d.

[19] Calculations of the percentage of AGA's total expenses and program expenses for different programs are attached as Exhibit B. The data source for these calculations is AGA's 2019 financial statements, which are attached as Exhibit C.

[20] *See* Climate Investigations Center, *AGA Annual Membership Dues Invoices*, https://www.documentcloud.org/documents/20537727-aga-annual-membership-dues-invoices (collection of membership dues invoices ranging from 2017 to 2021).

[21] Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, 107 Stat. 477-78; *see also* 26 U.S.C. § 162(e).

In some years, the budget of AGA's Government Affairs and Public Policy Department is two to three times the amount it identifies as "allocable to lobbying."[22] For example, the Governmental Affairs and Public Policy Department comprised roughly 12 percent of AGA's 2019 expenditures (representing more than 14 percent of 2019 program expenditures), while AGA's billing invoice to members estimated that just 3.5% of 2019 membership dues were allocable to nondeductible "lobbying."[23] The stated purpose of this department is to "formulat[e] and implement[] AGA's legislative strategies to accomplish the advocacy priorities biennially identified by the membership," as well as "educate the Executive branch of government, Members of Congress, Congressional staff, legislators and regulators and their staff, opinion leaders, and the media regarding the environmental and economic benefits of the increased direct use of natural gas."[24] It is hard to fathom that any significant portion of this spending benefits utility ratepayers.

The Governmental Affairs and Public Policy Department also "promote[s] each of AGA's advocacy priorities among state policymakers including, but not limited to, governors, attorneys general, state legislators, state energy officials, and public utility commissioners."[25] One way the Department accomplishes this goal is through "funding to maintain key relationships with national Democratic and Republican constituencies as well as funding to broad-based coalitions and charitable organizations which support the natural gas industry to achieve membership advocacy priorities."[26] It is nonsensical for utility ratepayers to bear the costs of AGA maintaining its relationship with Democratic and Republican Party establishments or AGA's

[22] Climate Investigations Center, *AGA Annual Membership Dues Invoices*; Climate Investigations Center, *American Gas Association and Affiliate Audited Consolidated Financial Statements* (Dec. 31, 2019), https://www.documentcloud.org/documents/20537802-aga-2019-financial-statements.
[23] AGA, 2019 Dues Invoice, https://assets.documentcloud.org/documents/20537727/aga-annual-membership-dues-invoices.pdf.
[24] Exhibit A at 9.
[25] *Id.*
[26] *Id.* at 10.

charitable contributions, especially when the charitable contributions of the utilities themselves are recorded in accounts that are presumptively shareholder funded.

AGA also conducts policy advocacy outside of its Governmental Affairs and Public Policy Department, through arms such as its Energy Markets, Analysis, and Standards Program. This program makes up roughly 11 percent of its 2019 expenses (more than 13 percent of 2019 program expenses). The Energy Markets team supports AGA's advocacy by "building relationships with key stakeholder groups, federal agencies and policy influencers" to "support advancing the industry's advocacy priorities relating to the role of natural gas in a sustainable energy future."[27] The Energy Analysis team studies several topics, including "demand opportunity growth."[28] The Codes & Standards team drafts comments on administrative rulemakings and its "primary goal … is to retain the option of placing a natural gas appliance in homes and businesses."[29] That is, this team is devoted to fighting energy efficiency and climate goals that could threaten the proliferation of gas appliances. Altogether, the Energy Markets, Analysis and Standards program is a generously funded regulatory advocacy operation that advances the interests of utility shareholders.

AGA's Office of General Counsel & Regulatory Affairs is another arm of the association that works to "protect the natural gas industry from adverse federal regulations."[30] Specifically, the office supports AGA's advocacy efforts before federal agencies such as FERC, the Commodity Futures Trading Commission, the U.S. Department of Transportation, the U.S.

[27] Exhibit A at 11.
[28] *Id.* at 12.
[29] *Id.*
[30] *Id.* at 15.

Department of Energy, and the Environmental Protection Agency.[31] This office is responsible for more than 7 percent of its 2019 budget (more than 9 percent of program budget).[32]

AGA's advocacy in a few recent federal rulemakings illustrates how the association's advocacy undermines ratepayer interests. At the federal level, AGA routinely participates in Department of Energy rulemakings on appliance efficiency standards and advocates against stringent performance standards.[33] In 2018, AGA and a coalition of other gas industry trade associations petitioned the Department of Energy to withdraw a proposed rule for residential water heaters and apply separate standards to appliances that use condensing combustion technology,[34] which would allow outdated gas technologies to persist on the market in perpetuity. The California Energy Commission "strongly" opposed the petition because it would effectively "put a cap on the energy efficiency of gas furnaces and water heaters."[35] Opposing regulatory progress toward more stringent energy efficiency standards is a way that the gas industry keeps itself relevant for end-use appliances in a market where electric alternatives provide far superior efficiency. Strengthening energy efficiency standards for consumer products can knock older, less efficient gas-fueled models out of the market. Strong efficiency standards create an existential threat to gas utilities because they make electric appliances more attractive relative to gas appliances and—even when customers install new gas appliances—high-efficiency gas

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[31] Exhibit A at 15.
[32] Exhibit B.
[33] *See, e.g.,* DOE Docket No. EERE-2014-BT-STD-0031, Comments of the American Gas Association on the Supplemental Notice of Proposed Rulemaking on Energy Conservation Standards for Residential Furnaces (Jan. 8, 2017).
[34] Petition for Rulemaking Before the Office of Energy Efficiency and Renewable Energy, United States Department of Energy, at 2, 4, 9 (Oct. 18, 2018), https://www.regulations.gov/document?D=EERE-2018-BT-STD-0018-0063.
[35] DOE Docket No. EERE-2018-BT-STD-0018, California Energy Commission Comments Re: Energy Conservation Program: Energy Standards for Residential Furnaces and Commercial Water Heaters, Notice of Petition for Rulemaking (Mar. 1, 2019).

models reduce gas throughput. This advocacy to preserve gas throughput comes at significant costs, but those costs would not be included in AGA's tally of "lobbying" costs for tax purposes.

AGA has also coordinated with member utilities to oppose state- and local-level policies that would affect gas throughput, such as building code updates that would prioritize or require all-electric construction, as well as stringent energy efficiency standards for gas-fueled appliances that knock lower-efficiency gas appliances out of the market. AGA's Building Energy Codes and Standards ("BECS") Committee contains several subcommittees for this work that focus on different avenues through which to protect the gas industry's market share.[36] As an illustrative example, the "Indoor Air Quality" BECS subcommittee's scope is "to monitor issues dealing with allowable indoor pollutant levels and their causes," and to "determine whether an established or new standard for indoor pollutants has an adverse effect on the marketability of any natural gas equipment or promotes an alternate fuel."[37] The subcommittee "will respond to or seek to alter any standard that is deemed to be harmful to the gas industry."[38]

In one example of how AGA supports its member utilities in regulatory advocacy at the state level, AGA has closely collaborated with SoCalGas to oppose advances in energy efficiency codes and standards that are necessary to protect respiratory health. In the California Energy Commission's rulemaking docket to develop its 2022 statewide building code, AGA developed analysis to undermine studies on the detrimental indoor air quality impacts of gas stoves.[39] AGA staff explained via email that its report was "targeting policy in California" and "intended to

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[36] AGA, *Building Energy Codes and Standards Committee Meeting Book* at 65 (Jan. 2019), https://www.documentcloud.org/documents/6771211-BECS-Winter-2019.
[37] *Id*. at 94.
[38] *Id.*
[39] Sierra Club entered the sixteen-page AGA report into evidence under seal in California Public Utilities Commission proceeding R. 13-11-005.

support gas industry activities there."[40] Following the tobacco industry playbook, the gas industry is striving to debunk the science on the health risks of burning gas—and too often, captive ratepayers are paying for the gas industry's advocacy.

One focus of AGA's state-level legislative advocacy is passing bills that would prevent local governments from promoting all-electric buildings, which are a cost-effective tool for saving energy and reducing pollution. Reporting from The Guardian in March 2021 documented AGA's direct involvement in preemption legislation in Tennessee,[41] following a February 2021 investigative report from National Public Radio on AGA-coordinated efforts to pass state preemption in twelve states.[42] It is unclear whether AGA properly identifies all of its expenses on state legislative advocacy when it self-reports its "lobbying" expenses; due to a lack of independent auditing, AGA may not include its expenditures on the front groups it relies on for its state legislative campaigns. In an internal presentation from March 2020, AGA noted its coordination with regional gas industry anti-electrification front groups, such as Partners for Energy Progress.[43] Reporting in 2019 revealed that Partners for Energy Progress, a pro-gas group in the Pacific Northwest that describes itself as "a collaboration of utilities, farmers, workers, small and large businesses, and community advocates across the Northwest,"[44] was funded largely by gas industry actors and sought to "push a 'positive' message about gas" targeting

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[40] E-mail communication from Ted Williams at PDF 3 (May 12, 2020), introduced in California Public Utilities Commission Rulemaking 13-11-005 as Exhibit SC-07 (attached as Exhibit D).
[41] Emily Holden, *A Texas City Had a Bold New Climate Plan – Until a Gas Company Got Involved*, The Guardian (March 1, 2021), https://www.theguardian.com/us-news/2021/mar/01/a-texas-city-had-a-bold-new-climate-plan-until-a-gas-company-got-involved.
[42] Jeff Brady & Dan Charles, *As Cities Grapple with Climate Change, Gas Utilities Fight to Stay in Business*, NPR (Feb. 22, 2021), https://www.npr.org/2021/02/22/967439914/as-cities-grapple-with-climate-change-gas-utilities-fight-to-stay-in-business.
[43] AGA, Spring 2020 Leadership Council Conference Call: Powerpoint Presentation (March 31, 2020), https://www.aga.org/globalassets/events--community/leadership-council-03.31.2020-natural-gas-bans.pdf; Hal Bernton & Daniel Beekman, *Natural Gas Industry's $1 Million PR Campaign Sets up Fight over Northwest's Energy Future*, Seattle Times (Dec. 23, 2019), https://www.seattletimes.com/seattle-news/natural-gas-industrys-1-million-pr-campaign-sets-up-fight-over-northwests-energy-future/
[44] Partnership for Energy Progress, *About Us*, https://www.pepnw.org/about-us/.

"Democratic-leaning suburban homeowners, particularly women," because "many consumers like natural gas but dislike fracking and want to fight climate change."[45] This group was formed in response to municipal building decarbonization policies advancing in Washington State. Similarly, AGA's March 2020 Financial Statement includes $210,000 for an "unbudgeted contribution to a pro natural gas advocate to help fight bans on natural gas."[46] Ratepayers should not pay for the gas industry's anti-democratic lobbying efforts that are designed to prevent local governments from protecting their residents from the hazards of gas.

AGA operatives have also engaged at the local level to fight proposals that would jeopardize gas company profits. For example, reporting in 2020 revealed that AGA-retained government affairs consultants from Bracewell LLP that attempted to derail a municipal ordinance vote to restrict natural gas usage in buildings by spreading a false rumor that the California NAACP was in opposition.[47] Forcing ratepayers to foot the bill for the gas industry's dirty tricks campaign is antithetical to the adoption of just and reasonable rates.

Finally, AGA has conducted trainings for gas industry workers to mobilize their participation in legislative and administrative advocacy. AGA teamed up with trade associations American Public Gas Association and Interstate Natural Gas Association of America to contract with DDC to run a $100,000 advocacy training workshop titled "Speak Up for Natural Gas," which disguised promotional advertising as workforce education.[48] A guide for the workshop encourages gas utilities to "train[] employees to be advocates for the natural gas industry," and to

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[45] Bernton and Beekman, *Natural Gas Industry's $1 Million PR Campaign Sets Up Fight over Northwest's Energy Future.*
[46] AGA Financial Statement, March 2020, at 3, https://www.documentcloud.org/documents/20613625-aga-financial-statements-march-2020#document/p3/a2028003.
[47] Sammy Roth, *The Fossil Fuel Industry Wants You to Believe It's Good for People of Color*, Los Angeles Times (Nov. 23, 2020), https://www.latimes.com/business/story/2020-11-23/clean-energy-fossil-fuels-racial-justice; Emily Atkin, *The Quiet Campaign to Make Clean Energy Racist*, HEATED (Jul. 2, 2020), https://heated.world/p/the-quiet-campaign-to-make-clean.
[48] AGA et al, *Speak Up for Natural Gas: Advocacy Training Workshop*, at 1 (2018), https://assets.documentcloud.org/documents/6766829/NG2018-Conference.pdf.

"leverage the influence and credibility [their] employees have in their communities" to combat environmental advocates.[49] The guide also urges utility leadership to reward employees for promoting natural gas with "financial incentive[s], prizes, honorary titles, or career advancement opportunities," and to ask employees to promote natural gas on social media as well as "engage in legislative, regulatory, or electoral issues" to help the gas industry "reach advocacy goals quickly and efficiently."[50]

As these manifold advocacy efforts show, AGA is investing tremendous resources in shaping policy at the federal, state and local levels and just a small fraction of those costs are identified as "lobbying" under the tax law's narrow definition. Regulators have no visibility over the amount of AGA's other advocacy costs or whether any of its advocacy activities promote the interests of ratepayers.

c. Legal Advocacy

AGA also engages in costly and aggressive legal and administrative advocacy to promote the use of gas, whether through expansion of gas infrastructure, protection of gas end uses from local building electrification efforts, or opposition to stringent energy efficiency standards for gas-fueled appliances that would result in less gas throughput or less appliance installations. For example, AGA intervened in an ongoing lawsuit in the D.C. Circuit Court of Appeals, *American Public Gas Association vs. U.S. Department of Energy*, opposing not only the Department of Energy ("DOE"), but also a coalition of state and municipal governments who intervened to defend DOE's adoption of Obama-administration energy efficiency standards for commercial

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[49] *Id.*
[50] *Id.* at 45.

packaged boilers.[51] As discussed above, this familiar position from the gas industry protects shareholder profits, which are bolstered when gas utilities increase their throughput, but contradicts the interests of customers who would save money if the stricter standards were adopted.

Within AGA, the Office of General Counsel and Regulatory affairs handles amicus curiae and other briefs AGA files in the U.S. Supreme Court and other federal appellate courts to support the interests of gas distribution companies.[52] As mentioned above, this office is responsible for more than 9% of AGA's 2019 program budget.[53]

d. Model building code and appliance standard advocacy

In 2020, AGA engaged in a successful campaign to overturn an International Energy Conservation Code ("IECC") proposal that would have reduced the cost for homeowners to electrify appliances.[54] The IECC is "the most widely adopted model energy code by local jurisdictions in the United States,"[55] and much like the USofA, it has the potential to provide a consistent, well-founded framework for local jurisdictions to adopt. For its 2021 code cycle, the International Code Council's voting members, who are governmental employees, approved several proposals that included requirements for electrical wiring that would support future electrification of gas end-uses and charging of electric vehicles in homes.[56] AGA and other trade associations opposed the proposals because they would have removed barriers to future building

[51] *See* Consent Motion for Leave to Intervene in Support of Respondent, *Am. Pub. Gas Ass'n v. U.S. Dept. of Energy*, No. 20-1068 (D.C. Cir. Apr. 8, 2020) (motion of twelve State and Municipal Intervenors to intervene in support of the Department of Energy, and referring to movant-intervenor American Gas Association).
[52] Exhibit A at 15.
[53] *See id*. at 5, Table 2.
[54] Emily Holden, *Inside the Climate Battle Quietly Raging about US Homes*, The Guardian (Oct. 9, 2020), https://www.theguardian.com/us-news/2020/oct/09/climate-change-building-code-emissions-us.
[55] New Buildings Institute, *2021 IECC National Model Energy Code (Base Codes)*, https://newbuildings.org/code_policy/2021-iecc-base-codes/.
[56] *See* Lauren Urbanek, *Energy Code Appeals Put Efficiency Progress At Risk*, Natural Resources Defense Council (Sep. 10, 2020), https://www.nrdc.org/experts/lauren-urbanek/energy-code-appeals-put-efficiency-progress-risk.

electrification, creating a threat to future gas industry profits. The industry associations immediately appealed not only the proposals' approved measures, but also the governmental members' votes themselves, on the grounds that the governmental entities' get-out-the-vote campaign to engage more jurisdictions in pushing efficiency policies forward constituted "manipulation by special interests."[57] The appeal passed a three-member appeal board, overturning decision of the overwhelming majority of local government officials in favor of the corporate interests of the gas and building industries.[58]

e. Funding other advocacy groups

Trade associations like EEI and AGA also contribute funds to other advocacy groups whose interests and goals are even more attenuated from—or contrary to—those of utilities' captive ratepayers. For example, between 2008 and 2015, EEI donate $142,667 to the American Legislative Exchange Council ("ALEC"), in addition to its own dues as a member of ALEC.[59] ALEC is a politically conservative 501(c)(3) organization that provides state legislators with model policies to oppose renewable energy standards and overturn laws that reduce GHG emissions.[60] Regulators cannot readily access information about AGA's payments to ALEC, but AGA is also relying on ALEC to influence state policy. For instance, an AGA spokesperson explained that AGA was increasing efforts to promote state bills that are favorable to its membership via organizations like ALEC.[61]

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[57] *Id.*;Alexander Kaufman, *Cities Voted for Green Building Codes. Now Developers Want to End Voting*, Grist (Mar. 1, 2021), https://grist.org/politics/minneapolis-building-codes-industry-backlash/.
[58] *Id.*
[59] Energy and Policy Institute, *Paying for Utility Politics: How Utility Ratepayers are Forced to Fund the Edison Electric Institute and Other Political Organizations*, at 17 (May 2017), https://www.energyandpolicy.org/wp-content/uploads/2017/05/Paying-for-utility-politics-ratepayers-funding-the-Edison-Electric-Institute.pdf.
[60] *Id.*; *see also* Suzanne Goldenberg and Ed Pilkington, *ALEC's Campaign Against Renewable Energy*, Mother Jones (Dec. 6, 2013), https://www.motherjones.com/environment/2013/12/alec-calls-penalties-freerider-homeowners-assault-clean-energy/.
[61] Jennifer Yachnin, *American Gas Association seeking to spread its influence well beyond the Beltway,* E&E (Dec. 9, 2011), https://www.eenews.net/stories/1059957439.

EEI has also funded the now-defunct Utility Air Regulatory Group ("UARG").[62] UARG dissolved in 2019 following a Congressional inquiry about whether its members received special treatment from the Trump administration.[63] UARG challenged a variety of EPA regulations during the Obama administration, including "carbon rules for existing and future coal plants, a mercury rule for coal plants, the updated ozone standard, haze cleanup plans and safety rules for industrial chemical facilities," many of which were revised or repealed by the Trump administration's EPA, in which William Wehrum, who represented UARG at his former law firm, served as Assistant Administrator for Air and Radiation between 2017 and 2019.[64] By funneling payments to ALEC and UARG through their trade association, utilities have been able to recover these costs from ratepayers without regulatory scrutiny.

Overall, the trade associations conduct multifaceted and diverse campaigns to promote policies that benefit their members. The costs of this policy advocacy are mostly excluded from the "lobbying" the associations identify as nondeductible for tax purposes. AGA's advocacy activities are spread across several departments with benign-sounding names, which would make it difficult to identify a portion of AGA membership dues that might be appropriate for ratepayer recovery even if regulators had access to basic information about the association's budget.

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[62] In a 2015 case before the Indiana Utility Regulatory Commission, testimony revealed that $173,612 of EEI annual dues were paid to UARG. *See* Verified Direct Testimony of Derric J. Isensee, Cause No. 44688, *In re N. Indiana Pub. Serv. Co.*, Attach. 6-B at 37 (Oct. 1, 2015), https://assets.documentcloud.org/documents/3111258/Northern-Indiana-Public-Service-Company-Dues.pdf.

[63] *See* Zack Colman, *Industry Group Tied to EPA Air Chief Dissolves*, Politico (May 10, 2019), https://www.politico.com/story/2019/05/10/epa-air-chief-3238271.

[64] *Id.*, *see also* Lisa Friedman, *Bill Wehrum, an Architect of E.P.A. Rollbacks, Faces New Ethics Inquiry*, New York Times (July 22, 2019), https://www.nytimes.com/2019/07/22/climate/william-wehrum-epa-inquiry.html; Letter from Sen. Tom Carper and Sen. Sheldon Whitehouse to Charles Sheehan, Acting Inspector General, U.S.E.P.A. (July 21, 2019), https://www.epw.senate.gov/public/_cache/files/8/e/8e72609a-f79c-4d95-9fe3-9dacc42544ac/1760EB42B1DBE031BEDA704F8771202E.07.21.19-tc-sw-to-cs-hunton-report-letter.pdf (describing Mr. Wehram's ethical violations related to UARG, among other similar industry groups, and urging the agency "in the strongest possible terms not to abandon or decline to pursue work on this matter" despite Mr. Wehram's resignation, as it represented an "institutional concern . . . capable of repetition in the future.").

2. State Utility Regulators' Treatment of Trade Association Dues has Allowed Utilities to Evade their Burden.

The excessively political activities of trade associations have not gone unnoticed: advocates across the country have challenged utilities' efforts to recover associational dues in rate cases for several years now. However, underscoring the importance of the Center for Biological Diversity's petition, state regulatory commissions have often found it exceedingly difficult to parse out what portion of these dues should be disallowed, in large part because of the opaque accounting practices these trade associations often follow.

Public Interest Organizations have compiled below a non-exhaustive list of proceedings in which utilities' dues to trade associations were allowed even over the well-supported objections of public consumer and/or environmental advocates. As this list demonstrates, the USofA treatment of association dues has played a significant role in the outcome of ratepayers shouldering millions of dollars in membership dues that are unjust and unreasonable and do not benefit those ratepayers. When membership dues are recorded as presumptively recoverable expenses, Commissions often defer to utilities, rather than taking the difficult step of examining what portions of those dues are justified. The burden of proof is then shifted onto the consumer advocate to provide evidence on how the dues may not benefit the public. And when the advocates are unable to obtain more detailed information on these bills, Commissions will often revert to approving the expenses on the basis of the self-reported invoices of associations, incomplete information, and the past precedent of allowing recovery of membership dues. The following paragraphs describe several cases pulled from a larger set of examples attached to these comments as Table A, in which a lack of information has led to utilities recovering dues without having to provide a clear basis for charging ratepayers for such payments.

There have been multiple occasions where Commissions have relied upon the associations' invoices as the Utilities' justification for rate recovery. For instance, in its 2018 rate proceeding, DTE Electric Company ("DTE") requested $1,269,000, as an ATL expense for membership dues to EEI. DTE relied exclusively upon EEI's invoice to determine the amount of funds to be recoverable from ratepayers: the Company did not provide any additional information proving that the membership dues paid by DTE went to activities that directly benefit ratepayers. In the absence of proof showing the EEI dues benefited ratepayers and were just and reasonable, consumer and environmental advocates recommended that the full dues amount be considered a BTL expense;[65] and the Administrative Law Judge in that case agreed, recommending that the dues be disallowed.[66] However, the Michigan Public Service Commission approved the dues because allowing membership dues was "consistent" with past practices, and because advocates could not provide specific evidence that EEI's invoices had improperly included nonrecoverable amounts.[67]

Similarly, in New York in 2018, Orange and Rockland Utilities requested a total of $262,382 in membership dues to EEI and AGA. In the course of defending these expenditures as recoverable, the Company refused Commission staff's discovery request to provide more information regarding these associations' budgets. Instead, the only justification the Company provided for requiring customers to pay for the EEI and AGA membership dues was unverified information from the associations' invoicing clerks.[68] Again a consumer advocate sought to

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[65] Direct Testimony of Karl R. Rábago on Behalf of Natural Resources Defense Council, Michigan Environmental Council, and Sierra Club, *In the Matter of the Application of DTE Elec. Co.,* No. U-20162 (Mich. Pub. Serv. Comm'n Nov. 7, 2018).
[66] Notice of Proposal for Decision at 174, *In the Matter of the Application of DTE Elec. Co.,* No. U-20162 (Mich. Pub. Serv. Comm'n March 5, 2019)
[67] Order, *In the Matter of the Application of DTE Elec. Co.,* No. U-20162 (Mich. Pub. Serv. Comm'n May 2, 2019).
[68] Direct Testimony of Karl R. Rábago on Behalf of Pace Energy and Climate Center, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service*, 18-G-0068 (N.Y. Pub. Serv. Comm'n May 25, 2018)

disallow these expenses, noting that "without transparency of spending data, it is difficult to fully understand how EEI and AGA spend ratepayer funds."[69] And again, the Commission allowed the dues based off of the invoices, not wanting to upset the balance of a proposed settlement in that case.[70]

This second example highlights another issue, which is that when utilities come in with presumptive recovery for associational dues, they tend to get swept by default into any joint proposals by utilities and intervening parties. In such cases, Commissions do not even always engage in questions raised by advocates, thereby effectively adhering blindly to industry accounting. For instance, in Consolidated Edison's 2019 rate case, a consumer advocate challenged Consolidated Edison's recovery of $1,623.470 in dues to EEI and AGA,[71] arguing that the Company's reliance on invoices as justification for charging ratepayers was problematic because there had been no verification that the invoices from the associations were true and correct. The Commission did not even address this issue in its final order, instead fully approving a joint proposal that made no discernible changes to the Company's recovery of dues.

