Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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February 21, 2014

The Honorable Cheryl A. LaFleur
Acting Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

The Honorable John R. Norris
Commissioner
Federal Energy Regulatory Commission
888 First Street, NE
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The Honorable Phillip D. Moeller
Commissioner
Federal Energy Regulatory Commission
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The Honorable Tony Clark
Commissioner
Federal Energy Regulatory Commission
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RE: Natural Gas and Electricity Reliability, and Its Impacts to Industrial Competitiveness

In behalf of the Industrial Energy Consumers of America (IECA), we urge the Federal Energy Regulatory Commission (FERC) to closely examine the multiplicity of serious and growing problems that the natural gas and electricity industry have encountered this winter, and its costly impact to the industrial consumer, and issue a report with its findings. At the center of the issue is the lack of adequate electric reliability standards. The IECA member companies would be interested in either visiting with you or participating in a FERC technical conference to help the FERC fully appreciate the seriousness of these problems and to offer solutions.

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 1,500 facilities nationwide, and with more than 1.4 million employees worldwide. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, brewing, independent oil refining, and cement.

RECOMMENDATIONS

1. **We encourage the FERC assure that cost-effective and reliable capacity reserve margins will be sufficient to serve peak demands going forward. This may mean that FERC should work with the Administration to delay the shutdown of needed coal-fired electric generation capacity to ensure reliability if that is necessary. Fuel diversity from reliable base load energy sources is critical. Wind and solar energy are not dispatchable base load energy sources.**

2. **We encourage FERC to focus first on the most vulnerable regions of the country and address improving reliability standards. Reliability standards will need to address to what**

degree power generators should be required to hold firm pipeline capacity without compromising capacity reliability for industrial consumers. Since we are both significant consumers of natural gas and electricity, we are an important stakeholder on this subject.

3. **FERC should not guarantee the profitability of generators in deregulated markets. If a power generator loses money on power sales, they should absorb the loss just like other non-electric generating companies do. Being in business is not risk-free.**

4. **FERC should immediately pursue the removal of FERC jurisdictional regulatory barriers to increase use of industrial cogeneration and waste heat to power capacity from existing and new units to provide needed distributive generation capacity and to increase reliability to the grid. This is also consistent with President Obama's Executive Order "Accelerating Investment in Industrial Energy Efficiency."**

5. **FERC should complete an analysis of the potential cumulative impact that LNG exports could have on natural gas and electricity reliability. The U.S. Department of Energy (DOE) has approved six LNG export applications that will increase natural gas demand by 12.4 percent as compared to 2012. Most of the LNG exports will be shipped to countries that have the same winter heating season as the U.S. which means that LNG export demand will be pulling on the same storage and pipeline capacity that domestic consumers and power generators require for their needs and reliability purposes.**

Industrial global competitiveness is dependent upon the price and reliability of natural gas and electricity. If a manufacturing facility is forced to reduce operating rates because of natural gas or electricity curtailments, the costs can easily run into the millions of dollars per hour. Worse yet, if supply is suddenly curtailed without warning, equipment could be seriously damaged costing tens of millions of dollars.

This winter has clearly illustrated that it takes more than just natural gas production resources to provide the country with reliable and affordable natural gas and electricity – it takes an integrated natural gas delivery system and a diversified electric generation system that is working well together. Today, it is not working well in several regions of the country, and we are concerned that further increased dependency on natural gas for power generation will lead to greater reliability problems and costs for consumers. The seriousness of what has happened to reliability and prices this winter and the cost impacts to manufacturing companies cannot be overstated.

Over the last few years, grid operators such as the Midcontinent Independent System Operator (MISO) and the PJM Interconnection (PJM), and regulators such as the North American Electric Reliability Corporation (NERC) have warned that the EPA-induced coal-fired electrical generation plant retirements and their replacement with natural gas-fired electrical generation could result in potential reliability issues. They were correct.

Of immediate concern is the pending shutdown of up to 50 GW of coal-fired power generation over the next two years that will further increase dependency for natural gas used in power generation. We are reminded of the significance of coal-fired power generation by the recent American Electric Power (AEP) press reports, which state that during this winter they used 90

percent of their coal-fired power capacity to meet customer needs, and that much of that same capacity is slated to be shut down by 2015.

Coal-fired power generation is not only low cost, but it has provided critically important fuel diversity. Natural gas power generation demand competes with industrial and home heating use and it has the effect of raising natural gas prices. And, when natural gas prices increase, it impacts both the price of natural gas and electricity for all consumers. Using coal for power generation does not compete with consumer demand, and this is a significant benefit.

President Obama has recognized the importance of growing the U.S. manufacturing sector, the high paying jobs it creates, and has encouraged full utilization of our nations' natural gas resources to that end. He talked about it during the State of the Union. However, reliability of supply because of limits to natural gas pipeline capacity, potential electric reliability problems and the resulting spiking prices for both, threatens the momentum of the potential manufacturing renaissance. We look forward to discussing this with you.

Sincerely,

Paul N. Cicio
President

cc: Senate Committee on Energy and Natural Resources
House Committee on Energy and Commerce