

## **America's Natural Gas Alliance**

### **Bridge Fuel Credits Encourage Clean Domestic Energy Use**

- The House-passed H.R. 2454, American Clean Energy and Security Act of 2009 (ACES), includes a free allowance scheme intended to help reduce the transition costs in moving to a cleaner, more efficient energy economy. Unfortunately, the way these free allowances were distributed undermines the goal of emission reduction by preserving the status quo of coal for the next decade.
- Instead of preserving the status quo, an allowance plan should help transition us to a clean energy portfolio as quickly and as economically as possible. This means encouraging near-term reductions where available, and promoting technology development over the mid- and long-term.
- Because natural gas has roughly half the carbon content of coal and can be burned substantially more efficiently, natural gas is the right bridge fuel to help make that transition timely and affordable.
- A Senate climate bill that allocates free allowances should include allowance incentives called Bridge Fuel Credits that encourage earlier and increased use of cleaner burning natural gas.
- Bridge Fuel Credits (BFC) will provide the needed incentive to encourage companies to substitute lower-carbon fuels for higher-carbon fuels, where practicable, and it can provide an additional way to meet compliance obligations. A utility could earn a BFC for each metric ton reduction of greenhouse gas (GHG) emissions it achieves using clean natural gas instead of another higher emissions intensity fossil fuel.
- Maintaining the integrity of the cap with the new additive BFC is feasible. There are several ways to accomplish this goal. For example, a small reallocation (in the range of 2-3%) of the free allowances could support the inclusion of BFCs. Alternatively, the BFCs could be included within the cap by allotting a small portion of the allowances that would otherwise be auctioned. Or, the BFCs could be incorporated into a modified pool of international offsets. Modifying the pool of international offsets would lead to increased domestic investments in clean energy and real emission reductions within the U.S. to meet our climate targets.
- The addition of BFCs to an allowance scheme effectively promotes the use of clean, domestic, and abundant natural gas and accelerates the achievement of emission reductions in the U.S.

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### **Modifying International Offsets with Domestic Offsets**

- The House-passed H.R. 2454, American Clean Energy and Security Act of 2009 (ACES), provides a diminishing number of free allowances to certain sectors to help mitigate energy cost increases due to the cap-and-trade program. ACES also tries to mitigate costs by establishing an offset scheme. An offset scheme allows a company to meet its emission targets by paying others to reduce their emissions.
- ACES establishes a pool of international and domestic offset credits – limited to 2 billion CO<sub>2</sub>e tons/year as a way for covered entities to satisfy a portion of their emissions allowance obligation. Offsets can be used to comply with 30% of emission allowance obligations starting in 2012 and reach 60% by 2050. Each capped entity may use international offset credits to supply half of its allowed offset credit compliance portion and domestic offset credits to supply the other half. If all covered entities maximize their allowed offsets use, the total quantity of offsets used will be approximately 2 billion tons.
- Domestic offset credits would be issued by EPA and the USDA for activities that reduce or sequester emissions in the U.S. International offset credits would be issued by EPA for activities that reduce or sequester emissions in a developing country.
- It is critical that offsets be valid and verifiable for the cap-and-trade program to work. Many academics have expressed skepticism about the merits of international offset projects and there have been reports of alleged fraud and abuse of that market.
- Oversight and verification of domestic offset projects will arguably be better and more stringent than over international offset projects.
- Focusing offset credits in the domestic market means:
  - making real reductions in emissions here in the U.S.
  - keeping investments in clean energy here in the U.S.
  - keeping JOBS in the U.S.
- International offsets should be carefully phased in, while domestic Bridge Fuel Credits and agricultural offsets can serve to support domestic reduction projects and clean energy jobs in the U.S. The phasing in of international offsets could be accomplished in a range of ways, including:
  - *Reduction of Offsets Allowed under the Statute.* Reduce or very substantially cut back (~50%) or phase in the 1 billion tCO<sub>2</sub>e/yr pool of international offsets.
  - *Increase the International Offset Discount.* The House bill provides a 1.25:1 ratio credit for international offsets after 2018. The international offset credit ratio could be changed to something closer to 2:1 for a set of period of time.
  - *“Use It or Lose It” Approach.* Eliminating the ability to bank international offsets for more than one or two years would provide greater opportunities for domestic offsets, including the Bridge Fuel Credit. The scope for banking of international offsets could then be revisited at a later date (*e.g.*, after 2020).

**America's Natural Gas Alliance**  
**Renewable Electricity Standard – Natural Gas Should Not Be Disadvantaged**

- The House-passed H.R. 2454, American Clean Energy and Security Act of 2009 (ACES), establishes a Federal Combined Efficiency and Renewable Electricity Standard (“RES”) that imposes a mandate on retail electric suppliers that a certain percentage of their sales come from certain sources of renewable electricity or energy savings, reaching 20% by 2020.
- Although ANGA does not call for natural gas to receive the same treatment as renewable fuel sources under the RES, natural gas should not be disadvantaged by the RES or treated like more carbon-intensive fuels.
- Natural gas is the cleanest fossil fuel and domestically-available in abundant supply. It produces less SOx, NOx, and particulate matter than coal. Natural gas emits almost 50 percent less CO<sub>2</sub> than coal.