Finally, even where some efforts are made, either by the utility or a state commission, to parse out associational dues beyond those that are not tax recoverable, the indecipherable accounting practices of trade associations like EEI and AGA prevent them from reaching a considered outcome. In Wisconsin Electric Power Company and Wisconsin Gas's 2019 rate case, for instance, the Wisconsin Public Service Commission was forced to rely on a "historical recovery percentage authorized for various dues and memberships" to determine the amount of

[69] *Id.* at 61.
[70] Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans at 77, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service*, 18-G-0068 (N.Y. Pub. Serv. Comm'n March 14, 2019).
[71] Direct Testimony of Karl R. Rábago on Behalf of Pace Energy and Climate Center, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service*, No. 19-E-0065 (N.Y. Pub. Serv. Comm'n May 24, 2019).

association dues recoverable.[72] Again here, an environmental advocate argued that "the percentages applied ha[d] no evidentiary basis connecting them to any ratepayer benefits".[73] But the Commission concluded, while relying upon an incomplete audit and the historical recovery percentages, that the membership dues requested were reasonable.[74] This example is particularly striking because part of the basis for the Commission's decision was that the advocate challenging recovery of these dues had failed to present evidence to back its claim that customers received no benefit from association expenditures. This is a clear example of the burden of proof problem, and demonstrates why utilities should be forced to provide evidence on exactly how their associational dues in fact benefit customers if they seek recovery through rates.

Public Interest Organizations provide these examples of decisions by retail rate regulators not to suggest that the Commission should second-guess these decisions, but rather to illustrate that the initial classification of the vast majority of trade association dues and fees as above-the-line is often determinative of the outcome, given the procedural obstacles faced by ratepayers and their advocates. Presumptions matter, and given the stark evidence that trade associations such as EEI and AGA engage in political and promotional activities that do not benefit ratepayers, the Commission should require such dues to be classified as presumptively unrecoverable.

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[72] Final Decision at 56, *Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Natural Gas, and Steam Rates*, No. 5-UR-109 (Wis. Pub. Serv. Comm'n Dec. 19, 2019).

[73] Sierra Club's Initial Posthearing Brief at 28, *Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC, for Authority to Adjust Electric, Natural Gas, and Steam Rates*, No. 5-UR-109 (Wis. Pub. Serv. Comm'n Oct. 18, 2019).

[74] Final Decision at 56, Joint *Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Natural Gas, and Steam Rates*, No. 5-UR-109 (Wis. Pub. Serv. Comm'n Dec. 19, 2019).

III. GUIDANCE ON REQUESTING RECOVERY OF ASSOCIATION DUES

In submitting these comments, Public Interest Organizations do not argue that no portion of associational dues can ever be recoverable. Some portion of association dues may be appropriate to recover from ratepayers, such as a portion spent on safety trainings for utility employees. But the potential for ratepayers to benefit from some association activities does not justify the status quo, in which captive ratepayers are funding tens of millions of dollars in political activity that does not benefit them. Thus, FERC should grant CBD's petition and clarify the impact of its decision by explaining what a utility would need to show to overcome the presumption that association dues are not recoverable. For instance, FERC could (and should) provide guidance that it would not be appropriate to recover from ratepayers the costs of association activities in the following categories, which are presumptively not recoverable utility expenses:

- **Donations** – all payments or donations for charitable, social or community welfare purposes (recorded in account 426.1 when the utility gives donations directly)
- **Expenditures for certain civic, political and related activities** - expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, ordinances, rulemakings or other policy decisions (either with respect to the possible adoption of new policies or repeal or modification of existing policies) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials and regulatory or other governmental bodies, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations (clarified statement of expenses recorded in account 426.4 when the utility spends funds on advocacy directly).
- **Promotional advertising** - any advertising for the purpose of encouraging any person to select or use the serve or additional service of a utility, or the selection or installation of any appliance or equipment designed to use such utility's service.

This is not an exhaustive set of expenses that would not be appropriate to recover from ratepayers, but FERC can still help minimize litigation and uncertainty by providing guidance on these clear examples of expenses that ratepayers should not pay.

IV. CONCLUSION

For the reasons set forth above, Public Interest Organizations respectfully request that the Commission amend the USOA to categorize trade association dues from Account 930.2 to Account 426, as requested by the Center for Biological Diversity.

Respectfully submitted,

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Dated: April 26, 2021

Table A

Associational Dues State Examples

State	Utility	Docket No.	Challenging Entity	Fees Challenged	Outcome
AZ	Tucson Electric Power Company	Arizona Corporation Commission Docket No. E-01933A-19-0028	Residential Utility Consumer Office (RUCO)	Various Industry Dues of $466,982 & Other Membership Dues of $121,831	Commission allowed recovery as adjusted further downward by the Company; it did not reduce by the amount RUCO requested
CA	San Diego Gas & Electric Company	California Public Utility Commission Docket No. 17-10-007, 17-10-008	TURN (The Utility Reform Network)	EEI Dues of $732,000 (out of $800,000 total).	Commission allowed partial recovery from ratepayers, relying on an estimate due to insufficient information
IA	Interstate Power and Light Company	Iowa Utilities Board Docket No. RPU-2019-0001	Environmental Law & Policy Center and Iowa Environmental Council	EEI, USWAG (Utility Solid Waste Activities Group), & Other Industry dues of $586,613 total	Board approved settlement that included full requested recovery from ratepayers
KY	Kentucky Utilities Company	Kentucky Public Service Commission Docket No. 2018-00294	Kentucky Attorney General's Office	43.35% of EEI and EPRI (Electric Power Research Institute) Dues.	Commission approved settlement that included full requested recovery
MI	DTE Energy	Michigan Public Service Commission Docket No. U-20162	MEC, NRDC and Sierra Club	EEI Dues of $1.269 million	ALJ suggested disallowing recovery; Commission allowed full requested recovery
MN	Otter tail	Minnesota Public Utilities Commission Docket No. E-017/GR-15-1033	MN Attorney General	EEI & LEC (Lignite Energy Council) Dues of $89,573	ALJ suggested and Commission allowed full requested recovery
MN	MN Power	Minnesota Public Utilities Commission Docket No. E-015/GR-16-664	MN Attorney general	EEI and multiple other associational dues of $1.24 million total	ALJ suggested allowing only $417,946 recovery for EEI, National Hydropower Association, & Western Coal Traffic League; Commission allowed full requested recovery of all dues
NC	Duke	North Carolina Utilities Commission E-7, SUB 1026	Waste Awareness and Reduction Network (WARN)	EEI Dues of $633,000 (out of $2.06 million total)	Commission allowed full requested recovery
NY	Orange and Rockland Utilities, Inc.	New York Department of Public Service Docket No. 18-G-0068	PACE Energy and Climate Center	EEI & AGA Dues of $262,382	Department allowed full requested recovery
NY	New York, Inc. for Electric Service	New York State Public Service 19-E-0065	PACE Energy and Climate Center	EEI and AGA of $1.4 million	Department ignored the issue, approved settlement that included full requested recovery.
NY	Central Hudson Gas & Electric	New York State Department of Public Service Docket No. 17-E-0459	PACE Energy and Climate Center	EEI and AGA dues of $84,882	Department ignored the issue, approved settlement that included full requested recovery.
RI	Narragansett Electric Company	State of Rhode Island and Providence Plantations PUC Docket No. 4770	New Energy Rhode Island (NERI)	EEI and AGA Dues of $122,467.80	Commission approved settlement that included Company commitment to reach out to EEI and AGA requesting more information; matter ongoing
VA	Dominion	Virginia State Corporation CommissionDocket No. PUE-2015-00027	Commission Staff	Various Industry Association Dues of $114,000	Commission allowed full requested recovery
WI	Wisconsin Electric Power Company	Public Service Commission of Wisconsin Docket No. 5-UR-109	Sierra Club	Various Industry Association Dues of $956,893	Commission approved settlement that included full requested recovery

Exhibit A

Board Finance Book Oct. 2019

American Gas Association

BOARD FINANCE COMMITTEE MEETING

The Ritz-Carlton, Chicago
Chicago, IL
St. Clair A
Monday, October 14, 2019
3:30 – 5:00 p.m.

AMERICAN GAS ASSOCIATION
ANTITRUST COMPLIANCE GUIDELINES

Introduction

The American Gas Association and its member companies are committed to full compliance with all laws and regulations, and to maintaining the highest ethical standards in the way we conduct our operations and activities. Our commitment includes strict compliance with federal and state antitrust laws, which are designed to protect this country's free competitive economy.

Responsibility for Antitrust Compliance

Compliance with the antitrust laws is a serious business. Antitrust violations may result in heavy fines for corporations, and in fines and even imprisonment for individuals. While the General Counsel's Office provides guidance on antitrust matters, you bear the ultimate responsibility for assuring that your actions and the actions of any of those under your direction comply with the antitrust laws.

Antitrust Guidelines

In all AGA operations and activities, you must avoid any discussions or conduct that might violate the antitrust laws or even raise an appearance of impropriety. The following guidelines will help you do that:

- ***Do*** consult counsel about any documents that touch on sensitive antitrust subjects such as pricing, market allocations, refusals to deal with any company, and the like.
- ***Do*** consult with counsel on any non-routine correspondence that requests an AGA member company to participate in projects or programs, submit data for such activities, or otherwise join other member companies in AGA actions.
- ***Do*** use an agenda and take accurate minutes at every meeting. Have counsel review the agenda and minutes before they are put into final form and circulated and request counsel to attend meetings where sensitive antitrust subjects may arise.
- ***Do*** provide these guidelines to all meeting participants.
- ***Do not, without prior review by counsel,*** have discussions with other member companies about:
    - ♦ your company's prices for products, assets or services, or prices charged by your competitors
    - ♦ costs, discounts, terms of sale, profit margins or anything else that might affect those prices
    - ♦ the resale prices your customers should charge for products or assets you sell them
    - ♦ allocating markets, customers, territories products or assets with your competitors
    - ♦ limiting production
    - ♦ whether or not to deal with any other company
    - ♦ any competitively sensitive information concerning your own company or a competitor's.
- ***Do not*** stay at a meeting, or any other gathering, if those kinds of discussions are taking place.
- ***Do not*** discuss any other sensitive antitrust subjects (such as price discrimination, reciprocal dealing, or exclusive dealing agreements) without first consulting counsel.
- ***Do not*** create any documents or other records that might be misinterpreted to suggest that AGA condones or is involved in anticompetitive behavior.

We're Here to Help

Whenever you have any question about whether particular AGA activities might raise antitrust concerns, contact the General Counsel's Office, Ph: (202) 824-7072; E-mail: GCO@aga.org, or your legal counsel.

American Gas Association
Office of General Counsel
Issued: December 1997

Revised: December 2008

American Gas Association

BOARD FINANCE COMMITTEE
Monday, October 14, 2019
3:30 – 5:00 p.m.
St. Clair A
The Ritz-Carlton, Chicago
Chicago, IL

AGENDA

3:30 p.m. **Call to Order/Antitrust Compliance Guidelines & Safety Procedures Review**

Tab

1. Approval of the Minutes of the October 3, 2018 Meeting (Action) 1

2. 2020 Budget 2
    - 2020 Dues Rules (Action)
    - 2020 Budget (Action)

3. Dues Hardship Request: Memphis Light, Gas & Water (Action)........................ 3

4. Retirement Income Plan Review: Hibernation vs. Termination.......................... 4

5. Investment Manager Report 5
   Eric Klein, CFA
   Senior Investment Consultant
   Vanguard Institutional Advisory Services

6. Next Scheduled Meeting 6

5:00 p.m. **ADJOURN**

Appendix

2020 Proposed Dues Rules.. 7
2020 Capital Budget 8
AGA Financial Statements: June 30, 2019 9

Tab 1

DRAFT SUBJECT TO APPROVAL

American Gas Association
Board Finance Committee
Mayflower Hotel
Washington, DC
Sunday, October 3, 2018
Meeting Minutes

Members Present

Pierce H. Norton, II (Chair)	ONE Gas, Inc.
Kimberly Harris (Vice-Chair)	Puget Sound Energy
David H. Anderson	NW Natural
Adrian Chapman	WGL Holdings
J. Bret Lane	Southern California Gas Company
Ronald Tanski	National Fuel Gas Company
James Torgerson	AVANGRID Inc.
Charles Warrington	Clearwater Gas Systems

Guests

Eric Klein	Vanguard

AGA Staff

Megan Dunn	Dave McCurdy
Kevin Hardardt (Staff Executive)	Lori Traweek
Joe Martin	
Michael Murray	

Mr. Norton welcomed the attendees to the meeting and advised them that the meeting would be conducted in accordance with AGA antitrust compliance guidelines. He reviewed the responsibilities of the Committee and noted that were two action items to vote on which, if approved, would be presented to the AGA Board of Directors for approval.

1. **Approval of May 19, 2018 Minutes.** The minutes of the May 19, 2018 meeting were approved as distributed.

2. **27th World Gas Conference (WGC 2018) Update**. Mr. Norton briefed the committee on the results of WGC 2018, which generated a profit of $7.8 million compared to the budget of $8.7 million. This successful event raised the visibility of natural gas on a global scale. He noted a shortfall of revenue due to two reasons: 1) U.S. Government political sanctions against Russia, which had a negative impact on both registrants and exhibitors, and 2) Gastech, a competing international gas event, which in 2018 transitioned from being held every other year to every year. He added that while staff did a good job of controlling overall costs, the need for increased security requirements resulted in a $500,000 negative variance against budget.

3. **Approved 2019 Dues Formula and 2019 Budget.** Mr. Hardardt reviewed AGA's 2019 dues formula and budget. He said the budget was prepared based on guidance provided by the AGA Executive Committee as part of its effort to prioritize AGA programs and services to help ensure that resources are properly allocated. The Executive Committee was surveyed on AGA's programs and services. In general, the results showed a strong correlation between the Committee's priority rankings and AGA's current resource allocation. AGA staff used the survey results in developing the 2019 budget to reallocate or reduce expenses in the areas that were identified as least important.

   The 2019 budget projects a modest surplus of $115,000. 2019 marks begins the final year of a 4-year phase-in of new dues formula rates for AGA's largest member companies, which was approved by the AGA Board in 2015. Non-dues revenue is budgeted to increase by $1,736,000 (25.9%) due to the Operations Conference holding its biennial Exhibition in 2019. In addition, a 10% increase in meeting registration fees will be implemented in 2019 to help ensure that registration fees cover fully loaded costs.

   Expenses are budgeted to decrease by $2.5 million (6.3 percent) in 2019, after excluding the one-time expenses from the World Gas Conference. The salary budget reflects a decrease of $812,000 or 5.1%. The decrease is due to staff restructuring and retirements. Employee benefit costs will also decrease accordingly. Other significant items to note were the elimination of the Your Energy Initiative, which was budgeted for $1.5 million in 2018, and a reduction related to future engagement with the International Gas Union (IGU) now that the World Gas Conference has concluded.

   After discussion, the Committee approved a resolution to recommend to the AGA Board of Directors a 2019 dues formula for members that will remain unchanged from 2018, except that the maximum increase for AGA's smallest member companies in Blocks 1, 2 and 3 will be capped at 3.39% in 2019. For companies in Blocks 4, 5 and 6, the maximum increase will be capped at 5% in 2019.

   After discussion the Committee approved a resolution to recommend to the AGA Board of Directors a 2019 expense budget of $37,352,000.

4. **Investment Manager Report.** Mr. Klein briefed the Committee on the status of AGA's investment accounts. He made an overall observation that the global economy continues to do well, which is reflected in portfolio performance. He did note some developed economies that were slowing, including the U.K, Eurozone, China and Japan. He also noted that if the U.S. Federal Reserve continues to increase short-term rates, it is possible monetary policy would become more restrictive, increasing the probabilities of a recession. Mr. Klein reviewed the portfolios that Vanguard manages noting the following:

   - The Retirement Income Plan has 10% of the portfolio allocated to equities and the remaining 90% allocated to fixed income. This is consistent with the glide path investment strategy.
   - The Board Reserve has a 65% allocation to equities due to the longer time horizon of this portfolio. Vanguard believes that, for the long term, this is an appropriate allocation based on the objective of meeting the Board Reserve's spending obligations without taking on undue risk.

- The VEBA has a shorter time horizon than the Board Reserve and a 60% equity allocation.
- The LNG Reserve has a very short term horizon, so the assets are allocated to an ultra-short term fixed income fund.

Mr. Klein reviewed the funded status of the Retirement Income Plan noting that the Plan is currently 102% funded as of 8/31/18, with assets of $55.8 million and liabilities of $54.6 million. The liability hedging analysis was then reviewed. There was discussion regarding the appropriate next steps for the Retirement Income Plan. Mr. Hardardt suggested that options include hibernation or termination. After discussion, it was decided that staff would present an analysis on the cost of hibernation versus a potential termination of the plan at the next Finance Committee meeting.

Mr. Klein then reviewed AGA's other portfolios, noting the asset allocations and recent investment performance. He also noted the low the expense ratios in Vanguard's products.

Mr. Klein concluded his presentation with a review of AGA's defined contribution plan noting that, on average, the AGA participants in the plan displayed the following characteristics, relative to the average Vanguard plan and Vanguard plans in the same industry:

- Higher average account balances
- Higher levels of internet access
- Similar levels of equity exposure and contributions into equity investments.
- Somewhat lower usage of professionally managed allocations such as target-date funds

5. **Approval of Investment Policy Statement modifications (Action).** Mr. Hardardt reviewed some minor edits to the Investment Policy Statement, which included updating certain indexes, changing the names of funds to match changes made by Vanguard and revising the performance expectations as well as spending policy for the Board Reserve from 7.5% to 6.5% to better reflect expected future returns. The Committee approved the revised Investment Policy Statement.

Respectfully submitted,

Kevin Hardardt
Chief Financial and Administrative Officer

Tab 2

2020 BUDGET REPORT

ACTION REQUESTED: Approval of the Following Resolutions.

1) **RESOLVED THAT: RESOLVED THAT:** The Board Finance Committee recommends to the AGA Board of Directors a 2020 dues formula for members that will remain unchanged from 2019, except that the maximum increase/decrease for full and limited members in 2020 will be 3.75%. This is down from 5% in 2019 for AGA's largest member companies in Blocks 4, 5 and 6, and up from 3.39% for AGA's smallest member companies in Blocks 1, 2 and 3. The maximum increase is calculated by adding 2% to the GDP deflator. Actual increases are based on changes in each company's operating income.

2) **RESOLVED THAT:** The Board Finance Committee recommends to the AGA Board of Directors a 2020 expense budget of $37,736,000. The total expense budget represents a $384,000 or 1% increase from the 2019 budget of $37,352,000.

EXECUTIVE SUMMARY

The 2020 budget was developed consistent with guidance provided by the AGA Executive Committee. During its August meeting, the Committee agreed upon an approach recommended by staff to view AGA's budget in two-year terms, i.e. the 2019 and 2020 budget would be one cycle with the surplus in 2019 rolling over to fund priorities in 2020.

An overview of the 2019/2020 budget cycle is presented on Table 1 (page 3). We are currently forecasting a year-end 2019 surplus of $1,420,000. This positive outcome is primarily due to record profits generated by the AGA Operations Conference and Biennial Exhibition. Salary expenses for 2019 will also be under budget due to several vacancies. Based on the Executive Committee's agreement, we will utilize a portion of this surplus in 2020 to invest in advocacy initiatives to help address the significant opportunities and challenges currently facing AGA's members. These initiatives include a comprehensive analysis on the impact of natural gas in the economy, activities associated with the 2020 presidential election and an anticipated increase in the need for outside legal services in response to increasing challenges to the use of natural gas.

As shown on the AGA Reserves Analysis (page 4), the $1,420,000 surplus will be added to the Contingency Reserve in 2019 and $985,000 will be removed in 2020. This will contribute to the balanced budget for 2020 that is shown on Table 1. Budget projections for 2021 reflect a surplus of $174,000 and are included on Table 3 (page 6).

2020 Budget

Revenue

2019 marked the fourth and final year of a phased-in restructuring of the AGA dues formula which 1) revised the dues rates for AGA's largest members in dues blocks 4, 5 and 6; 2) extended the dues reduction phase-in period for companies participating in mergers and acquisitions and 3) if necessary, allowed the Board to approve the redistribution of any budget deficit to the members based on each company's share of the total dues revenue.

The significant decrease in publications/meeting revenue can be attributed primarily to the biennial Operations Exhibit, which will not be held in conjunction with the annual Operations Conference in 2020.

Expenses

Salaries & Benefits

The 2020 salary budget of $15,664,000 reflects an increase of $680,000 or 4.5% from 2019. As in the past, we have budgeted 3% for base salary increases plus an additional 1% for promotions or market adjustments. The increase in salary is due to staff salary adjustments across the Association and one addition. The staff level in 2020 will increase to 83 from 82 in 2019. We expect this level to remain steady across the forecast period of 2020 – 2021. As shown in the 2020 - 2021 budget forecast (Table 3 on page 6), the average annual salary increase over the forecast period is 4.3% and benefits are expected to decrease by 1.7%. In an attempt to control salary and benefits costs while continuing to attract, retain and reward the talent AGA needs to meet its objectives and be competitive in the Washington, DC employment market, we continue to carefully review and monitor our compensation policies and benefit programs as well as our decisions about the need and how to best fill positions.

The 2020 benefits budget of $5,756,000 million reflects a decrease of $317,000 or 5.2% from the 2019 budget. This decrease is largely attributable to the favorable renewal negotiated for our group medical plan.

Programs

The 2020 program budget reflects an overall decrease of $197,000 or 1.4%. Table 2 on page 5 provides a summary of the proposed 2020 expense budget by group. Detailed descriptions of significant budget changes are discussed in the overview for each group beginning on page 7.

TABLE 1
COMPARISON OF 2020 AND 2019 BUDGET AND FORECAST
BY COMPONENT
($000s omitted)

	2020 Budget	2019 Budget	2019 Forecast	2020 Budget vs. 2019 Budget Increase/ (Decrease) Dollars	Percent
REVENUE					
Dues	$28,022	$27,382	$27,672	$640	2.3%
Publications and Meetings	6,342	7,715	8,253	(1,373)	(17.8%)
Investment Income	332	359	332	(27)	(7.5%)
Board Reserve Contribution	831	890	890	(59)	(6.6%)
Renovation Allocation	299	299	299	0	0.0%
LNG 17 Reserve Contribution	301	101	0	200	198.8%
Contingency Reserve Contribution	985	0	0	985	0.0%
Miscellaneous	624	722	635	(98)	(13.5%)
Total Revenue	37,736	37,468	38,081	268	0.7%
EXPENSES					
Salaries	15,664	14,984	14,320	680	4.5%
Employee Benefits	5,756	6,073	5,608	(317)	(5.2%)
Programs	14,938	15,135	15,391	(197)	(1.4%)
General and Administration	1,378	1,160	1,342	218	19.9%
Total Expenses	37,736	37,352	36,661	384	1.0%
Budget Surplus / (Deficit)	$0	$116	$1,420	($116)	(100.0%)

American Gas Association
Reserve Analysis

Total Reserves at 9/30/19: $26,214,418

1. **Contingency Reserve at 9/30/2019:**

Contingency Reserve at 9/30/2019:	**$10,241,726**
2019 Forecasted Addition:	1,420,000
2020 Budgeted Reduction:	(985,000)
Projected Contingency Reserve at 12/31/2020:	$10,676,726
	==========

The objective of the Contingency Reserve is to cover 6 months of salaries, benefits and general and administrative expenses for use in the examples described below. This Reserve contains essentially enough funds to meet its objective. Examples of the use of the Contingency Reserve might include:

a. Unplanned Major Expense – AGA would need an uncommitted reserve to fund the new activity, such as the Your Energy Campaign.
b. Precipitous Income Decline – AGA would need an uncommitted reserve to carry the Association initially. Staffing requirements and program obligations would be reviewed.
c. Dissolution – Liabilities of the Association would have to be funded with appropriate staff and wind-up expenses.

2. **Board Reserve at 9/30/2019**: **$15,668,592**

The Board Reserve was created with the proceeds from the transfer of AGA's interest in International Approval Services (IAS) and the AGA Laboratory. In creating this Board Reserve, the AGA Board recognized certain liabilities that were assumed by AGA as part of the IAS transaction. The AGA Board also recognized that a portion of the investment income from the Board Reserve could be utilized to contribute to the ongoing operations of AGA. This contribution from the Board Reserve plays an important role in helping AGA serve the needs of its member companies.

