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Natural Gas, Energy and Capitol Hill: A Look at the Policy Picture

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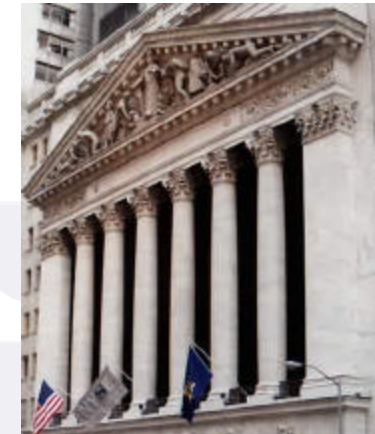
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Information



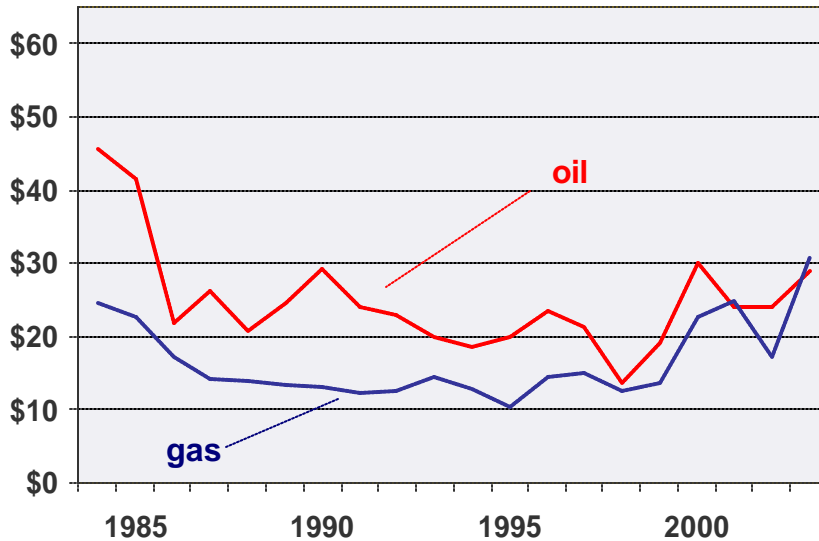
Analysis and research





Framing the Policy Landscape

Wellhead price of natural gas vs. oil (\$2002 bbl)



Price volatility and decline in domestic supply of natural gas has generated a lot of concern on Capitol Hill

The August 14th blackout has drawn increased scrutiny to all aspects of domestic electricity supply.

Electricity Generation – January thru April 2003 Source: Energy Information Administration		
Megawatt Hours by Source	2003 YTD	% of total
Coal	782,358	51.32
Petroleum	49,339	3.24
Natural Gas	229,071	15.03
Nuclear	309,056	20.27
Hydroelectric	115,118	7.55
Other renewable sources	33,533	2.20
Other Energy sources	2,091	0.14

