



October 19, 2009

The Honorable Michael Bennet
702 Hart Senate Office Building
Washington, DC 20510

The Honorable Lisa Murkowski
709 Hart Senate Office Building
Washington, DC 20510

Dear Senators:

The Interstate Natural Gas Association of America (INGAA) appreciates your September 23rd letter to Chairwoman Barbara Boxer, concerning natural gas in the context of climate and energy legislation. INGAA endorses the policy initiatives outlined in your joint letter and we look forward to working with you to ensure that the priorities you and your colleagues have outlined are incorporated into a Senate climate and energy measure.

The emerging domestic natural gas supply picture, coupled with a significant expansion of pipeline infrastructure, provides policymakers with good reason to be confident that domestic natural gas can be a principal contributor to achieving the nation's energy and environmental objectives. As you review the Kerry/Boxer legislation with an eye toward how it addresses natural gas matters, INGAA shares the following comments and suggestions.

Natural Gas Pipeline Cost Recovery: Interstate natural gas pipelines are the only regulated industrial source in the Kerry/Boxer bill that cannot unilaterally adjust the price of their product/service to reflect the costs associated with compliance. Instead, these pipelines must seek approval from the Federal Energy Regulatory Commission (FERC) to recover such costs in the rates charged for pipeline transportation service. Traditional rate case proceedings are poorly suited for authorizing the recovery of costs incurred quarterly or annually by pipelines to meet their obligation to purchase emission allowances. Such costs are likely to be volatile and unpredictable, unlike the costs that pipelines typically include for recovery in a general rate case filing. Furthermore, pipelines will have few, if any, options to mitigate or control the costs incurred to acquire such allowances. The bill does not provide free allowances to pipelines, nor is INGAA requesting such an allocation. Rather, INGAA requests that legislation expressly authorize the FERC to establish a special rate "tracker" process for regulated pipelines to recover the cost of compliance. Your September 23rd letter endorsed this proposal, which was not included in the Kerry/Boxer bill. We urge you to seek a cost recovery mechanism for pipelines in future versions of the legislation.

Fugitive Methane Emissions: The Kerry/Boxer bill is a significant improvement over the House climate legislation in its treatment of fugitive methane emissions from natural gas pipeline systems. Rather than requiring the Environmental Protection Agency (EPA) to create performance standards for such emissions, as is the case with the House legislation, the Kerry/Boxer bill acknowledges the potential for fugitive methane emission reductions to lower program costs, permitting EPA to count these projects as domestic offsets. This is consistent

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with the request in your September 23rd letter. Still, the Kerry/Boxer bill only delays the implementation of a performance standard for fugitives until at least 2020, and therefore only permits such reductions to be counted as offsets until performance standards are in place. INGAA suggests that the performance standard be eliminated altogether, so that these offsets can continue past 2020. We believe that fugitive methane emission reductions would represent a low-cost source of domestic offsets that will be a valuable means of compliance well beyond 2020. Incentives for emission reductions are usually more cost-effective than mandates. Therefore, INGAA suggests that the Kerry/Boxer bill take this good idea one step further.

Federal Preemption: INGAA members operate pipeline systems that span multiple states and often multiple regions of the country. A hodge-podge of state or regional greenhouse gas regulations would undermine the cost-effective management of these pipeline systems and ignores the inherently interstate nature of our facilities and this commerce. To provide an effective response to what is, after all, a global issue, INGAA believes that federal climate change policy must preempt state and regional cap-and-trade systems, greenhouse gas reporting requirements, and greenhouse gas reduction performance standards. The Kerry/Boxer bill, unfortunately, goes in the wrong direction by encouraging states to develop their own greenhouse gas programs and regulations. INGAA hopes that you will support a federal response that includes clear federal preemption of duplicative state regulations and that also supersedes any inconsistent regulations adopted pursuant to other federal statutes.

Appropriate CCS and Other R&D Incentives for Natural Gas: Your September 23rd letter highlighted the absence of Carbon Capture and Sequestration (CCS) technology incentives for natural gas applications. Given the aggressive emissions reduction goals of the Kerry/Boxer bill, CCS technology will be just as important for the future use of natural gas as it will be for the future use of coal. The Kerry/Boxer bill includes a “placeholder” provision on natural gas CCS technology development. This provision, however, is subject to funding through future appropriations rather than through the funding mechanisms in the legislation. Natural gas CCS technology development and support should not be on terms that are less advantageous as those provided for CCS applications intended for coal. In addition, the Kerry/Boxer bill would authorize a program for natural gas end-use technology development, which INGAA supports. Still, we suggest that this research and development program be expanded to include efforts focused on improving the emission performance of natural gas transmission facilities (such as compressor engines).

Appropriate Expansion of Natural Gas Usage: The Kerry/Boxer bill also includes a “placeholder” provision that would provide financial incentives to operate higher efficiency natural gas-fired electric generation facilities. This provision represents an important recognition of the benefits of using natural gas as a means to reduce greenhouse gas emissions. Still, as now drafted, the provision is subject to funding through future appropriations, rather than being funded via allowances or revenues from the sale of allowances. While we appreciate the “placeholder” status of this provision, it is imperative that provisions in the final bill intended to promote consideration of natural gas as a compliance option have a less tenuous foundation.

Natural gas can compete in the carbon-constrained market based on its inherent price, availability and environmental performance attributes, so long as legislation does not put it at a competitive disadvantage relative to other sources of energy. Recent developments, such as the announcement by the Potential Gas Committee that the U.S. natural gas resource base jumped by a record 35 percent in just the last two years, inspire great confidence that domestic natural gas can be a cornerstone of our nation's energy portfolio for generations to come. INGAA applauds the efforts of the Energy Future Coalition, America's Natural Gas Alliance, the American Gas Association and others that are informing the debate on energy and climate policy by highlighting the abundance of domestic natural gas. INGAA believes that the Kerry/Boxer bill should ensure natural gas the opportunity to compete as a reliable, efficient and cost-effective energy source for consumers, as well as a compliance option.

Given the important role that natural gas can play in reducing emissions nationwide, particularly during the early years of a climate change program, INGAA hopes you will continue to press for provisions that allow for the appropriate expansion of natural gas utilization.

Thank you once again for your leadership in advancing the appropriate use and treatment of natural gas in climate and energy legislation. Please let us know if INGAA can further assist your efforts.

Respectfully,

A handwritten signature in blue ink, appearing to read "D. F. Santa, Jr.", with a stylized flourish at the end.

Donald F. Santa, Jr.
President

cc: The Honorable Mark Udall
The Honorable Arlen Specter
The Honorable Mark Begich
The Honorable Tom Udall
The Honorable Mary Landrieu
The Honorable David Vitter
The Honorable Sam Brownback
The Honorable Barbara Boxer