



## NEWS

For Immediate Release: October 19, 2009

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### STRENGTHEN CLIMATE CHANGE LEGISLATION TO ACKNOWLEDGE ROLE OF NATURAL GAS, NGSА SAYS IN LETTER TO SENATE

(Washington, D.C.) Effective climate change legislation must acknowledge and encourage the role of natural gas in reducing carbon, treat all fuels fairly and adhere to market-based solutions, according to a letter and legislative recommendations sent by the Natural Gas Supply Association (NGSA) to Senate Majority Leader Harry Reid, D-Nevada.

“Increased use of natural gas can have a significant and immediate impact in reducing carbon emissions and should receive consideration similar to renewable energy sources as we work toward a low-carbon future,” wrote R. Skip Horvath, president and CEO of NGSA.

In the attached letter and recommendations, NGSA said it is not endorsing at this time any specific approach by which to reduce greenhouse gas emissions, however it is pleased the latest version of climate change legislation includes a clean energy and natural gas subtitle introduced by Senators Kerry and Boxer. NGSA further proposed the following measures for inclusion in any final climate bill:

- Resist efforts to allocate excessive levels of free emission allowances that subsidize high carbon emitters and mask the true price of carbon, if a cap-and-trade program is adopted. “This simply runs counter to the primary policy objective of reducing greenhouse gas (GHG) emissions,” wrote Horvath.
- Establish reliable funding mechanisms to encourage power plant owners to retire older, carbon-intensive generators in the near-term; thereby encouraging more immediate reductions in GHG emissions. Operators can construct new generation, convert existing generation or take advantage of existing unused capacity. Horvath commented, “Although combined cycle gas-fired generators are often the most modern generation facilities in service, they currently operate at only about 40 percent of capacity. Given that significant improvements in emissions can be made by existing natural gas infrastructure, providing economic incentives or emission allowances for early retirement of inefficient power plants is a win/win for generation owners and advocates of lower emissions alike.”
- Restructure any renewable energy mandate to a “Carbon Efficiency Standard,” which provides proportionate credit for increasing the use of any fuel source that contributes to lowering GHGs by replacing a higher-carbon energy source.

- Establish the point of regulation under a cap-and-trade program as close as practicable to the point of emissions. “Such a point of regulation maintains market incentives to reduce GHG impacts, encourages conservation by the consumer, minimizes administrative complexity and maximizes transparency,” said Horvath.
- Provide natural gas CCS projects the same opportunity to benefit from any economic incentives including, if provided, free emission allowances.

A copy of the letter to Senator Reid follows, as well as NGSA’s list of recommendations.

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NGSA represents integrated and independent companies that supply natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers. For more information, please visit [www.ngsa.org](http://www.ngsa.org).

**Clean Natural Gas:**  
*Smart, Secure and Essential*



October 19, 2009

The Honorable Senator Harry Reid  
Senate Majority Leader  
522 Hart Senate Office Bldg  
Washington, DC 20510

Dear Senator Reid:

The Natural Gas Supply Association (NGSA) makes several recommendations for your serious consideration as you work toward climate legislation. NGSA is not endorsing at this time any specific approach by which to reduce greenhouse gas emissions, however we are pleased that the latest version of climate change legislation includes a clean energy and natural gas subtitle introduced by Senators Kerry and Boxer. We hope you and your colleagues will continue to recognize and strengthen the bill's provisions to more fully acknowledge the important role that natural gas will play in helping the country efficiently achieve carbon reductions while increasing our nation's security.

Thanks to advances in drilling techniques and new seismic technology, the U.S. has nearly 40 percent larger natural gas resource base than estimated even three years ago and, with environmentally responsible access to federal lands and offshore areas, this nation can increase the amount of domestic natural gas used to generate electricity while still meeting the demand for affordable home heating, as well as business and industrial use.

We believe that if climate change legislation is adopted, it should encourage behaviors that reduce greenhouse gas (GHG) emissions, provide for market-based solutions to the extent possible, and treat all forms of energy fairly so that no low-carbon source of energy is disadvantaged. The following NGSA recommendations further these objectives.