3. **LNG 17 Reserve at 9/30/2019**: **$304,100**

The LNG 17 Reserve was created in 2014 using a portion of the proceeds from LNG 17 to help fund high priority member services. These funds will be depleted by 12/31/2020.

Note – The guidelines for the investment of funds associated with each of the Reserves listed above, and all of AGA's funds, are governed by AGA's Investment Policy Statement. Because it makes a significant contribution to the ongoing operations of AGA, the Board Reserve is managed on a total return basis. The objective is to maximize returns without exposure to undue risk. The current asset allocation is 55% equities, 35% fixed income and 10% REITs. The assets contained in the Contingency and LNG 17 Reserves are invested with an objective of capital preservation. The funds are invested in short-term fixed income securities and the investment returns have not been significant.

TABLE 2
COMPARISON OF 2020 AND 2019 BUDGET AND FORECAST
BY GROUP
($000s omitted)

	2020 Budget	2019 Budget	2019 Forecast	2020 Budget vs. 2019 Budget Increase/ (Decrease) Dollars	Percent
REVENUE					
Dues	$28,022	$27,382	$27,672	$640	2.3%
Publications and Meetings	6,342	7,715	8,253	(1,373)	(17.8%)
Investment Income	332	359	332	(27)	(7.5%)
Board Reserve Contribution	831	890	890	(59)	(6.6%)
Renovation Allocation	299	299	299	0	0.0%
LNG 17 Reserve Contribution	301	101	0	200	198.8%
Contingency Reserve Contribution	985	0	0	985	0.0%
Miscellaneous	624	722	635	(98)	(13.5%)
Total Revenue	37,736	37,468	38,081	268	0.7%
EXPENSES					
Operations & Engineering	7,670	8,304	8,239	(634)	(7.6%)
Governmental Affairs & Public Policy	4,772	4,381	4,212	391	8.9%
Energy Markets, Analysis & Standards	4,867	4,555	4,487	313	6.9%
Communications	3,112	3,545	3,552	(433)	(12.2%)
Corporate Affairs & International	4,803	4,495	4,650	309	6.9%
General Counsel & Regulatory Affairs	2,718	2,608	2,616	110	4.2%
Industry Finance & Administration	1,346	1,167	1,191	179	15.3%
General & Administration	8,448	8,297	7,714	151	1.8%
Total Expenses	37,736	37,352	36,661	384	1.0%
Budegt Surplus / (Deficit)	$0	$116	$1,420	($116)	(100.0%)

TABLE 3
BUDGET FORECAST FOR THE YEARS 2019 THROUGH 2021
BY COMPONENT
($000S omitted)

	2019 Forecast	2019 Budget	2020 Budget	2021 Forecast	2019 - 2021 Average Annual Increase / (Decrease) Dollars	Percent
REVENUE						
Dues	$27,672	$27,382	$28,022	$28,541	$579	2.1%
Publications and Meetings	8,253	7,715	6,342	7,894	90	3.3%
Investment Income	332	359	332	360	1	0.5%
Board Reserve Contribution	890	890	831	1,000	55	6.9%
Renovation Allocation	299	299	299	299	0	0.0%
LNG 17 Reserve Contribution	0	101	301	0	(51)	-49.0%
Contingency Reserve Contribution	0	0	985	0	0	0.0%
Miscellaneous	635	722	624	624	(49)	-6.8%
Total Revenue	38,081	37,468	37,736	38,718	625	1.7%
EXPENSES						
Salaries	14,320	14,984	15,664	16,291	653	4.3%
Employee Benefits	5,608	6,073	5,756	5,859	(107)	-1.7%
Programs	15,391	15,135	14,938	14,975	(80)	-0.5%
General and Administration	1,342	1,160	1,378	1,419	130	10.9%
Total Expenses	36,661	37,352	37,736	38,544	596	1.6%
Budget Surplus / (Deficit)	$1,420	$116	$0	$174	$29	0.1%

OPERATIONS & ENGINEERING

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Percent
Revenue	$3,747		$0		$3,747		$4,736	($989)	-21%
Expenses	$4,267		$3,402		$7,669		$8,304	($635)	-8%
Net Funding	$520		$3,402		$3,922		$3,568	$354	10%

The activities of the Operations and Engineering group are conducted under the direction of the Operations Section Managing Committee, the Operating Section Executive Committee, as well as the 18 technical and advocacy committees. Through the Operations Safety Regulatory Action Committee, the Environmental Regulatory Action Committee, and Natural Gas Security Committee (which includes the Cybersecurity Strategy Task Force), this section works to successfully advocate the positions of natural gas utilities in response to proposed legislation and regulations by DOT, EPA, DHS, and DOE as well as directives from the Administration.

The significant decrease in projected revenue in the 2020 budget can be attributed primarily to the biennial Operations Exhibit, which will not be held in conjunction with the annual Operations Conference in 2020. The revenue for the 2020 Operations Conference is budgeted at $1,780,000, which represents a decrease of $1,005,000 from 2019. Conference expenses will also decrease accordingly by $764,000 from 2019.

The 2020 budget includes funding for AGA's Peer Review Program, which provides operational reviews of AGA's full and limited member companies in the U.S. and Canada. The program identifies practices with the potential to enhance safety performance and reduce risks.

The 2020 budget includes funding for the Downstream Natural Gas Information Sharing and Analysis Center (DNG ISAC). The DNG ISAC is designed to facilitate information sharing and provide participants access to timely cyber and physical security threat intelligence for gas operations and enterprise systems. The DNG ISAC also receives funding from the Interstate Natural Gas Association of America and the Canadian Gas Association.

The 2020 budget includes funding for Safety Leadership Initiatives, such as the Safety Summit, Operations Best Practices Program, and employee and vehicular safety statistics and awards. Also included is funding for cyber and physical security. These initiatives will be addressed along with the other DOT, EPA, DHS, DOE, and membership priority issues from both an advocacy and implementation-education standpoint. We anticipate continued significant advocacy and membership education efforts, which will entail travel to National Association of Pipeline Safety Representative meetings, National Association of Regulatory Utility Commissioners conferences, regional gas association events, government workshops, the Pipeline Safety Trust conference, etc. Technical analysis will be performed and publications will be developed to support our advocacy and education efforts.

The 2020 budget includes revenue from the sale of technical publications. Royalty revenue from publications sales is budgeted for $660,000 in 2020, which represents a decrease of $68,000 from 2019.

In a continued effort to control costs, the Operations & Engineering team is minimizing the use of external contractors to assist with initiatives, looking closely at the cities in which events are held to minimize rooming and food & beverage expenses, and continues to seek additional sources of non-dues revenue.

GOVERNMENTAL AFFAIRS AND PUBLIC POLICY

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Percent
Revenue	$225		$0		$225		$233	($8)	-3%
Expenses	$2,678		$2,094		$4,772		$4,381	$391	9%
Net Funding	$2,453		$2,094		$4,547		$4,148	$399	10%

The Governmental Affairs and Public Policy (GAPP) Group performs the functions of formulating and implementing AGA's legislative strategies to accomplish the advocacy priorities biennially identified by the membership and approved by the AGA Board of Directors. Utilizing 2019-2020 advocacy priorities approved by the AGA Board of Directors, the focus will continue to be on pipeline safety, cybersecurity, natural gas transportation, dividend taxes, LIHEAP funding, access to supply, and overall energy policy. In addition to advocating specific issues, this group will continue to educate the Executive branch of government, Members of Congress, Congressional staff, legislators and regulators and their staff, opinion leaders, and the media regarding the environmental and economic benefits of the increased direct use of natural gas.

The department also works to promote each of AGA's advocacy priorities among state policymakers including, but not limited to, governors, attorneys general, state legislators, state energy officials, and public utility commissioners. In particular, the department has continued to advocate for policies to help secure accelerated pipeline safety, integrity, and replacement, as well as pipeline expansion, through innovative approaches at the state level. This includes working with NARUC to establish the Natural Gas Access and Expansion Task Force which is charged with developing best practices and recommendations regarding natural gas service for underserved and unserved areas of the country. In addition, State Affairs continues to work with state legislative organizations such as the National Conference of State Legislatures (NCSL), Council of State Governments (CSG), American Legislative Exchange Council (ALEC), Legislative Energy Horizon Institute (LEHI), and GOPAC on education and outreach opportunities. GAPP staff has had an increasing role in engaging with municipal bans on natural gas in new buildings and we see this role continuing and expanding in 2020.

The 2020 GAPP budget includes $325,000 in funding to secure consultants with the capability to advance AGA's advocacy priorities with key public policy-makers in support of LIHEAP, environmental, and tax initiatives, as well as other legislative issues.

The 2020 GAPP budget continues funding to maintain key relationships with national Democratic and Republican constituencies as well as funding to broad-based coalitions and charitable organizations which support the natural gas industry to achieve membership advocacy priorities. Issues supported by these coalitions and organizations include LIHEAP funding, cybersecurity, protecting the low dividend tax rate, formulating national energy policy legislation, and increasing domestic gas supply. Spending for this program is budgeted for $252,000 in 2020.

The 2020 GAPP budget provides continued funding of $359,000 for NARUC, state rate programs and state legislative and regulatory activities. The budget includes funding for AGA and NCSL to host the Legislative Energy Horizon Institute, an intensive course for up and coming legislators who are energy leaders in their respective states. The 2019 course was attended by over 50 legislators. Additionally, GAPP will continue to work with these groups and similar organizations to coordinate various panels and presentations at their meetings to highlight AGA's priorities.

The overall budget increase of $391,000 is primarily due to the addition of $300,000 for AGA's participation in 2020 presidential election activities.

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Percent
Revenue	$470		$0		$470		$445	$25	6%
Expenses	$2,186		$2,681		$4,867		$4,555	$312	7%
Net Funding	$1,716		$2,681		$4,397		$4,110	$287	7%

Energy Markets provides insight and analysis on emerging government policies and actions that have the potential of impacting natural gas distribution companies and their customers. Staff in this department are tasked with building relationships with key stakeholder groups, federal agencies and policy influencers to enable AGA and its members to be part of energy policy discussions which contributes to AGA's policy development process. The 2020 budget for Energy Markets includes funding for external resources utilized to help evaluate trends that shape the expectations of energy consumers, engaging key stakeholders and policymakers and the development of studies and joint initiatives that support advancing the industry's advocacy priorities relating to the role of natural gas in a sustainable energy future. The budget also includes funding for planning and executing meetings of the Natural Gas Direct-Use Technology Development Workshop and the Sustainable Growth Committee.

Energy Analysis provides analytical and management support to key areas of focus, including natural gas market fundamentals, local gas utility operations, and financial performance, general industry data, regulatory influences, critical gas supply/demand developments, winter heating season planning, energy efficiency, greenhouse gas emissions, and other environmental issues. This budget includes funding for the analysis and dissemination of industry information and data, with a focus on studies that provide member companies with information to benchmark their commercial and operational performance, as well as their regulatory obligations. This includes, for example, the collection and compilation of financial and operational performance data that provides a report for participating members to compare their performance with industry averages.

In addition, the Energy Analysis budget provides funding for the AGA Statistics and Survey System program, which collects and disseminates operational and financial information collected from AGA member companies. This database allows for the processing and aggregation of data that can be compiled and disseminated on subjects as diverse as industrial energy efficiency programs and winter heating season planning to the Plastic Pipe Data Initiative and best practices surveys by the Operating and Engineering Section.

The 2020 budget includes support agreements associated with software applications that provide a complete in-house system for baseline economic modeling (REMI) and analysis of the natural gas industry and the broader economy. These tools are designed to determine economic impacts, natural gas demand implications, externality influences (such as greenhouse gas emissions), employment impacts, tax influences, and other key metrics, particularly as they are influenced by natural gas-related infrastructure and demand opportunity growth. The budget also includes outside presentation funding for Energy Analysis staff within the context of providing association spokespersons regarding any of the aforementioned critical areas.

Codes & Standards is the association's resource that often flags issues and rule-makings that could impact natural gas LDC's, then helps to draft comments and replies to government and regulatory entities as notices of proposed rulemakings are published. The primary goal of Codes & Standards is to retain the option of placing a natural gas appliance in homes and businesses. AGA's Codes & Standards group is actively engaged in domestic and international codes development and retains a place in the international community on questions of gas quality and the progress of liquefied natural gas issues. Royalties from international and other codes publications generally provide more than $400,000 in income annually to AGA as a result of that engagement. Codes & Standards is aided by the AGA member-supported Building Energy Codes and Standards Committee (BECS).

The total proposed 2020 expense budget for Energy Markets, Analysis and Standards is $4,867,000 representing an increase of $312,000 compared to the 2019 budget. The increase is mostly attributable to a comprehensive analysis of the impacts of natural gas on the economy.

COMMUNICATIONS

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Percent
Revenue	$73		$0		$73		$521	($448)	-86%
Expenses	$1,915		$1,197		$3,112		$3,545	($433)	-12%
Net Funding	$1,842		$1,197		$3,039		$3,024	$15	0%

The AGA Communications department supports the advocacy goals of the Association and its members through communicating key messages and data with key audiences, emphasizing the role of natural gas as the clean and reliable foundation fuel for America's economy, energy and national security, and as a clean, reliable choice for consumers. We work to educate and influence targeted media outlets and key influencers about natural gas as a vital and sustainable energy source.

The department works across the organization to track federal and state issues, and we work with reporters and media outlets to position the association and industry positively in the media. This "earned" media outreach is ongoing: building relationships with reporters, pitching them story ideas and responding to their inquiries. We track what is happening with AGA and the industry, and work with reporters to drive relevant coverage and key messages and insert the natural gas utility perspective as appropriate.

Additionally, the Communications department leads the branding and advertising campaigns targeted at key audiences in Washington, DC, with the goal of reaching key influencers and decision-makers in the federal arena, and in local areas as needed, to build industry awareness that will help when AGA member companies are working with these policymakers on local issues.

The significant budget decrease from 2019 to 2020 is due to the cessation of two long-time programs: the American Gas Magazine and AGA's participation in the International Builders' Show. The decision to end these programs in 2020 was made as part of the Executive Committee's prioritization of AGA's activities in 2018.

CORPORATE AFFAIRS & INTERNATIONAL ACTIVITIES

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Increase/(Decrease) Percent
Revenue	$1,309		$0		$1,309		$1,428	($119)	-8%
Expenses	$1,938		$2,865		$4,803		$4,495	$308	7%
Net Funding	$629		$2,865		$3,494		$3,067	$427	14%

This grouping includes the activities of Corporate Affairs and International Activities.

The 2020 **Corporate Affairs** budget includes funding to provide opportunities for interaction between AGA member companies and all segments of the financial community. The focus of this initiative is to promote interest in the investment opportunities in the industry. This section includes funding for member outreach, NARUC financial outreach, and activities of the meeting services department. Funding for support of the Chair, the Board of Directors, and the Leadership Council is also included in the Corporate Affairs budget.

This 2020 budget includes program revenue of $400,000 for fees that AGA receives for calculating the AGA stock index fund in support of the Hennessy Gas Utility Fund (GASFX). This revenue is projected to decrease modestly by $147,000 in 2020 based on a decrease in the asset base from the 2019 level.

The 2020 **International Activities** budget includes continued funding for AGA's engagement with international members and the International Gas Union (IGU) now that we are in the official role of past president and still serve as the U.S. representative for the IGU.

The 2020 budget includes a new program: Natural Gas for Electric Executives. This will help educate member company executives who are new to the gas side of the business.

OFFICE OF GENERAL COUNSEL & REGULATORY AFFAIRS

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Increase/(Decrease) Percent
Revenue	$198		$0		$198		$206	($8)	-4%
Expenses	$1,049		$1,669		$2,718		$2,608	$110	4%
Net Funding	$851		$1,669		$2,520		$2,402	$118	5%

The Office of General Counsel's (OGC) budget includes: funding for activities helping to increase safety and protect the natural gas industry from adverse federal regulations; costs associated with amicus curiae and other briefs filed by AGA related to LDC industry-wide issues in the U.S. Supreme Court and federal appellate courts; legal compliance programs; and other legal matters and activities at the direction of the AGA Board, AGA Legal Committee, the General Counsel and the CEO.

Revenue in the 2020 OGC budget consists primarily of meeting registration fees, sales of publications (such as the FERC Compliance Manual) and industry funding for AGA's participation in environmental studies.

The 2020 budget includes the cost of legal fees and expenses for outside law firms that provide legal services to AGA on industry issues as well as Association issues such as antitrust, ERISA, trademarks, employment, and non-industry liability.

Other components of the OGC support AGA's advocacy efforts on behalf of LDCs and their customers before a variety of Federal agencies, including the Federal Energy Regulatory Commission, the Commodity Futures Trading Commission, the U.S. Department of Transportation and the U.S. Department of Energy. The 2020 budget includes funding for the FERC Regulatory Committee supporting member advocacy priorities before FERC and the CFTC, advocacy efforts before DOE and FTC regarding minimum efficiency standards and labels associated with natural gas appliances, advocacy efforts before the North American Energy Standards Board in developing business practice standards, and collaborative efforts with the Natural Gas Council and other associations.

The budget also includes funding to address environmental issues, including funding to cover assistance from outside counsel and technical consultants in 2020. This funding covers continued negotiations and monitoring of pending challenges to regulations under the Clean Air Act, and regulations mandating greenhouse gas reporting for natural gas transmission, storage, LNG facilities and distribution. This budget would also include possible representation from outside counsel through a multi-industry coalition to support streamlined nationwide wetlands permitting for natural gas infrastructure projects. The program also includes funding for technical environmental engineering consultants to assist with advocacy on natural gas emissions issues, the EPA greenhouse gas reporting rules, EPA's Greenhouse Gas Emissions Inventory, and EPA's plans to revise the PCB rules. In addition, the program includes funding for projects to collect methane emissions data for natural gas distribution equipment.

The 2020 budget increase of $110,000 is primarily due to an anticipated increase of $152,000 in using outside legal services. Use of outside counsel may increase as AGA and members determine how and when to best respond to increasing federal, state and municipal challenges to infrastructure development and the use of natural gas. In addition, the need for this increase is contingent on several significant rulemakings being finalized at the Department of Energy and the Department of Transportation's Pipeline and Hazardous Materials Safety Administration. If adverse to the natural gas utility industry, AGA may need to challenge the final rules; if favorable and others challenge the final rules, AGA may need to intervene in the litigation.

INDUSTRY FINANCE & ADMINISTRATION PROGRAMS

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Percent
Revenue	$814		$0		$814		$739	$75	10%
Expenses	$906		$441		$1,347		$1,168	$179	15%
Net Funding	$92		$441		$533		$429	$104	24%

This grouping includes funding for a wide range of member services in such areas as industry accounting, taxation, internal audit, risk management, human resources, compensation, labor relations, customer activities, and information technology programs. A number of these programs, including several committees, are performed jointly with EEI. Through the Accounting Advisory Council, this section also supports advocacy efforts on behalf of the membership with the FASB, IASB, IRS, NARUC, SEC, PCAOB and the Treasury Department.

These programs are administered by a number of Finance & Administration staff members who perform dual roles in providing direct member services, as well as internal support functions.

The Industry Finance and Administration (F&A) Programs section strives to provide relevant and timely training opportunities for our members. Some of the topics addressed during the 2019 training classes and workshops included accounting for leases, public utility accounting, internal auditing, accounting leadership, property depreciation, uncollectible revenue, FERC accounting issues and accounting for energy derivatives. In addition, both the Human Resources and the IT group staff members provide support for various employee workforce, educational, and benchmarking activities.

The primary reason for the variances of the revenue and expenses is that the AGA/EEI Public Utility Accounting Training Course and Utility Internal Auditor's Training Course will be administered by AGA in 2020, resulting in increases to both revenue and expenses in the 2020 budget. This is partially offset by the decision not to hold the Executive Leadership Development program in 2020. AGA will host this event every other year in the future.

GENERAL & ADMINISTRATION

2020 Budget Compared to 2019 Budget
($000s omitted)

	2020 Program Budget	+	2020 S & B Budget	=	2020 Total Budget	vs.	2019 Total Budget	Increase/(Decrease) Dollars	Increase/(Decrease) Percent
Revenue	$430		$0		$430		$428	$2	0%
Expenses	$1,378		$7,070		$8,448		$8,297	$151	2%
Net Funding	$948		$7,070		$8,018		$7,869	$149	2%

The General & Administration budget includes funding for the activities of the President's Office, Finance and Administration (F&A), and Human Resources (HR).

The 2020 budget includes rent from the affiliated organizations (Energy Solutions Center and NGVAmerica which share space with AGA). AGA is budgeting to receive reimbursement from affiliated organizations of $151,000 in 2020.

The 2020 budget includes a management fee from the American Gas Foundation (AGF) for payment of administrative support that AGA provides to AGF. Revenue is budgeted at $100,000 in 2020.

Tab 3

Finance Committee
American Gas Association
October 14, 2019

Dues Hardship Request
Memphis Light, Gas & Water

ACTION REQUESTED:

Memphis Light, Gas & Water (MLGW) has requested a dues exception based on financial hardship. They are a long-time, active member of AGA. Under certain circumstances, it has been AGA's practice to allow companies that are experiencing temporary financial difficulties to pay a reduced level of dues while remaining full members of the Association. These dues exceptions must be approved by the Board Finance Committee. AGA staff recommends approval of MLGW's hardship request, and Committee Chair Pierce Norton supports that recommendation.

Background

MLGW's formula dues amount for 2019 are $59,600. Initially, MLGW had notified AGA that they were considering dropping their membership due to budget constraints. After explaining the financial hardship process to them, they have instead proposed paying $25,000 in 2019. The company's financial results have been poor for the last several years. As shown on their 2019 AGA dues statement on the following page, average operating income for the 2015 - 2017 period was a loss of $5.9 million, with combined losses of $24.4 million in 2016 and 2017. No other gas utility member of AGA had losses as great in 2016 and 2017. According to the company, these negative results are tied to the disapproval of proposed gas rate increases. This has led to cost reductions, which has impacted the AGA dues. Our plan is to phase MLGW back to their full dues amount over a three- year period beginning in 2020.

Dues Hardship Process

AGA has a dues hardship process, which allows companies that are experiencing temporary financial difficulties to pay a reduced level of dues while remaining full members of the Association. To request a dues hardship, the company must make a written request, which details the nature of the financial difficulties facing the company. The company should indicate how much dues they are able to pay during the hardship period. This amount varies according to each situation. If possible, the company should indicate how long they expect to be in hardship status. Finally, the company must commit to returning to full dues-paying status when their financial condition improves. Hardship requests are submitted for approval to the Board Finance Committee, which is responsible for the financial oversight of AGA. October 23, 2008.

AGA
American Gas Association

Post Office Box 79226
Baltimore, Maryland 21279-0226
Telephone (202)824-7256
Fax (202)824-9156/ Email: jpierce@aga.org

Memphis Light, Gas & Water Division

2019 DUES

Year ending December 31, 2019

Full Member Company X   Limited Member Company ____

A.G.A. Dues Rules are attached. Dues are based upon the following operating income information ($000):

2015 6,598   2016 (13,786)   2017 (10,582)   Average (5,923)

YOUR 2018 DUES WERE .... $ 59,600

YOUR 2019 DUES ARE .... $ 59,600

2019 Payment Schedule

____________ Full amount enclosed   ____________ Semi-annually (Jan.1, July 1)

____________ Quarterly (Jan.1, Apr.1, July 1, Oct.1)   ____________ Other (Please state)

Please return this completed form to the A.G.A. Treasurer at the above address. Payments may also be directed to the address noted above.

Invoice to: ....   Approved: ....

....   Title ....

....   Date: ....

....

Phone: ( ).............. - ....   Fax ( ) .... - ....

IMPORTANT IRS REQUIRED NOTICE

Dues payments, contributions or gifts to the American Gas Association are not tax deductible as charitable contributions for federal income tax purposes. However, they may be deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of AGA's lobbying activities as defined by the Budget Reconciliation Act of 1993. AGA estimates that the nondeductible portion of your 2019 dues -- **the portion that is allocable to lobbying is 3.5%.**

Included with membership is a one-year subscription to ***American Gas***, the subscription rate for which is $59.00 per year for U.S. and Canadian subscribers and $110.00 per year for international subscribers and is not deductible from member dues.

