



**IPAMS**  
**Independent**  
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**of**  
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November 11, 2009

The Honorable Barbara Boxer  
Chairwoman, Environment and Public Works Committee  
United States Senate  
410 Dirksen Senate Office Building  
Washington, D.C. 20510

**RE: The New Age of Domestic Natural Gas**

Dear Madam Chairwoman:

Thank you for taking the time to come to Denver on Friday, October 16<sup>th</sup> for the gathering with Norm Brownstein. Since I am just one of the millions of people who work in America's natural gas business, I valued the opportunity to speak with you directly about our energy future. As you and your colleagues in the Senate continue your work on the Clean Energy Jobs and American Power Act, we hope you will embrace the solution that American natural gas provides to our economy, environment and energy security.

By way of background, I am President and CEO of Cordillera Energy Partners III, an independent natural gas producer headquartered in Denver. As is typical of our industry, we are a privately-held independent energy company investing hundreds of millions of dollars each year in the search for new energy sources in America. Independent producers, not major oil companies, are the fabric of the North American natural gas story. These businesses, both public and private, drill 90% of the natural gas wells, produce 82% of the country's natural gas, and have an average of 12 employees.

I am also serving as President of The Independent Petroleum Association of Mountain States (IPAMS), a natural gas and oil producer association representing 400 member companies in the 13 state region of the Intermountain West. For 35 years, IPAMS has promoted the responsible development and use of clean domestic sources of energy like natural gas.

This is an exciting time in our Nation's history because the US is leading a global renaissance in natural gas development; employing new technologies and

millions of U.S. workers to make an enormous domestic supply of clean energy available for many generations to come. Unfortunately, few people understand that our supply picture has changed and even fewer appreciate the answers that natural gas could provide to our most pressing economic, environmental and energy security challenges.

### **Abundant New Supply**

The story of natural gas can be told from a simple supply and demand perspective. Over the last decade, demand for natural gas remained steady while supplies of natural gas began to decline. Domestic exploration and production (E&P) companies responded by hiring more people, developing new technologies, and building a new generation of drilling rigs to find and produce new sources of domestic natural gas. A confluence of higher prices and advanced drilling and stimulation technology allowed independent E&P companies to unlock vast new supplies of natural gas, mostly from shale and tight gas sand reservoirs. A massive investment in capital, technology and people has produced a true treasure for Americans' energy future. In June the Potential Gas Committee released a report showing estimates of American natural gas resources grew by 39% to over 2,000 Tcf. This represents in excess of a hundred year supply.

Pulitzer Prize winning author Daniel Yergin succinctly described recent changes in the natural gas picture in an article that appeared this week in the Wall Street Journal:

*The supply impact has been dramatic. In the lower 48, states thought to be in decline as a natural gas source, production surged an astonishing 15% from the beginning of 2007 to mid-2008. This increase is more than most other countries produce in total.*

*Equally dramatic is the effect on U.S. reserves. Proven reserves have risen to 245 trillion cubic feet (Tcf) in 2008 from 177 Tcf in 2000, despite having produced nearly 165 Tcf during those years. The recent increase in estimated U.S. gas reserves by the Potential Gas Committee, representing both academic and industry experts, is in itself equivalent to more than half of the total proved reserves of Qatar, the new LNG powerhouse. With more drilling experience, U.S. estimates are likely to rise dramatically in the next few years. At current levels of demand, the U.S. has about 90 years of proven and potential supply—a number that is bound to go up as more and more shale gas is found.*

Importantly, not until the last three years did experts and leaders in our own companies and industry appreciate this remarkable change in America's supply of natural gas. As upstream natural gas producers, our focus and energy has been concentrated on finding those new sources of supply. In a way, we have been in a "If we build it, they will come" mentality, and until recently not focusing on demand and how we might better fuel our country on clean-burning natural gas through increased utilization in the electric generation and transportation sectors.

Recognizing that we have a vast new supply of clean domestic energy should give us a renewed hope for our energy future. As a “foundation” and then a “bridge,” natural gas can play an important role in keeping our economy running, adding more jobs, cleaning up our environment, and improving our national security.

### **Under-Utilized Demand**

In light of the recent paradigm shift in natural gas supply, isn't it time to also update our thinking surrounding the ways we can utilize this clean energy resource? Coal has dominated our infrastructure and consumption over the last 40 years due in part to such legislation as the Fuel Use Act, which prohibited the use of natural gas in favor of coal for electric generation. Currently, 44.7% of U.S. electricity generation comes from coal, 22.3% from natural gas, 20.6% from nuclear, and 11.3 % from other sources, including hydroelectric conventional sources.

The conventional wisdom about natural gas no longer holds true. U.S. natural gas supply is robust enough to shoulder a larger percentage of our nation's long-term electricity generation needs while also helping our nation wean itself from foreign oil imports by increased use in the transportation sector.

Clearly, there are huge benefits to pursuing natural gas as a foundation for our country's energy needs.

