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On Natural Gas in the New Energy Economy

* Remarks as prepared

Thank you. It's good to be back home with you again. I have worked with your industry in various capacities for more than thirty years; together we have fought to solve many problems and make the best use of this remarkable fuel.

Last year I came to this important gathering intending to rock the boat. The world, our country, and the energy industry faced major challenges, and it was time for the natural gas industry to get organized, take the gloves off, and get engaged in helping our country advance more rapidly toward a clean energy economy.

Today I want to repeat what I said last year: "It is time once again to work together – to share ideas and common purpose, as we have over the years, and to identify the remarkable opportunities which this industry now has to stabilize, prosper, and grow." We are at an energy crossroads, and whether the gas industry seizes the opportunities that are so clearly in front of them will determine the direction of this industry for decades.

Over the last few months I have been part of a broad-based group of producers, utilities, environmental groups, regulators, and government officials who have identified an ambitious program of steps to realize the potential of natural gas. We have provided a copy of the program to all of you. Implemented, it would deliver 4 to 7 trillion cubic feet of increased demand in the U.S., with a net environmental benefit. It would be a huge win for the industry, the country, and the world. With your help, we can make it happen rapidly. We need your engagement, your support, and a willingness to join new alliances.

In that spirit of cooperation, I will suggest a set of steps that would enable natural gas to play a more central role in our energy, climate, and national security strategy for the next few decades.

A year ago, the shale gas opportunity was largely unknown outside of the industry. That is not the case today. Within energy policy circles, natural gas is no longer viewed as a dwindling domestic resource with inherently high prices. Rather, the questions about the fuel have changed, and many answers

remain unclear. Is gas really a game-changer – abundant in supply, clean to burn, the affordable domestic fuel of choice? Or is it a flash in the pan, overhyped, a threat to our landscapes and drinking water? Many people inside and outside the industry are competing to provide the answer and to frame the public image of natural gas – from MIT and its new study, “The Future of Natural Gas,” to Josh Fox and his muckraking documentary, “Gasland.”

You and I both know that gas can be a game-changer, nationally and globally – but in the United States the industry is poised on a knife-edge of public acceptance that could affect its license to operate for years to come. The outcome is largely in your hands. To be recognized as the clean alternative in power generation and transportation, and to reap the benefits of public policies that would reward such a fuel, the industry must choose the right path – one that is palpably in your own self-interest, in the interest of our national security, and among the most important steps we can take for the future of the planet.

Whether you make the economic case for gas, or the security case, or the climate case – or as I do, all of the above – there are three themes that should run through any game plan:

1. Increase demand by expanding your markets;
2. Minimize the risk of environmental damage and concern; and
3. Make your old enemies your new friends.

DEMAND

I'd like to address each of these, one at a time. First: **Increase demand by expanding your markets.**

Natural gas prices over the last couple of years have been searching for a new equilibrium. The combination of volatile prices and the economic recession curbed demand just as new sources of supply were coming onto the market. While the nation's economic difficulties will pass, unless steps are taken, the overhang of excess new gas supply could be permanent. That will continue to have a dampening effect on prices – unless a clear and predictable demand curve is developed to match the supply.

The most obvious and important step for increasing demand is a careful blend of the tools of public policy with the discipline of the market place, with the goal of substituting natural gas for coal in electric power generation and for oil in transportation.

Let me suggest a menu of ideas for how this can be accomplished.

As you know, half of our electricity is generated by coal-fired power plants. Nearly a third of those plants were built before the Clean Air Act was passed in 1970 – old, energy-wasting, pollution-spewing antiques – and Congress expected them to be retired long ago. We don't even need to build new power plants to do it. Underutilized gas capacity is more than adequate to begin the transition.

Combined-cycle gas plants run at only 42 percent of capacity, compared to 74 percent for coal. In the Southeast – from Maryland to Mississippi – the gas utilization rate in 2008 was less than 13 percent! The Congressional Research Service reported this year that increasing the use of combined-cycle gas plants could offset about a third of the nation's coal generation – roughly the same amount produced by

the oldest, dirtiest, least efficient coal plants. That would increase gas demand by 4 trillion cubic feet a year.