Tab 4

Prepared for

American Gas Association
Board Finance Committee Meeting

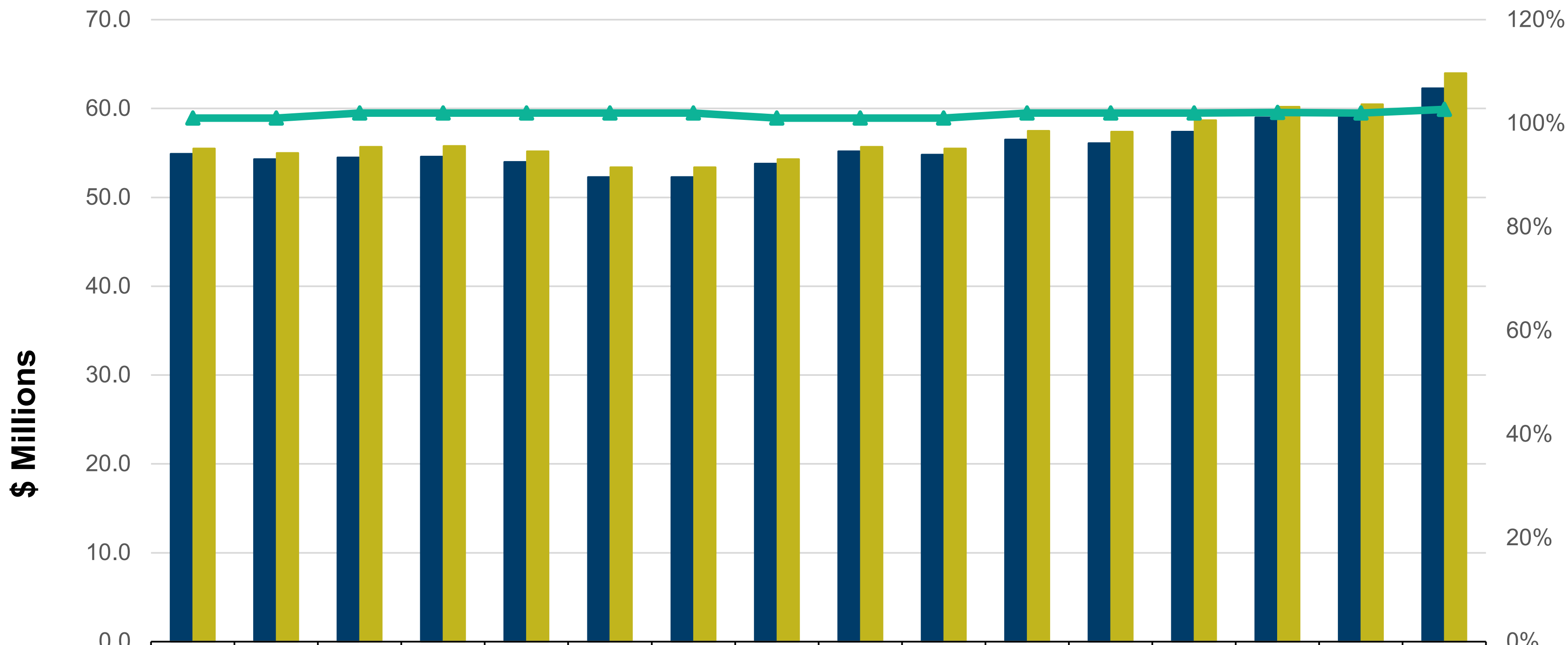
Retirement Income Plan Review
October 14, 2019

Vanguard

Retirement Income Plan review

Funded status monitor
AGA Retirement Income Plan

As of September 18, 2019:	
Assets	$61,714,102
Liabilities	$60,427,786
Funded status	102.1%



	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Liability ($)	54.9	54.3	54.5	54.6	54.0	52.3	52.3	53.8	55.2	54.8	56.5	56.1	57.4	59.0	59.3	62.3
Assets ($)	55.5	55.0	55.7	55.8	55.2	53.4	53.4	54.3	55.7	55.5	57.5	57.4	58.7	60.2	60.5	64.0
Funded Status	101%	101%	102%	102%	102%	102%	102%	101%	101%	101%	102%	102%	102%	102%	102%	103%
Discount Rate	3.89%	3.97%	3.94%	3.91%	4.00%	4.26%	4.26%	4.02%	3.84%	3.91%	3.64%	3.69%	3.49%	3.27%	3.21%	2.82%
Contributions			0.25			0.25										

Retirement Income Plan Summary

- Closed plan to new entrants on 12/31/2009
- Benefit accruals were frozen on 12/31/2016
- The plan currently has 201 participants
- The current objective is to maintain a 100% funded status
- At 100% to 109% funded, 10% equities provides the opportunity to keep pace with the liability as it accrues interest. The liability accrues interest without costs or downgrade risks—unlike a bond portfolio

Investment policy statement glidepath

	<90%	90-94%	95%-99%	100-109% (Current)
Equity	45%	35%	20%	10%
Long-Term Investment Grade Credit Bonds	30%	40%	40%	70%
Long-Term Gov't/Credit Bonds	25%	25%	40%	--
Intermediate-Term Gov't/Credit Bonds	--	--	--	10%
Long-Term US Treasury Bonds	--	--	--	10%

Plan termination vs. hibernation analysis

To terminate or not to terminate

In order to terminate a defined benefit pension plan, the Plan must have sufficient funds to distribute all benefits to participants and follow the required regulatory processes. However, there are many things to consider before committing to terminate a pension plan.

Some reasons **to** terminate include:

- Remove the pension liability from your books
- Eliminate the administrative burden for staff and committees
- Eliminate future administrative costs, including actuarial and PBGC premiums
- Pension plans face additional risks, which could result in a higher cost to terminate the plan in the future, such as:
  - Assumptions Risks (mortality table changes, interest rate fluctuations, etc.)
  - Investment Risks
  - Longevity Risks

Some reasons **not to** terminate include:

- Administrative Burden to terminate
- Cost, cost, cost
  - The current interest rate environment is low, creating higher required cash contributions to fully fund the plan.
  - While interest rates fluctuate, the insurance annuity market has remained low, resulting in expensive annuity purchases.
  - The cost could be higher than estimated if many actives and former members opt for an annuity as opposed to a lump sum payment.
- Accounting Implications
  - Settlement of balance sheet items could result in a settlement loss
- Alternatively, pension plan risks could result in reduced or $0 costs in the future:
  - If interest rates rise, the costs to terminate at a future date could be much less.

Source: Conrad Siegel

Comparing the cost of hibernation vs the cost of immediate termination

- **Assuming current plan funding levels, how does the cost of terminating the plan today compare with the cost of maintaining the plan for 5 years and then terminating?**
- **Key considerations and challenges with the analysis:**
  - Very sensitive to the cost of purchasing an annuity – unknown cost, which could go up or down
  - Sensitive to future interest rates levels; costs of termination will decrease if interest rates rise from their current low levels (all else equal)
  - Difficult to accurately project future plan asset and liability levels
  - Sensitive to *return on assets* over the hibernation period
  - Sensitive to annual expenses incurred by the Plan

Retirement Income Plan analysis

Plan information

Analysis date	09/18/2019
Discount rate	3.05%
Liability value	$60.5 million*
Market value of assets	$61.7 million
Surplus	$1.2 million

Estimated plan termination and hibernation results

Lump sum election rate			Termination Liability value	Asset value	Deficit (termination cost)	5-year hibernation / termination cost
Active	TV	Retiree				
0%	0%	0%	$71,478,000	$61,714,000	$9,764,000	$8,231,000
50%	50%	0%	$67,277,000	$61,714,000	$5,563,000	$5,000,000
70%	70%	0%	$65,596,000	$61,714,000	$3,882,000	$3,707,000
90%	90%	0%	$63,916,000	$61,714,000	$2,202,000	$2,414,000

* Using plan termination cash flows as described on the following page

Retirement Income Plan analysis

Key assumptions and methodology:

- The PBO annuity cash flows included the value of the plan's defined early retirement provisions.
- Lump sum payments were assumed to equal the PBO liability
- Annuitization premium for participants: 125% for actives, 120% for terminated / vested, 110% for retired participants. The premiums are projected to decrease by 0.5% per year during the 5-year analysis.
- The hibernation cost is the projected cost of terminating the plan in 5 years on a present value basis, using the current discount rate and includes:
  - Annual plan expenses (PBGC premiums, general plan expenses, and assumed additional liability loss of 0.5% per year)
  - The termination premium in 5 years
  - A credit for current plan surplus, which is assumed to remain level
- Relatively few plans (28%) have included a lump sum option for retirees when terminating, based on the recent experience of clients of the plan actuary*

* Source: Conrad Siegel. 7 out of 25 plans over the past 6 years have included a lump sum option for retirees.

De-risking considerations prior to a full plan termination

Retiree annuity buyout:

- Due to limited capacity and many firms exploring annuitization and/or plan termination, the annuity market is generally tilted in favor of insurance companies. Insurance companies often have the ability to choose their deals based on their books of business and type of liabilities being offered.
- Insurers prefer to annuitize retired participants (over terminated or active participants) because retired participants are easier to value and have less risk (i.e. known benefit amount, known form of payment, known annuity starting date, etc.). Insurers often do not engage in deals for only terminated vested or active participants because of the uncertainty and additional administrative costs.
- A partial retiree annuity purchase today might be counterproductive to a near-term plan termination project. Insurance firms will likely bid aggressively for the retired lives, leaving the plan with only active and terminated participants. It could be the case that insurance companies would not want to bid on the final plan termination that includes only active and terminated vested participants or would do so with a very high premium. It might be more likely that insurance companies would be willing to accept the active and terminated vested participants if they came with the retiree lives in a single annuity purchase.

De-risking considerations prior to a full plan termination (continued)

Lump sums for retirees:

- Earlier this year, there was an IRS decision to allow retirees to be offered lump sums not in conjunction with a plan termination. While interesting, the smaller savings on retiree lump sums (versus deferred lump sums) combined with the potential for unfavorable pricing on the plan termination annuity purchase makes it less clear whether this option would lead to overall cost savings.

Additional lump sum offer to terminated vested participants:

- An additional lump sum offer to terminated vested participants might be helpful if there would be considerable acceptance among that group of participants. This is an option to consider if the plan isn't going to be terminated in the near term.

Tab 5

Prepared for

American Gas Association
Board Finance Committee Meeting

October 14, 2019

Vanguard®

Agenda

I. Economic and market outlook

II. Portfolio summary

III. Portfolio performance and expenses

IV. DC plan review
– State of the plan

Presented by:

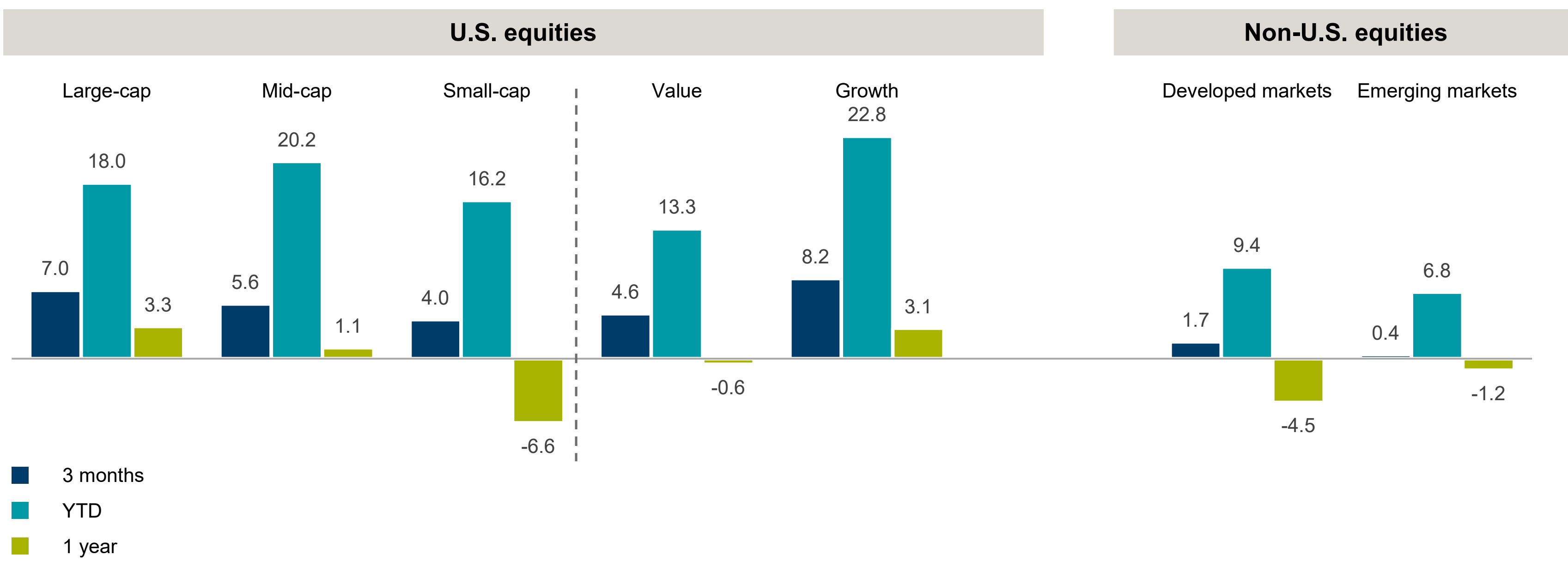
Eric Klein, CFA, CFP®
Senior Investment Consultant
Vanguard Institutional Advisory Services®

Economic and market outlook

Stocks across styles maintained their trend upward

- Large, mid, and small-cap U.S. stocks posted negative returns for August
- U.S. growth continue to outperform value stocks, extending growth's recent run of higher returns
- Non-U.S. stocks lagged domestic equities, with developed markets struggling on economic concerns

Global equity market returns as of August 31, 2019 (%)



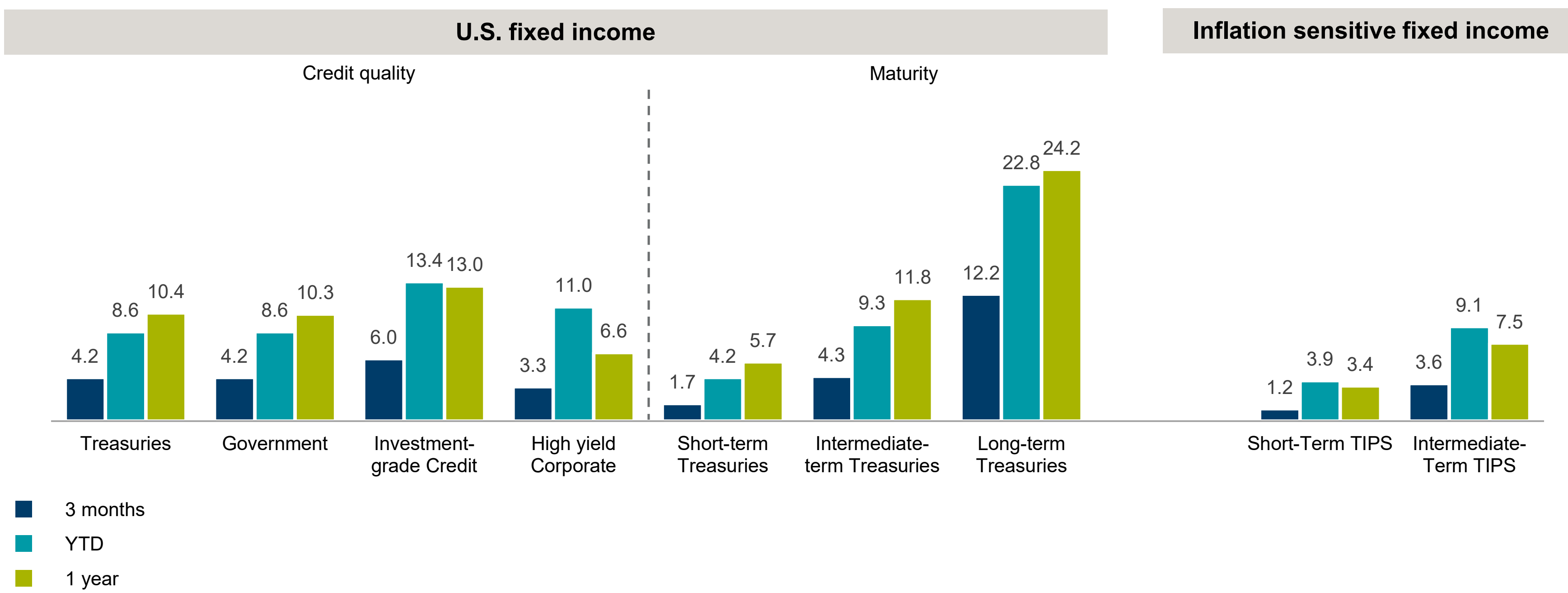
Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Sources: CRSP, FTSE, and Russell.
Large-cap (CRSP U.S. Mega Cap Index), Mid-cap (CRSP U.S. Mid Cap Index), Small-cap (CRSP U.S. Small Cap Index); Value (Russell 3000 Value Index), Growth (Russell 3000 Growth Index); Developed markets (FTSE Developed All Cap ex-U.S. Index), Emerging markets (FTSE Emerging Markets All Cap China A Inclusion Index).

Bonds extend positive results amid tame inflation

- Bond performance has been strong as interest rates fell across the yield curve and the bond market began to price in rate cuts from central banks
- Credit spreads have narrowed, bolstering investment grade credit performance
- Long-term treasuries have had strong performance given muted economic growth and inflation expectations

Domestic fixed income market returns as of August 31, 2019 (%)

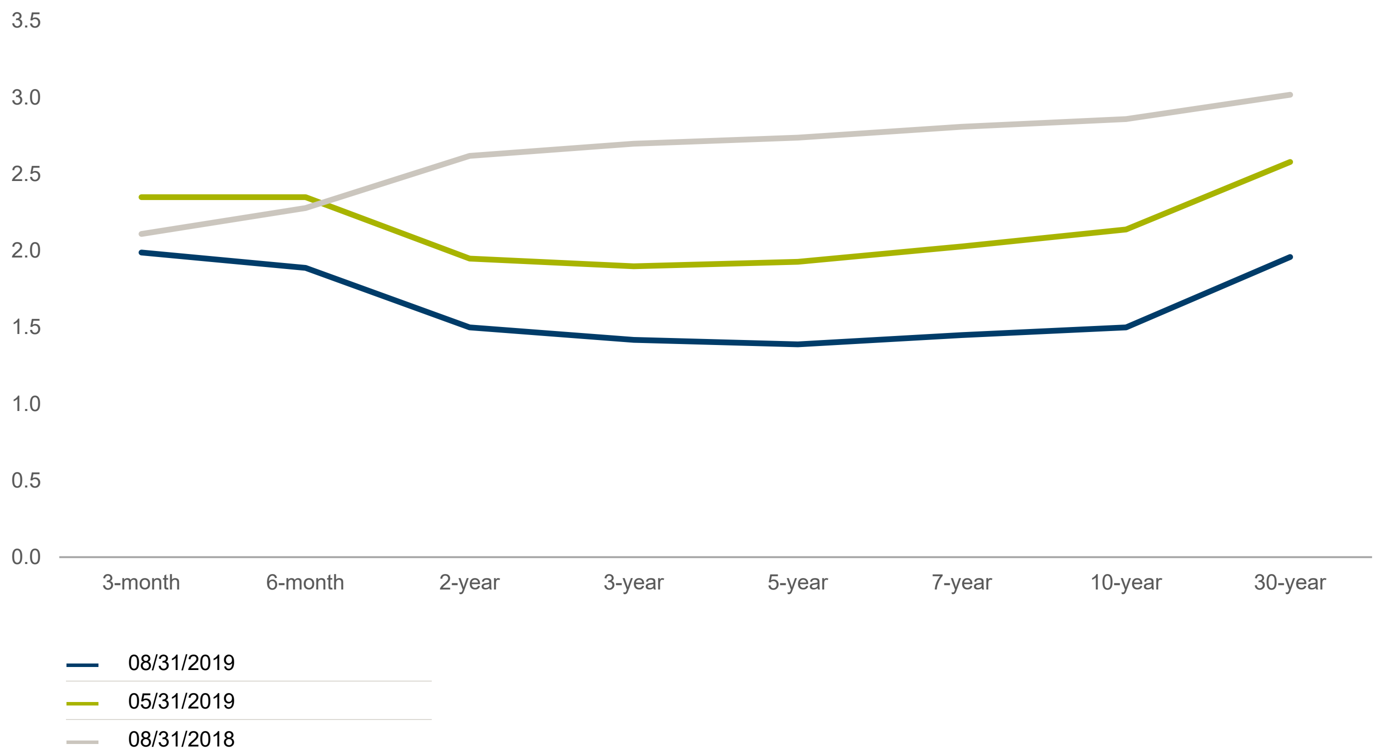


Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Sources: Bloomberg Barclays.
Treasuries-Government-Investment Grade Credit-High Yield (Bloomberg Barclays U.S. Treasury/Government/Credit/Corporate High Yield Indices); Short-Inter-Long-term Treasuries (Bloomberg Barclays U.S. 1-5/5-10/Long Treasury Indices); Short-term TIPS (Bloomberg Barclays U.S. Treasury 0-5 Year Inflation Protected Index), Intermediate-Term TIPS (Bloomberg Barclays U.S. Treasury Inflation Protected Index).

U.S. Treasury yield curve–Overall shift lower with mild inversion

Yield (%) and change (bps)	3-month	6-month	2-year	3-year	5-year	7-year	10-year	30-year
Current yield (%)	1.99	1.89	1.50	1.42	1.39	1.45	1.50	1.96
3 mo. Δ	–36	–46	–45	–48	–54	–58	–64	–62
12 mo. Δ	–12	–39	–112	–128	–135	–136	–136	–106



Source: Morningstar.

Economic and market overview

Global growth: Outlook downgraded amid escalating trade tensions and modest deterioration in economic fundamentals

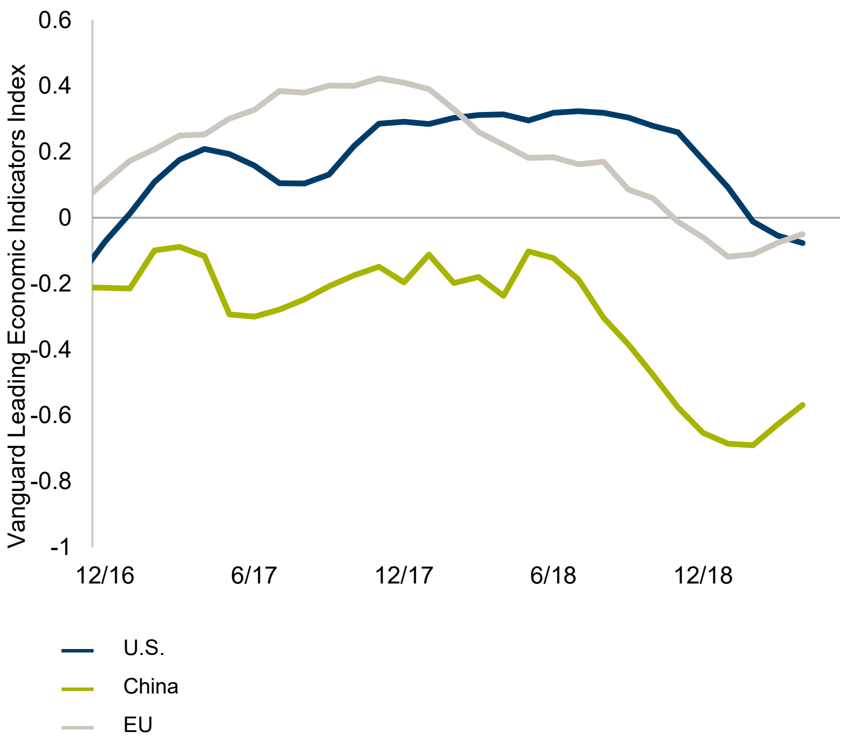
Inflation: Unlikely to accelerate as price expectations remain anchored

Policy and interest rates: Dovish sentiment growing as downside risks escalate

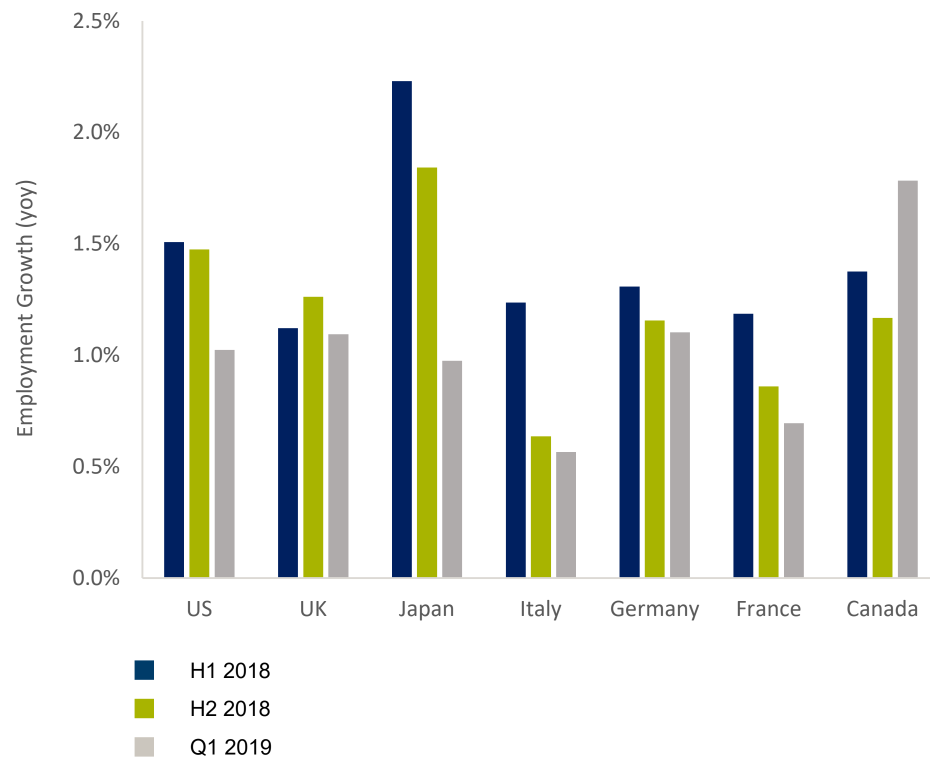
Global asset returns: Expect higher risks and lower returns

Global growth will moderate in second half, but 2019 recession remains unlikely

A noticeable downward shift in the world's largest economies



Employment growth is slowing around the globe



Sources: Vanguard calculations using data from Thomson Reuters Datastream

Vanguard Institutional Advisory Services® (VIAS) Portfolio summary as of August 31, 2019

Portfolio	Market value ($)	Current month* (%)	Three months* (%)	One year* (%)	Since VIAS inception* (%)
Retirement Income Plan (net)**	$63,761,445	6.05	10.24	19.08	10.17
Composite benchmark		5.70	10.15	18.53	9.88
Board Reserve Fund (net)	$15,664,535	-0.03	4.82	4.78	8.93
Composite benchmark		0.04	4.94	5.13	9.04
VEBA (net)	$9,125,012	0.20	4.77	5.31	8.46
Composite benchmark		0.29	4.93	5.69	8.60
LNG 17 Reserve (net)	$243,419	0.35	0.91	3.45	2.35
Composite benchmark		0.36	0.86	3.09	2.39

Total VIAS assets	**$88,794,411**
Total Vanguard DC assets* **	**$48,286,838**
Total Vanguard assets	**$137,081,249**

* Returns are net of fees. All returns greater than one year are annualized. Inception date is 08/31/2010 for all VIAS assets except the LNG 17 Reserve, which has an inception date of 04/30/2014.
** Plan assets reflect month end assets after the redemption of monthly benefit payments
*** Total Vanguard DC assets are as of July 31, 2019

Portfolio performance and expenses

Retirement Income Plan

Asset classes	Target allocation	Expense ratio* (bps)
U.S. Equities (Total Stock Market Index Fund)	7%	3.0
International Equities (FTSE All-World ex-US Index Fund)	3%	8.0
U.S. Intermediate Bonds (Intermediate-Term Bond Index Fund)	10%	5.0
U.S. Long Bonds (Long-Term Investment-Grade Fund)	70%	12.0
U.S. Long Bonds (Long-Term Treasury Index Fund)	10%	5.0
Total	**100%**	**9.9**

As of August 31, 2019.
* Expense ratio data is as of the fund's most recent prospectus.