### **Electric Generation**

- Cleanest burning fossil fuel – 30% cleaner than oil and 90% cleaner than coal for criteria pollutants.
- 30% fewer greenhouse gas emissions than oil and 50% fewer than coal.
- By increasing utilization of existing natural gas-fired power plants from 26% to 50%, CO<sub>2</sub> emissions can immediately be reduced by approximately 296 million metric tons/year without the need for massive capital expenditures. For comparison, the Renewable Electricity Standard in the Waxman-Markey bill had an estimated annual reduction of 425 million metric tons, but not until 2025 and after massive taxpayer subsidies for renewable energy sources.
- Only scalable solution that will exist in the next two decades to help reduce GHG emissions.
- Only fuel that can partner with wind and solar as a base load fuel when the wind doesn't blow and the sun doesn't shine.

### **Transportation**

- Converting to compressed natural gas vehicles and using American-made natural gas would lessen our dependence on foreign sources of oil, provide greater economic development in America, and improve our balance of trade.

- Estimates show we spend over \$500 billion annually buying foreign oil, mostly for the transportation sector. Meanwhile, natural gas is currently utilized for less than 2% of our transportation needs.
- According to T. Boone Pickens, if America's 6.5 million 18-wheelers ran on natural gas engines instead of diesel, we could cut imports by 2.5 million barrels per day ... or half of what the U.S. imports from OPEC.
- At a price of \$5 to \$8, natural gas could fuel American fleet vehicles for the equivalent of \$2.50 a gallon.

#### **Economic Development & Energy Security**

- American made with American jobs: the natural gas industry employed 2.8 million workers and invested \$180 billion last year to grow U.S. supplies.
- Natural gas companies directly employed roughly 622,000 Americans in 2008.
- The natural gas industry indirectly sustained almost 2.2 million additional jobs the same year.
- The economic value of the natural gas industry, as measured by total direct, indirect, and induced value added, accounted for 1% or more of gross state product in 34 states in 2008 and 2% or higher in 17 states.
- Natural gas contributed **\$385 billion** to our nation's economy in 2008 alone.
- In Colorado, based on economic impact, natural gas and oil is one our largest industries, contributing \$23 billion to our state's economy.

#### **Public Policy Considerations**

We appreciate your ongoing leadership on the Clean Energy Jobs and American Power Act and hope you will keep an open mind to new proposals that would better utilize the intrinsic strengths of domestic natural gas.

In addition to the decisions that are directly under the purview of your committee, we would also ask you to consider opposing proposed tax increases on domestic natural gas producers.

An \$80 billion dollar tax increase over the next ten years would severely limit reinvestment, stymie job growth, and limit development of affordable new supplies of natural gas. As a capital-intensive business that often spends more than it earns, reducing cash flow in an already capital-constrained world would be detrimental to both producers and consumers of energy. To demonstrate this point, consider that between 1996 and 2007, the U.S. oil and natural gas industry invested more than \$1.2 trillion in long-term energy initiatives compared to net income or earnings of \$974 billion.

Repeal of the important tax provisions such as the Expensing of Intangible Drilling Cost, Percentage Depletion, and Passive Loss Exemption for Working Interests would be a serious

blow to small domestic businesses that are already struggling in a difficult pricing environment.

According to the Congressional Research Service, the Administration's tax proposals "can be considered to be effective tax increases on the oil and natural gas industries that will have the effect of decreasing exploration, development, and production while increasing prices and increasing our foreign oil dependence."

In the 20<sup>th</sup> Century, we had a 40-fold increase in energy consumption. With demographers projecting a 27% growth in world population by 2050, the pressure to find and sustain ample supplies of clean-burning, low-surface-impact energy sources will be vital to America's energy future.

From a macro perspective, the priorities of our energy policy should start with quality of life, economic growth, national defense, and environmental impact. All energy sources have trade-offs, but clearly the time is right for natural gas.

In summary, the benefits of natural gas are:

### **The Benefits of Natural Gas**

**Abundant** – 100+ year supply

**Domestic** – The U.S. is the Saudi Arabia of Natural Gas

**Clean** – Less than half the CO<sub>2</sub> emissions of coal and 30% fewer than oil. It is the only fuel source today that can reliably back up wind and solar

**Energy Independence** – Using more of natural gas will improve our balance of trade and create new jobs

**Versatile** – Power, heat, transportation, residential, and industrial

**Economic Impact** – Nearly 3 million jobs and \$385 billion contribution to U.S. economy

**National Security** – Create less dependence on foreign sources of oil, something that wind and solar cannot do

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Chairwoman Boxer, this is not a Democratic issue or a Republican issue--this is an American issue--and we have a tremendous opportunity to work together to lead America into the 21<sup>st</sup> Century with a market-based solution, clean-burning natural gas.

Thank you again for your time in Denver. I welcome the opportunity to discuss these issues with you and your staff in a meeting. We stand ready as an industry to put people and capital to work to launch the age of natural gas.

Yours very truly,

George H. Solich  
President  
Independent Petroleum Association of Mountain States  
Cordillera Energy Partners III, LLC

cc: Norm Brownstein,  
Brownstein Hyatt Farber Schreck