Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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September 9, 2022

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

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

Re: Give FERC/NERC Responsibility to Ensure that there is Adequate Interstate Natural Gas Pipeline Capacity for Reliability of Natural Gas and Electricity Supply

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

We urge Congress to give the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC) responsibility for ensuring that there is sufficient interstate natural gas pipeline capacity at peak demand for reliability of natural gas and electricity. No federal agency has this responsibility or knows what pipelines are running at peak demand. Without ensuring that pipeline capacity is available, lives are at risk, as well as our nation’s economic and national security. We are already experiencing regional energy scarcity. Numerous pipelines are expected to issue operational flow orders and curtailments this winter at enormous costs.

For example, the Transco Pipeline Zone 5 (South Carolina, North Carolina, Virginia), the January 2022 contract for Henry Hub natural gas will cost manufacturers approximately $9.00/ MM Btu plus firm pipeline transportation costs of $15.00 MM Btu for a total of $24/MM Btu. This is a pipeline capacity scarcity premium that will only get worse unless there is more pipeline capacity.

Furthermore, the NERC cannot fulfill its mandate to ensure electric reliability unless there is adequate pipeline capacity for natural gas-fired generation, which is being used to displace coal-fired power generation units because new storage technologies are not at scale to provide load balancing. Natural gas-fired generation is crucial to the transition to a low carbon electricity future.[1]

One hundred percent of IECA members are from the manufacturing sector. IECA is a nonpartisan association of leading manufacturing companies with over $1.1 trillion in annual sales and over 11,700 facilities nationwide, and more than 1.8 million employees. In 2021, the manufacturing sector consumed 33 percent of U.S. natural gas. Natural gas is used as a fuel, a feedstock (a raw material), and for self-generation of power.

Manufacturing companies are being impacted right now by insufficient regional pipeline capacity. The seriousness of this problem was described in a letter we sent to you back in February.[2] We have also requested that the FERC organize a Technical Conference to bring transparency to the problems and develop policy solutions.[3] On a regional basis, manufacturing companies cannot expand because pipeline capacity is not available. In the winter months, they are forced to run at reduced rates or curtail all together, creating havoc to supply chains. A list of such pipelines is available upon request.

Recently, the Wall Street Journal reported that U.S. corporations are reshoring jobs.[4] This is good news, but short lived unless we urgently expand natural gas pipelines. U.S. manufacturing cannot beat China without the infrastructure necessary to expand our facilities.

The FERC's responsibility needs to shift from being a regulator of pipeline permits to having responsibility to ensure that the pipelines that are needed will get built to secure our nation's reliability. Today, they are reactive. With responsibility to ensure reliability, their role shifts to being pro-active.

The current regulatory system is broken and has not adjusted to the accelerating changes of the market. For decades, the current system has worked well. When pipeline capacity was needed, pipeline companies filed permits to the FERC and for the most part, the pipelines were approved and built without much delay. That is no longer the case.

Today, at every turn, politics and activists successfully slow and stop pipelines through legal action. New pipelines, justified on the basis of demand for the natural gas no

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[1] NERC Report, State of Reliability, July 2022, https://www.nerc.com/pa/RAPA/PA/Performance%20Analysis%20DL/NERC_SOR_2022.pdf

[2] "Lack of Interstate Natural Gas Pipeline Capacity Threatens Manufacturing Operations, Investments, Jobs, and Supply Chain," February 9, 2022, https://www.ieca-us.com/wp-content/uploads/02.09.22_NG-Pipeline-Capacity_FINAL.pdf

[3] "Manufacturers Request Technical Conference on Federal-State Interstate Natural Gas Pipeline Coordination and Oversight," February 16, 2022, https://www.ieca-us.com/wp-content/uploads/02.16.22_Request-for-FERC-Technical-Conference_FINAL.pdf

[4] "U.S. Companies on Pace to Bring Home Record Number of Overseas Jobs," The Wall Street Journal, August 20, 2022, https://www.wsj.com/articles/u-s-companies-on-pace-to-bring-home-record-number-of-overseas-jobs-11660968061

longer get built. And, if they do, because of long delays, it is at a cost that is double or triple the original costs. These higher costs get passed onto ratepayers that are saddled with these costs for decades, increasing inflation.

While EIA forecasts long-term growth for natural gas for industrial, power generation, and for LNG exports, we note that Constitution (0.7 Bcf/d), Penn East (1.1 Bcf/d), Atlantic Coast (1.5 Bcf/d), and Northeast Direct (1.2 Bcf/d) are pipelines that were all canceled. Mountain Valley (2 Bcf/d) and Norther Access (0.5 Bcf/d) are both opposed and significantly delayed.

POLICY RECOMMENDATIONS

Give FERC/NERC Responsibility to Ensure that there is Adequate Interstate Natural Gas Pipeline Capacity for Reliability of Natural Gas and Electricity Supply

- FERC/NERC are to monitor interstate natural gas pipeline capacity nationally for purposes of ensuring reliability and identifying pipelines and areas of the country that need increased capacity. New pipeline permit applications inform this objective. This is consistent with GAO's recommendation.[5]

  FERC should use available information, such as reports by transmission pipeline operators on service interruptions, to identify and assess risks to the reliability of natural gas transmission service.

- Require interstate natural gas pipelines to self-report to FERC on the following information.

  Identify delivery zones on the pipeline that do not currently have any available firm transportation service (FTS) capacity to purchase at the pipeline's maximum rate for a term of at least one year. Identify the last month and year that FTS capacity was available at the pipeline's maximum rates.

  Identify delivery zones where pipeline capacity utilization exceeds 80 percent on a daily average.

  Report a summary of daily balancing restrictions (critical days, operational flow orders (OFOs), curtailments) by delivery zone.

- Require FERC to take action to remedy reliability problems by expediting permits and construction and completion of the pipeline. Actions includes requesting use

[5] U.S. Government Accountability Office, September 2020: Gas Transmission Pipelines; https://www.gao.gov/products/gao-20-658#summary_recommend

of Presidential emergency powers. This is consistent with but goes beyond GAO's recommendation.

FERC should develop and document an approach to respond, as appropriate, to risks it identifies to the reliability of natural gas transmission service.

- Require FERC/NERC to provide national oversight to ensure a smooth transition to decarbonization. For example, a pipeline serves multiple states with no coordination of the shutdown of coal or nuclear power plants and the addition of natural gas fired generation, which risks reliability and results in lack of pipeline capacity for manufacturing. Give FERC/NERC the responsibility to coordinate with state agencies and if necessary, require that coal fired, or nuclear power generation units remain operating until pipeline capacity is available for all ratepayers.

- Industrial policy: Assure that there is adequate natural gas pipeline capacity available for manufacturing growth. Pipelines and other shippers benefit from manufacturing company demand in low demand periods of the year because we are the only demand that operates 24/7. But, in high demand periods, we are the first to be curtailed.

  Manufacturing companies cannot compete with utilities and LNG exporters for firm pipeline capacity. Few manufacturing companies are able to do long term firm pipeline contracts. If Congress wants the manufacturing sector to grow, it must either always ensure that there is more pipeline capacity than demand or it needs to create a new program that sets-aside pipeline capacity for manufacturing growth. The current "open season" policy approach does not support manufacturing growth.

Thank you for your attention to this important matter and your support of the manufacturing sector.

Sincerely,

Paul Cicio

Paul Cicio
President & CEO

cc: FERC Chairman, Commissioners
The Honorable Jennifer Granholm, DOE