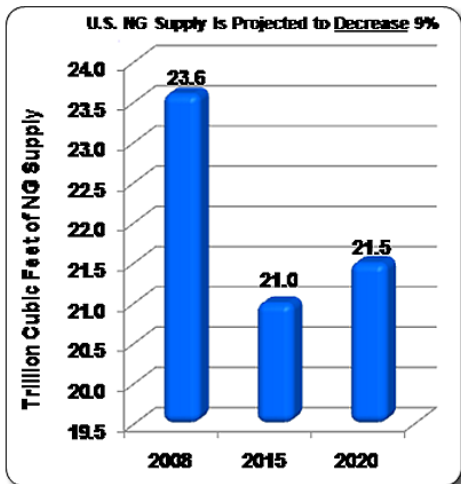
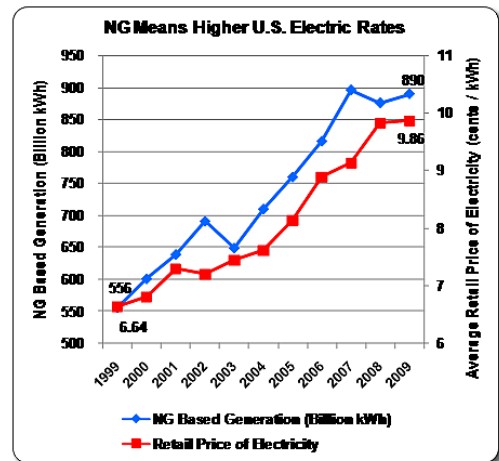


RELYING ON NATURAL GAS IS RISKY BUSINESS

Several groups have recently suggested that natural gas can be substituted for coal as the primary fuel for generating electricity. Unfortunately, we have already tried that approach and paid a heavy price.

Since 1999, over 90% of new power plants have been gas. This hasty "dash to gas" led to these power plants competing for fuel with such traditional gas consumers as homeowners and industry. Any further dependence on natural gas will threaten not only the economy but also electric reliability and national energy security. Here's why:

- Natural gas prices to produce electricity tripled at many points over the past decade and are still up more than 80%.
- More gas based electricity will not merely increase the price of electricity but also will raise the cost of gas for families to heat their homes and for businesses to produce manufactured goods.



• By 2020, conventional natural gas output will decrease over 10% and supplies from Canada will drop 80%.

• Shale gas is the lone success story but will offset only half of the Canadian declines.

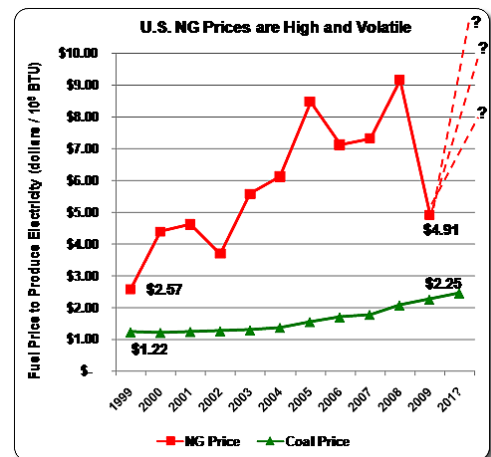
• To make up the difference, we will have to import liquefied natural gas (LNG). But Russia, Iran and Venezuela have 44% of the world's reserves and have discussed forming a gas cartel.

• In September, Hugo Chavez said: "We are creating something similar to OPEC but with gas."¹

- Natural gas prices averaged about four times higher and are far more volatile than coal prices. In 2008 alone, the price of gas to businesses ranged from \$7.13-\$13.05 per unit.
- This price volatility puts some manufacturing companies out of business and forces others to move overseas. But it actually benefits the gas industry:

"We believe in volatility... Volatility has value... Our company makes additional money when we sell those calls."²

-- Aubrey McClendon, Chesapeake Energy, 2009, the self defined "Champion of natural gas"



The Vulnerable 33

States Especially Susceptible to Higher Gas Prices

There are 33 states that are particularly susceptible to natural gas price spikes either because of their relatively high reliance on natural gas for electricity or because natural gas use doubles in the winter season.

States depending on gas for 40% or more of electricity: **CA, FL, LA, MA, ME, MS, NV, OK, RI, TX.**

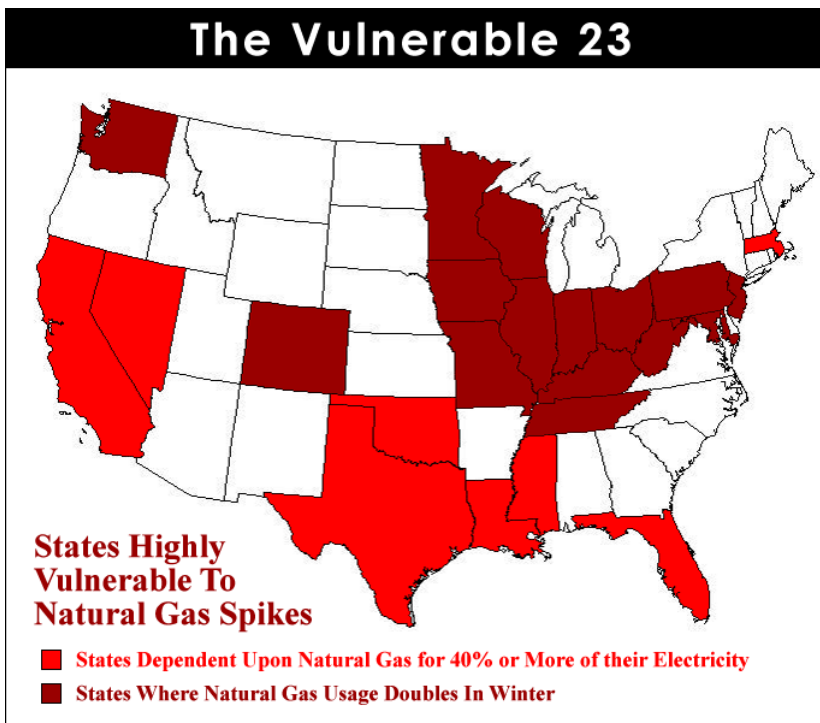
States where gas use doubles in the winter: **CO, DC, IA, ID, IL, IN, KY, MD, MI, MO, MN, MT, NC, ND, NJ, OH, OR, PA, SD, TN, WA, WI, WV, WY.**

The risk of greater dependence on natural gas was clearly laid out by the prestigious National Academy of Sciences in July:

*"Natural gas generation of electricity could be expanded to meet a substantial portion of U.S. electricity demand-if there were no concerns about the behavior of world natural gas markets and prices and about further increasing CO2 emissions and U.S. import dependence."*³

In other words, future gas prices will be high as more and more supplies will be imported from unstable nations.

For almost 100 years, the United States has benefited from the most reliable electric supply system in the world. For the first time in history, the reliability of our electricity will be dependent upon decisions made in foreign countries. Wagering both our electric system and our main source of space heating on the future of natural gas is a risky bet indeed.



Sources: All data and projections derived from Energy Information Administration, 2009 data prorated.
<http://www.eia.doe.gov/>

¹ *Daily News* (Turkey-9/26/2009).

² *Houston Chronicle* (chron.com-2/12/2009).

³ National Academy of Sciences, *America's Energy Future*, 2009, p.55.

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