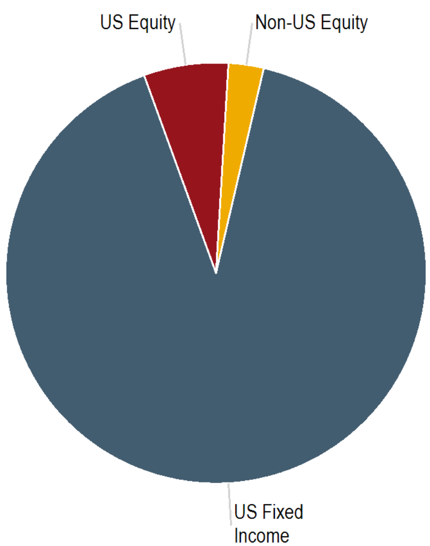
Total Portfolio Performance & Asset Allocation

Performance Summary ending August 31, 2019

	Market Value ($)	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
AMERICAN GAS ASSN RETIREMENT INCOME PLAN (Net)	**63,761,445**	**6.05**	**10.24**	**21.18**	**19.08**	**7.73**	**7.21**	**--**	**10.17**	**Aug-10**
Composite Benchmark		5.70	10.15	21.16	18.53	7.56	7.12	--	9.88	Aug-10

- Composite Benchmark = 7% Spliced Total Stock Market Index / 3% Spliced Total International Stock Index / 10% Spliced Bloomberg Barclays US Long Treasury Index / 10% Spliced Bloomberg Barclays US 5-10 Year Government/Credit Float Adjusted / 70% BBgBarc US Credit Long A+ TR

Current Allocation as of August 31, 2019



	Current $	Current %	Policy	Difference*
US Equity	$4,140,576	6.5%	7.0%	-0.5%
Non-US Equity	$1,740,478	2.7%	3.0%	-0.3%
US Fixed Income	$57,880,390	90.8%	90.0%	0.8%
Total	**$63,761,445**	**100.0%**	**100.0%**	

*Difference between Policy and Current Allocation

Gross of Advisory Fee returns reflect the deduction of fund expense ratios and any purchase or redemption fees.

Net of Fee returns reflect the deduction of fund expense ratios, any purchase or redemption fees, and VIAS advisory fee applied to the client portfolio.

Returns greater than one year represent annualized returns. Returns less than one year represent cumulative returns.

Board Reserve Fund

Asset classes	Target allocation	Expense ratio* (bps)
U.S. Equities (Total Stock Market Index Fund)	41%	3.0
International Equities (FTSE All-World ex-US Index Fund)	14%	8.0
U.S. Aggregate Bonds (Total Bond Market Index Fund)	17.5%	3.5
Short-Term Credit (Short-Term Investment-Grade Fund)	7%	10.0
Intermediate-Term Credit (Intermediate-Term Investment-Grade Fund)	10.5%	10.0
Real Estate Investment Trusts (Real Estate Index Fund)	10%	10.0
Total	**100%**	**5.7**

As of August 31, 2019.
* Expense ratio data is as of the fund's most recent prospectus.

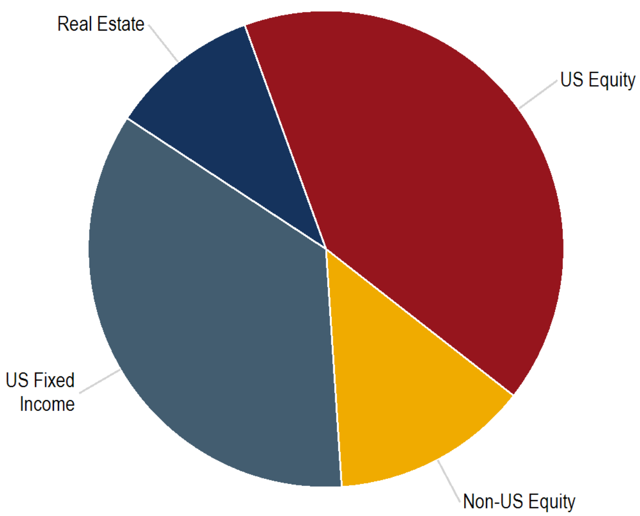
Total Portfolio Performance & Asset Allocation

Performance Summary ending August 31, 2019

	Market Value ($)	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
AMERICAN GAS ASSN BOARD RESERVE (Net)	**15,664,535**	**-0.03**	**4.82**	**14.06**	**4.78**	**7.52**	**6.16**	**--**	**8.93**	**Aug-10**
Composite Benchmark		0.04	4.94	14.31	5.13	7.62	6.35	--	9.04	Aug-10

- Composite Benchmark = 35% BBgBarc US Aggregate Float Adjusted TR / 14% FTSE All-World ex-US Index / 10% MSCI US REIT / 41% Spliced Total Stock Market Index

Current Allocation as of August 31, 2019



	Current $	Current %	Policy	Difference*
US Equity	$6,442,421	41.1%	41.0%	0.1%
Non-US Equity	$2,101,458	13.4%	14.0%	-0.6%
US Fixed Income	$5,522,050	35.3%	35.0%	0.3%
Real Estate	$1,598,605	10.2%	10.0%	0.2%
Total	**$15,664,535**	**100.0%**	**100.0%**	

*Difference between Policy and Current Allocation

Gross of Advisory Fee returns reflect the deduction of fund expense ratios and any purchase or redemption fees.

Net of Fee returns reflect the deduction of fund expense ratios, any purchase or redemption fees, and VIAS advisory fee applied to the client portfolio.

Returns greater than one year represent annualized returns. Returns less than one year represent cumulative returns.

VEBA

Asset classes	Target allocation	Expense ratio* (bps)
U.S. Equities (Total Stock Market Index Fund)	38%	3.0
International Equities (FTSE All-World ex-US Index Fund)	12%	8.0
U.S. Aggregate Bonds (Total Bond Market Index Fund)	20%	3.5
Short-Term Credit (Short-Term Investment-Grade Fund)	8%	10.0
Intermediate-Term Credit (Intermediate-Term Investment-Grade Fund)	12%	10.0
Real Estate Investment Trusts (Real Estate Index Fund)	10%	10.0
Total	**100%**	**5.8**

As of August 31, 2019.
* Expense ratio data is as of the fund's most recent prospectus.

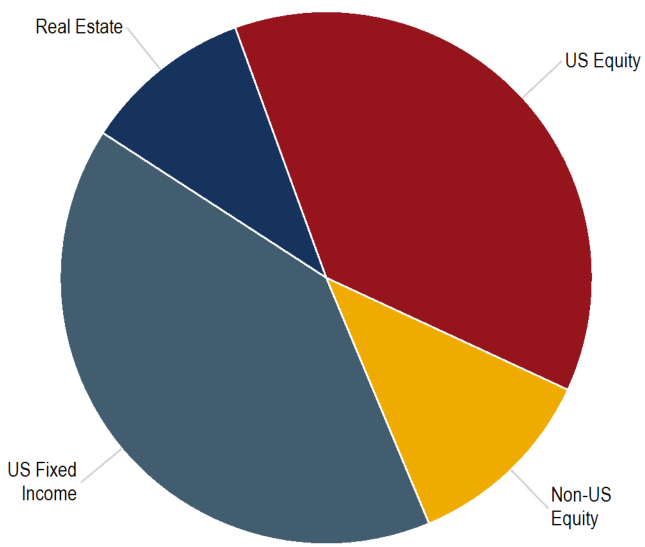
Total Portfolio Performance & Asset Allocation

Performance Summary ending August 31, 2019

	Market Value ($)	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
AMERICAN GAS WELFARE BENEFIT PLAN (Net)	**9,125,012**	**0.20**	**4.77**	**13.70**	**5.31**	**7.14**	**6.01**	**--**	**8.46**	**Aug-10**
Composite Benchmark		0.29	4.93	14.06	5.69	7.28	6.19	--	8.60	Aug-10

- Composite Benchmark = 40% BBgBarc US Aggregate Float Adjusted TR / 12% FTSE All-World ex-US Index / 10% MSCI US REIT / 38% Spliced Total Stock Market Index

Current Allocation as of August 31, 2019



	Current $	Current %	Policy	Difference*
US Equity	$3,419,827	37.5%	38.0%	-0.5%
Non-US Equity	$1,073,416	11.8%	12.0%	-0.2%
US Fixed Income	$3,695,165	40.5%	40.0%	0.5%
Real Estate	$936,604	10.3%	10.0%	0.3%
Total	**$9,125,012**	**100.0%**	**100.0%**	

*Difference between Policy and Current Allocation

Gross of Advisory Fee returns reflect the deduction of fund expense ratios and any purchase or redemption fees.

Net of Fee returns reflect the deduction of fund expense ratios, any purchase or redemption fees, and VIAS advisory fee applied to the client portfolio.

Returns greater than one year represent annualized returns. Returns less than one year represent cumulative returns.

LNG 17 Reserve

Asset classes	Target allocation	Expense ratio* (bps)
Ultra Short-Term Bond Fund	100%	10.0
Total	**100%**	**10.0**

As of August 31, 2019.
* Expense ratio data is as of the fund's most recent prospectus.

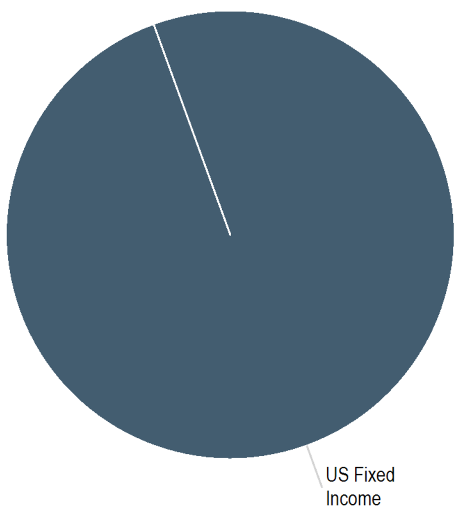
Total Portfolio Performance & Asset Allocation

Performance Summary ending August 31, 2019

	Market Value ($)	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
AGA LNG 17 RESERVE (Net)	**243,419**	**0.35**	**0.91**	**2.55**	**3.45**	**1.94**	**2.28**	**--**	**2.35**	**Apr-14**
Composite Benchmark		0.36	0.86	2.26	3.09	1.65	2.24	--	2.39	Apr-14

- Composite Benchmark = 100% Bloomberg Barclays US Treasury Bellwether: 1 Year Index

Current Allocation as of August 31, 2019



	Current $	Current %	Policy	Difference*
US Fixed Income	$243,419	100.0%	100.0%	0.0%
Total	**$243,419**	**100.0%**	**100.0%**	

*Difference between Policy and Current Allocation

Gross of Advisory Fee returns reflect the deduction of fund expense ratios and any purchase or redemption fees.
Net of Fee returns reflect the deduction of fund expense ratios, any purchase or redemption fees, and VIAS advisory fee applied to the client portfolio.
Returns greater than one year represent annualized returns. Returns less than one year represent cumulative returns.

DC plan review – State of the plan

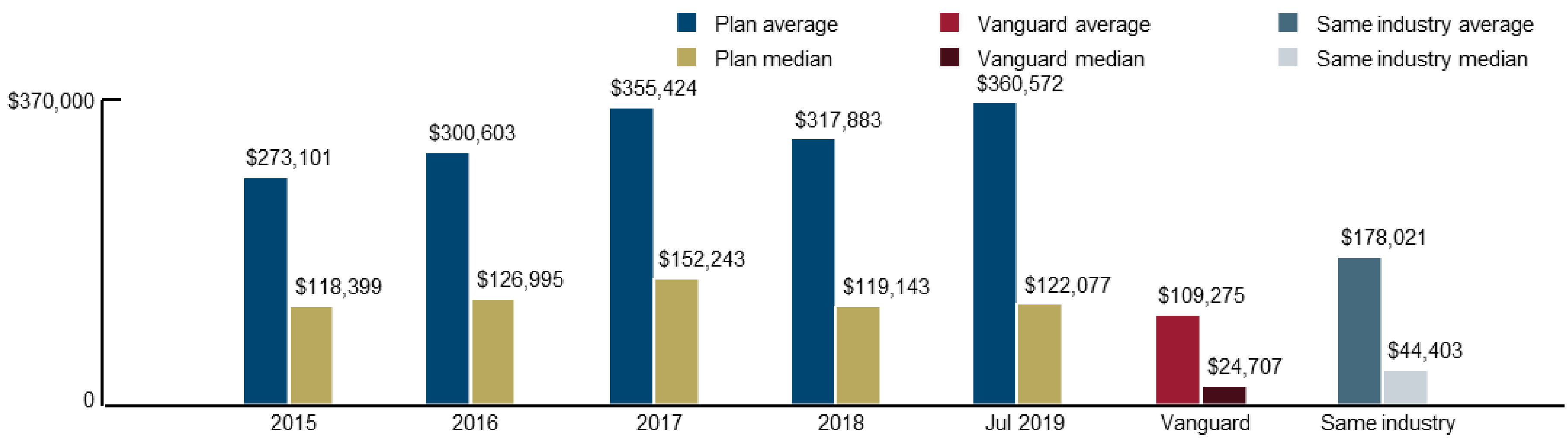
Summary statistics
As of July 31, 2019

American Gas Association Employees Savings Plan

	Plan	Vanguard	Same industry
Plan assets (Net of loans)	$49,758,992	—	—
Average balance	$360,572	$108,922	$181,594
Equity allocation	71%	73%	70%
Equity contribution	77%	76%	76%
Professionally managed allocations	30%	62%	59.5%
Internet access	84%	73%	76%
Participants with a loan outstanding	14%	—	—

Balances
As of July 31, 2019

American Gas Association Employees Savings Plan

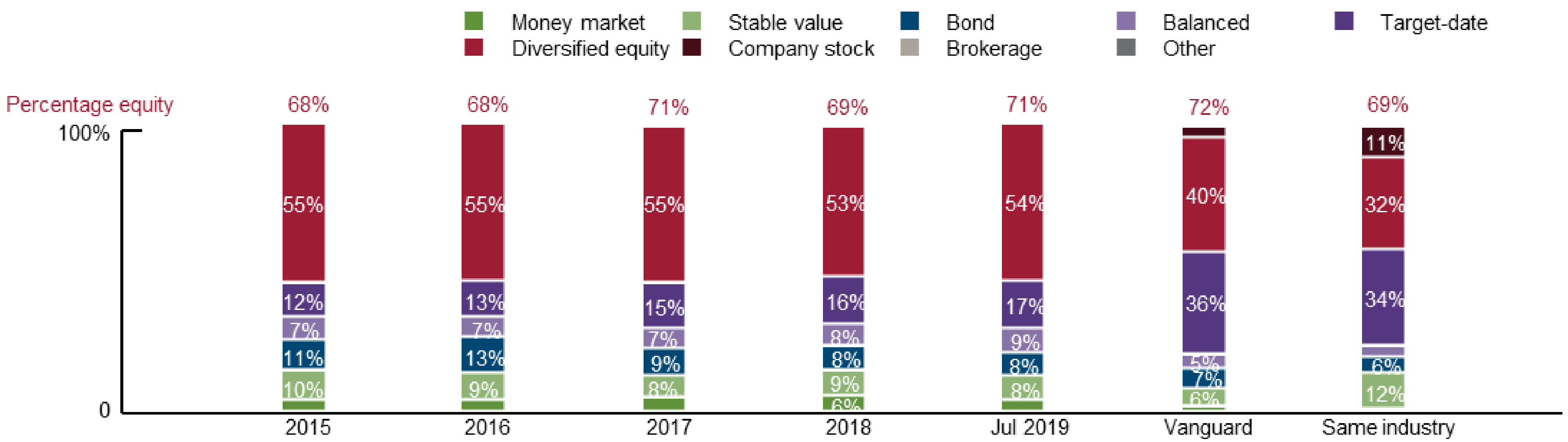


American Gas Association Employees Savings Plan

Tenure (years)	0–1	2–3	4–6	7–9	10+	Total
Plan average	$16,452	$67,029	$117,126	$332,155	$753,766	$360,572
Plan median	$ 8,925	$50,811	$111,285	$283,552	$504,283	$122,077
Vanguard average	$14,423	$33,733	$ 62,207	$101,959	$242,534	$109,275
Same industry average	$14,860	$40,709	$ 96,874	$154,948	$399,353	$178,021

Asset allocation
As of July 31, 2019

American Gas Association Employees Savings Plan



American Gas Association Employees Savings Plan

Distribution of equity exposure	0%	1%–20%	21%–40%	41%–60%	61%–80%	81%–99%	100%
Number of participants	10	2	4	13	23	68	18
Percentage of participants	7%	1%	3%	9%	17%	49%	13%
Vanguard	3	1	5	7	26	51	6
Same industry	4	2	3	8	24	53	6

Tab 6

NEXT SCHEDULED MEETING

The next scheduled meeting of the Board Finance Committee will be held on May 16, 2020 in Marco Island, Florida. This is in conjunction with the AGA Financial Forum.

Tab 7

AMERICAN GAS ASSOCIATION
2020 DUES RULES

FULL MEMBERS

1. AGA Dues for U.S. Gas Utility members are based on the average of 2016~~2015~~, 2017~~2016~~ and 2018~~2017~~ gas operating income* and the following income blocks and rates:

Block 1	First	$ 10,000,000	1.0468%
Block 2	Next	$ 7,500,000	.6710%
Block 3	Next	$ 20,000,000	.4481%
Block 4	Next	$ 40,000,000	.3200%
Block 5	Next	$ 80,000,000	.2550%
Block 6	Over	$ 157,500,000	.1500%

In applying the above formula, the maximum annual increase for any company equals 3.75%, and the maximum decrease equals 3.75%.

~~For companies in blocks 4, 5 and 6, the maximum increase will be capped at 5% in 2019. Companies in blocks 1, 2, and 3 will continue to have their dues capped at the current maximum increase of the GDP deflator plus 2% (3.39% in 2019). No company's dues will decrease in 2019. Beginning in 2020, the maximum increase/decrease for all companies reverts to the GDP deflator plus 2% unless there is a budget deficit redistribution approved by the Board as described in #3 below~~.

2. For companies that merge or are acquired whose dues would have decreased, the dues of the resulting company will equal the combined dues of the merging companies immediately prior to the merger for 4 years with no dues increases for increased operating income. After 4 years, the company's dues will be assessed via the formula structure, and any reduction in dues will be phased-in over a 4-year period or until the phased-in amount equals the formula dues, whichever comes first.

3. If necessary,~~ and no earlier than 2020,~~ the Board may approve the redistribution of any remaining AGA budget deficit to the members based on each company's share of total dues revenue.

4. For distribution companies with less than 75,000 meters, the maximum distribution company dues are equal to $0.90/meter** When dues are capped at $0.90/meter, the maximum annual increase/decrease provision does not apply.

5. No company, whose full company or subsidiary meets the eligibility standards of full membership, will be allowed to join as a Limited Member. All regulated U.S. gas distribution subsidiaries of a parent organization must be included in the dues calculations.

6. Minimum Gas Company 2020~~2019~~ dues are $2,135~~$2,060~~.

*Gas operating income is defined as Line 11, Schedule II of the Uniform Statistical Report.

**Meters are defined as Line 17 (total), Schedule XX of the Uniform Statistical Report.

Please contact Kevin Hardardt, Chief Financial and Administrative Officer at (202) 824-7250 regarding any questions about the invoice or rules.

AMERICAN GAS ASSOCIATION
2020 DUES RULES

LIMITED MEMBERS

1. Dues for Transmission Company, Pipeline Subsidiaries of Integrated Companies, Marketer/Gatherer, Canadian and Mexican Gas Company members are based on the average of 2016~~2015~~, 2017~~2016~~ and 2018~~2017~~ gas operating income* and the following income blocks and rates:

First	$ 2,500,000	.2181%
Next	$ 5,000,000	.1454%
Next	$ 10,000,000	.0970%
Next	$ 20,000,000	.0647%
Next	$ 40,000,000	.0432%
Next	$ 80,000,000	.0287%
Over	$157,500,000	.0192%

   In applying the above formula, the maximum annual increase for any company equals 3.75% ~~3.39%~~. The maximum decrease equals 3.75%~~3.39%~~.

2. For companies whose dues are recalibrated as a result of a merger or acquisition, the dues impact will be phased-in over a 4-year period or until the phased-in amount equals the formula dues, whichever comes first.

3. For the Limited member class, maximum 2020~~2019~~ dues are $100,000 and minimum 2020~~2019~~ dues are $2,135~~$2,060~~.

*Gas operating income is defined as Line 11, Schedule II of the Uniform Statistical Report.

Please contact Kevin Hardardt, Chief Financial and Administrative Officer at (202) 824-7250 regarding any questions about the invoice or rules.

Tab 8

American Gas Association
2020 Capital Budget

		2020 BUDGET		2019 BUDGET
INFORMATION TECHNOLOGY				
IT Hardware - General				
Laptops for New Hires	$	6,000	$	250,000
Firewalls and Network Equipment		0		18,000
Switches and Network Equipment including WiFi		10,000		0
Servers and Console Servers		25,000		5,000
Contingency		25,000		25,000
Total Hardware - General		**66,000**		**298,000**
IT Software - General				
AGA Blog		0		75,000
AGA Website		200,000		0
Higher Logic (Replace Sharepoint Committee Site)		60,000		50,000
Contingency		25,000		25,000
Total Software - General		**285,000**		**150,000**
Security Enhancements				
Two Factor Authentification		0		5,000
Contingency		30,000		25,000
Total Security Enhancements		**30,000**		**30,000**
TOTAL IT CAPITAL BUDGET	**$**	**381,000**	**$**	**478,000**
FACILITIES: OFFICE SPACE/ EQUIPMENT				
HVAC Unit Replacement (conference room unit)	$	20,000		0
Boardroom (Video Conferencing)		35,000		0
Brahler Mic System Replacement		50,000		50,000
Podium replacement for Capitol Room		20,000		17,500
Sub-Total Facilities		**125,000**		**67,500**
Company Van Replacement		40,000		0
Facilities Contingency		50,000		75,000
TOTAL FACILITIES CAPITAL BUDGET	**$**	**215,000**	**$**	**142,500**
TOTAL CAPITAL BUDGET	**$**	**596,000**	**$**	**620,500**

Tab 9

AGA
American Gas Association

August 15, 2019

AGA Board of Directors:

Attached are AGA's quarterly financial statements for the period ending June 30, 2019, which reflect a temporary budget surplus of $2,985,000. We are currently forecasting a year-end 2019 budget surplus of $1,371,000. This favorable variance is primarily due to record profits generated by the *AGA Operations Conference and Biennial Exhibition.* Salary expenses for 2019 will also be under budget due to several vacancies.

