



Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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October 9, 2008

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
Washington, DC 20515-6115

Dear Mr. Chairman:

Thank you for the opportunity to testify before the Subcommittee on Energy and Air Quality at the June 19, 2008 hearing entitled "Legislative Proposals to Reduce Greenhouse Gas Emissions: An Overview". I am in receipt and thankful for a series of questions posed by Representative Markey which I have responded to below.

In doing so, I have highlighted the opportunity to reduce ghg emission from "waste energy" at both electric power stations and manufacturing facilities. This is of great interest to us and we hope you will give it consideration for a future hearing.

Sincerely,

Paul N. Cicio
President

Cc: The Honorable Joe Barton, Ranking Member
Committee on Energy and Commerce

The Honorable Rick Boucher, Chairman
Subcommittee on Energy and Air Quality

The Honorable Fred Upton, Ranking Member
Subcommittee on Energy and Air Quality

The Honorable Edward J. Markey, Member
Subcommittee on Energy and Air Quality

Answers to questions posed by the Honorable Edward J. Markey:

1. The comment "High natural gas prices significantly contributed to the loss of 3.3 million jobs (19 percent) since 2000," is not derived from a calculation. The comment is a reflection of comments from our companies who are most often the largest manufacturers in each of the energy intensive industry sectors. All of these sectors, with the exception of cement have reported significant shut down of facilities especially during the time frame of 2000 to 2003. We do not know of a study or resource that has surveyed companies to answer your question numerically.

These industries are energy and capital intensive (not people intensive) and the vast majority of them built their manufacturing plants based upon the economics of natural gas prices ranging from \$2.00 - \$3.00 per mm Btu in the 1970s, 1980s and 1990s. So when natural gas prices jumped up to \$4.50 per mm Btu in 2000 and continued to rise to \$5.90 per mm Btu in 2003, many were no longer competitive and shut down. US manufacturing lost 2.7 million jobs from 2000 to 2003.

Consistent with the shut down of these plants, imports of energy intensive products that were flat from 2000 to 2003 rose a staggering 78% from 2003 to 2007 to displace that US production.

2. Yes, we disagree with the EIA as it relates to natural gas. We cannot make comment on crude oil and your questions related to ANWR. Our trade associations is primarily focused on natural gas and are not large consumers of crude oil products nor does its price have a significant impact on our competitiveness when compared to natural gas or electricity.

There are two reasons why we disagree with the EIA on natural gas. One reason stems from the important point that US natural gas is not priced globally like crude oil nor is global demand a factor for natural gas pricing at this point. If we do not increase domestic production, and we become dependent upon global LNG supply, global demand will have a direct impact on our domestic natural gas price. And, we won't like the results.

Today, natural gas is a North American or regionally priced product and is reflective of US and Canadian demand and supply. This means that if the US increases supply relative to demand, the price will decrease. Because of that, relatively small increases in supply can have a relatively significant and positive impact on the price.

It is for this reason that we believe increased supply of natural gas relative to demand will decrease prices in the US relative to other countries and directly increase the competitiveness of domestic manufacturers. Secondly, because natural gas fired power generation is setting the marginal price of electricity in a growing portion of the country, if natural gas prices go down, so will the price of electricity. Importantly, any benefit received by manufacturing would also be enjoyed by homeowners and farmers alike.

Secondly, there are many places that are in the OCS moratorium (now removed) that has abundant supplies of natural gas that are within close proximity to existing hydrocarbon production infrastructure. These areas, if permitted to allow exploration could start delivering natural gas in three to five years.

Such areas exist in the areas just north of Lease 181 in the Gulf of Mexico. It is a substantial area that is adjoined to the area referred to as the Destin Dome. Some of this area has already had seismic and is known to have greater than 3 trillion cubic feet of natural gas. We have been informed that this is a natural gas producing area with very little crude oil. Given our natural gas demand growth rate of .26 trillion per year since 2000, the Destin Dome supply could accommodate US growth demand for more than 11 years. We would be happy to bring a map of the Gulf of Mexico to your office that clearly illustrates the significant size of this area and its approximation to existing infrastructure.

Even more importantly, the history in the Gulf of Mexico consistently proves that the more drilling that is allowed to occur, and as the production companies become more familiar with the geologic formations, the more natural gas that they find. Through time, it has been proven time and again that all past estimates of the Gulf of Mexico reserves have been understated.

Increasing demand by China, India and other rapidly growing nations will increase relative demand for all hydrocarbon resources. And, as their demand increases it will exert upward pressure on global prices of hydrocarbons. This is all the more important reason to increase domestic supplies of all hydrocarbons to better insulate the US from supply disruptions. Producing more crude oil means at least we will have access to the physical product albeit, at a globally determined price. This is a national security issue.

3. a.) Make no mistake the US should act right now to reduce its ghg emissions and not wait - but actions should be cost effective and when federal dollars are spent, should extract maximum benefit to the economy and its tax payers. And, while there has been unprecedented funding for renewable energy, we would like to make the case that investing those same dollars in the manufacturing sector could yield greater reductions and create more jobs than that of the renewable energy area. This should be the subject of another hearing, especially given our comments about "waste energy" below.

For a manufacturing organization to address the question of whether various forms of power can contribute to meeting our ghg reduction goals, cost and reliability of supply must be addressed simultaneously. PV, solar thermal, wind and geothermal should contribute to our national and global reduction efforts but are not reliable to run our factories and are more expensive. Plus, increased use of renewable energy requires power companies to build more back up power generation that will be based on natural gas which puts even more upward pricing pressure on natural gas. The costs of adding transmission and distribution capacity to accommodate renewable energy is enormously expensive. Without doing it carefully, increased supply of renewable energy destabilizes the reliability of the grid.

Woody biomass is a feedstock for our paper industry and we have significant reservations about how much should be used by other industries for power generation. The paper industry is already at a competitive disadvantage to several developing countries that are not limited by woody biomass supply and have lower costs. If we are not careful, we will drive this important industry offshore, which is what has happened in most of Europe.

The real opportunity to significantly reduce ghg emissions that are not being capitalized upon is "waste" energy from the power sector and manufacturing. First and foremost, because energy is a "pass through cost" for the electric power sector, there is no financial reason to reduce it. That is fundamentally wrong. Plus, as you are aware, the Clean Air Act regulations make it difficult if not impossible for them to make changes to their plants because of New Source Review (NSR). Common sense says that because of the number of these power plants and their scale, significant ghg reductions could occur by just making changes to NSR and addressing the "pass thru cost" issue that would dwarf the ghg reductions achievable by the renewable area and at less cost. Improving energy efficiency reduces the need to build new power plants.

Secondly, manufacturing plants have waste heat that can be used to produce steam and power that could be sold to other manufacturers or commercial buildings or sold to electric utilities if regulations were changed and the projects became economic. Manufacturers are willing to utilize and sell its waste energy but between the unwillingness of the electric utilities to buy the power and connect us to the grid at a reasonable price – and existing regulations - it is almost impossible nowadays to do such projects. The manufacturing community cannot utilize this waste energy without the help of Congress. In this case, these forms of distributive energy would increase the reliability of the grid.
