



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.”¹ 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, NCSA 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.

¹ "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

RECOMMENDATIONS ON CLIMATE LEGISLATION

Natural Gas Supply Association

The Natural Gas Supply Association (NGSA) proposes that any climate legislation adhere to the following guiding principles:

- **LEVELS** the playing field so natural gas is not disadvantaged
- **PROVIDES** market-based solutions
- **ENCOURAGES** behaviors that lower greenhouse gas emissions

To ensure that any current and future climate legislation includes provisions that recognize the critical role natural gas will play in achieving national environmental and energy security objectives, NGSA recommends the following:

- 1. Free emission allowances should not favor one energy source over another and should not run counter to the objectives of reducing greenhouse gas (GHG) emissions.**
 - Refrain from providing an inordinate share of allowances to coal given that it eliminates the incentive for generators to convert to cleaner-burning fuels.
 - Encourage and/or provide economic incentives or emissions allowances for early retirement, fuel switching or replacement of high-emitting generators in order to encourage more expedited reductions in GHG emissions.
 - Any incentives for early retirements should be provided through a reliable funding mechanism.
- 2. Market-based solutions should determine the best mix of energy sources needed to meet carbon reduction targets.**
 - If mandates are required (e.g., Renewable Energy Standard or RES), utilities should have the option to use energy sources that substantially reduce carbon emissions from their current levels and are not focused specifically on zero carbon renewable sources of energy.
 - Institute a carbon efficiency standard (CES) that provides proportional credit toward the overall RES reduction through use of low-carbon solutions.
 - Alternatively, allow a natural gas safety valve in which savings from conversions to natural gas generation are counted toward RES compliance.

- 3. In any climate legislation, under a cap-and-trade program, the point of regulation must be as close as practicable to the point of emissions to encourage behavior that will lead to reductions in GHG emissions.**
- 4. Allow natural gas carbon capture and sequestration (CCS) projects to benefit from research and development funding and free emission allowances in the same manner as coal projects.**
 - Fairly disperse CCS gas project research and development funds between natural gas and coal.
 - Specify natural gas as eligible for CCS research and development funding. Alternatively, refrain from specifying coal.
 - Allocate funds based on relative plant emissions.
 - Ensure natural gas producer representation on the board and
 - Include natural gas producer trade groups in the consultation process for nominations and appointments to the board.
 - Use fuel neutral criteria for determining plant eligibility for CCS allowances in a cap-and-trade program. Do not cap allocations of CCS allowances to industrials.
- 5. Incorporate full fuel-cycle efficiency labeling on consumer products which allows consumers to make better-informed decisions when deciding how to reduce their carbon footprint.**
- 6. Fund high efficiency natural gas turbine research and development.**

NGSA represents the major and large independent suppliers of natural gas whose current production provides approximately 30 percent of the natural gas produced in the United States. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes competitive markets to ensure a reliable and efficient supply and transportation of natural gas to meet the needs of U.S. customers.