<b>Major Coal vs. Natural Gas</b> (Comparison of CO <sub>2</sub> Emission Rates and Typical Plant Emissions)		
<i>Fuel Source</i>	<i>CO<sub>2</sub> Emission Rate*</i> (Existing Fleet)	<i>Annual CO<sub>2</sub> Emissions**</i> (500 MW plant @ 85% capacity)
Coal	0.98711	3.6750
Natural Gas	0.4651	1.732

\*expressed in tons CO<sub>2</sub>/MWh

\*\* expressed in million tons CO<sub>2</sub>

- ANGA will work with others in the Climate Change/Energy debate to devise a proposal that will not disadvantage natural gas within the RES framework.
- Ensuring that natural gas is not disadvantaged by the RES will help ensure that natural gas can exist as a preferred cleaner fuel choice for back-up power needed to support the expansion of renewable energy on the grid.

## **America's Natural Gas Alliance**

### **Study the Impacts of Hydraulic Fracturing**

- Hydraulic fracturing is the process of injecting fluid under pressure to facilitate the production of oil and natural gas. When a well is drilled into reservoir rock that contains oil, natural gas, and water, hydraulic fracturing allows oil or natural gas to move more freely from the rock pores to a production well so that it can be brought to the surface.
- Hydraulic fracturing has been used for 60 years to enhance production from oil and gas wells. Its continued use today plays a significant role in promoting America's energy security and addressing climate change concerns by opening up vast natural gas resources that will pave the way to a clean energy economy. Hydraulic fracturing is essential to making gas wells in many types of unconventional formations, such as shales, economically viable.
- While there have been efforts to pass legislation that would require federal regulation of hydraulic fracturing – largely out of concern over alleged contamination of drinking water and other environmental impacts – no such regulation is necessary. Hydraulic fracturing practices have been effectively regulated for years by state programs that oversee oil and gas exploration and production. More importantly, there is no hard evidence that hydraulic fracturing has resulted in the contamination of drinking water supplies or otherwise harmed the environment.
- In 2004, an EPA study confirmed that the injection of hydraulic fracturing fluids into coalbed methane wells poses little or no threat to underground sources of drinking water and does not justify additional study. The Ground Water Protection Council and the Interstate Oil and Gas Commission have also determined that hydraulic fracturing poses no threat to the environment or public health.
- Given the lack of evidence supporting claims that hydraulic fracturing harms our drinking water supplies and other environmental resources, it is premature to impose a costly layer of federal regulation on hydraulic fracturing practices.
- Before rushing to regulate hydraulic fracturing under the Safe Drinking Water Act or another federal program, ANGA asks Congress to authorize a study that could be conducted in conjunction with EPA and state authorities to examine the impacts of hydraulic fracturing on drinking water supplies and other environmental resources.

**America's Natural Gas Alliance**  
**Protect the Intangible Drilling Costs Deduction**

- Intangible Drilling Costs (IDCs) are the various non-recoverable costs incurred when natural gas and oil wells are drilled. Such costs include labor, fuel, repairs, hauling, supplies, engineering and design. Since 1913, the Internal Revenue Code has allowed companies to deduct rather than capitalize IDCs. The Obama Administration's FY2010 proposed budget would eliminate this treatment of IDCs. ANGA opposes this measure.
- IDCs are integral to the exploration and production of domestic natural gas and oil. These costs can amount to 65-80% of the expense of drilling a well. The Department of Energy estimates that oil and gas companies spend about \$70 to explore for and produce each barrel of oil or natural gas equivalent in the U.S. offshore. By contrast, companies spend less than \$30 a barrel to explore and produce abroad. The treatment currently afforded IDCs under the tax code is crucial to keeping the costs of domestic projects competitive with foreign efforts.
- Eliminating or further restricting the ability to expense IDCs will undoubtedly reduce investment in domestic gas and oil development, and thereby hinder the promotion of America's energy security and limit the potential for domestic job creation. IDCs must be viewed as investments that are essential to developing natural gas resources needed to support a clean energy future, as well as creating and sustaining jobs resulting from that investment.
- ANGA opposes the unfavorable tax treatment of IDCs as set forth in the Administration's FY2010 budget proposal.

