AXPC American Exploration & Production Council

News Release

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Contact: Bill Whitsitt, AXPC President
(202) 742-4300

Senate Climate Bill Puts Natural Gas Supply at Risk
Consumers could see significant near-term price increases

Washington, DC, May 29, 2008 – The American Exploration & Production Council (AXPC) announced today that a new Wood Mackenzie study shows climate policy legislation to be considered by the Senate as early as next week could force a reduction in natural gas supplies and a significant price increase for consumers.

International energy research and consulting firm Wood Mackenzie, one of the foremost experts on North American energy, has provided this independent estimate of the potential risks to the economic development of US natural gas resources. These impacts could result from pending legislation that would require natural gas processors to purchase "cap and trade" program emission allowances for ultimate end-users of natural gas.

Wood Mackenzie found that as much as 32% of expected natural gas supply in the year 2012, rising to more than 45% in 2017 could be put at risk if natural gas exploration and production companies are forced to bear the emission allowance costs of those ultimately burning the gas. Even if 50% of the costs are somehow passed to consumers, expected supplies would be reduced by 5% to 14%, at a time when most studies find that the need for natural gas supplies will be growing. The Wood Mackenzie analysis warns of "…sharply higher prices in response to any threat to US natural gas supplies."

The analysis by Wood Mackenzie (available at www.axpc.us) was contracted by the American Exploration and Production Council (AXPC) which represents 25 of the largest independent US exploration and production companies that are high-tech leaders in finding and developing natural gas supplies throughout North America.

"This finding, stunning as it is, reflects the reality of a very sophisticated and reliable natural gas market that could be severely disrupted by wrong policy choices," said David Trice, Chairman of AXPC and the Chairman and CEO of Newfield Exploration Company. "Member companies invest all their cash flow and multiples of their profits to grow reserves of our cleanest fossil fuel and to increase production. These efforts are paying off. It is inconceivable that policymakers would enact climate legislation that could have anything even approaching the potential effects cited by Wood Mackenzie."

The Wood Mackenzie report built on data from previous third party research that projected costs associated with natural gas processors buying emission allowances for the gas they eventually put into the market for end-users. However, processors are often the producers. In addition, existing third-party processing agreements probably do not contemplate processors' cap and trade program consumer allowance payments. And since producer natural gas sales contracts are generally based on market indexes and similar consumer-driven price determinations as opposed to being tied to producer costs, it is likely that a significant share of government-imposed consumer emission allowance costs assessed on processors would actually be paid by exploration and production companies in the near term as funds are diverted, contracts are renegotiated, and the market adjusts to this new commodity burden. Previous analyses using long-term market balancing models to analyze pending Senate climate legislation do not capture the potential effects of these factors on supply availability, as does the Wood Mackenzie proprietary North American modeling and analysis.

The full Wood Mackenzie report is available at www.axpc.us.

The American Exploration & Production Council represents 25 of the largest US independent exploration and production companies, high-tech leaders in finding and developing natural gas supplies throughout North America.

101 Constitution Avenue, NW, Suite 800 West
Washington, DC 20001-2133

(202) 742-4300
www.axpc.us