

**Fact Sheet**  
**New Natural Gas Price Impacts on**  
**EPA's Multi-Pollutant Analysis of 2005**  
*April 3, 2006*

Over the past several years, various multi-pollutant legislative proposals, designed to reduce emissions from the power sector, have been introduced in the Senate. EPA performed detailed analyses for five of these legislative proposals in response to Senate requests and released the analysis last fall. This analysis – the most substantial legislative analysis ever undertaken by the Agency – was presented to the Senate Environment and Public Works Committee and the House Energy and Commerce Committee last fall.

During discussions and outreach efforts EPA received a number of comments that the assumptions for wellhead natural gas prices were too low, considering recent short-term spikes in current natural gas prices that were as much as three or four times greater than EPA assumptions. In response, EPA performed additional analyses of three multi-pollutant scenarios and used higher natural gas prices in 2010, 2015, and 2020 than initially assumed in the original analysis. The three scenarios analyzed were: Clear Skies Act of 2003 (S.485); Senator Carper's Clean Air Planning Act (S.843); and Senator Jeffords' Clean Power Act (S.150). The higher wellhead natural gas prices analyzed are in the range of \$5 to \$8/mmBtu<sup>1</sup>, and are consistent with projections from other analysis, like those of the Energy Information Administration.

**Summary of Key Findings:**

- EPA analysis of Clear Skies legislation indicates that higher natural gas prices would not change fundamental conclusions of the original multi-pollutant analysis. Clear Skies does not significantly increase the consumption of natural gas by the power sector regardless of gas prices.
- Under the new analysis, higher natural gas prices would actually lead to a small decrease in the overall annual cost of Clear Skies legislation in 2010, although modest increases in cost would occur in 2015 and 2020.
- Overall, Clear Skies legislation is essentially neutral in its effect on the current mix of electric generation in this country. It does not fundamentally shift existing patterns in the utilization of coal, oil, natural gas, and other energy sources by the power sector.
- For the Carper legislation, the new analysis indicates that the overall annual cost of the legislation would drop modestly in 2010 before becoming slightly higher in 2015 and 2020.
- Similar to the original analysis, under the Carper legislation, natural gas prices increase noticeably in 2010, although the impacts are smaller in 2015 and 2020. As in the original analysis, the price impact is mitigated by a "safety valve" contained in the legislation. This provision allows utilities to exceed the emissions cap for nitrogen oxides (NO<sub>x</sub>) in 2010 by 300,000 tons by paying \$5,000 for each ton above the emissions cap that they emit. Without the safety valve, the cost impact and impact on natural gas prices of the legislation would be greater.
- With respect to the Jeffords legislation, higher natural gas prices than assumed in the original multi-pollutant analysis would result in substantial increases in the incremental costs of the legislation in 2010 and 2015. Annual costs would increase from approximately \$41 to \$52-\$58 billion/year in 2010 and from \$39 to over \$46-\$51 billion/year in 2015 using higher natural gas price assumptions. In 2020, the annual cost would rise from around \$51 billion/year to about \$53-\$63 billion/year (costs are in \$1999).

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<sup>1</sup> Natural gas values are in 2004 dollars for comparison to other analyses and current prices. All other values are in 1999 dollars, consistent with prior EPA analytic results for multi-pollutant legislation.

- The legislation also has the effect of increasing wellhead natural gas prices in some years, in one instance by 30 percent.
- Similar to the analysis of the Carper legislation, however, the technical feasibility of certain provisions of the Jeffords legislation is not factored into the analysis. EPA believes that the projected installation of activated carbon injection for mercury control and the additional electric generation capacity fired by natural gas that would be required to fully implement both the Carper legislation and the Jeffords legislation exceed what is feasible by 2010.

For information on the multi-pollutant analysis and the new natural gas results, visit <http://www.epa.gov/airmarkets/mp/>