



OUTLOOK FOR ENERGY POLITICS AND POLICY

Three topics:

- A look back at the 110th Congress
- Observations about energy policy, natural gas and the future
- Let's talk politics



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- Climate change legislation
- Access/environmental issues
- Tax issues



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Climate change issues:

- Cap and trade vs. carbon tax
- Timetable and degree of reductions
- Target major emitters vs. comprehensive
- Where does the money go?
- Point of regulation



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Senate bill:

- cap and trade
- 60% (or so) reduction by 2050
- comprehensive
- money went to utilities, government programs (nothing for gas)
- For oil and gas, upstream point of regulation



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- Estimates vary, but \$20/ton-\$40/ton fairly common (EEI much higher)
- Every \$10/ton = \$.53/Mcf
- At \$40/ton, industry impact about \$45 billion



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Point of enforcement critical:

- Some advocate upstream approach
- Producers don't believe full pass through could be achieved immediately
- Absent pass through, drilling budgets will be cut



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Industry united behind AGA proposal

- Cover gas used by utilities and industrial emitters
- For residential users, allow LDCs to work with state commissions on efficiency programs. Future coverage in program if goals not met



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While it might seem the momentum for legislation has slowed...

- the Supreme Court decision is driving EPA
- state and regional programs moving forward
- Federal legislation may be preferable



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There was also energy legislation. House D's proposed to:

- Slow permitting
- More regulation
- Restrict access



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The Rahall proposals:

- intended to “pause” drilling
- would have repealed progress made in '05 Act
- would have created new obstacles to permitting



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Chairman Rahall's response when asked by reporters how many of the Natural Resources Committee provisions were kept in the final bill:

"Zippo"



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This year, the Democratic mantra
became:

“use it or lose it”

It's the companies fault supplies are tight!



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- But when gasoline prices went sky high “use it or lose it” was overwhelmed by:

Drill, baby, drill!



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Compromise proposal on OCS drilling:
Amount of new drilling out to 50 miles: 0
Between 50 and 100 miles: state option
Past 100: open

Passed House on party line vote; died in
Senate



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More importantly:

- House Democrats failed to extend the moratorium in the budget resolution, ending 26 years of drilling prohibitions on the OCS.
- How long will the victory last?



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Access and taxes:

- access issues fought to a draw
- the industry appears to have dodged a major bullet on taxes



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Looking forward, we have a problem:

We don't know what we really want!



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Conflicting messages on natural gas:

- Supplies are tight/need more access, drilling/prices too high/industrial users being driven overseas

OR...

- Reserves are plentiful/don't worry about gas use for power generation/convert vehicles to cng.



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From the industrial users:

IECA also strongly oppose provisions that provide monetary incentives and mandates to use compressed natural gas (CNG) as a motor vehicle fuel. Increasing demand without first significantly increasing supply could devastate the manufacturing sector that relies upon natural gas for both fuel and feedstock. We have lost over 3.0 million high paying manufacturing jobs since 2000 and high natural gas prices have played a significant role.



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From the Clean Skies Foundation:

... in the U.S., production levels are at their highest level in six years . Recent estimates in North America alone indicate that we have ... 2,705 Tcf – more than 120 years of supply. And that estimate was just increased by 16.6% in the last 2 years for the U.S., with most of the increase being found onshore in the Mid-Continent of the U.S.



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For natural gas, can we agree on an agenda:

- Do we have a stake in the OCS debate?
- Can we ever speed permitting on onshore federal lands?
- APGA and pipelines still fighting over rate policy; GAO study possible



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For natural gas, can we agree on an agenda:

- Do we promote gas-fired power plants as an alternative to coal?
- Do we push again on CNG vehicles?
- Are we a “bridge” fuel to a renewable future or a permanent part of our fuel mix?



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- We have a standing invitation from Hill supporters to draft proposals to advance the natural gas agenda. We've not come up with much.



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OK, what about next year?



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Obama and McCain points of general agreement:

- Cap and trade greenhouse gas controls
- Lot's of incentives, subsidies for alternative fuels/conservation
- Support CCS
- Upgrade electric grid



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Obama and McCain points of difference:

- Obama has more aggressive greenhouse gas plan
- Obama supports RPS
- McCain more supportive of nuclear
- Obama more aggressive on efficiency and biofuels



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Other issues:

- Resolution of OCS issue
- Continued pressure on tax issues
- Whither BLM/MMS policy?
- Pipeline safety
- Will anti-infrastructure sentiment gain?



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Biggest threats:

- Bad climate policy
- Reduced access
- Attacks on FERC primacy in approving facilities
- EPA/Interior policy



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- My prediction: Bad things will only happen if we are divided as an industry.
- LDCs need to care about producer issues; producers/pipelines need to care about LDC/market issues
 - Climate change debate was a good example of coming together



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Are there opportunities?

- Everybody buys the “natural gas as a bridge fuel” argument
- We can do well in a carbon constrained, energy security conscious world
- Together, we are hard to beat



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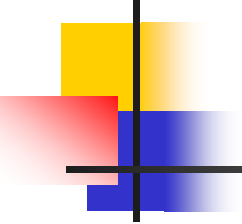
We have elections!

OK, let's review...



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- In the Senate, Democrats have 51 seats, counting Lieberman.
- Ds need 60 votes to break filibusters
- Rs have 23 seats up, Ds 12



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The Senate:

- Ds likely to pick up VA and NM.
- Potential R losses include AK, CO, MN, NC, OR, NH and MS



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The House:

- Predictions are all over the lot, but a pickup of 15-20 seats by D's possible
- Rs are energized by Palin and claim that things are better for them than being reported