Congress should provide incentives for replacing and repowering these coal clunkers. Obviously, this will not be easy, since these old plants are often cash cows for the owners, but a phase-out strategy can be designed – through legislation and regulation. You should be a political heavyweight fighting for this cleaner, healthier strategy.

Unless you help to shape policy, your future will be shaped by others – mainly your competition. The coal industry has been fiercely effective with Congress and regulatory authorities in defending its turf, and you have to be as well. But so far your industry has mostly run nice, positive, feel-good advertising, rather than conducting the persistent, aggressive campaign that will be needed for this transition.

Fortunately, you have some new ammunition: The shale deposits in coal states like Illinois, Indiana, West Virginia, Ohio, and Pennsylvania can change both the economies and the politics of those key states – and therefore of Washington. After all, it's not that the voters love coal – it's that they love the jobs and the economic benefits that come with it – and natural gas can do better. A Penn State study of the Marcellus shale concluded that gas development will pump \$8 billion into Pennsylvania's economy this year (already equal to coal) – and its contribution will grow to \$18 billion a year by 2020, supporting more than 200,000 jobs and generating close to \$2 billion a year in state and local tax revenues.

My central point is that you need to make these arguments. Just as coal is pressing its case in Washington, you have to undertake a sophisticated, persistent campaign as well. That means educating Congress and the administration about the size of these new gas supplies and making the case that the transition away from coal in electric power generation and from oil in transportation – imperative for our national security and environmental integrity – also makes good economic sense. A few specific steps along these lines include:

- #1. Passing the Pickens Plan, to shift heavy-duty trucks to natural gas;
- #2. Spurring the use of alternative fuels – including natural gas – in urban vehicle fleets to lower the public health threat of air pollution from gasoline and diesel;
- #3. As noted earlier, providing incentives for shutting down coal clunkers; and
- #4. Sponsoring a hard-hitting public awareness campaign that compares the benefits of clean, domestic natural gas with the risks of oil and coal – the spill in the Gulf, \$1 billion a day for oil imports; and mountaintop removal, ruined streams, and the proliferation of toxic metals in our environment.

These are tough tactics – but we're not playing bean bag here. Your competitors are defining the agenda, and you have to fight back.

Nor is legislation the only option available to you. Another venue of equal or even greater importance is the vast regulatory framework that touches the energy industry every day. Most of you probably have an aversion to regulation of any kind – we are all naturally suspicious of the heavy hand of government. But I will argue that the underlying public purpose of regulation is in your interest – and can be greatly beneficial.

It is time to think a little more creatively about how regulation can work for you – how regulatory action can benefit natural gas. How can you take advantage of EPA and its legislative mandate? Especially, how do you use the far-reaching authorities of the Clean Air Act?

To review the legal landscape very briefly, in 2007 the Supreme Court found that greenhouse gases “fit well within the Clean Air Act’s capacious definition of air pollutant.” In response, EPA Administrator Lisa Jackson last year made an “endangerment finding” – that the current and projected concentrations of greenhouse gases in the atmosphere “threaten the public health and welfare of current and future generations.”

These actions have very far-reaching implications for your industry. Boyden Gray – White House counsel to the first President Bush – was one of the principal architects of the 1990 Clean Air Act Amendments. A fierce conservative, he was also one of the founders of the influential conservative legal group called the Federalist Society. He argues that EPA has the authority and even the obligation to establish an economically efficient process for reducing emissions and phasing out the dirtiest fuels. A new set of rules could require utilities and other major polluters to limit their emissions but give them the flexibility to do so as inexpensively as possible. The effect would be to establish a cost for emitting carbon, and that would cause significant fuel switching to gas.

This has not gone unnoticed by your competitors, who are doing everything in their power to persuade Congress to intervene and prevent EPA from regulating under the Clean Air Act as authorized by the Supreme Court’s decision. The little secret of the energy bill in the House and Senate is that muzzling EPA is the #1 goal of the coal industry and their allies – for the simple reason that if regulation goes ahead, they will lose, and you will win. The dirty fuel alliance knows that the stakes are very high, and they are very well organized – lobbying heavily, building constituencies, and twisting arms to achieve their objectives.

