



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

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Industrial Consumers Oppose Subsidizing Use of Natural Gas in Vehicles

Picks Winners (natural gas producers) and Losers (manufacturing)

Manufacturers, whose competitiveness is influenced by the price of natural gas and electricity generated by natural gas, 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.

Advocates for H.R. 1380 have said in Congressional testimony that it will increase natural gas demand by 1.5 trillion cubic feet by 2025, about 7 percent of current demand, a significant increase. Total US demand from 2000 to 2010 increased by only 2.9 percent. *The new demand, coupled with the cumulative demand described below will result in a substantial increase in prices for every homeowner, farmer and business.*

- **The CME futures price of natural gas says is already up 47%; 9.4%/year over next five years**

The Chicago Mercantile Exchange futures price of natural gas for October, 2011 is trading at \$3.80 mm Btu and the October, 2016 price is \$5.58 mm Btu. HR 1380 will increase prices even higher.

- **Power sector demand is surging – Too much reliance on one fuel raises risks for “all” consumers**

According to the EIA, power sector demand has increased 42 percent since 2000. Demand will accelerate even faster going forward because of the coal to natural gas fuel switching that will occur over the next three years as a result of the EPA Electric Utility Boiler MACT Rule and the EPA Clean Air Transport Rule. The June, 2011 National Economic Research Associates (NERA) study concludes that these two rules will shut down 15 percent of the coal-fired power capacity and increase natural gas prices by 17 percent by 2016.

- **EPA Industrial Boiler MACT Rule will increase demand by the industrial sector**

The EPA Industrial Boiler MACT Rule will cause coal to natural gas fuel switching to enable manufacturers to meet new stringent air quality rules over the next three years.

- **DOE approved waterborne export facilities increases demand by 8 percent**

The export capacity of these three facilities, by themselves, would increase natural gas demand by 8 percent. And, other LNG terminals have applied for approval. This is significant demand – all by itself.

- **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.

- **Subsidies pick winners (the natural gas industry) and losers (manufacturing)**

There is a direct relationship between natural gas prices and manufacturing competitiveness. 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. 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 do its part to preserve America's competitiveness 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.

➤ **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.

➤ **The transportation sector already has many alternatives – home owners and manufacturers do not**

➤ **Lastly, 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.

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

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.