



Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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February 9, 2022

The Honorable Joe Manchin III
Chairman
Senate Committee on Energy and Natural
Resources
Washington, DC 20510

The Honorable John Barrasso
Ranking Member
Senate Committee on Energy and Natural
Resources
Washington, DC 20510

The Honorable Frank Pallone, Jr.
Chairman
House Committee on Energy and
Commerce
Washington, DC 20515

The Honorable Cathy McMorris Rodgers
Ranking Member
House Committee on Energy and
Commerce
Washington, DC 20515

RE: Lack of Interstate Natural Gas Pipeline Capacity Threatens Manufacturing Operations, Investments, Jobs, and Supply Chain

Dear Chairmen Manchin and Pallone and Ranking Members Barrasso and McMorris Rodgers:

On behalf of the member companies of the Industrial Energy Consumers of America (IECA), we urge you to take action to ensure that there is adequate interstate natural gas pipeline capacity for the manufacturing sector. Regionally, demand for natural gas power generation and LNG exports has reduced available pipeline capacity for manufacturing and new pipeline capacity is not getting built.

Reliability is a core issue. Inadequate pipeline capacity impacts existing manufacturing facilities and is detrimental to new investment and job creation. We encourage the committees of jurisdiction to examine the need for Federal and state coordination and oversight of pipeline capacity, taking into consideration the siting of new natural gas-fired power generation, and the shutdown of coal and nuclear electric generation. Without action, more regions and manufacturers will be impacted. Furthermore, our nation cannot have electric reliability without natural gas pipeline reliability. Currently, no federal agency has responsibility for natural gas pipeline reliability.

The IECA is a nonpartisan association of leading manufacturing companies with \$1.1 trillion in annual sales, over 11,700 facilities nationwide, and more than 1.8 million employees.

Our member companies report that there are serious regional interstate natural gas pipeline capacity shortages have resulted in an annual increase of pipeline operational flow orders (OFOs) that will eventually result in curtailments of supply to manufacturing facilities. This has resulted in higher natural gas cash-market prices. For example, the Transco Zone 5 January 2022

average price was \$11.367 per MMBtu. On January 21, prices increased to \$21.80 per MMBtu. Curtailments are being reported on intrastate pipelines.

Inadequate pipeline capacity, coupled with increased demand from power generators and LNG exports, are disrupting our nation's manufacturing supply chain. The problem is exacerbated during peak demand in summer and winter seasons. When regional pipelines do not have the needed capacity to supply consumer demand, manufacturing companies are the first to be impacted by gas-use restrictions, extremely high Gas Daily prices and ultimate curtailment.

Many manufacturers are deemed essential to the economy. However, when natural gas restrictions occur, only those users that absolutely need gas such as hospitals, residential homes, and entities able to afford the extremely high prices, such as LNG facilities and power generators, are first on the delivery list.

High prices are not a concern for the electric utilities because they can pass the costs onto the electric consumers via their fuel adjustment mechanism. For manufacturing, competitiveness is directly impacted by higher prices for natural gas and electricity.

When confronted with a reduction of natural gas supply, manufacturing companies have limited options, none of which are satisfactory. They cut back production rates or stop production all together, shift production to other sites across the country, and switch to backup energy sources like diesel, biomass liquor (paper companies), and coal or propane, if those options are available. Most companies do not have alternatives.

Setting aside the obvious and serious challenges of permitting, construction, and the completion of pipelines, there is a lack of oversight and planning by Federal and state authorities. Failure to act will greatly impact the manufacturing sector.

For example, even though an interstate pipeline runs through several states, all of which are dependent upon the same pipeline, there is no coordination to ensure that decisions by one state are not negatively impacting another state. As long as there is excess pipeline capacity, this is not a problem. However, excess capacity no longer exists in several major pipelines.

A case in point is Virginia, North Carolina, and South Carolina. We have observed that these state utilities have Integrated Resource Plans which have and/or plan to accelerate the decommissioning of coal-fired electricity generation plants and build significant natural gas combined cycle generators. In other regions, it may be nuclear plants. In all cases, electricity generators are building natural gas-fired power in order to reliably supply their needs and to provide backup power for intermittent renewable energy.

All of these electric generators are using more and more pipeline capacity on Transco Zone 5, which supplies Virginia, North Carolina and South Carolina. The Cove Point LNG export terminal, which is at the end of Zone 5, is acquiring all the capacity that it can. **The result is sustained periods of natural gas pricing that are five times higher than the nation's average.** During peak system demand, the region's natural gas prices are now correlated to the global LNG market prices.

The problem is that new natural gas electrical generation in Virginia is not being considered by North Carolina and South Carolina and vice versa. They are all acting independently, nor is LNG

demand being considered. In all cases, the power generators and LNG export terminals are securing the capacity needed for their new facilities. However, none of the decisions made by electric utilities and LNG exporters take into account whether there is remaining pipeline capacity sufficient to supply the existing and future growth of the manufacturing sector, and therein lies the problem.

Unlike electricity, there is no federal oversight for natural gas pipeline reliability. For electricity, the NERC has the responsibility to ensure reliability. In previous letters to you we have described the urgent need to provide oversight to ensure reliability.¹

Finally, another issue complicates manufacturers' ability to secure needed pipeline capacity. The variability of manufacturing production changes monthly and from year to year, which limits manufacturers from being able to do long-term firm natural gas contracts for pipeline service. LNG exporters and utilities have greater flexibility to make these long-term commitments. In fact, natural gas marketers have informed the IECA that the natural gas going to LNG export terminals continues to contract for large volumes of firm pipeline capacity, thereby consuming dwindling available pipeline capacity for manufacturers.

Without action, more regions and manufacturers will be impacted. We encourage you to hold a hearing on this matter. Thank you for supporting the manufacturing sector. We look forward to working with you.

Sincerely,

Paul N. Cicio
Paul N. Cicio
President & CEO

cc: The Honorable Jennifer Granholm, U.S. Department of Energy
Federal Energy Regulatory Commission
Senate Committee on Energy and Natural Resources
House Committee on Energy and Commerce
Senators and House of Representatives from VA, NC, SC
Governors from VA, NC, SC

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with \$1.1 trillion in annual sales, over 11,700 facilities nationwide, and with more than 1.8 million employees. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration 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, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, independent oil refining, and cement.

¹ IECA: Give FERC Interstate Natural Gas Pipeline Capacity Reliability Oversight Authority, January 22, 2020, https://www.ieca-us.com/wp-content/uploads/01.22.20_FERC-Pipeline-Oversight-Authority.pdf; and IECA Urges Senate and House to Give FERC Reliability Oversight on Natural Gas Pipelines, May 19, 2022, https://www.ieca-us.com/wp-content/uploads/05.19.21_IECA-Senate-Cybersecurity-on-Pipelines.pdf