



Industrial Energy Consumers of America

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August 20, 2008

The Honorable Kent Conrad
The Honorable Saxby Chambliss
The Honorable Mary Landrieu
The Honorable Lindsey Graham
The Honorable Blanche Lincoln
The Honorable Johnny Isakson
The Honorable Ben Nelson
The Honorable John Thune
The Honorable Mark Pryor
The Honorable Bob Corker

Dear Senators:

We are very grateful for your leadership in building a bipartisan proposal to help resolve the energy crisis that is impacting every American and threatens the competitiveness of our manufacturing industries. On behalf of the Industrial Energy Consumers of America (IECA), we look forward to working with you to increase domestic production of affordable and reliable energy and to increase conservation and efficiency across all sectors of the economy.

The Industrial Energy Consumers of America is an association of leading manufacturing companies with \$500 billion in annual sales and with more than 850,000 employees nationwide. It is an organization created to promote the interests of manufacturing companies for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, fertilizer, cement, paper, food processing, brick, glass, industrial gases, pharmaceutical, aluminum and brewing.

As significant consumers of energy, our competitiveness is largely determined by the cost of energy and especially natural gas and electricity. Given this, we have reviewed the New Energy Reform Act of 2008 proposal and offer the following comments.

Our country has an energy crisis and we should act boldly to provide for our country's future for generations to come. In this regard, the proposal does not go far enough to increase domestic supply of natural gas and oil. We encourage the complete removal of the Outer Continental Shelf (OCS) moratorium; access to the Alaska National Wildlife Refuge; expeditious permitting of places with known and economic hydrocarbon reserves and building of the Alaska Natural Gas Pipeline. These steps are essential to increasing the supply of energy – particularly natural gas. We are the only country in the world with vast offshore hydrocarbon resources that does not utilize them. We do not believe a National Commission on Comprehensive Energy Policy is needed to identify inhibitors or prohibitors to increasing domestic energy. We prefer that Congressional committees of jurisdiction retain that role and that they move quickly.

The proposal raises concerns that natural gas may be considered as a replacement fuel for gasoline or diesel. IECA would oppose incentives or mandates to do so. Increasing demand without first significantly increasing supply would devastate the manufacturing sector that relies upon natural gas for both fuel and feedstock.

Our country's failure to increase production of natural gas has resulted in high natural gas prices that have significantly contributed to the loss of over 3.0 million manufacturing jobs. US natural gas demand has grown by 9.8 percent since 2000 while production has remained flat despite record well completions. According to the Energy Information Administration, US natural gas production in 2000 was 19.2 trillion cubic feet and 19.3 trillion cubic feet in 2007. The last time the US produced over 20 trillion cubic feet was in 1974. Recent growth in natural gas from shale is encouraging, but this has not yet shown sufficient production to accommodate the growing demand by the power sector without further demand destruction in manufacturing.

Congress has a history of passing mandates that increase demand for natural gas while simultaneously failing to put in place a long-term framework to increase production - this must change. Federal mandates such as the low-sulfur fuels standard and the bio-fuels (ethanol) mandate both increased demand for natural gas. And, pressure to reduce greenhouse gas emissions has resulted in a 35 percent increase in natural gas demand by the power sector. Together, the increases in demand and resulting higher price significantly contributed to the erosion of the US manufacturing base since 2000.

The proposal does not include any provision to help the manufacturing sector increase its energy efficiency. Neither the 2005 or 2007 energy bills included any provisions that would help this vital industry that consumes about 25 percent of US energy. One important key to increasing energy efficiency is accelerating capital stock turnover thru tax related provisions such as accelerated depreciation and tax credits. IECA encourages the Congress to include such a provision that would allow for the investments necessary to reduce energy consumption, create manufacturing jobs and reduce greenhouse gas and air emissions.

IECA does not support taxing a specific industry as your proposal recommends. For this reason we do not support removing the Section 199 domestic manufacturing credit for natural gas and oil production nor an excise tax as proposed. Instead of penalizing the oil and gas production industry, we encourage redesigning the royalty payment system in a manner that would provide incentives to the industry to expand production which would increase royalty revenues for the federal government. These increased revenues could be used to fund this bill.

As you consider the proposed \$2.5 billion in R,D&D for next generation biofuels and infrastructure, great care should be taken to protect the long-term sustainability of forests and the competitiveness of the U.S. forest products manufacturing industry that uses forest biomass for raw material feedstock and bioenergy. It is important for Congress to consider the potential unintended consequences that mandates and subsidies have on distorting free markets and particularly these important fiber markets.

We encourage the Congress to extend and expand the use of the Production Tax Credit, investment tax credits and depreciation. The investments necessary for alternative energy production, energy efficiency improvements and lower environmental impact require large amounts of capital. Projects of this scale need solid economics for periods much longer than existing tax incentives. Congress needs to improve the value of tax incentives by establishing appropriate terms longer than current law. Four years for the production tax credit, while an improvement over the current annual reauthorization is insufficient to meaningfully reduce the risk of capital investment.

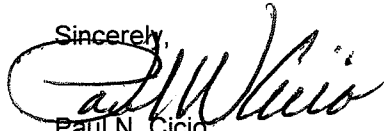
IECA is concerned that the proposal does too little to accelerate greater use of nuclear energy as a reliable and safe source of energy that includes a responsible solution to waste materials. It is hard to see an adequate supply of energy and electricity for this country without re-establishing the infrastructure for the nuclear industry. Nuclear energy is also a critical policy component to reducing greenhouse gas emissions. Many years have been lost advancing our country's knowledge of nuclear energy due to past political decisions. Everything from university programs to equipment manufacturers to waste storage needs Congressional action.

We encourage the Senate to not pursue a Renewable Portfolio Standard (RPS). Incentives not mandates are the appropriate way to increase the nation's supply of renewable energy. States that have abundant renewable resources have enacted programs while those not endowed have not done so for good reason.

Congress passed energy legislation in 2005 and 2007. These bills made positive changes but were not sufficient to prevent the situation we find ourselves in today. Legislation that attempts to pick winning technologies is rarely successful. Partial measures on expanding production at best delay the crisis but often result in disruptive price volatility. Congress should stick with successful tools like tax incentives and apply them boldly in a manner that is fair to all parties and direct these incentives toward energy supplies that are domestic and that provide the specific environmental benefits that are desired.

Thank you for your bipartisan leadership and we look forward to working with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul N. Cicio". The signature is written in a cursive style with a large initial "P" and "C".

Paul N. Cicio
President

Cc: Senate