Just as the old interests have a huge amount to lose, the gas industry has a huge amount to gain. It is in your interest – perhaps even your #1 priority – to defend EPA’s authority. This is a battle that gas must win.

Nor is the importance of EPA’s authority limited to greenhouse gas emissions. EPA’s actions on conventional pollutants may be even more significant. Over the next three years, EPA will issue several new regulations under the Clean Air Act that will affect coal-fired power plants. The natural gas industry should be lined up to:

- advocate for the strongest possible rules,
- defend those rules in court,
- preserve EPA’s authority from congressional attack, and
- ensure that the states apply those rules.

These new rules – required by existing law – could well cause the shift of a substantial part of our generating capacity to gas, amounting to trillions of cubic feet per year of increased demand.

Let me give you just one wonky example to illustrate. In April, EPA proposed a new emissions rule for industrial, commercial, and institutional boilers, known as the Industrial Boiler Maximum Achievable Control Technology standard – the Boiler MACT rule, for short. It is scheduled to be finalized by the end of this year. Under the Clean Air Act, EPA must decide what technology qualifies as Maximum

Achievable Control Technology, meaning which boiler fuel technology will reduce emissions the most at an acceptable cost. EPA will then mandate its use. But switching to gas is not on the table.

Why? Your opponents are all over Washington, lobbying against fuel switching – because they would lose, and you would win. Using well-packaged but grossly out-of-date information, your competitors have persuaded EPA that there is not enough natural gas supply to support fuel switching! This rulemaking vividly demonstrates that the gas industry needs to get into the action and mount an effective regulatory campaign – in the public’s interest, as well as your industry’s.

It’s not that the Boiler MACT rule is the most important opportunity available – rather, it is just one example of a number of decisions in the EPA pipeline that have important implications for gas demand. Others include the coal ash rule, interstate air pollution, new standards for particulate matter and for ozone and for sulfur emissions … The list goes on and on.

If the industry does not engage in this fight, it will find itself closed off from a significant market – and you cannot avoid the fight unless you simply want to wave the white flag. Coal is already on the warpath, depicting gas as an economic and security risk. In May, a representative of the electric utility industry warned Congress that EPA’s regulatory actions pose “untenable risks … including the near-term retirement or conversion to natural gas of a substantial portion of the coal-fired generation fleet.”

Those “risks” to coal are opportunities for gas – in legislation and regulation, on Capitol Hill and at EPA. But to seize the opportunities, you will have to think anew, build different coalitions, and seek out new allies. They are out there – you must find them, listen to them, and work with them.

Your success right here in Colorado is an excellent example of what can happen when you think anew – it is rich and instructive in lessons for the kinds of action you can take at the state level. The Colorado Clean Air-Clean Jobs Act, enacted this year, used pending air quality standards for regional haze to persuade a newly willing partner, Xcel Energy, to retire or retrofit 900 megawatts of coal-fired capacity. Xcel plans to replace or repower the plants with natural gas, renewables, and greater energy efficiency.

Politically, what happened was that the gas industry, the utility, and the environmental community came together around a common agenda – even though many of them had just battled fiercely over the makeup of the Oil and Gas Commission. They began to learn and understand each other’s positions and work together effectively to encourage the transition from coal to gas. Together, they thought anew. This strategy could be replicated in other states, and I believe that a concerted effort should be made to identify other state targets. Perhaps you should explore the idea of setting up some sort of new state center or clearinghouse to share lessons learned, develop the economic arguments, and broaden coalitions.

THE ENVIRONMENT

If the first part of a game plan for natural gas is to increase demand, the second must be to **minimize the risk of environmental damage and concern.**

In this day and age, responsible regulation to protect health, safety, the environment, and the community is simply the price of doing business. The status quo is not good enough any more – not after the Gulf,

not after “Gasland,” not after blow-outs, and stories about water faucets that you can light with a match, and emerging research on endocrine disruptors.

Responsible regulation rewards the good performers and weeds out the bad – and that is a good thing for any industry. For your industry, which has spent tens of millions of dollars on advertising to brand natural gas as “clean,” responsible regulation is utterly essential. Without it, you might as well flare your advertising dollars – and more to the point, you will be flirting with public sentiment that can deny your right to operate.