If a cap-and-trade program is established, we believe the Senate should stand firm and *resist efforts to allocate excessive levels of free emission allowances that subsidize high carbon emitters and mask the true price of carbon* for decades to come. This simply runs counter to the primary policy objective of reducing greenhouse gas emissions. The best means by which to shift our economy to lower-carbon sources of energy, in the near-term, is to let the market work.

NGSA asks that Congress *establish mechanisms to encourage power plant owners to retire their inefficient generators in the near-term; thereby encouraging more immediate reductions in GHG emissions*. These mechanisms could include funds or allocations of free emission allowances to be used to construct and/or operate more efficient generation facilities. Similar

ideas have also been advanced by America's Natural Gas Alliance (ANGA) with its "Bridge Fuel Credit" proposal as well as by the Center for American Progress which suggested retiring "old, dirty power plants" to save money and reduce emissions."<sup>1</sup> Economic incentives or emission allowances should be provided to those companies that choose to retire older high-emitting plants and to rely more heavily upon existing lower-carbon generation, as well as to those companies that may need to construct new gas-fired generation to replace existing carbon-intensive generating sources, and those that may choose to convert existing power plants to burn natural gas rather than other fossil fuels.

Although combined cycle gas-fired generators in the U.S. are often the most modern generation facilities in service, they currently operate at only approximately 40 percent of their capacity. If these existing facilities were more fully utilized, it would immediately decrease the country's level of GHG emissions in the near-term without requiring the construction of replacement facilities. Furthermore, in those instances where replacement of generation facilities is determined to be required, provisions could be designed to encourage replacement of high-carbon emitting facilities with new-build or existing natural gas generation facilities that will expeditiously decrease GHG emissions. Overall, given that significant improvements in emissions can be made by existing natural gas infrastructure, providing economic incentives or emission allowances for early retirement of inefficient power plants is a win/win for generation owners and advocates of lower emissions alike.

Finally, it is critical that the incentives be provided through a reliable funding mechanism, which could be economic incentives or a portion of the free emission allowances contained within any climate change bill that is ultimately enacted.

Increased use of natural gas can have a significant and immediate impact in reducing carbon emissions and should receive consideration similar to renewable energy sources as we work toward a low-carbon future. If Congress implements a national renewable energy mandate, NCGA asks that you *restructure the mandate to a "Carbon Efficiency Standard," which provides proportionate credit for increasing the use of any fuel source contributing to lowering greenhouse gases by replacing a higher carbon energy source.* At a minimum, companies should be allowed to use natural gas generation as a safety valve in the form of "electricity savings" for meeting their Renewable Energy Standard (RES) targets or in lieu of paying "alternative compliance payments" or penalties in any final bill containing an RES.

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<sup>1</sup> "Using money from the sale of greenhouse gas pollution allowances under a cap-and-trade program, we could create economic incentives to foster the rapid shutdown of dirty, decades-old coal belchers in exchange for renewable-gas hybrid generation or combined cycle gas power plants. Any transition must ensure strong protections for affected workers and communities." John D. Podesta & Timothy E. Wirth, Center for American Progress & Energy Future Coalition, "Natural Gas: A Bridge Fuel for the 21st Century" at 5 (August 10, 2009).

In a cap-and-trade program, the point of regulation should be as close as practicable to the point of emissions. Such a point of regulation maintains market incentives to reduce GHG impacts, encourages conservation by the consumer, minimizes administrative complexity and maximizes transparency.

NGSA supports allocations of free emission allowances as well as funding for research and development for carbon capture and sequestration (CCS) for natural gas. To date, attention has been focused on using CCS with coal, yet advancements in CCS for natural gas applications have an equally promising future that cannot be ignored. We urge the Senate to *afford natural gas CCS projects the same opportunity to benefit from any economic incentive, including, if provided, free emission allowances* that are currently only designated for coal in House-passed legislation.

Enclosed is an outline that lists each of the recommendations mentioned above. The outline contains other important objectives we ask that you consider as the Senate moves forward with climate legislation. We are still evaluating many of the proposals outlined in the most recent bill and may have further thoughts as the markup process continues. We look forward to working with you and your colleagues to ensure that America has the opportunity to take full advantage of its domestic clean-burning natural gas.

Sincerely,

A handwritten signature in black ink that reads "R. Skip Horvath". The signature is written in a cursive, flowing style.

R. Skip Horvath  
President and CEO  
Natural Gas Supply Association

cc: Members of the United States Senate