



Industrial Energy Consumers of America *The Voice of Industrial Energy Consumer*

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May 8, 2007

The Honorable Jim Costa
Chairman
Subcommittee on Energy and Mineral Resources
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Costa:

Thank you for the opportunity to testify before your committee on April 17, 2007 and for your vote in support of the Energy Policy Act of 2005 and its provisions that are helping to increase supply of natural gas; and the Deep Ocean Energy Resources Act of 2006. The purpose of this letter is to do two things:

- reinforce IECA's strong belief that your subcommittee and the Congress have the ability to support and encourage continued improvement in our supply of domestic natural gas, or undermine that progress by discouraging or impeding the investments we must have; and,
- to clarify my remarks regarding the drop in natural gas production that has occurred nationally and remains of great concern because prices of natural gas and electricity continue to rise at alarming rates.

My points are against a background realization that any Congressional mandate to reduce greenhouse gas emissions will result in even greater demand for natural gas in general and increased movement by the electric utility industry away from coal towards natural gas. Given the downward slope of natural gas supply, increased demand means much higher natural gas and electricity prices.

Consumers paid a staggering \$75.7 billion more for natural gas and \$65 billion more for electricity in 2006 than in 2000. Even though natural gas is used to produce only 20 percent of the electricity, it accounts for 55 percent of the industry's entire fuel expense (\$50 billion out of \$91 billion) according to the Electric Power Research Institute.

And, while residential, commercial and industrial consumers have responded to these high prices by using -13%; -8% and -19% less natural gas respectively, consumption by the power sector rose by 20 percent since 2000. Actions taken by consumers to improve energy efficiency and conservation that could have resulted in lower natural gas prices were wiped out by higher demand for power. EIA forecasts continue to show increasing demand for natural gas by the electric power sector. And now, unprecedented demand is occurring from the production of ethanol.

A recent report from Raymond James & Associates indicates there are 116 ethanol distilleries with 78 plants under construction and 7 undergoing expansion. Up to 95% of these plants will use natural gas boilers. The report forecasts an increase in natural gas demand by 1 percent of total U.S. demand. Unfortunately, supply is decreasing, not increasing.

During my testimony I said that U.S. production of natural gas had fallen by 5.8 percent between 2001 and 2006 according to the Energy Information Administration (EIA). This number represents all production whether on federal land or not.

To clarify the numbers, we have compiled the following data that compares natural gas production between 2000 and 2006 for both federal onshore and offshore production and U.S. total. Onshore production from federal lands increased from 4.3 to 4.4 trillion cubic feet and offshore production fell from 5.0 to 2.9 trillion cubic feet for a combined drop in production of 27 percent, according to the Minerals Management Service. Total U.S. natural gas production fell from 19.2 to 18.4 trillion cubic feet or 4 percent.

U.S. natural gas supply will remain fragile for the next several years because: production is down; Canadian production is struggling and they plan to use more internally; we do not anticipate any significant production from increased access to the Gulf of Mexico over the next five years; the Alaska Natural Gas Pipeline has not begun and would take ten years to complete; and while major LNG supplier countries are planning a cartel, new and expanded re-gasification facilities continue to encounter firm local resistance.

Your leadership and that of the subcommittee is essential to the welfare of this country's supply and price of natural gas and electricity. We are counting on you and we look forward to working with you.

Sincerely,



Paul N. Cicio
President

cc: U.S. House of Representatives