Industrial Energy Consumers of America (IECA)
The Voice of the Industrial Energy Consumers

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February 16, 2022

The Honorable Richard Glick
Chairman
U.S. Federal Energy Regulatory Commission (FERC)
888 First Street, NE
Washington, DC 20426

RE: Manufacturers Request Technical Conference on Federal-State Interstate Natural Gas Pipeline Coordination and Oversight

Dear Chairman Glick:

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. Inadequate pipeline capacity is disrupting existing manufacturing facility operations and is preventing new investments and job creation. Reliability is a core issue. The situation is getting worse each year and has implications to our nation's supply chain, inflation, national security, and the growing trade deficit. One hundred percent of IECA members are from the manufacturing sector.

We encourage the Commission to hold a Technical Conference 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 Technical Conference will require participation by entities representing manufacturers, pipelines, electric utilities, state public service commissions, state government economic development officials, and others.

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 that 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 increasing demand from power generators and LNG exports, is disrupting our nation's manufacturing supply chain. The problem is exacerbated during peak demand in the summer and winter seasons. When regional pipelines do not have the needed capacity to supply 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 <u>essential</u> 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 natural gas prices are not a concern for the electric or gas utilities because they can pass the costs onto consumers via their fuel adjustment mechanism. High prices are also not a concern to LNG exporters who benefit from exceedingly high global LNG prices. 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, or 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. We are dependent upon natural gas.[1]

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.

[1] IECA: EIA Explains Why U.S. Manufacturing Cannot Switch from Natural Gas to Electricity, https://www.ieca-us.com/wp-content/uploads/07.15.21_MECS-Fuel-Switching-IECA-Statement.pdf

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.[2] 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 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 electric 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 of natural gas pipelines to ensure reliability.[3] No federal agency has the authority or responsibility to monitor pipeline capacity rates. No federal agency knows which pipelines are running out of capacity at peak demand.

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[2] "Duke Energy plans to exit all coal, double renewables," Kristi E. Swartz, E&E News Energywire, https://www.eenews.net/articles/duke-energy-plans-to-exit-all-coal-double-renewables/

[3] 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

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. The continued rapid expansion of LNG exports has reduced and will continue to reduce available pipeline capacity for manufacturers unless new pipeline capacity is put in service.

Without action, more regions and manufacturers will be impacted. We encourage you to hold a Technical Conference 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
FERC Commissioners
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.