**America's Natural Gas Alliance**  
**Adopt the NAT GAS Act and Exempt Natural Gas**  
**as Vehicle Fuel from Cap-and-Trade Coverage**

- Increased use of natural gas as a vehicle fuel offers significant benefits in America's effort to promote energy security and reduce pollutant emissions.
- Reliance on natural gas for vehicle fuel lessens our nation's dependency on foreign oil needed to power vehicles. Additionally, natural gas vehicles (NGVs) emit far fewer greenhouse gases and other harmful pollutants than vehicle powered by diesel fuel and gasoline. Compared with gasoline-powered vehicles, NGVs can reduce exhaust emissions of carbon monoxide by 70 percent, non-methane organic gas by 87 percent and nitrogen oxides by 87 percent.
- According to a recent study done for the California Air Resources Board, when measured on a wheel to well basis, NGVs reduce greenhouse gases by 22 percent versus comparable diesel vehicles and 29 percent versus comparable gasoline vehicles.
- Given these impacts, America's Natural Gas Alliance (ANGA) supports legislative measures that would encourage increased use of natural gas as a vehicle fuel, including:
  - Adoption of The New Alternative Transportation to Give Americans Solutions (NAT GAS) Act (S.1408). This bill provides incentives for motorists and fleets to switch from vehicles that are powered by gasoline and diesel to vehicles that are powered by natural gas.
  - Adding language to multiple sections of the bill to prohibit application of those sections to natural gas used as a transportation fuel to displace petroleum motor fuel so that natural gas used as a vehicle fuel is exempted from cap-and-trade coverage.

## **America's Natural Gas Alliance Climate and Energy Policy Recommendations**

America's Natural Gas Alliance (ANGA) seeks to raise the profile of natural gas – a low carbon, abundant, domestic fuel source largely ignored by the House-passed American Clean Energy and Security Act (ACES). ANGA offers several proposals to achieve meaningful reductions in greenhouse gas (GHG) emissions and lead America towards a clean energy future that significantly limits our dependence on foreign fuel supplies.

**Bridge Fuel Credit** - To accelerate greater near term emission reductions from domestic sources, covered entities should be given the option of earning Bridge Fuel Credits (BFCs) based on expanded use of natural gas-fueled power and heat instead of less clean fuels. BFCs could be used like emission allowances or offsets, each credit reflecting the reduction of one ton of GHG emissions attributable to the substitution of natural gas for another fossil fuel. The total volume of BFCs issued in any year could be limited to 250 million tons of CO<sub>2</sub>e and effective for a specified period of time. The availability of BFCs should be coupled with some other measure to ensure that the bill's emission reduction goals are maintained. Such measures might include reallocating the free allowances or dividing the one billion metric ton international offset pool between BFCs and international offsets.

**Modify International Offsets** - ANGA proposes several options to reduce the available pool of international offsets as a means of focusing on domestic markets the significant benefits resulting from activities that earn offset credits: (1) permanently reduce (~50%) or phase in the one billion tCO<sub>2</sub>e/yr pool of international offsets; (2) change the international offset credit ratio to a value closer to 2:1 and start the increased “discount” earlier than 2018; or (3) eliminate the ability to bank international offsets for more than one or two years.

**RES – Natural Gas Should Not Be Disadvantaged** - ACES establishes a Federal Combined Efficiency and Renewable Electricity Standard (RES) that requires retail electric suppliers to obtain a certain percentage of their sales from certain sources of renewable electricity or energy savings. Natural gas should not be disadvantaged by the RES or treated like more carbon-intensive fuels. Natural gas is the cleanest fossil fuel and domestically-available in abundant supply. ANGA will work with others in the Climate Change/Energy debate to devise a proposal that will not disadvantage natural gas within the RES framework.

**Conduct a Study on Hydraulic Fracturing** - Hydraulic fracturing is the process of injecting fluid under pressure to facilitate the production of oil and natural gas, and is a key factor in enhancing the availability of domestic natural gas resources. Unsubstantiated criticisms about the environmental impacts of hydraulic fracturing has created a push for federal regulation despite adequate protections at the state level and studies from federal and state regulators disproving allegations of harm to public health and the environment. ANGA encourages Congress to authorize a study on hydraulic fracturing before taking additional steps to regulate it at the federal level.

**Protect the Intangible Drilling Costs Deduction** - Intangible Drilling Costs (IDCs) are the various non-recoverable costs incurred when natural gas and oil wells are drilled, such as labor, fuel, repairs, hauling, supplies, engineering and design. Oil and gas companies may elect to deduct rather than capitalize IDCs under the tax code. The President's FY2010 budget proposes to eliminate this important tax incentive, which helps spur investment in domestic natural gas and oil development. ANGA strongly opposes any such proposal.

**Promote Natural Gas as Vehicle Fuel** - Increased use of natural gas as a vehicle fuel promises significant environmental benefits when compared with gasoline and diesel-powered vehicles, and can reduce America's reliance on foreign oil to power our vehicles. To reach these goals, ANGA calls for passage of The New Alternative Transportation to Give Americans Solutions (NAT GAS) Act (S.1408), and the inclusion in any climate change legislation of language that exempts natural gas as vehicle fuel from cap-and-trade coverage.