The June 30, 2019 balance sheet reflects net assets of $22,310,000. This is an increase of $2,264,000 from 2018.

The attached financial statements include explanations of significant variances. Please contact me or Joe Martin (jmartin@aga.org or 202-824-7255) with any questions or comments you have regarding these financial statements.

Sincerely,

Kevin Hardardt

Kevin M. Hardardt *Chief Financial & Administrative Officer*

400 N. Capitol St. NW 4th Floor, Washington, DC, 20001 P 202-824-7250 F 202-824-9150 E khardardt@aga.org **www.aga.org**

PRELIMINARY AND UNAUDITED

AMERICAN GAS ASSOCIATION
Statements of Revenue and Expenses
Six months ended June 30, 2019 and 2018
(000s)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
			'19 vs. '18	June 30, 2019		2019	2019
	Jun 30, 2019	Jun 30, 2018	Variance		Act vs. Bud	Annual	Annual
	Total	Total	(col 1<>col 2)	Budget	(col 1<>col 4)	Budget	Forecast
Revenue:							
Dues	13,631	13,293	338	13,691	(60)	27,381	27,621
Publications and Meetings	5,953	3,591	2,362	5,143	810	7,715	8,253
General Fund Investment Income	236	13	223	180	57	359	332
Contribution From Board Reserve *	445	550	(105)	445	0	890	890
Contribution From LNG 17 Reserve	0	51	(51)	51	(51)	101	0
Contribution From Operating Reserve	150	150	0	150	1	299	299
Miscellaneous	337	296	41	351	(14)	722	635
World Gas Conference	0	26,895	(26,895)	0	0	0	0
Total Revenue	$ 20,752	44,839	(24,087)	20,010	743	37,467	38,030
Expense:							
Programs:							
Governmental Affairs and Public Policy	2,026	2,300	(274)	2,211	185	4,390	4,212
Communications	1,581	2,770	(1,189)	1,777	196	3,551	3,552
Operations and Engineering	4,685	2,696	1,989	4,963	278	8,320	8,239
Energy Markets, Analysis and Standards	2,044	2,852	(808)	2,190	146	4,503	4,487
Corporate Affairs and International	2,319	2,601	(282)	2,222	(97)	4,505	4,650
General Counsel and Federal Regulatory Affairs	1,096	1,333	(237)	1,185	89	2,616	2,616
Industry Finance and Admin. Programs	484	308	176	581	97	1,170	1,189
World Gas Conference	0	18,956	(18,956)	0	0	0	0
Total Program Expenses	14,235	33,816	(19,581)	15,129	894	29,055	28,945
General and Administration	3,532	3,781	(249)	3,793	261	8,297	7,714
Total Expenses	$ 17,767	37,597	(19,830)	18,922	1,155	37,352	$ 36,659
Excess (Deficiency) Revenue/Expense (Excluding actual returns on the Board Reserve) *	$ 2,985	7,242	(4,257)	1,088	1,898	115	$ 1,371

* The Board of Directors approved spending $890,000 from the Board Reserve in 2019, independent of the actual investment returns. These statements reflect the 2nd quarter allocation, which is $445,000. The actual investment performance of assets held in the Board Reserve was a gain of $1,887,000.

PRELIMINARY AND UNAUDITED

AMERICAN GAS ASSOCIATION
Balance Sheets
June 30, 2019 and 2018
(000s)

	Jun 30, 2019 Total	Jun 30, 2018 Total	Variance '19 vs. '18
Assets			
Cash, Cash Equivalents And Investments			
General Fund	24,142	30,294	(6,152)
Board Reserve	15,582	15,579	3
LNG 17 Reserve	242	649	(407)
Accounts Receivable:			
Trade Accounts, Net	405	3,085	(2,680)
Dues	5,239	6,368	(1,129)
Other Assets	188	203	(15)
Property, Plant And Equipment	8,299	8,585	(286)
Less Accumulated Depr. and Amort.	(2,251)	(1,895)	(356)
Net Property, Plant & Equipment	6,048	6,690	(642)
Total Assets	$ 51,846	62,868	$ (11,022)
Liabilities and Net Assets			
Accounts Payable and Accrued Expenses	2,360	11,619	(9,259)
Deferred Income	13,901	13,746	155
Deferred Compensation	706	2,566	(1,860)
IAS Liabilities	742	1,075	(333)
Pension Liability	5,284	5,904	(620)
Postretirement Benefits Other Than Pensions	2,498	3,379	(881)
Other Noncurrent Liabilities	4,045	4,533	(488)
Total Liabilities	29,536	42,822	(13,286)
Net Assets	22,310	20,046	2,264
Total Liabilities & Net Assets	$ 51,846	62,868	$ (11,022)

American Gas Association
Variance Analysis
Six months ended June 30, 2019
Statement of Revenues and Expenses
(Comparison of Actual to Budget)

REVENUES

Publications and Meetings – Favorable variance – $810,000

Variance is principally due to higher revenues related to the Operations Conference and Exhibition. Attendance exceeded 2,900 which is a record and greater than the 2,400 budgeted. Sponsorship and exhibition revenue also exceeded budget. In total, approximately $522,000 more was collected than budgeted.

The remainder of the difference is due to timing of when revenue was budgeted to be received and when it was or will be actually collected.

EXPENSES

Governmental Affairs and Public Policy – Favorable variance - $185,000

Variance is principally due to positions that have been vacant for several months that were budgeted to be filled for the entire year.

Communications – Favorable variance - $196,000

Favorable variance is principally due to timing of expenditures related to advocacy advertising. It was decided to delay expending funds until AGA's new President and CEO started work in April 2019 and reviewed the program.

Operations and Engineering – Favorable variance – $278,000

Audio-visual expenses for the Operations Conference was less than budgeted. The remainder of the variance is a result of timing of when expenditures will be made compared to when they were budgeted.

Energy Markets, Analysis and Standards – Favorable variance - $146,000

Favorable variance is due to timing of when studies will be performed. Several studies were budgeted to occur in the first half of the year. However, with the retirement of the Vice President of this group and the start of the new President and CEO, those have been delayed to the 2nd half of the year.

General and Administration – Favorable variance - $261,000

AGA had budgeted for the new President and CEO to start on 1/1/2019. However, the actual start date was 4/1/2019 resulting in an overall favorable variance.

American Gas Association
Variance Analysis
Balance Sheet
(Comparison of March 31, 2019 vs. 2018)

ASSETS

Cash, Cash Equivalents, and Investments – General Fund – Decrease - $6,152,000

Decrease is primarily attributable to expenses related to the World Gas Conference (WGC). Much of the money from registration, sponsorships and exhibition sales had been collected as of June 30, 2018 but large disbursements including payments to both the conference and exhibition managers were not made until after the Conference was held in June 2018.

Cash, Cash Equivalents, and Investments – LNG Reserve – Decrease - $407,000

Decrease is a result of funds being transferred to operations to fund certain AGA activities as approved by the Board of Directors.

Accounts receivable: Trade Accounts, net – Decrease - $2,680,000

Decrease is due to large trade receivable from the WGC conference management firm (CWC) as of 6/30/2018 that were not outstanding as of 6/30/2019. The receivable represented registration fees ($2.1 million) and hotel commissions ($460,000) collected by CWC that were remitted after 6/30/18.

Accounts Receivable: Dues – Decrease - $1,129,000

Decrease is due to the timing of payments from members.

Property, Plant and Equipment, Net – Decrease $642,000

Decrease is a result of the following:

- Recording of a full year's depreciation.
- Further write down of leasehold improvements and furniture disposed of during the renovation.

LIABILITIES

Accounts Payable and Accrued Expenses – Decrease $9,259,000

Decrease is principally related to the World Gas Conference. As of June 30, 2018, significant payables were due to CWC ($9.2 million) and ETF ($1.2 million) for expenses, commissions and CWC's share of the final profits. These were paid at the end of 2018. These are partially offset by large hotel bills for the Operations Conference and Exhibition and the Financial Forum that were paid after 6/30/19.

Deferred Compensation – Decrease - $1,860,000

A funded, nonqualified supplemental retirement benefit plan for the former President and CEO and certain senior executives that was approved by the Board of Directors became vested when non-forfeitable conditions were met on February 28, 2019. Those balances were disbursed during the 1st quarter of 2019.

IAS Liabilities – Decrease - $333,000
This represents potential liability claims that may arise from equipment that was certified prior to AGA selling its subsidiary that certified appliances. The decrease in the present value of these estimated liabilities is a result of an increase in discount rates as well as one less year of discounted cash flows.

Pension Liability – Decrease - $620,000
Decrease is due to a combination of contributions to the retirement income plan of $500,000 for the last six months of 2018 as well as an increase in the discount rate. The plan was 102% funded as of 6/30/2019, and all benefit accruals were frozen as of December 31, 2016.

Postretirement Benefits Other Than Pension – Decrease - $881,000
Decrease is due to an increase in the discount rate from 3.5% to 4.2%.

Other Noncurrent Liabilities – Decrease - $488,000
Decrease is a result of the recording and writing off previously recorded tenant improvement allowance received from landlord for office renovations. The allowance is set up as a liability (offset by fixed assets) and will be amortized over the life of the lease.

Exhibit B

AGA 2019 Expense Percentages

		AGA 2019 Expenses									
Expense Category	**Operations and Engineering**	**Governmental Affairs and Public Policy**	**Energy Markets, Analysis, and Standards**	**Communications**	**Corporate Affairs and International**	**General Counsel and Federal Regulatory Affairs**	**Industry Finance and Administrative Programs**	**Political Action Committee**	**Total Program Expense**	**General Administration**	**Total Expense**
Direct Labor	$2,367,304.00	$1,422,611.00	$1,796,458.00	$803,851.00	$1,801,193.00	$1,325,043.00	$334,706.00	$	$9,851,166.00	$4,004,092.00	$13,855,258.00
Benefits	$618,575.00	$369,434.00	$397,967.00	$297,892.00	$851,565.00	$309,137.00	$65,940.00	-	$2,910,510.00	$1,130,062.00	$4,040,572.00
Outside services and consultants	$937,711.00	$784,268.00	$561,205.00	$833,096.00	$329,566.00	$287,232.00	$74,042.00	.	$3,807,120.00	$821,259.00	$4,628,379.00
Meetings and conferences	$2,583,534.00	$484,444.00	$168,662.00	$352,346.00	$1,142,380.00	$223,837.00	$588,529.00	-	$5,543,732.00	$18,632.00	$5,562,364.00
Occupancy	$755,152.00	$341,657.00	$488,898.00	$461,807.00	$401,171.00	$284,738.00	$64,565.00	-	$2,797,988.00	$669,044.00	$3,467,032.00
Advertising	-	-	-	$165,975.00	-	-	-	-	$165,975.00	-	$165,975.00
Other expenses	$59,780.00	$421,543.00	$156,988.00	$176,818.00	$94,172.00	$90,612.00	$20,819.00	$174,714.00	$1,195,446.00	$296,530.00	$1,491,976.00
Employee travel	$334,537.00	$244,411.00	$115,871.00	$31,579.00	$132,482.00	$50,826.00	$52,700.00	-	$962,406.00	$128,426.00	$1,090,832.00
Total expenses	$7,656,593.00	$4,068,368.00	$3,686,049.00	$3,123,364.00	$4,752,529.00	$2,571,425.00	$1,201,301.00	$174,714.00	$27,234,343.00	$7,068,045.00	$34,302,388.00
Percentage of Total Expenses	22.32%	11.86%	10.75%	9.11%	13.85%	7.50%	3.50%	0.51%	79.39%	20.61%	100.00%
Percentage of Program Expenses	28.11%	14.94%	13.53%	11.47%	17.45%	9.44%	4.41%	0.64%	100%		

Source: AGA 2019 Audited Financial Statements at 5, https://www.documentcloud.org/documents/20537802-aga-2019-financial-statements#document/p7/a2026500.

Exhibit C

AGA & Affiliate Consolidated Financial Statements

American Gas Association & Affiliate

Consolidated Financial Report
December 31, 2019

American Gas Association & Affiliate

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RSM US LLP

Independent Auditor's Report

Board of Directors
American Gas Association

We have audited the accompanying consolidated financial statements of American Gas Association & Affiliate (American Gas Association Political Action Committee) (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2019, the related consolidated statements of activities, functional expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Gas Association & Affiliate as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
The consolidated financial statements of the American Gas Association & Affiliate as of and for the year ended December 31, 2018, were audited by other auditors whose report dated April 30, 2019 expressed an unmodified opinion on those financial statements.

RSM US LLP

Washington, DC
October 14, 2020

American Gas Association & Affiliate

Consolidated Statements of Financial Position

December 31,	2019	2018
Assets		
Cash and cash equivalents		
American Gas Association	**$ 11,514,215**	$ 11,841,545
American Gas Association Political Action Committee	**321,181**	265,433
	11,835,396	12,106,978
Investments	**27,958,954**	24,576,844
Total cash, cash equivalents and investments	**39,794,350**	36,683,822
Receivables, less allowance for doubtful accounts of $5,583 and $16,833 for 2019 and 2018, respectively	**957,730**	639,921
Prepaid expenses and other assets	**1,077,517**	950,042
Property and equipment, net	**5,860,370**	6,319,459
Total assets	**$ 47,689,967**	$ 44,593,244
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 3,627,130**	$ 4,354,257
Deferred dues and other revenue	**6,137,937**	6,632,200
Deferred compensation	**1,172,181**	2,918,798
Deferred rent	**3,062,451**	3,091,686
Benefit restoration plan	**1,101,800**	880,249
Appliance standards/certification liabilities	**515,687**	741,820
Accrued pension	**4,427,817**	5,172,673
Postretirement health benefits liability	**1,858,131**	2,498,184
Total liabilities	**21,903,134**	26,289,867
Net assets		
Without donor restrictions		
Undesignated	**20,814,662**	17,108,777
Board-designated	**16,490,712**	14,378,079
Deficit arising from pension and postretirement plans funded status	**(11,839,722)**	(13,448,912)
Total net assets without donor restrictions	**25,465,652**	18,037,944
With donor restrictions	**321,181**	265,433
Total net assets	**25,786,833**	18,303,377
Commitments and contingencies	**-**	-
Total liabilities and net assets	**$ 47,689,967**	$ 44,593,244

See notes to the consolidated financial statements.

American Gas Association & Affiliate

Consolidated Statements of Activities

Year Ended December 31,	2019	2018
Activities without donor restrictions		
Revenue and support		
Dues	**$ 27,728,029**	$ 27,047,171
Meetings and publications	**8,735,645**	6,162,035
World Gas Conference	**-**	27,164,666
Renovation allocation	**299,000**	-
LNG 17 Reserve spending allocation	**-**	574,238
Other programs and activities	**682,017**	537,067
Investment income		
Undesignated	**360,361**	111,186
Board-designated spending allocation	**667,500**	1,100,000
Net assets releases from restrictions - political action committee	**174,714**	184,866
Total revenue and support without donor restrictions	**38,647,266**	62,881,229
Expense		
Programs for members		
Operations and engineering	**7,656,593**	6,870,857
Governmental affairs and public policy	**4,068,368**	4,030,665
Energy markets, analysis, and standards	**3,686,049**	4,806,688
Communications	**3,123,364**	4,879,537
Corporate affairs and international	**4,752,529**	4,839,924
General counsel and federal regulatory affairs	**2,571,425**	2,838,170
Industry finance and administrative programs	**1,201,301**	1,233,529
World Gas Conference	**-**	18,802,270
Political action committee	**174,714**	184,866
Total program expense	**27,234,343**	48,486,506
General administration	**7,068,045**	7,691,155
Total expense	**34,302,388**	56,177,661
Change in net assets without donor restrictions from operations	**4,344,878**	6,703,568
Investment income (deficit) in excess of Board designated spending allocation	**2,266,840**	(1,777,385)
Renovation Reserve allocation	**(299,000)**	-
LNG 17 Reserve spending allocation	**-**	(574,238)
Net periodic benefit cost other than service cost	**(494,201)**	(117,334)
Other defined benefit and postretirement benefit changes	**1,609,191**	991,953
Change in net assets without donor restrictions	**7,427,708**	5,226,564
Activities with donor restrictions		
Contributions - political action committee	**230,462**	196,104
Net assets released from restrictions - political action committee	**(174,714)**	(184,866)
Change in net assets with donor restrictions	**55,748**	11,238
Change in net assets	**7,483,456**	5,237,802
Net assets, beginning of year	**18,303,377**	13,065,575
Net assets, end of year	**$ 25,786,833**	$ 18,303,377

See notes to the consolidated financial statements.

American Gas Association & Affiliate

Consolidated Statements of Functional Expense

Year Ended December 31, 2019

	Operations and Engineering	Governmental Affairs and Public Policy	Energy Markets, Analysis, and Standards	Communications	Corporate Affairs and International	General Counsel and Federal Regulatory Affairs	Industry Finance and Administrative Programs	Political Action Committee	Total Program Expense	General Administration	Total Expense
Direct Labor	$ 2,367,304	$ 1,422,611	$ 1,796,458	$ 803,851	$ 1,801,193	$ 1,325,043	$ 334,706	$ -	$ 9,851,166	$ 4,004,092	**$ 13,855,258**
Benefits	618,575	369,434	397,967	297,892	851,565	309,137	65,940	-	2,910,510	1,130,062	**4,040,572**
	2,985,879	1,792,045	2,194,425	1,101,743	2,652,758	1,634,180	400,646	-	12,761,676	5,134,154	**17,895,830**
Outside services and consultants	937,711	784,268	561,205	833,096	329,566	287,232	74,042	-	3,807,120	821,259	**4,628,379**
Meetings and conferences	2,583,534	484,444	168,662	352,346	1,142,380	223,837	588,529	-	5,543,732	18,632	**5,562,364**
Occupancy	755,152	341,657	488,898	461,807	401,171	284,738	64,565	-	2,797,988	669,044	**3,467,032**
Advertising	-	-	-	165,975	-	-	-	-	165,975	-	**165,975**
Other expenses	59,780	421,543	156,988	176,818	94,172	90,612	20,819	174,714	1,195,446	296,530	**1,491,976**
Employee travel	334,537	244,411	115,871	31,579	132,482	50,826	52,700	-	962,406	128,426	**1,090,832**
Total expenses	**$ 7,656,593**	**$ 4,068,368**	**$ 3,686,049**	**$ 3,123,364**	**$ 4,752,529**	**$ 2,571,425**	**$ 1,201,301**	**$ 174,714**	**$ 27,234,343**	**$ 7,068,045**	**$ 34,302,388**

Year Ended December 31, 2018

	Operations and Engineering	Governmental Affairs and Public Policy	Energy Markets, Analysis, and Standards	Communications	Corporate Affairs and International	General Counsel and Federal Regulatory Affairs	Industry Finance and Administrative Programs	World Gas Conference	Political Action Committee	Total Program Expense	General Administration	Total Expense
Direct Labor	$ 2,408,652	$ 1,461,477	$ 2,094,343	$ 763,591	$ 1,823,382	$ 1,519,151	$ 320,781	$ 231,000	$ -	$ 10,622,377	$ 4,800,253	**$ 15,422,630**
Benefits	875,549	405,820	578,331	353,242	652,863	427,082	87,930	78,517	-	3,459,334	788,823	**4,248,157**
	3,284,201	1,867,297	2,672,674	1,116,833	2,476,245	1,946,233	408,711	309,517	-	14,081,711	5,589,076	**19,670,787**
Outside services and consultants	549,639	719,735	896,275	589,111	505,232	261,802	91,427	14,602,793	-	18,216,014	733,002	**18,949,016**
Meetings and conferences	1,996,548	626,959	398,539	378,542	1,150,470	194,121	560,524	3,710,670	-	9,016,373	123,454	**9,139,827**
Occupancy	635,726	284,731	545,205	405,526	367,032	306,034	90,486	124,634	-	2,759,374	711,908	**3,471,282**
Advertising	-	-	-	2,204,764	-	-	-	15,295	-	2,220,059	-	**2,220,059**
Other expenses	59,681	328,484	183,868	143,894	159,916	93,188	23,035	15,000	184,866	1,191,932	425,891	**1,617,823**
Employee travel	345,062	203,459	110,127	40,867	181,029	36,792	59,346	24,361	-	1,001,043	107,824	**1,108,867**
Total expenses	**$ 6,870,857**	**$ 4,030,665**	**$ 4,806,688**	**$ 4,879,537**	**$ 4,839,924**	**$ 2,838,170**	**$ 1,233,529**	**$ 18,802,270**	**$ 184,866**	**$ 48,486,506**	**$ 7,691,155**	**$ 56,177,661**

American Gas Association & Affiliate

Consolidated Statements of Cash Flows

Year Ended December 31,	2019	2018
Cash flows from operating activities		
Change in net assets	**$ 7,483,456**	$ 5,237,802
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net (gain) loss on investments	**(2,663,889)**	995,701
Depreciation and amortization	**779,231**	620,076
Loss on disposal of property and equipment	**1,442**	36,675
Net periodic benefit cost other than service cost	**494,201**	117,334
Other defined benefit and postretirement benefit changes	**(1,609,191)**	(991,953)
Changes in assets and liabilities:		
Receivables	**(317,809)**	194,996
Prepaid expenses and other assets	**(127,475)**	3,114,852
Accounts payable and accrued expenses	**(727,127)**	469,592
Deferred dues and other revenue	**(494,263)**	(278,492)
Deferred WGC 2018 conference and exhibition revenue	**-**	(11,040,879)
Deferred compensation	**(1,746,617)**	549,502
Deferred rent	**(29,235)**	(238,318)
Benefit restoration plan	**221,551**	151,000
Appliance standards/certification liabilities	**(226,133)**	(333,009)
Accrued pension and postretirement health benefits liabilities	**(269,919)**	(1,228,669)
Total adjustments	**(6,715,233)**	(7,861,592)
Net cash provided by (used in) operating activities	**768,223**	(2,623,790)
Cash flows from investing activities		
Proceeds from sales/maturities of investments	**3,694,736**	2,087,342
Purchases of investments	**(4,412,957)**	(1,010,835)
Proceeds from sales of property and equipment	**46,000**	80
Acquisitions of property and equipment	**(367,584)**	(2,840,052)
Net cash used in investing activities	**(1,039,805)**	(1,763,465)
Net change in cash and cash equivalents	**(271,582)**	(4,387,255)
Cash and cash equivalents, beginning of year	**12,106,978**	16,494,233
Cash and cash equivalents, end of year	**$ 11,835,396**	$ 12,106,978
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$ 97,000**	$ 156,000
Leasehold improvements acquired through improvement allowance	**$ -**	$ 2,113,499

See notes to the consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Organization:* American Gas Association (the Association) is a non-profit organization incorporated in the State of Delaware. The Association's membership and activities are related to member companies involved in the distribution of natural gas.

American Gas Association Political Action Committee (GASPAC) is a separate segregated fund that was created pursuant to the Federal Election Campaign Act and is regulated by the Federal Election Commission.

b. *Principles of consolidation:* As required by generally accepted accounting principles, the consolidated financial statements include the accounts of the Association and GASPAC (collectively referred to as the Organization). All significant intra-entity accounts and transactions have been eliminated in consolidation.

c. *Income taxes:* The Association is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. Income tax expense incurred on net unrelated business activities (the Association's maintenance of American Gas Association index fund, advertising, and transportation subsidy) totaled approximately $49,000 and $143,000 for the years ended December 31, 2019 and 2018, respectively.

The Association elected to inform its members of the percentage of their dues related to lobbying activities that was non-deductible instead of paying the proxy tax for the years ended December 31, 2019 and 2018.

