

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

HOUSE OF REPRESENTATIVES

DECEMBER 6, 2007

**“A HEARING TO EXAMINE THE CENTRAL ROLE OF OIL AND NATURAL
GAS TO THE AMERICAN ECONOMY AND ITS IMPACT ON AMERICAN
CONSUMERS”**

Good afternoon and thank you for the opportunity to share our views on this important topic. IECA is a nonprofit nonpartisan 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.

On average, since 2000, the US price of natural gas has been the highest in the world and has significantly contributed to the loss of 3.1 million manufacturing jobs. That is 18% of all manufacturing jobs despite four years of robust US economic growth. In the same time period net imports of energy intensive products like chemicals, steel, plastics, fertilizer and aluminum has increased over 108 percent. The high price of US natural gas and the increasing price of electricity versus other parts of the world is a deterrent to maintaining and building new grass root plants in the US.

The key point of our testimony is that natural gas supply remains fragile and consumers such as homeowners, farmers and manufacturers need help by both parties in Congress and the Administration to accelerate domestic production of natural gas. We must act now because developing additional supply can take 5 to 7 years and significant investment.

We would like to highlight the magnificent partnership between Rep. Peterson, a Republican from Pennsylvania and Rep. Neil Abercrombie a Democrat from Hawaii as a model for bipartisan leadership, who together has been champions for increasing production of natural gas by allowing increased access to our offshore areas. In this regards, we believe that HR 2784, the National Environment and Energy Development Act is model legislation that we support.

The US Geological Survey (USGS) says that only about 5 percent of our federal lands are used for oil and gas production. In our view, it is in the public interest that such federal lands are used. Natural gas on federal lands belongs to every American and it should not be un-necessarily withheld.

We are the only country in the world with abundant supplies that are off-limits to production. Even countries like Norway and Denmark who have stellar environmental qualifications have aggressive drilling programs. We believe that the US can increase supply of natural gas without compromising our environment.

According to the Energy Information Administration (EIA), natural gas prices for homeowners, farmers and manufacturers have increased by an average of about 77 percent since year 2000. In year 2006, consumers paid a staggering \$75.7 billion more for their natural gas than they did in year 2000.

High natural gas prices directly increase the cost of home heating and cooling; fertilizer and crop drying costs for farmers; and the competitiveness of the manufacturing sector. As significant as these costs are, the total cost impact of high natural gas prices is much greater.

Electricity produced from natural gas is setting the marginal price for electricity in a growing portion of the US, which means, as natural gas prices have gone up, so has electricity prices. Electricity prices have increased by 19.5 percent since year 2000. Consumers will pay \$65 billion more per year for electricity than they did in year 2000 and the rate of increase has accelerated.

The Electric Power Research Institute said, "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.

A single 500 MW gas fired power plant will consume the equivalent natural gas used to fuel 842,308 homes. With out increasing supply of natural gas we will rapidly get to the point where we as a nation must decide whether consumers or power plants will get the natural gas.

Of great concern is that Congressional actions continue to drive up demand without actions to provide for comparable supply. Examples of Congressional actions that are driving increased natural gas demand are the Clean Air Act for power generation; low sulfur fuels mandate; ethanol mandates; and anticipation of greenhouse gas emission reduction mandates.

Provisions in the Energy Policy Act of 2005 have helped to increase natural gas production in the Rocky Mountain Region, which has been crucial to NYMEX wholesale prices stabilizing in 2006 -2007 in the \$6-7 range. Importantly, increased production of natural gas in the Rocky Mountain area has offset the

declining production in the Gulf of Mexico. However, from 2000 to 2006 domestic production is down 4% despite record well completions.

Canada makes up about 16.5 % of US supply. Canadian supply has been flat to declining since 2000 and supply fell 3% in 2006. The Canadian National Energy Board's November 2007 report shows Canadian production reference case at about 17 billion cubic feet per day in 2005 steadily declining to 9.5 bcf per day by 2030, a 44% decline. The report goes on to say they anticipate a gradual reduction in net natural gas export capability as a consequence of the Canadian production and demand projections in the Reference Case.

In fact, the report goes on to say that, Canada plans three LNG import terminals to be operational by 2015 with annual import volumes assumed to 1.4 bcf per day.

It is important to note that IECA views LNG supply as unreliable. It is an essential option...but not reliable because we are disadvantaged relative to other countries. Imports have increased since 2000 but remain only 2.7 % of our nation's supply and actually decreased by 7.5% in 2006. Almost all of the world's supply is dependent upon countries that are OPEC countries or countries with nationalized energy industries.

Today's reality is a good example as to why we cannot count on LNG. At 8 Euros, natural gas is worth about \$5.37 to Europeans but because of the falling dollar, we have to pay \$11.92 to match them! Today's NYMEX price is \$7.18 mm Btu that means US markets will not be able to attract LNG cargos.

Thank you.