For starters, here are five steps that should go into a work plan for responsible regulation:

- #1. Support public disclosure of fracking fluids. There is no flash point as sensitive as safe drinking water. No issue affects you so immediately, and none is moving as rapidly in the public conscience. As in so many other industries – food, or auto safety, or finance, for example – disclosure is the minimum requirement for showing that you support the public interest.
- #2. Create a joint working group with regulators, public health officials, and environmental advocates to determine what other regulatory controls make the most sense as national standards.
- #3. Consolidate the industry’s best management practices and agree on standards that would form the basis for good rulemaking by the states.
- #4. Dramatically shrink the footprint of gas exploration and production: drill pads, roads, pipeline corridors, and all the rest. This is an opportunity to create efficiencies, reduce costs, and improve profits by applying best industry practices for pooling and unitization.
- #5. Support adequate state funding, oversight and enforcement of regulations. As I said before, sound regulation can be very good for your industry. This will require your involvement, as well as your understanding that good rules are meaningless without good enforcement.

Of course, good regulation has to be sensible, and that’s exactly why you have to engage in constructive dialogue with regulators, environmental and public health groups, as well as the public at large. You need to actively establish and support these forums so that gas can prosper.

NEW FRIENDS

This brings me to my third and final theme. Many of you are independents. I was an independent operator, too, as a Member of Congress – but in a large and complicated society like ours, I learned – just as you have – that you can’t get anything done without building alliances. This is not an easy process, but it is essential.

We are entering a new world, with new economics, new security worries, and new global concerns. We need new alliances and new ways of thinking to meet these new challenges. To carve out a special role for natural gas in energy policy and take advantage of being the “clean” fossil fuel, you need to align the industry with people and groups that you may have viewed with some suspicion in the past. We’ve already talked about three examples – regulators, environmental groups, and public health authorities. A fourth is the renewable energy industry.

Renewables symbolize the new energy economy. Wind and solar energy have very broad public support, and nearly every world leader is pointing to new energy technologies and the transition to a

low-carbon future as the foundations of the 21st century economy. The President is right to be positioning the country to compete in what will be a multi-trillion-dollar global market.

As a general proposition, natural gas should be a prime partner of the renewable energy industry – you are uniquely equipped to balance out those resources when the sun doesn't shine or the wind doesn't blow. In the near term, this may be an awkward relationship. In many markets, depending on regulations, contracts, and the time of day, natural gas and renewables are competing for market share – on the margins of the much bigger energy pie that is being protected by the dirty old incumbent suppliers. They throw you a few crumbs, and you compete for them – a perfect strategy to keep you off balance and in conflict, even though the public favors cleaner fuels. The long-term solution is to get you together – natural gas and renewables working in tandem to increase your share of the pie.

The big opportunity is to advocate for a cleaner, more sustainable U.S. energy mix with more renewables, more efficiency, and more natural gas. The wrong approach – and a recipe for conflict – is to try to squeeze gas into renewable energy standards that are too small to begin with. There is not enough political space for that fight. You end up hurting each other, and your competitors laugh all the way to the bank. A better approach is to work together for more ambitious low-carbon energy standards that increase the market for gas and renewables alike.

This is a little bit like the global competition between the U.S. and China – we're both after the same fossil fuel supplies, our diplomats fight, we build up our navies: it's the old way of doing business. We are also the two countries with the greatest reserves of shale gas – we should be locking arms, helping each other, and moving into a new energy future together.

For many of us in this room this morning, the old way of doing business was to go it alone, to resist government oversight, to minimize environmental concerns, to stonewall the public with whom we disagreed. Now it's time for a new way – to evolve into a broader coalition that supports responsible production practices, protects water and wildlife habitat, and helps to clean up the air. With a bigger team, you can win the battle of public opinion and position natural gas as the linchpin of a new energy future.

To return to what brings us together: Shale gas is a tremendous opportunity for our economy, our national security, and the global environment. Working together, we can do well and do good; we can strengthen our country, and we can leave a better world for our children and their children. I say, let's get started.

Thank you very much.