GASPAC is exempt from the payment of income taxes on its exempt activities under Section 527 of the Internal Revenue Code. GASPAC had no non-exempt activities for the years ended December 31, 2019 and 2018.

d. *Basis of accounting:* The Organization prepares its consolidated financial statements on the accrual basis of accounting. Revenue is recognized when earned; expense is recognized when the obligation has been incurred.

e. *Use of estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

f. *Cash and cash equivalents:* For consolidated financial statement purposes, the Organization considers commercial paper, money market accounts, overnight repurchase agreements, and government agency obligations purchased with initial maturities of 90 days or less, to be cash and cash equivalents.

g. *Investments:* Investments consist of equity and fixed income mutual funds. Investments in mutual funds are reported at fair values based on quoted market prices, if available.

h. *Receivables:* Receivables consist of dues, trade and interest and are presented at the gross, or face, amount due to the Organization. The Organization's management periodically reviews the status of all receivable balances for collectability. The Organization provides for probable losses on receivables using the allowance method. The allowance is determined based on management's experience and collection efforts. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

i. *Property and equipment:* Acquisitions of property and equipment greater than $1,000 are recorded at cost less accumulated depreciation. Furniture and equipment is depreciated using the straight-line method over the estimated useful lives of the assets (3 - 10 years). Amortization of software is calculated on the straight-line method over the estimated useful lives of the software (3 - 5 years). Leasehold improvements are stated at cost less accumulated amortization. Amortization of leasehold improvements is calculated on the straight-line method over the shorter of the estimated life of the related asset or the remaining term of the lease.

j. *Net assets:* The accompanying consolidated financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the ASC, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, as applicable.

For consolidated financial statement purposes, net assets consist of the following:

Without donor restrictions: Net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as Board designation.

With donor restrictions: Net assets subject to donor-imposed restrictions on the use of the assets for political action committee activities that may be met either by actions of GASPAC or the passage of time.

k. *Revenue recognition:* Revenue is recognized in the period in which it is earned. The Organization performs an evaluation at contract inception focused on whether a performance obligation is satisfied over time or at a point in time. If a performance obligation meets certain specific criteria, the related revenue is recognized over time if the Organization is able to reasonably measure its progress toward complete satisfaction of the performance obligation using reliable information. Output methods and input methods are used to measure progress for goods or services for which control has been transferred to the customer. If the certain criteria are not met, revenue is recognized at a specific point in time based on the terms of the agreement.

Membership dues provide economic as well as other benefits to members and are therefore accounted for as exchange transactions rather than as contributions. There is a sliding scale of benefits provided to members commensurate with the fees paid. The performance obligations are satisfied over time. Membership dues are recognized as revenue ratably over the membership period as benefits provided to members are provided ratably throughout the period, which is on a calendar-year basis. Membership dues payments received in advance are recorded as deferred revenue.

Meeting registration, sponsorship, and exhibition revenue are recorded at the time of the related event. There is a sliding scale of benefits provided to sponsors and exhibitors commensurate with the fees paid. All performance obligations for meeting attendees, exhibitors, and sponsors are satisfied at the meeting or event; revenue is therefore recognized at a point in time. Publications and royalty revenue are recognized upon the sale of the related publications, which is the point in time at which the performance obligation is satisfied. Revenue from advertisement in the American Gas Magazine is recognized when the applicable issue is released, which is the point in time at which the performance obligation is satisfied. Dues, publications, advertising, and meetings and conference revenue received in advance is deferred.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The revenue streams noted above do not include significant financing components as the performance obligations are typically satisfied within a year of receipt of payment. Economic factors driven by consumer confidence, employment, inflation, and other world events impact the timing and level of cash received and revenue recognized by the Organization. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of the Organization, or can have a positive impact on cash flows in good economic times.

l. <u>*Functional allocation of expense:*</u> The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been allocated among member programs and general administration. Salaries are charged directly to the functions served. Fringe benefits are allocated to the functions in proportion to salaries charged, and certain expenses benefiting all programs and general administration are allocated based on the number of staff supporting each function.

m. <u>*Measure of operations*</u>*:* The Organization defines operations as all revenue and expense that are an integral part of its program and supporting activities. The Association maintains a Board-designated fund comprised of the proceeds from the sale of its interest in International Approval Services in 1997 (see Note 9). The Association's authorized spending policy from investment income allows up to 6.5% of this Board-designated fund to be used in operations. Investment returns of this Board-designated fund in excess of the Board's aggregate authorized spending allocation, if any, are recognized as non-operating support.

In 2013, the Board of Directors approved the LNG 17 Reserve using a portion of the proceeds from the LNG 17 Conference and Exhibition. The LNG 17 Reserve, a Board-designated fund, provides AGA with the flexibility to fund high priority member services. The Organization anticipates that all of the remaining funds in the LNG 17 Reserve will be spent in 2020.

n. <u>*New accounting standards:*</u> In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaces most existing recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP). The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Organization adopted the new standard, as amended, effective for the year ended December 31, 2019, using the modified retrospective method. The Organization's revenue arrangements are recognized either at a point in time or over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Based on the Organization's review of its revenue transactions, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. The adoption of this standard had no material impact on the consolidated statement of financial position and the consolidated statement of activities and change in net assets but resulted in additional disclosures. See the revenue section of this footnote for enhanced disclosures.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires the service cost component of net periodic benefit cost for pension and other postretirement benefits be presented as a component of employee benefit expense. The other components of net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as a non-operating change in net assets without donor restrictions. The Organization adopted the new standard effective for the year ended December 31, 2019. These changes have been applied retrospectively in the statement of activities; however, there was no change in the previously reported total change in net assets for the year ended December 31, 2018.

o. Recent accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which changes the accounting for leases. While both lessees and lessors are affected by the new guidance, the effects on lessors is largely unchanged. Under the new guidance, lessees will be required to recognize the following for all long-term leases: (1) a lease liability, which is the lessee's obligation to make lease payments measured on a discounted basis, and (2) a right-of-use asset, which represents the lessee's right to use (or control use of) a specific asset for the lease term. The standard will be effective for the Association for the fiscal year beginning January 1, 2021. The Organization is currently in the process of evaluating the impact of the new accounting guidance on its consolidated financial statements.

p. Reclassification: Certain amounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets.

q. Subsequent events: Subsequent events have been evaluated through October 14, 2020, which is the date the consolidated financial statements were available to be issued. On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Organization's operations, members, and suppliers or other vendors. The operations for the Organization's services could be negatively impacted by the regional and global outbreak of COVID-19, including the rescheduling or cancelling of major meetings for an unknown period of time and lower investment returns. The Organization's annual budget includes a spending allocation from the return on Board-designated investments which would be impacted by lower valuation of its long-term investments. Any quarantines, labor shortages or other disruptions to the Organization's operations, or those of its members, may adversely impact the Organization's revenues, ability to provide its services, and operating results. However, the Organization has a comprehensive continuity plan in place that addresses how the association has planned and prepared to continue operations when the Organization's staff work remotely for a significant period. The Organization's entire staff is currently telecommuting from their homes without any disruption to its operations. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Organization's members operate, resulting in an economic downturn that could affect demand for their services. As of the date of these consolidated financial statements, certain geographic regions in the U.S.A. have been required to close or reduce activity for an unknown time. The extent to which the coronavirus impacts the Organization's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others. The Organization is closely monitoring the status of membership dues, the largest source of revenue, although there are no problems anticipated in 2020. The Organization is also evaluating on an ongoing basis the feasibility of holding scheduled meetings and the impact on financial results.

2. Concentrations

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Organization.

Market risk: The Organization also invests funds in a professionally managed portfolio that contains various types of marketable securities. Such investments are exposed to market and credit risks. The Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

3. Information Regarding Liquidity and Availability

The Organization regularly monitors its financial assets to ensure sufficient liquidity to cover general expenditures and contractual commitments while also maximizing investment income and preserving capital. As a tax-exempt 501(c)(6) business league, the Organization receives dues payments each year from its members, which are available to meet annual cash needs for general expenditures. In addition, the Organization maintains a Contingency Reserve for use in the event of unplanned major expenses or a precipitous decline in revenue. The funds are invested in short-term fixed income investments with maturities less than 3 years.

The following table reflects the Organization's financial assets as of December 31, 2019 and 2018. Amounts not available include certain Board-designated funds, other than amounts authorized by the Organization's Board-approved spending policy. In the event the need arises to utilize the Board-designated funds for liquidity purposes, the reserves could be drawn upon with Board approval.

	2019	**2018**
Cash and cash equivalents - American Gas Association	$ 11,514,215	$ 11,841,545
Investments	27,958,954	24,576,844
Receivables, less allowance for doubtful accounts	957,730	639,921
	40,430,899	37,058,310
Non-qualified benefit plan assets	(2,273,981)	(3,799,047)
Board-designated IAS Reserve	(16,245,481)	(14,140,705)
Board-designated LNG 17 Reserve	(245,231)	(237,374)
Financial assets available to meet cash needs for general expenditures within one year	**$ 21,666,206**	**$ 18,881,184**

4. **CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents consist of the following as of December 31:

	2019	2018
Cash	$ 10,676,307	$ 11,860,849
Cash equivalents:		
Money market accounts	1,159,089	246,129
	$ 11,835,396	**$ 12,106,978**

Investments are recorded at fair value. In accordance with current accounting standards, the Organization uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes;

Level 2 – includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data;

Level 3 – unobservable inputs which reflect the reporting entity's assessments of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts. The Organization has no such investments.

All investments consist of mutual funds and are classified within Level 1, which were valued based on quoted prices for identical assets in active markets.

Investments are measured on a recurring basis and consist of the following at December 31:

	2019	2018
Mutual funds - fixed income	$ 15,430,656	$ 11,780,013
Mutual funds - equities	11,548,604	8,997,784
Mutual funds - blended	979,694	3,799,047
	$ 27,958,954	**$ 24,576,844**

Investment income consists of the following for the years ended December 31:

	2019	2018
Interest and dividends	$ 659,309	$ 455,720
Net gain (loss) on investments	2,663,889	(995,701)
Investment expenses	(28,497)	(26,218)
	$ 3,294,701	**$ (566,199)**

4. Cash and Cash Equivalents and Investments – Continued

Investment income is presented as follows in the consolidated statements of activities for the years ended December 31:

	2019	2018
Undesignated	$ 360,361	$ 111,186
Board-designated spending allocation	667,500	1,100,000
Investment income (deficit) in excess of Board-designated spending allocation	2,266,840	(1,777,385)
	$ 3,294,701	**$ (566,199)**

5. Property and Equipment

Property and equipment consists of the following as of December 31:

	2019	2018
Leasehold improvements	$ 4,894,642	$ 4,754,827
Equipment and software	1,912,320	1,960,367
Furniture and fixtures	1,441,074	1,426,015
	8,248,036	8,141,209
Less accumulated depreciation and amortization	(2,387,666)	(1,821,750)
	$ 5,860,370	**$ 6,319,459**

6. Deferred Compensation Plans

The Organization has a non-qualified supplemental retirement benefit plan under Section 457(f) of the Internal Revenue Code for the former President and CEO and a select group of executive staff that was approved by the Board of Directors. The plan is subject to vesting requirements that are met in accordance with the applicable provisions of the Internal Revenue Code and the plan document. For accounting purposes, the compensation to be paid is earned and accrued over the vesting period. Plan obligations amounted to $729,378 and $2,602,985 at December 31, 2019 and 2018, respectively.

The Organization also has a non-qualified deferred compensation plan under Section 457(b) of the Internal Revenue Code for a select group of highly compensated executives that was established in 2013. Employee contributions to this plan are voluntary and there is no contribution made by the Organization. Plan obligations amounted to $442,803 and $315,813 at December 31, 2019 and 2018, respectively.

7. Leases

The Organization has a lease for office space at 400 N. Capitol St., NW, Washington, DC through March 31, 2029. The Organization records rent expense on a straight-line basis over the term of the lease. A deferred rent obligation has been recorded that represents the excess of rent expense over cash payments. The lease also included a provision for a tenant improvement allowance of $2,692,000, which is being amortized over the life of the lease. The Organization also leases various equipment under operating leases. Rental expense totaled approximately $2,206,000 and $2,126,000 for the years ended December 31, 2019 and 2018, respectively.

The minimum future rental payments under these operating leases are as follows:

Year Ending December 31,	Amount
2020	$ 1,956,477
2021	1,798,687
2022	1,843,655
2023	1,889,746
2024	1,936,990
Thereafter	10,435,990
Total	$ 19,861,545

8. Defined Contribution Plans

The Organization maintains a defined contribution plan under Section 401(k) of the Internal Revenue Code. An eligible employee is defined as any employee of the Organization who regularly works more than 20 hours per week and 1,000 hours in a calendar year. The Organization matches 50% to 100% of the employee's contribution depending on the length of the employee's participation in the plan, which vests over a three-year period. Additionally, employees hired after January 1, 2010 receive an immediately vested non-elective contribution of 3-5% depending on their length of service. Effective January 1, 2017, employees hired prior to January 1, 2010 receive a non-elective contribution of 7%.

The Organization also maintains a non-qualified "benefit restoration plan" for employees whose compensation exceeds IRS limits. Plan obligations amounted to $1,101,800 and $880,249 at December 31, 2019 and 2018, respectively.

Employer contributions to these plans for the years ended December 31, 2019 and 2018 were $1,264,771 and $1,367,992, respectively.

9. Appliance Standards/Certification Liabilities

On June 30, 1997, the Association sold its subsidiary (IAS US) and joint venture interest in International Approval Services, Inc. (IAS) to the Canadian Standards Association (CSA). As a result of the sale, the Association retained responsibility for certain liability claims that may arise from equipment that was certified prior to June 30, 1997 and manufactured prior to June 30, 1998. The present value of these estimated liabilities is recorded in the consolidated statements of financial position and amounted to $515,687 and $741,820 as of December 31, 2019 and 2018, respectively.

10. Pension and Postretirement Health Benefits

Defined Benefit Pension: The Organization has the following noncontributory defined benefit pension plans:

- Qualified plan which covers approximately 35% of Organization employees. Effective January 1, 2010 the plan was closed to new entrants. Remaining plan participants had benefit accruals frozen as of December 31, 2016.
- Non-qualified plan for employees determined to be eligible by the Organization's Compensation Committee when the plan was created in 1985 (the plan was closed to new participants in 1986). No active Organization employees participate in this plan.
- Non-qualified "excess" plan for those employees whose compensation exceeds the IRS limits for the qualified plan and deemed eligible by the Organization's Board Compensation Committee. This plan was approved by the Compensation Committee and made effective January 1, 2003. Effective January 1, 2010 the plan was closed to new entrants. Remaining plan participants had benefit accruals frozen as of December 31, 2016.

Postretirement Health: The Organization provides its retirees with postretirement group medical and life insurance benefits. Eligibility is determined by a combination of hire date, retirement date, and tenure. The medical benefits provided by the Organization are coordinated with Medicare. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance. The costs of retiree medical benefits are paid from a Voluntary Employees' Beneficiary Association (VEBA). Employees hired after January 1, 2004 are not eligible for postretirement medical and life insurance benefits.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. The Organization has contracted with CIGNA, a company certified as a licensed prescription drug plan, to offer its Medicare-eligible retirees' access to fully insured prescription drug coverage beyond Medicare Part D offerings. Under this arrangement, the government subsidy is not paid to the Organization but, rather, is paid to CIGNA. CIGNA may in turn pass some or the entire subsidy on to the Organization through lower premiums.

A summary of the fair value of plan assets, benefit obligations, and funded status is as follows at December 31:

	Defined Benefit Pension Plans		Postretirement Health Benefit Plans	
	2019	2018	2019	2018
Fair value of plan assets	$ 62,270,359	$ 54,336,491	$ 9,545,803	$ 8,273,820
Accumulated benefit obligations	66,698,176	59,509,164	11,403,934	10,772,004
Funded status at end of year	$ (4,427,817)	$ (5,172,673)	$(1,858,131)	$ (2,498,184)

The funded status at end of year is recognized as a liability in the consolidated statements of financial position.

10. PENSION AND POSTRETIREMENT HEALTH BENEFITS – CONTINUED

Amounts included in the deficit in net assets without donor restrictions consist of:

	Defined Benefit Pension Plans		Postretirement Health Benefit Plans	
	2019	2018	2019	2018
Net loss	$ 10,865,967	$ 11,789,284	$ 886,110	$ 1,527,044
Prior service cost	87,645	132,584	-	-
	$ 10,953,612	$ 11,921,868	$ 886,110	$ 1,527,044

For pension plans with accumulated benefit obligations in excess of assets at December 31, 2019 and 2018, respectively, aggregate amounts were:

	2019	2018
Projected benefit obligations	$ 6,863,500	$ 6,435,427
Fair value of plan assets	-	-

Net periodic benefit cost and other amounts recognized in non-operating income are as follows:

	Defined Benefit Pension Plans		Postretirement Health Benefit Plans	
	2019	2018	2019	2018
Service cost	$ -	$ -	$ 112,147	$ 166,285
Other changes net periodic benefit cost recognized non-operating income:				
Interest cost	$ 2,435,279	$ 2,210,303	$ 405,488	$ 405,658
Return on plan assets	(2,382,118)	(2,587,012)	(523,130)	(563,475)
Amortization of prior service cost	44,936	44,936	-	-
Amortization of net actuarial (gain)/loss	497,404	469,043	16,342	137,881
Total recognized in non-operating income	595,501	137,270	(101,300)	(19,936)
Total recognized in net periodic benefit cost and non-operating income	$ 595,501	$ 137,270	$ 10,847	$ 146,349
Other defined benefit and postretirement benefit changes recognized in non-operating income:				
Change in assumptions	$ 7,537,547	$ (5,018,175)	$ 1,372,386	$ (1,247,913)
Experience (gain) loss	45,157	(235,898)	(884,451)	(378,645)
Amortization of prior service cost	(44,936)	(44,936)	-	-
Amortization of of net actuarial loss	(497,404)	(469,043)	-	(115,990)
Return on plan assets	(8,008,618)	5,629,471	(1,128,872)	889,176
Total recognized in non-operating income	$ (968,254)	$ (138,581)	$ (640,937)	$ (853,372)

10. Pension and Postretirement Health Benefits – Continued

Service costs are a component of benefits expense in the consolidated statements of functional expense and are allocated across all programs as part of the Organization's functional expense allocation.

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from the net assets without donor restrictions into net periodic benefit cost over the next year are $438,386 and $87,648, respectively. The estimated net loss for the other defined benefit postretirement plans that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $18,739.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Defined Benefit Pension Plans		Postretirement Health Benefit Plans	
	2019	2018	2019	2018
Discount rate	3.00%	4.20%	3.00%	4.20%
Rate of compensation increase	N/A	N/A	3.50%	3.50%
Expected return on plan assets	4.50%	5.50%	6.50%	6.50%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Defined Benefit Pension Plans		Postretirement Health Benefit Plans	
	2019	2018	2019	2018
Discount rate	3.00%	3.50%	3.00%	3.50%
Rate of compensation increase	N/A	N/A	3.50%	3.50%
Expected return on plan assets	4.50%	4.50%	6.50%	6.50%

The expected long-term rate of return is based upon many factors including asset allocations, historical asset returns, and current and expected future market conditions.

The discount rate is based on a review of high quality corporate bond yields with maturities approximating the remaining life of the projected benefit obligations.

10. PENSION AND POSTRETIREMENT HEALTH BENEFITS – CONTINUED

Assumed health care cost trend rates have a significant effect on the amounts reported for the Organization's postretirement plans. The assumed health care cost trend rates are as follows:

	2019	2018
Health care cost trend rate assumed for next year	5.50%	5.50%
Rate to which the cost trend is assumed to decline (the ultimate blend rate)	3.80%	3.80%
Year that the rate reaches the ultimate trend rate	2075	2075

The funding level of the defined benefit plan impacts its investment objectives. At low funding levels, the primary investment objective is to achieve full funding and the portfolio will be focused on generating returns. As funding levels rise, the investment objective will lead to the portfolio being less focused on generating return and more focused on managing volatility. In an overfunded status, the investment objective of the portfolio will be focused almost exclusively on managing volatility. Therefore, asset allocation requirements adjust as the funded status and objectives change.

The defined benefit and postretirement health plans' assets include mutual funds which are valued based on a market approach using Level 1 inputs measured on a recurring basis and money market funds which are valued at cost. The defined benefit and postretirement health plans' assets consisted of the following at December 31:

2019	Defined Benefit Pension Plans	Postretirement Health Benefit Plans
Mutual funds - equities	$ 6,241,517	$ 5,824,766
Mutual funds - fixed income	55,818,130	3,721,037
Money market funds	210,712	-
	$ 62,270,359	$ 9,545,803

2018	Defined Benefit Pension Plans	Postretirement Health Benefit Plans
Mutual funds - equities	$ 4,761,948	$ 4,786,527
Mutual funds - fixed income	49,374,847	3,487,293
Money market funds	199,696	-
	$ 54,336,491	$ 8,273,820

10. Pension and Postretirement Health Benefits – Continued

Employer contributions to the plans were as follows for the years ended December 31,:

	Defined Benefit Pension Plans	Postretirement Health Benefit Plans
2018 (actual)	$ 1,294,798	$ 100,156
2019 (actual)	$ 372,104	$ 9,962
2020 (estimated)	$ 368,269	$ -

Participant contributions to the postretirement plans were $129,513 and $124,003 for the years ended December 31, 2019 and 2018, respectively.

Benefit payments from the plans were as follows for the years ended December 31,:

	2019	2018
Defined Benefit Pension Plans	$ 2,859,003	$ 2,464,633
Postretirement Health Benefit Plans	$ 363,677	$ 363,293

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending December 31,	Defined Benefit Pension Plans	Postretirement Health Benefit Plans
2020	$ 3,379,461	484,794
2021	3,434,398	470,685
2022	5,718,915	487,804
2023	3,613,676	477,224
2024	3,694,777	494,253
2025-2029	18,418,870	2,561,930

11. Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at December 31:

	2019	2018
Undesignated	$ 20,814,662	$ 17,108,777
Board-designated IAS Reserve	16,245,481	14,140,705
Board-designated LNG 17 Reserve	245,231	237,374
Deficit arising from pension and postretirement plans funded status	(11,839,722)	(13,448,912)
	$ 25,465,652	$ 18,037,944

12. Related Party Transactions

American Gas Foundation (the Foundation) is a separate 501(c)(3) non-profit organization formed to foster and promote the advancement of education concerning the distribution and transmission of natural gas by providing educational programs and conducting research on energy and environmental issues. The Foundation shares some of the same Board members with the Organization but is not controlled by the Organization.

The Organization provides the Foundation with certain general and administrative services and program management services necessary for the performance of its programs. The cost of these activities is governed by an administrative services agreement between the Organization and the Foundation. The Foundation reimbursed the Organization for these services, which totaled $98,000 and $45,000 for the years ended December 31, 2019 and 2018, respectively. These amounts are reported as part of other programs and activities revenue in the accompanying consolidated statements of activities. The Foundation also reimburses the Organization for related support expenses incurred by the Organization on behalf of the Foundation, which totaled $40,230 and $19,886 for the years ended December 31, 2019 and 2018, respectively.

In addition to these general and administrative services, the Organization provides donated staff time to support various Foundation research studies. This in-kind contribution totaled $45,590 and $7,020 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Foundation owed the Organization $63,049 and $11,459, respectively, for billed services and expenditures made on behalf of the Foundation.

13. Commitments and Contingencies

Self-insurance: The Organization is self-insured for certain liabilities that arise in the normal course of business. Net losses incurred in excess of underlying limits, ranging from $100,000 to $500,000, on any one occurrence for general and employer's liability up to $35,000,000 are generally covered under excess liability insurance policies. Management is of the opinion that no material self-insured losses were incurred as of December 31, 2019.

Hotel commitments: The Organization has entered into contracts with hotels for future meetings and conferences. Many of these contractual agreements contain clauses whereby the Organization is liable for liquidating damages in the event of cancellation, less any insurance proceeds.

13. COMMITMENTS AND CONTINGENCIES – CONTINUED

Employment agreements: The Organization has an agreement with its current President and CEO that was approved by the Board of Directors. Under the terms of the agreement, if the Organization terminates the employee without cause, the Organization would be obligated to pay severance and benefits in accordance with the terms of the agreement. In addition, the agreement stipulates should certain goals and objectives be met each year, the Organization may be obligated to pay additional compensation.

The Organization also has employment agreements with certain executive staff that were approved by the Board of Directors. Under the terms of the agreements, if the Organization terminates the employee(s) without cause, the Organization would be obligated to pay severance and benefits in accordance with the terms of the agreements.

Exhibit D

Sierra Club Exhibit SC-07

from California Public Utilities

Commission Proceeding, Docket No.

R.13-11-005

R.13-11-005
Order to Show Cause Against Southern California Gas Company Issued December 2, 2019

Sierra Club Exhibit
Exhibit SC-07

006_Sierra_Club-SCG_01_R.13-11-005

Carney, Kevin P.

