

**VERBAL TESTIMONY OF PAUL N. CICIO
PRESIDENT
INDUSTRIAL ENERGY CONSUMERS OF AMERICA**

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

**SUBCOMMITTEE ON PRIVATE SECTOR AND CONSUMER SOLUTIONS TO
GLOBAL WARMING AND WILDLIFE PROTECTION**

OCTOBER 24, 2007

**“A HEARING TO EXAMINE
AMERICA’S CLIMATE SECURITY ACT OF 2007”**

Chairman Lieberman, Ranking Member Warner and Committee Members, we are grateful for the opportunity to testify before you. I will not pretend to be a climate expert because I am not. Particularly as it pertains to legislative details. I do know a little about energy, particularly natural gas and electricity markets, some of which I will share with you today.

IECA is a non-profit non-partisan cross-industry trade association whose membership is exclusively from the manufacturing sector. For a variety of reasons, the industrial sector ghg emissions are below 1990 levels while all other sector emissions’ are up an average of 31 percent. It is essential that climate change be addressed and we look forward to working with you.

This legislation is very complex with significant implications for the country, the environment and consumers. We admit having had great difficulty going thru the legislation in such a short time frame to prepare for this hearing. Many important questions about the costs of this legislation and how it would be implemented remain unanswered until official legislative language has been provided. We look forward to receiving it and providing comments.

In our view, an essential ingredient to reducing absolute ghg emissions is by increasing the supply, affordability and reliability of low carbon intensive energy. Setting a cap does not remove government or technology barriers.

We are concerned that this legislation sets a near term ghg cap that is only four years away without the supply and technology in place. We need increased supply of the entire mix of energy options but with technology's help so that less ghg emissions are produced.

Importantly, we must increase domestic supply of natural gas. We must also help the electric utility industry build nuclear plants; develop less carbon intensive electricity from coal using IGCC and carbon capture and storage technology; and help renewable energy to be more affordable.

Also nothing in this legislation would prevent the power generation industry from fuel switching from coal to natural gas. If this occurred, natural gas and electricity prices would rise substantially.

Lastly, the legislation will not provide a level playing field against energy intensive product importers who will not be burdened by this legislation. It does not achieve global reach and we look forward to further discussion on this point.

We have been surprised that the committee has not had hearings on the implications that a carbon cap would have on our constrained domestic supply of low carbon intensive energy and the implications of electric power generation fuel switching from coal to natural gas. The implications on energy costs for consumers are enormous as I will detail for you in this testimony.

IECA's starting point for dealing with climate legislation appears to be very different than that of the proposed legislation. We already see high and rising energy costs that are impacting our competitiveness and jobs and we know that all costs of compliance under this legislation will be paid for by us, the consumer.

Homeowners and farmers are already suffering from high heating, cooling, transportation and fertilizer costs. For example, consumers paid \$76 billion more in 2006 for natural gas and \$65 billion more for electricity as compared to 2000.

The October 20, 2007 Washington Post article compared energy prices from one year ago. It shows that diesel is up 29%, fuel oil up 41%, gasoline up 47% and propane is up 61%.

Natural gas prices have increased 76% since 2000. Yesterday's mid-day price on the NYMEX (New York Mercantile Exchange) was \$6.76 per mm Btu. The NYMEX 2008 average price was \$7.84 mm Btu, a 16% increase from today's level and 2009 prices are another 7 % higher. Senators, prices are moving higher, not lower.

Since 2000, high natural gas prices reduced consumer demand by 1.9%. Residential demand is down 12%; commercial demand is down 9%; industrial demand is down 19%. However, electric power sector demand increased by 19%! This upward constant growing demand by the power sector negated all of the benefits of energy efficiency and conservation efforts by consumers.

And now, FERC says electricity prices are rising across the country as a direct result of higher demand and price of natural gas by the power sector. It is important for you to know that natural gas sets the marginal price of electricity so when natural gas prices go up, so does the price of electricity.

The Electric Power Research Institute said that "Even though natural gas is used to produce only 20 percent of the electricity, it accounts for 55% of the electric industry's entire fuel expense (\$50B out of \$91B)."

Further accelerating our concern is that according to EIA 73% of all new electrical generating capacity built in 2006 was based on natural gas. EIA's 2007 estimate jumps to 78% and the 2008 forecast is more of the same. For your information, a single 500 MW rankine cycle power plant will consume the equivalent natural gas volume used to fuel 842,308 homes each year.

If there is anything from this testimony that I hope you will remember is this. According to the EIA, there is 436,991 MW of existing natural gas fired power generation capacity in the US. If this generation capacity were to be used, it would consume about 21 trillion cubic feet of natural gas which is almost the equivalent of total US demand.

Given this, it is very important that climate legislation not provide the incentives to use that generation. If they did, it would be frightening to see what impact it would have on prices for both natural gas and electricity.

The potential for fuel switching is accentuated by the 2012 starting date of the emissions cap at the 2005 level. 2012 is only four years away! This is exactly what happened in Europe with the EU ETS as reported by Garth Edwards, Shell Oil, Trading Manager, Environmental Products, London, England.

Mr. Edward's made the following comment during a March 26, 2007 Senate Committee on Energy & Natural Resources Hearing on European Union's Emissions Trading Scheme. He said, "The bulk of emission reductions in the EU are made actually by coal to gas (natural gas) fuel switching in power stations. And any price will start to change the dispatch of power plants...and start change away from coal into gas (natural gas)."

All of this, of course, would not be a problem if natural gas supplies were growing. From 2000 to 2006 production is down 4%, Canadian supply has been flat to declining since 2000 and supply fell 3% in 2006. LNG imports have increased since 2000 but remain only 2.7 % of our nation's supply and actually decreased by 7.5% in 2006.

A relatively small increase in demand or a small drop in production can have a significant impact on the price of natural gas. For example, Hurricane Katrina reduced natural gas production by only 5% for five months but cost consumers \$40.8 billion more in increased natural gas prices than paid in the same months for the previous year. A 5% increase in demand thru fuel switching would have the same effect.

In summary, we are requesting that the Congress do not cap ghg emissions until there is an abundant, affordable and reliable supply of low carbon intensive energy. Without it, the costs to the economy and to consumers will be significant.

Thank you.