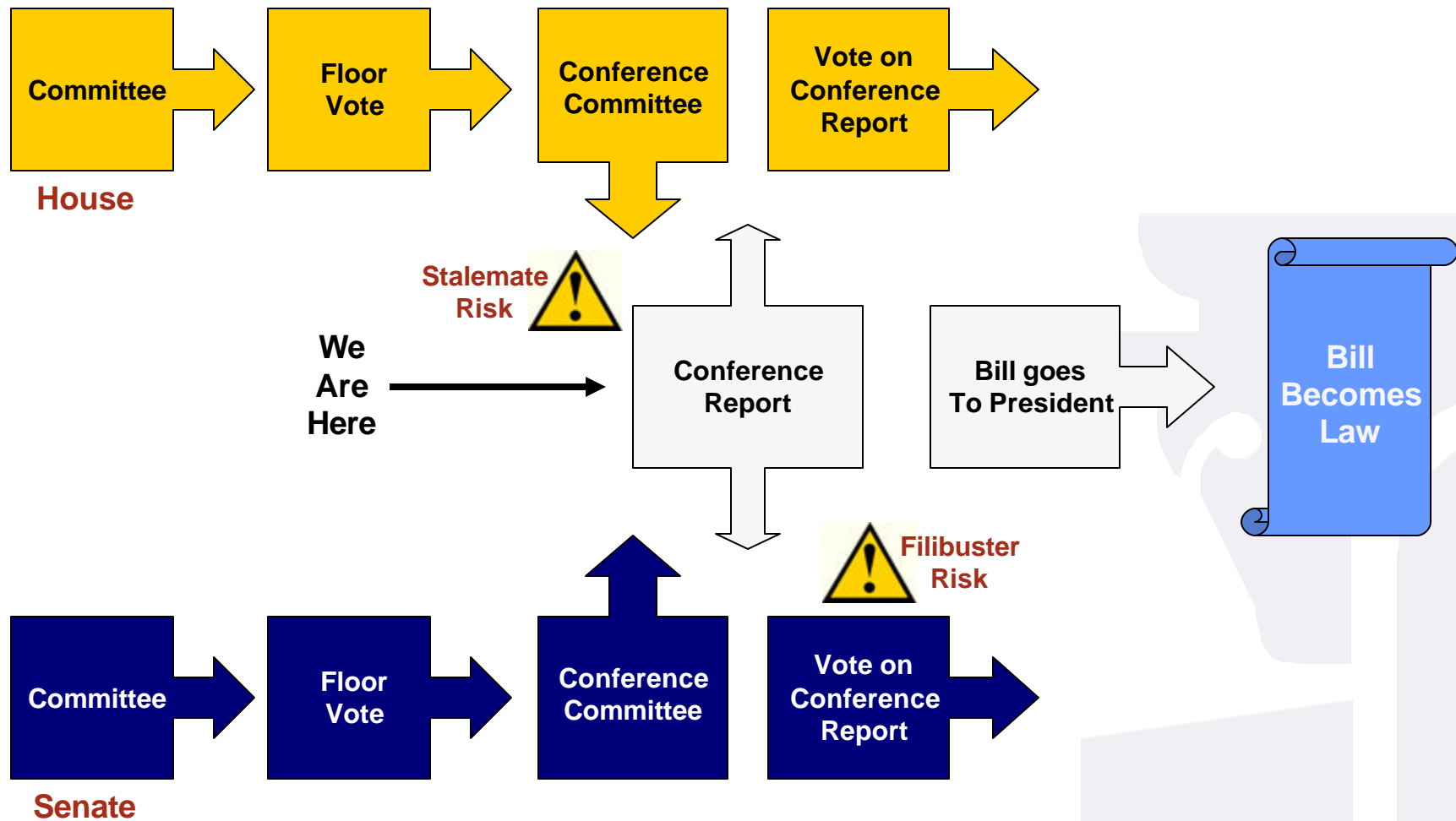


Energy Policy: The Big Picture

- Most of the energy bill **doesn't interest Wall Street** (although PUHCA repeal has implications for M&A activity)
- **Presidential Politics** will play an important role in 2003-2004
 - ✍ **Bush** pressing support for “Clear Skies” Initiative
 - ✍ **Lieberman, Kerry and Dean:** support more stringent CAFE standards; environmental legislation stronger than “Clear Skies”; renewable portfolio standard by 2020
 - ✍ **Lieberman:** eliminate dependence on foreign oil in 20 years
- Natural Gas supply and demand issues have few short-term solutions, **minimizing election-year tactical appeal**
- Ongoing linkage between **energy and jobs:** Daschle suggests ethanol mandate could create as many as 214,000 jobs



Brief Review of Legislative Process





Energy Legislation Last Year: What Happened?



Stalemate during conference negotiations during the 107th Congress concerning a variety of issues.

Key breakdowns:

- Arctic National Wildlife Refuge
- Renewable Portfolio Standards
- Climate Change
- CAFE standards



Significant partisan conflicts as Democrats controlled the Senate last year





Energy Legislative Milestones, Year-To-Date

- **April 11th**: House passes H.R. 6 by vote of 247 to 175
- **April 30th**: Senate begins work on S.14
- **July 31st**: At 11th hour, Senate votes on last session's bill, approving by vote of 84 to 14
- **September 5th**: Conference begins
- **September 10th**: Abraham weighs in with Statement of Administration Policy
- **September 25th**: National Petroleum Council Releases Natural Gas Study
- **Late September**: Conference releases early drafts of key legislation – and then fails to finalize before recess.



House, Senate, White House: Where they Stand



Senate

- Repeal PUHCA
- National MTBE ban mandatory phase in ethanol
- OCS inventory (strongly opposed by coastal Democrats)
- \$10B loan guarantees for Alaska pipeline, price floors
- No Clear Skies in bill
- ANWR unlikely to survive filibuster



House

- Repeal PUHCA
- State-by-state MTBE ban, liability protection for producers
- Support OCS inventory
- Tax incentives for Alaska pipeline
- No Clear Skies in bill
- Drill in ANWR



Administration

- Repeal PUHCA
- Supports Senate position on ethanol/MTBE
- Support OCS inventory
- No tax credit or price floors for Alaska pipeline
- Include Clear Skies in bill
- Drill in ANWR



Conference Committee Sticking Points

- **The Great Oxygenate Debate:** Ethanol vs. MTBE
- **Alaska Natural Gas Pipeline:** Price Floors vs. Tax Credits
- **ANWR:** To Drill or not to Drill?
- **Electricity Restructuring and Standard Market Design:** Blanket Delay for Three Years or Selective Implementation?
- **Possible Defection by Moderate Republicans:** McCain and the “No Lobbyist Left Behind Act”
- **Alienation of Key Democrats:** Bingaman and the “Illusion of Inclusion”
- **Tax Provisions Waiting Until Everything else is Resolved**



