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New Task Force Report Sees Promise in More Stable Natural Gas Prices from Combination of Shale Gas, Long-Term Supply Contracts, and Infrastructure

Top Experts Cite Profound Impact of Shale Gas on Moderating Future Price Variability

(Washington, DC) A national producer—consumer Task Force convened by the Bipartisan Policy Center (BPC) and the American Clean Skies Foundation (ACSF) issued a report today finding that the growth of shale gas production “reduce[s] the susceptibility of [natural] gas markets to price instability and provide[s] an opportunity to expand the efficient use of natural gas in the United States.”

The Task Force’s 70-page report, the result of a yearlong review, calls on governments to “encourage the development of domestic natural gas resources, subject to appropriate environmental safeguards” given that the efficient use of gas has the potential to reduce harmful air emissions, enhance energy security and improve the prospects of U.S.-based energy-intensive manufacturers.

With a more stable price horizon for natural gas, the report also urges state public utility regulators and industry to consider making greater use of longer term supply contracts. “Rules that unnecessarily restrict the use of or raise the cost of long-term contract and hedging tools for managing supply risk should be avoided,” the Task Force said.

“We have a good problem,” said Task Force co-Chair, Norm Szydlowski, Bipartisan Policy Center and President and CEO of SemGroup Corporation. “Finding more natural gas provides an opportunity that is as much unparalleled as it was unexpected. Fundamental changes that have taken shape in the domestic supply and demand balance for natural gas, including an unprecedented level of available storage and import capacity, should allow markets to function more efficiently and fluidly in the future,” said Szydlowski.

“The extensive work of this diverse, expert panel identifies a small number of practical regulatory and policy measures that can provide the necessary confidence to support new

investment in efficient applications of natural gas,” said Ralph Cavanagh, Senior Attorney and Co-Director of the Energy Program at Natural Resources Defense Council. “If the industry can meet high standards of environmental performance for extracting and delivering the fuel, we are looking here at very good news for America’s economy and industrial competitiveness, the environment, and our nation’s energy security.”

“The Task Force findings and recommendations reflect optimism that the robust supply horizon for natural gas presents fresh opportunities—not only to move beyond prior price volatility concerns shared by both consumers and producers, but to develop new tools for managing price uncertainty,” said Marianne Kah, Chief Economist, Planning and Strategy of ConocoPhillips. “With sound policies, the nation can capitalize on this abundant natural gas supply and convert it into intelligent energy progress.”

“With U.S. natural gas now one-fourth the price of oil on an energy equivalent basis, it is further welcome news to consumers that, with the right policies, U.S. natural gas appears poised to enter into an era of greater price stability,” said Paula Gant, Senior Vice President for Policy and Planning of the American Gas Association.

“The fact that a diverse Task Force like this could reach a consensus on these particular findings and recommendations was unexpected,” said Task Force co-Chair Gregory C. Staple, CEO of ACSF. “This consensus suggests that, although we may have a stalemate on many other energy issues, there is at least one important area – natural gas – where progress is within reach,” Staple added.

Background

Interest has grown recently in natural gas as a cleaner, low-carbon, low-cost alternative to other fossil fuels in the electric power and industrial sectors. For example, in his State of the Union address, President Obama called for a federal clean energy standard for generating electricity that could be partly satisfied by using more domestic natural gas.

The Task Force was jointly convened by the BPC and ACSF in March 2010 to examine historic causes of instability in natural gas markets and to explore potential remedies. Task Force members, listed below, represent natural gas producers and distributors, consumer groups and large industrial users, as well as independent experts, state regulatory commissions and environmental groups.

Key Task Force Findings and Recommendations:

1. Recent developments allowing for the economic extraction of natural gas from shale formations reduce the susceptibility of gas markets to price instability and provide an opportunity to expand the efficient use of natural gas in the United States.
2. Government policy at the federal, state and municipal level should encourage and facilitate the development of domestic natural gas resources, subject to appropriate

environmental safeguards. Balanced fiscal and regulatory policies will enable an increased supply of natural gas to be brought to market at more stable prices. Conversely, policies that discourage the development of domestic natural gas resources, that discourage demand, or that drive or mandate inelastic demand will disrupt the supply-demand balance, with adverse effects on the stability of natural gas prices and investment decisions by energy-intensive manufacturers.

3. The efficient use of natural gas has the potential to reduce harmful air emissions, improve energy security, and increase operating rates and levels of capital investment in energy intensive industries.
4. Public and private policy makers should remove barriers to using a diverse portfolio of natural gas contracting structures and hedging options. Long-term contracts and hedging programs are valuable tools to manage natural gas price risk. Policies, including tax measures and accounting rules, that unnecessarily restrict the use or raise the costs of these risk management tools should be avoided.
5. The National Association of Regulatory Utility Commissioners (NARUC) should consider the merits of diversified natural gas portfolios, including hedging and longer-term natural gas contracts, building on its 2005 resolution. Specifically, NARUC should examine:
 - a. Whether the current focus on shorter-term contracts, first-of-the-month pricing provisions and spot market prices supports the goal of enhancing price stability for end users,
 - b. The pros and cons of long-term contracts for regulators, regulated utilities and their customers,
 - c. The regulatory risk issues associated with long-term contracts and the issues of utility commission pre-approval of long-term contracts and the look-back risk for regulated entities, and
 - d. State practices that limit or encourage long-term contracting.
6. As the Commodity Futures Trading Commission (CFTC) implements financial reform legislation, including specifically Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Pub. L. 111-203), the CFTC should preserve the ability of natural gas end users to cost effectively utilize the derivatives markets to manage their commercial risk exposure. In addition, the CFTC should consider the potential impact of any new rulemaking on liquidity in the natural gas derivatives market, as reduced liquidity could have an adverse affect on natural gas price stability.
7. Policy makers should recognize the important role of natural gas pipeline and storage infrastructure and existing import infrastructure in promoting stable gas prices. Policies to support the development of a fully functional and safe gas transmission and storage infrastructure both now and in the future, including streamlined regulatory approval and options for market-based rates for new storage in the United States, should be continued.

Complete copies of the Task Force report along with a library of original commissioned research can be found at www.bipartisanpolicy.org/naturalgas and www.cleanskies.org/PriceStabilityTaskForce

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About the American Clean Skies Foundation

The American Clean Skies Foundation, a Washington-based nonprofit, supports energy independence and a clean, low-carbon environment through expanded use of natural gas, renewables and efficiency. For more information, visit www.cleanskies.org.

About the Bipartisan Policy Center

The Bipartisan Policy Center (BPC) is a non-profit organization that was established in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole and George Mitchell to develop and promote solutions that can attract public support and political momentum in order to achieve real progress. The BPC acts as an incubator for policy efforts that engage top political figures, advocates, academics and business leaders in the art of principled compromise. For more information, please visit our website: <http://www.bipartisanpolicy.org>

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