From:	Williams, Ted <TWilliams@aga.org>
Sent:	Tuesday, May 12, 2020 5:57 AM
To:	Carney, Kevin P.
Cc:	Ranfone, Jim
Subject:	[EXTERNAL] FW: Sierra Club webcast
Attachments:	AGA Comments on IAQ in California Title 24 Proceeding - RMI -AGA Internal Distribution.pdf

Hi, Kevin,

See the email below and the attachment this email. I had not kept you in the loop on this issue of IAQ and gas ranges because I was focused on working with two groups at SoCal Gas on these issues (Deanna Haines in responding to Rocky Mountain Institute in the CEC Title 24 proceeding and [redacted] et. al. in responding to the Sierra Club/UCLA study report, which is likely to become an issue before CARB). I apologize for this oversight on my part if you haven't been in touch with either of these efforts. As I mention below, I wasn't clear to me whether Deanna and [redacted] were working together. Anyway, the analysis discussed below and the attachment give you the latest information we've produced for SoCal Gas. I will include you in correspondence to come. ***Please let me know if you do not want to receive that information.***

Ted

Ted A. Williams | Senior Director, Codes and Standards
American Gas Association
400 N. Capitol St., NW | Washington, DC | 20001
P: 202-824-7313 | F: 202-824-9123 | twilliams@aga.org

The American Gas Association represents more than 200 local energy companies committed to the safe and reliable delivery of clean natural gas to nearly 69 million customers throughout the nation.

From: Williams, Ted
Sent: Tuesday, May 12, 2020 8:41 AM
To: Debra A. Kaden <DKaden@ramboll.com>; [redacted]
Cc: Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Linda Dell <ldell@ramboll.com>; Haines, Deanna <DHaines@socalgas.com>
Subject: RE: Sierra Club webcast

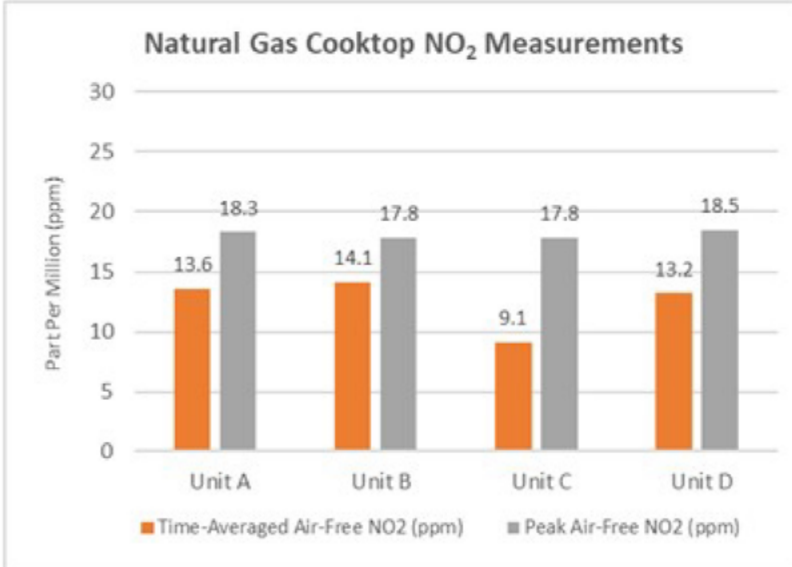
All,

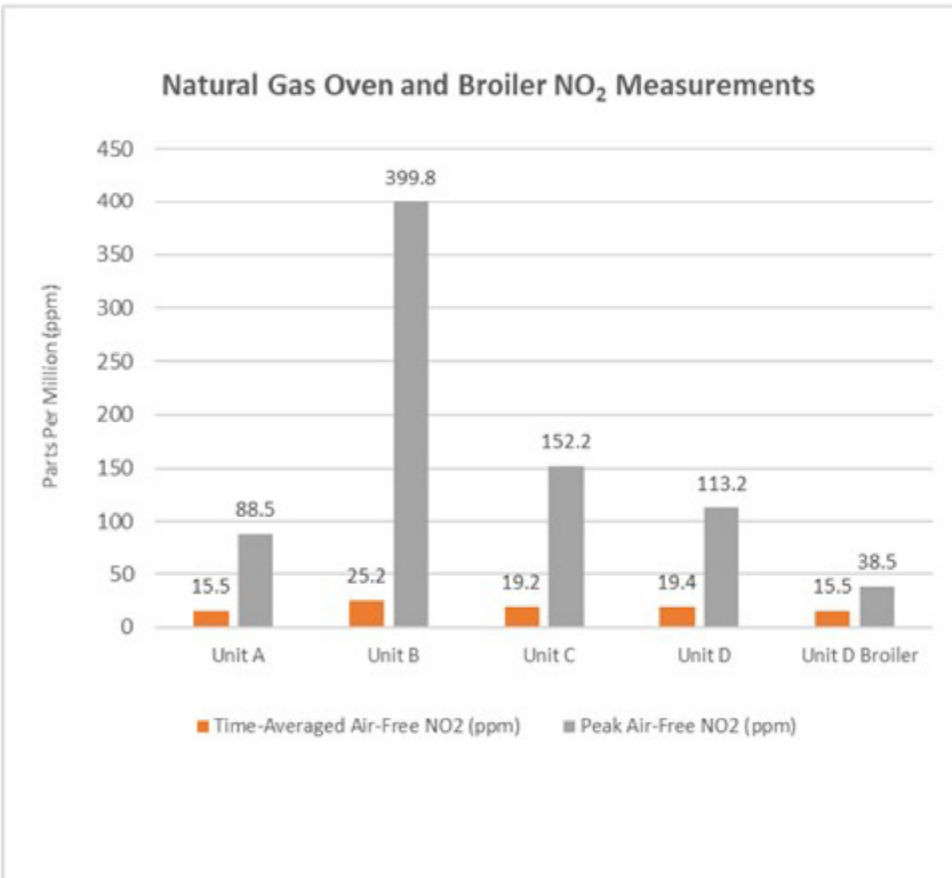
I apologize for slow response on your request summarized in the email below, but we have related work going that I think may turn out to be extremely important. That work is addressed in my second point raised below:

- We've received requests from other AGA members to provide the initial analysis of the Sierra Club/UCLA study report we did for you. We have marked the document as restricted to internal AGA distribution and have not relaxed that restriction. But if SoCal Gas approves, we wouldl send it to AGA members upon request only. I would include an essential reminder that this is a report that's targeting policy in California, and it is intended to support gas industry activities there. We have separately offered AGA members support on their respective jurisdictional challenges, but this is a separate request and one that I hadn't anticipated. ***Please let me know as soon as you can if you would approve of distribution of that 16-page analysis.***

- We have been digging into test data on NO2 emissions from natural gas cooking appliances (ranges with ovens and boilers) that was compiled by CSA Group, Cleveland, Ohio (the old AGA Laboratories) at the end of last year. That activity has pulled me off of review of IAQ claims of Sierra Club and UCLA for the immediate time, but I expect to get back to that at the end of this week at the latest. The importance of the data analysis is that, if appliance industry comments are correct, it would directly refute the statements of LBNL and others that [paraphrasing] "if EPA regulated indoor air quality for NO2, gas ranges would be banned." This statement was first made by LBNL staff in internal (newsletter) press back in 2013 but was immediately picked up in the press at that time and is now reappearing in anti-gas claims. What follows is a summary of what we found from our analysis of the CSA Group data (quoted because if follows what was provided to AGA leadership on Sunday morning):

  "Here is the reduced, time-averaged NO_2 results from the CSA Group tests, which involved four natural gas ranges (cooktops and ovens with one unit also having a broiler). Time averaging of the data was needed to produce results that are consistent with NO_2 measurements for compliance with NO_2 requirements in other standards, specifically Z21.11.2, which covers unvented heater testing and a maximum allowable time averaged air-free NO_2 emission limit of 20 ppm (again for averaged measurement data). Please keep in mind that these are emission rate concentrations are not directly comparable to exposure limits, which are in parts per billion (ppb) and are two to three orders of magnitude lower.





Oven peak and time-averaged calculations deviate much more strongly than cooktops because of thermostatic cycling of ovens. The steady-state emission rate for oven burners, set on maximum temperature, is inherently higher than for other burners on the range, but cycling of oven burners and the resulting time averaged emission rates are what's eventually relevant for kitchen exposures to NO_2. It is also important to note that the peak rates for ovens shown above are atypical of the on-cycle emission rates, which are often lower than 100 ppm. In the future, a box-whisker plot might be more illustrative. However, the relationship of the time-averaged data to peak measurements suggests another important point: it's unclear what those using test results are focusing on – peak rates, which aren't particularly relevant to exposures or average rates, which are relevant."

I shared this information and the graphs with technical representatives from the Association of Home Appliance Manufacturers (AHAM) yesterday, and their response was that they understood that ***researchers are using peak concentrations for NO2, not time-averaged concentrations***, for their conclusions about fitness of gas ranges. If this is true, it would collapse like a house of cards the exposure arguments being presented by LBNL and others. I am exploring with AHAM for evidence of this response and have done a quick review of the LBNL 2009 report, which compiled emission factors for gas products. There, I found a suggestion that LBNL may have at least conflated peak concentrations with time-averaged concentrations in their emission factors and in later occupant exposure estimates. Of course, time-averaged emissions are a much more reliable basis for emission factors and subsequent exposures. In fact, the certification of other unvented combustion appliances and NO2 emission limits In Standard Z21.11.2 (the only standard that has an NO2 limit for residential gas products and a test methods for measure and document NO2 emissions) are based upon time-averaged calculations. Furthermore, CSA Group followed the Standard's procedures for these products in their data development.

We are developing an expanded gas range testing program with AHAM to look at more appliances and additional gases. The CSA Group should not be treated as the last word on NO2 emissions for this products. We also will be trying to nail down whether or not or to what extent peak concentration emission measurements are being used in studies that are cited criticizing gas cooking appliances. But for now, I wanted you to be aware of the work we took on last week and through the weekend.

I apologize for the length of the second bullet point here, but I believed it required a discussion that could stand on its own.

I am also copying Deanna Haines of SoCal Gas on this email, so she is aware of our interaction. I hadn't made efforts to include her up to this point as she and her team prepared comments to CEC on the Title 24 proceeding. There, Rocky Mountain Institute (RMI) has made arguments similar, but not identical, to the Sierra Club/UCLA study report.

Ted

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The American Gas Association represents more than 200 local energy companies committed to the safe and reliable delivery of clean natural gas to nearly 69 million customers throughout the nation.

From: Williams, Ted
Sent: Wednesday, May 6, 2020 10:02 AM
To: Debra A. Kaden <DKaden@ramboll.com>; [redacted]
Cc: Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Linda Dell <ldell@ramboll.com>
Subject: RE: Sierra Club webcast

Thanks, Debra, for such a quick (and early your time) response. As far as the RMI report, I can table that effort especially since their webinar is today, and other AGA staff will be monitoring it. My recommendation is that AGA develop its public response without getting into the details of the technical arguments, and if it wants to get into the details, it first compare what is presented in the new report and webinar to what it presented to CEC. A first way of responding might be to simply identify inconsistencies or changing arguments, which is pretty simple to do.

I think it will be very helpful to have Linda's contributions to the review effort on the Sierra Club/UCLA study report. Based on your summary of her orientation, I think we can present some similar analysis, although I don't claim to be an epidemiologist and am not credentialed as one.

After I clear the decks today on the upcoming AHAM appliance testing program initiation (our conference call with AHAM on the program is tomorrow, Thursday, at 9:00 am. EDT), I will go forward at looking at the NO2 related citations. I will suggest that in parallel to reviewing the usage of the citations and their appropriateness, we take a look at the EPA "criteria document" coverage of the citations in development of the NAAQS for NO2 and if not covered in that document, the substantive issue coverage in the document. Because the EPA CASAC process is very thorough and well understood and documented, the criteria document provides a good benchmark for comparison to UCLA claims. I don't think that any original work since CASAC completed its work would pose any major problems in developing responses.

Ted

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The American Gas Association represents more than 200 local energy companies committed to the safe and reliable delivery of clean natural gas to nearly 69 million customers throughout the nation.

From: Debra A. Kaden <DKaden@ramboll.com>
Sent: Wednesday, May 6, 2020 9:43 AM
To: Williams, Ted <TWilliams@aga.org>; [redacted]
Cc: Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Linda Dell <ldell@ramboll.com>
Subject: RE: Sierra Club webcast

Ted:

Thank you. Allison alerted us to this Rocky Mountain Institute study yesterday and we will also be looking at it per her request. Our understanding is that the comments on the UCLA Study Report are of higher priority, but yes, you are correct that there will likely be similar themes.

For the citations in the UCLA Study Report, I am specifically interested in the NO_2 concentrations in studies. Some of the outdoor air studies may talk about NOx, however, and if so that would be useful too.

I also wanted to take this opportunity to introduce you to another member of this team from Ramboll, Linda Dell. Linda is an epidemiologist so will be more versed in many of the studies that these groups will cite, and likely inappropriately interpret. I've cc'd her on this email.

Regards,

Debbie

Debra A. Kaden, PhD, ATS
Principal Consultant

D +1 (617) 9466110
M [redacted]
dkaden@ramboll.com

*I am working from home for the foreseeable future. I am online and available at 617-946-6110 if you need to speak to me. Be well, and wash your hands!

From: Williams, Ted <TWilliams@aga.org>
Sent: Wednesday, May 6, 2020 8:34 AM
To: [redacted]
Cc: Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Debra A. Kaden <DKaden@ramboll.com>
Subject: RE: Sierra Club webcast

Hi, Allison,

The study report cites a number of studies associating NO2 concentrations with health effects but not for 'NOx," per se. To be clear, is the Ramboll team interested in NOx or NO2 studies?

Just so you are aware, yesterday's release of the following information by RMI, I've been tasked to implement several activities. First, here's the information, which I think will be of concern to the team:

> "Out this morning [Tuesday], Rocky Mountain Institute published a new report, *Health Effects of Gas Stove Pollution*. https://rmi.org/insight/gas-stoves-pollution-health
>
> Here is an accompanying blog: https://rmi.org/indoor-air-pollution-the-link-between-climate-and-health/
>
> The media release:
> http://www.prweb.com/releases/gas_stoves_causing_unhealthy_air_indoors_increasing_risks_to_respiratory_health/prweb17093612.htm
>
> According to the release, the report includes a series of recommendations including:
>
> - The Consumer Product Safety Commission should open a docket to develop a strategy for protecting residents who currently have gas stoves.
> - Manufacturers be required to certify that their appliances will not expose residents to harmful levels of NO2 and CO pollution.
> - At the state and local level, air regulators should adopt a health-based indoor air quality standard that protects the most sensitive populations, including children, the elderly and those with existing respiratory ailments.
> - State funds, including for schools and low-income housing, should not be used to purchase or install indoor appliances that expose occupants to harmful levels of gas stove pollution."

I have responded that I expect much of the new RMI report to repeat points raised in its comments to CEC on the Title 24 proceeding and the analysis of those comments I transmitted last week to Deanna Haines through her contractor, Natural Resources Strategies. Let me know if you want to see that analysis (if I haven't sent it to you already, and I will coordinate doing so through Deanna.

The bottom line out of this for me today, Wednesday, is that I am to expedite setting up a cooking appliance testing program with the Association of Home Appliance Manufactures (AHAM) for NO2, CO, particulates, and formaldehyde emissions, (which was already in the planning stage), establish contact with the Federal Interagency Committee on Indoor Air Quality (CIAQ) through its chairperson at U. S. EPA, and establish informal contact with the U. S. Consumer Product Safety Commission (CPSC) to gage its response to these attacks from RMI. All of this should wind down tomorrow, Thursday, after a planned conference call with AHAM on the testing program. At that time, I can start up on the citations you are interested in.

For now, please let me know if I will be looking at NOx or NO2 studies in the Sierra Club/UCLA study report.

Ted

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The American Gas Association represents more than 200 local energy companies committed to the safe and reliable delivery of clean natural gas to nearly 69 million customers throughout the nation.

From: [redacted]
Sent: Tuesday, May 5, 2020 5:38 PM
To: Williams, Ted <TWilliams@aga.org>
Cc: Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Debra A. Kaden <DKaden@ramboll.com>
Subject: RE: Sierra Club webcast

Ted- I spoke to the Ramboll team this morning. We think your review of the citations would be complementary to the work they are doing in reviewing the health impacts. They asked that if you note any studies that cite to the concentrations of NOx that are being attributed to the health effects, it would be helpful to share those notes immediately.

From: Williams, Ted <TWilliams@aga.org>
Sent: Monday, May 4, 2020 6:35 AM
To: [redacted]
Cc: Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Debra A. Kaden <DKaden@ramboll.com>
Subject: [EXTERNAL] RE: Sierra Club webcast

*** EXTERNAL EMAIL - Be cautious of attachments, web links, and requests for information ***

[redacted]

By my count, 210 citations in the UCLA/Sierra Club study report relate to IAQ claims associated with gas appliances, most going after cooking appliances and some presenting mitigative arguments that can work against Sierra Club advocacy. I began Friday to classify and "rate" the citations according to criticality of the claims. I would next proceed with a review of the citations, starting with those that are used in the most strident claims. Is this something that is of use to your team?

The activity is gong to take some time. I wouldn't envision completing my review before the end of the week at the earliest.

Ted

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The American Gas Association represents more than 200 local energy companies committed to the safe and reliable delivery of clean natural gas to nearly 69 million customers throughout the nation.

From: Williams, Ted
Sent: Tuesday, April 28, 2020 3:17 PM
To: [redacted]; Julia Lester <JLester@ramboll.com>; Yi Tian <ytian@ramboll.com>; Debra A. Kaden <DKaden@ramboll.com>
Subject: RE: Sierra Club webcast

All,

I'll add some points from my attendance on the webinar on IAQ and combustion:

- An initial claim was made for associating emissions (particulates and NO2) to increase susceptibility to COVID-19 infection. This is a play for emotions and appears to neglect sources and concentrations. I have two of the most recent literature citations on this relationship and when combined with exposures associated with various sources, this relationship can be put into a more reasonable technical perspective.

- My 5-minute review focused on page 42 of the Report (linked through the press release) and citations of the National Fuel Gas Code and a paper from Francisco, et. al., of University of Illinois. The quote from the report wrongly claims that unvented combustion heaters are prohibited (they are in California, but that doesn't justify the error) and the Francisco paper as illustrating that combustion is never "complete." In fact, the Francisco paper addresses methane emissions from combustion slip and leakage, the former dominated by unburned natural gas released during the ignition cycle, not unburned methane from combustion. Regardless, "incomplete combustion" of fuel gas is not an emission of IAQ concern. My general point is that if my brief review identified these problems in two separate cases, there is a high likelihood of others.

- While gas cooking was the principal focus of emission sources, the presentation strayed into backdrafting of vented appliances (water heaters and furnaces). This issue has rather solidly been addressed in work by Bohac and Brand for Building America. Also, the presenter acknowledged that the team had no information on backdrafting frequencies (and as freely acknowledged, it developed no data in the course of the project).

- Cooking emissions for CO, NO2, and NOx were presented as peaks. I didn't see any time-integrated concentrations presented, even for a one-hour comparison to short-term health standards. I'll need to look into this in more detail, but the peak-to-one hour mean relationships presented by M. Moore, et. al., in support of their kitchen range hood development activities at Braun-Newtone and other sources provide sufficient information to describe what might serve as a one-hour integrated average, which puts UCLA claims in a much clearer light.

- Cooking process emissions were not addressed in the analysis, even though they are, by far, the greatest source of particulates generated in kitchens according to numerous sources. Here, hood types and capture effectiveness is the key issue, regardless of the cooking fuel. Should cooking processes of certain types be restricted for the sake of IAQ?

- Costs of electrification alternatives were not addressed in the analysis. This would need to include appliance and circuitry costs, the latter which might be very high for "disadvantaged" Californians living in apartments where more that the outlet would need to change.

- The analysis was clearly objective driven: to build a case for electrification based on IAQ claims and literature. Is this an example of public university resources for sale? Who funded this study? The contract background materials, including the original scope of work, ought to be researched.

- As Allison points out, this is clearly a literature review, but I would argue it's more in that it "cherry picks" the literature. Since the team did not original testing (such as to quantify source emission rates), the object of further review ought to be the primary sources. We are already doing that on the RMI claims in its comments within the CEC 2022 proceeding. There, one of the key sources, the 2009 LBNL study on emissions from gas appliances operated on imported LNG compositions, we've found to have important uncertainties, at least. In response, AGA is working with the Association of Home Appliance Manufacturers (AHAM) to develop a residential cooking appliance emission source factors for CO, particulates, formaldehyde, and NO2 (the latter to supplement data we have already gathered in 2019 for four cooktop and oven ranges under highly controlled conditions. We expect to bid this additional testing competitively, and we are working with AHAM and others to develop a bidders list.

Ted

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The American Gas Association represents more than 200 local energy companies committed to the safe and reliable delivery of clean natural gas to nearly 69 million customers throughout the nation.

From: [redacted]
Sent: Tuesday, April 28, 2020 2:23 PM
To: Julia Lester <JLester@ramboll.com>; Williams, Ted <TWilliams@aga.org>; Yi Tian <ytian@ramboll.com>; Debra A.

Kaden <DKaden@ramboll.com>
Subject: FW: Sierra Club webcast

Here are the initial thoughts that I shared with a few people on our Communications team.

From: [redacted]
Sent: Tuesday, April 28, 2020 11:12 AM
To: Gilbride, Chris <CGilbride@socalgas.com>; [redacted]; Avila, Joseph S <JAvila1@socalgas.com>; [redacted]; Haines, Deanna <DHaines@socalgas.com>; Carrasco, Andy <ACarrasco@socalgas.com>; [redacted]
Cc: Mara Elana Burstein <mara@naturalresourcestrategies.com>
Subject: RE: Sierra Club webcast

A few initial thoughts from the webinar.

- The report is primarily a literature survey. Ted Williams from AGA has already noticed some incorrect application of the relevant literature. I will follow-up with him.
- The health benefits are based on reduction in Particulate Matter associated with natural gas appliances. They looked at both direct PM and indirect PM (from NOx). They based their analysis on the CARB statewide inventory. NG fuel combustion is a small part of the direct PM and NOx inventories. So, we will need to look at how they calculated their results.
- They assumed the replacement would be with all renewable electricity. They disregard the increased emissions from NG power plants, which would offset some of the PM and NOx emissions reduction.
    - They emphasized the impact on EJ communities. The reality is they would actually increase emissions in some EJ communities by pushing building electrification right now. We don't have 100% renewable electricity. CA will continue to use NG power plants for the foreseeable future. UCLA noted that 40% of power plants are in EJ communities. So, their rush to electrify punishes EJ communities.
- The IAQ discussion was similar to what we've seen before. They focused on cooking appliances. They noted other appliances are typically vented to outside. So, those results are reflected in the outdoor AQ assessment.
- Regarding cooking, they provided test results that showed NO2 levels higher than CA NO2 standards when the appliance is operated for 1 hour. I've seen similar results in other studies. However, those other studies note that episodic NO2 are short-term and do not provide a significant health risk. I'll try to find citations on this point. UCLA did note proper ventilation is key. They also claimed only 35% of homes use proper ventilation of stoves. I'll need to track down the citation.
- Sierra Club also shared a few slides on their advocacy opportunities with a focus on Rules and incentives.
- Bottom line, they have isolated on NG emissions without providing the context of our larger emissions challenges. Transportation remains the biggest source of NOx emissions and the biggest challenge for PM. SCAQMD and SJVAPCD have both prioritized clean transportation as the critical factor in improving local air quality. Sierra Club would like to see regulators provide incentives for building electrification. But, we can achieve much greater emissions reductions by focusing incentive dollars (which come from either taxpayers or NG and electric ratepayers) on the transportation sector.

I've attached screen captures of the slides, including the Sierra Club advocacy piece. I've also attached a detailed summary of the webinar prepared by one of our consultants. More to come.

From: [redacted]
Sent: Tuesday, April 28, 2020 10:37 AM
To: [redacted]>; Avila, Joseph S <JAvila1@socalgas.com>; [redacted] Haines,

Deanna <DHaines@socalgas.com>; Carrasco, Andy <ACarrasco@socalgas.com>
Subject: RE: Sierra Club webcast

Here's the link to their letter.

Welcome! All participants are muted. If you have questions, please send them on the chat privately to Rachel Connolly. All chats will go directly to the moderator and hosts. There will be time for Q&A after the presentations.

The report is available here: https://coeh.ph.ucla.edu/effects-residential-gas-appliances-indoor-and-outdoor-air-quality-and-public-health-california.

A summary blog is available here: https://www.sierraclub.org/articles/2020/04/new-study-shows-air-pollution-gas-appliances-endangers-our-health-and-how-going.

Please sign this letter calling for policymakers to protect Californians from the public health risks from gas appliances: https://addup.sierraclub.org/campaigns/protect-public-health-by-cutting-air-pollution-from-gas?_ga=2.109598725.1055387242.1588008551-1539616622.1559753852

From[redacted]
Sent: Tuesday, April 28, 2020 9:38 AM
To: [redacted]; Avila, Joseph S <JAvila1@socalgas.com>; [redacted]; Haines, Deanna <DHaines@socalgas.com>; Carrasco, Andy <ACarrasco@socalgas.com>
Subject: Sierra Club webcast

Sammy Roth and Hochschild are on the webinar. They're expecting around 200 participants.

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