Another Voice: Greenspan on Natural Gas

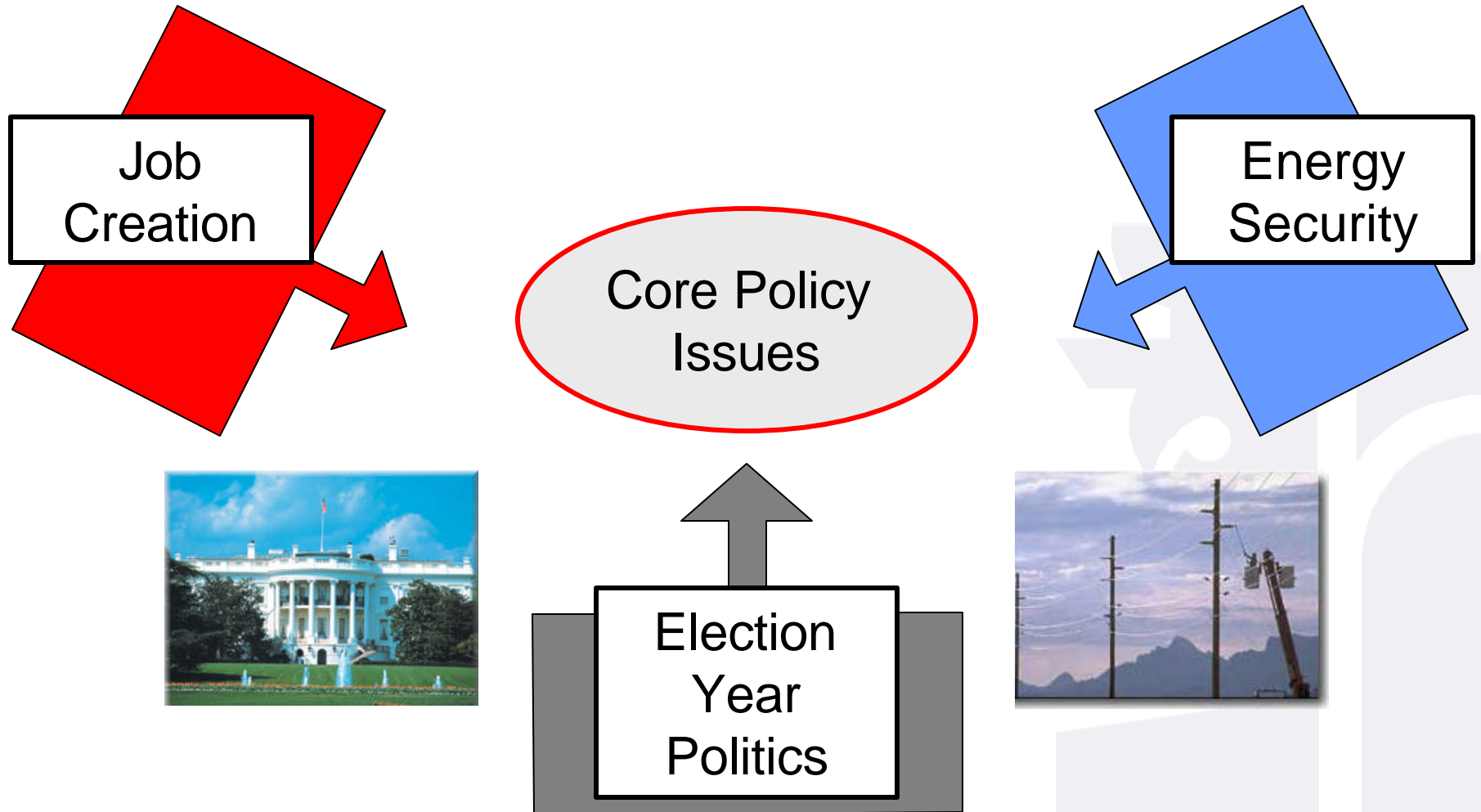


- Current natural gas policies are “contradictory” because they encourage utilization and constrain supply
- The choice to drill in restricted areas is fundamentally an ideological one: does America want restricted lands or cheaper electricity production and home heating?
- Congress should support policies that encourage LNG importation from overseas sources





Outside the Issues: Political Dynamics





Clear Skies and Environmental Concerns

- **Domenici:** From the very outset, the energy bill is not an environment bill
- **No Clear Skies in Bill** despite strong White House urging to include Bush environmental language in conference report.
- Continued debate about **relaxed coal emissions standards** (prevent further fuel switching, support electricity demands)
- Outcome of **CAFE language in conference is weaker** than amendments in Senate energy debate
- **Kerry and Lieberman could filibuster** to protest inclusion of inventory of resources on Outer Continental Shelf



What Happens Next in the Bill: Our Call

- There is political will to **complete the energy conference** before the winter recess begins.
- Some Midwestern Democrats will trade **ANWR for ethanol**, but in the end, Domenici will probably drop it from the bill
- Domenici will keep promise to Shelby, and **standard market design likely to be delayed**, or selectively implemented
- Tauzin will probably **trade MTBE liability protection** for ethanol mandate and national phase-out
- Presidential Senate Democrats will probably not grandstand on **Outer Continental Shelf** – risk too great before primaries
- **The key question is whether conference report will survive the Senate ...**