AXPC American Exploration & Production Council

## Climate Policy: Wrong "Cap and Trade" Approach Will:

**Reduce Our Nation's Supply of Clean Natural Gas**
**Increase the Cost to Consumers**
**Have No Real Impact on Climate Change**

Clean, domestic sources of energy are critically important for America's Energy Security. Our leaders should be crafting policies that encourage the production of clean natural gas as a bridge that can get us years into the future when additional alternative forms of energy are more readily available and affordable.

Any climate "cap and trade" legislation requiring domestic natural gas processors and/or producers to buy allowances for emissions generated by the end consumer of the natural gas will discourage production, thereby reducing supply, increasing the costs to consumer with no real impact on global climate change.

Consider:

- Natural gas exploration and production companies make very significant investments and routinely devote 100 percent of their cash flows and more than their annual earnings to find, develop and produce clean natural gas supplies from within our own secure borders.

- This investment is critical because of the steep and accelerating decline rates of new gas wells – drilling activity must keep pace with the need for additional supply – and the demand for clean-burning natural gas is projected to increase under any new climate policy.

- If natural gas producers or processors are required to buy allowances for emissions generated by downstream gas consumers, it is highly unlikely that those costs will be passed through to consumers – and those costs certainly could <u>not</u> be passed through to the consumer in the near term – because:

    - there are contracts that do not permit charging for emission allowance payments; and,
    - natural gas prices at the burner-tip or end-use are determined by market forces, not upstream costs.

- If natural gas producers are required to pay for allowances for emissions generated by the end consumer of the natural gas, those costs will require budget re-balancing, resulting in an overall reduction in natural gas exploration and production investment.

- A reduction in exploration and production investment will result in a reduction in the necessary drilling activity required to offset production decline rates.

- Fewer natural gas wells will result in production shortfalls and an overall reduction in natural gas supplies available to consumers at a time when the demand for natural gas, the cleanest-burning fossil fuel, will be increasing in order to meet new climate goals.

- Less natural gas supply in the face of increased demand will drive consumer prices sharply higher.

- Higher prices will cause consumer hardship and drive more gas-dependent industries overseas, resulting in domestic job losses.

- Furthermore, there will be no incentive for natural gas consumers to reduce their emissions because all consumers will pay the same price for natural gas, regardless of their actual emissions.

3-14-09