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Media Contact: Laura A. Burns
The Brattle Group
+1 617 864 7900
Laura.Burns@brattle.com

BRATTLE GROUP REPORT IDENTIFIES CHALLENGES AND POTENTIAL LOST OPPORTUNITIES FOR NATURAL GAS IN REDUCING CO₂ EMISSIONS

Cambridge, MA, March 23, 2010. A new report by *The Brattle Group* evaluates several challenges facing natural gas demand growth in the coming decade under potential future climate legislation and recommends that U.S. policy-makers revisit the role of natural gas in meeting climate goals.

In the discussion paper, “Prospects for Natural Gas Under Climate Policy Legislation: Will There Be a Boom in Gas Demand?,” *Brattle* economists Steven Levine, Frank Graves, and Metin Celebi evaluate several factors that may adversely affect natural gas demand. They conclude that gas demand growth may not necessarily be forthcoming despite its environmental and commercial advantages. These advantages include the lower emissions and carbon content of natural gas relative to coal, low construction costs, and short construction lead times of natural gas-fired electricity generation plants.

The authors find three primary reasons for low growth in gas demand. First, relatively high CO₂ price levels are needed for coal-fired electricity generation to be materially displaced by gas-fired generation. Such price levels may not be reached in the next decade under a cap and trade program, given the political constraints on regional impacts of energy price increases. Second, the development of renewable electricity generation resources tends to reduce natural gas demand in some regions by backing out gas-fired generation on the margin. As a result, U.S. consumers may end up paying more for energy and CO₂ emission reductions than would have occurred if natural gas were to be used more heavily. Third, non-electric gas usage is likely to stay flat due to continuing growth in conservation and energy efficiency programs and the price response to carbon.

The authors conclude that the prospects for a boom in natural gas demand due to climate policy look doubtful absent a significant retirement of coal-fired power plants in the U.S. To the extent that renewables and energy efficiency measures crowd out gas-fired generation, gas may become even more of a marginal resource than it is today, increasingly subject to unpredictable and short-term power market conditions. This could lead to increased reliance on gas spot markets and potentially higher spot gas price volatility.

The discussion paper can be found at www.brattle.com.

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