

**OPENING STATEMENT OF CHAIRMAN JAMES M. INHOFE**  
**HEARING ON THE IMPACT OF CLEAN AIR REGULATIONS ON NATURAL GAS**  
**PRICES**  
**SUBCOMMITTEE ON CLEAN AIR, CLIMATE CHANGE, AND NUCLEAR**  
**SAFETY**  
**FEBRUARY 9, 2006**

I want to start off by thanking my friend and Subcommittee Chairman George Voinovich for holding this hearing. Senator Voinovich has a unique understanding how environmental policies, specifically air regulations, affect consumers and businesses.

Nearly two years ago, in March 2004, the full Committee held an oversight hearing discussing the relationship between environmental policies and natural gas. At that hearing, members of this Committee heard testimony from witnesses representing a variety of industries.

The witnesses at that hearing stated that high natural gas prices are destroying U.S. manufacturing. In fact, Rhode Island Governor Carcieri testified that, "Soon, the Northeast may no longer be able to offer industry a competitive venue unless the rising cost of energy is addressed." Oklahoma Farm Bureau Vice President stated that high natural gas prices have forced the closure of 25 percent of domestic fertilizer industry and that those high prices threaten what's left, and increase U.S. dependence, not just on foreign sources of energy, but on fertilizer.

I realize that this is a demand-side focused hearing asking the extent to which the Clean Air Act has impacted natural gas. All of the evidence, from the EIA to the National Petroleum Council, to today's witnesses agrees that it certainly has. Members of this Committee probably recall Governor Carcieri plain statement that, "Federal and state policy has encouraged the use of natural gas, because it's clean-burning."

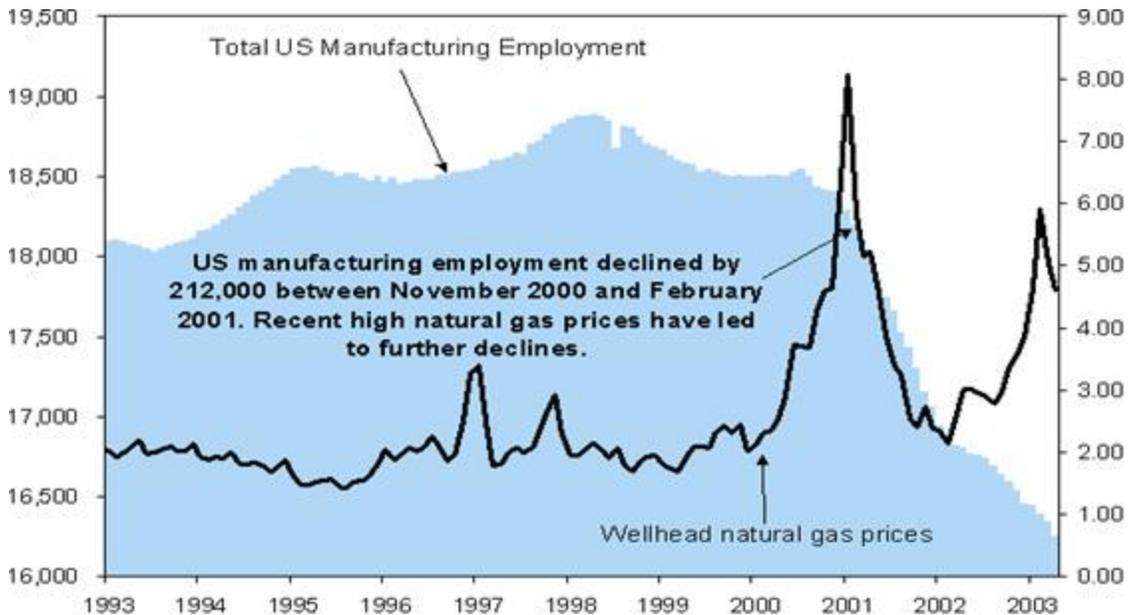
Yet, demand alone does not make prices spike, but demand without a corresponding supply increase does. One could conclude after reading the New York Times or rhetoric from environmental groups that the U.S. is increasing natural gas production, but the facts show just the opposite.

This chart from the Energy Information Administration shows just how much domestic production of natural gas has declined.

EIA's consumer guide, "Residential Natural Gas Prices: What Consumers Should Know" states that: "One of the most significant factors why prices are so high is due to "Weak Production"

I investigated the reasons why our nation is experiencing what's been called by many stakeholders including the American Chemistry Council, a natural gas crisis. My analysis of the situation and conclusions were recently published in the Energy Law Journal.

I included this graph from Dr. Jeffrey R. Currie, Managing Director of Goldman, Sachs & Co. in that article. Dr. Currie testified that “[t]he loss in industrial demand was massive: a 20% permanent decline that resulted in the loss of at least 200,000 manufacturing jobs.”



This is a demand-side focused hearing, and this chart depicts an economic phenomenon known as “demand destruction.”

As you can see, when natural gas prices increase to excessive levels, the demand for that gas drops as plants close down and people lose their jobs.

I am troubled that the price situation has not improved since the Committee’s last hearing. In fact, some members continue to oppose new domestic production or even importing gas in the form of LNG.

Further, to their own state’s detriment, they advocate for air policies that would increase those price pressures all the more, such as opposing new source review reforms and advocating plant-by-plant mercury controls, as well calling for the imposition of carbon caps.

The link between environmental regulations is clear. As the Congressional Joint Economic Committee stated, “environmental laws passed in the 1980s and 1990s, and their subsequent regulations, encouraged utilities to use clean burning natural gas rather than coal or oil.”

Even California’s Energy Commission concurs, concluding that natural gas has allowed power plant developers “to meet local air quality regulations that implement the federal Clean Air Act.”

It is time that policymakers recognize that our actions in Congress can significantly exacerbate our natural gas crisis, and that we must keep the welfare of our manufacturing sector and the communities dependent foremost in mind as we legislate.