



Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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May 16, 2011

The Honorable Harry Reid
Senate Majority Leader
Washington, DC 20510

The Honorable Mitch McConnell
Senate Minority Leader
Washington, DC 20510

Industrial Consumers Oppose Subsidizing Use of Natural Gas in Vehicles – Picks Winners (natural gas producers) and Losers (manufacturing)

Dear Majority Leader Reid and Minority Leader McConnell:

On behalf of the Industrial Energy Consumers of America (IECA), as manufacturers whose competitiveness is significantly influenced by the price of natural gas and electricity generated by natural gas, we strongly oppose legislation that subsidizes use of natural gas in the transportation sector. Stimulating demand for natural gas is the responsibility of markets, not Congress, subsidies or mandates. It is also irresponsible to establish a new subsidy when the US is faced with a \$14 trillion deficit.

Reasons that Congress should not subsidize natural gas in vehicles include:

1. Subsidies are not needed to increase demand in the transportation market

Given the high and rising price of gasoline, natural gas is a competitive fuel right now without subsidies. In fact, natural gas is only 19 percent as expensive as unleaded gasoline with 10 percent ethanol. [May 5, 2011 closing price of the forward strip thru December, 2011].

2. Subsidies will increase the US deficit

Given the \$14 trillion deficit, it is unthinkable that Congress would support legislation that would add to the deficit by subsidizing corporate fleets. And, T. Boone Pickens does not need a subsidy.

3. Subsidies pick winners (the natural gas industry) and losers (manufacturing)

Manufacturing has lost 5.7 million jobs (33 percent decline) since 2000. Millions of jobs were lost from 1999 to 2004 when natural gas prices doubled from \$3.12 per mcf to \$6.53 per mcf. Today's NYMEX price is about \$4.30/mm Btu. Energy intensive manufacturing industries like chemical, plastics, fertilizer, paper, steel, aluminum and glass shut down thousands of facilities. Because American manufacturers compete globally against subsidized manufacturers in countries like China, it is essential that Congress preserve America's competitive advantage by refusing to artificially inflate natural gas and electricity costs.

It is important to note that manufacturing uses natural gas as both a fuel and feedstock. As a feedstock, natural gas (liquids) represents about 80 percent of the cost of making ethylene and propylene, a key building block to produce a substantial variety of

chemicals and plastics. If natural gas prices escalate due to subsidies – so does the price of every consumer product derived from that feedstock.

4. Higher costs of fertilizer to farmers

Natural gas makes up 80 percent of the production cost of anhydrous ammonia, a nitrogen fertilizer and the chemical building block for all other nitrogen fertilizer products. The farm sector also depends on significant use of natural gas for food processing, irrigation and crop drying.

5. Subsidizing demand increases prices of both natural gas and electricity

Subsidies that increase demand will increase the price of natural gas and electricity to every homeowner, farmer and manufacturer. The residential and manufacturing sector consumes respectively 22 percent and 30 percent of US demand. The electricity sector consumes 33 percent. This means that as the price of natural gas rises, it not only increases home heating costs and the cost of fuel and feedstock to manufacturing, it also increases the price of electricity.

6. Natural gas demand in electricity generation is surging – Too much reliance on one fuel raises risks for all consumers

According to the EIA, demand for natural gas has increased 42 percent since 2000. Almost all of the new electric generation that has been built in recent years uses natural gas as its fuel. Greater dependency on natural gas for both the electric and transportation sector significantly increases price and supply risks. The transportation sector already has many alternatives – home owners and manufacturers do not.

We are not opposed to using natural gas in the transportation sector, but we are opposed to federal or state subsidies that distort the marketplace at the expense of consumers. Manufacturing is critical to increasing US jobs and this bill jeopardizes American industry's competitiveness.

Sincerely,

Paul N. Cicio
President

cc: U.S. Senate

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with \$800 billion in annual sales and with more than 750,000 employees nationwide. It is an organization created to promote the interests of manufacturing companies through research, 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: plastics, cement, paper, food processing, brick, chemicals, fertilizer, insulation, steel, glass, industrial gases, pharmaceutical, aluminum and brewing.