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January 4, 2006

VIA E-MAIL

Ms. Trudy Transtrum
Ms. Nancy Johnson
U.S. Department of Energy
Office of Fossil Energy
1000 Independence Avenue, SW
Washington, DC 20585

Re: Comments on Natural Gas Supply and Demand

Dear Ms. Transtrum and Ms. Johnson:

On behalf of the Process Gas Consumers Group (PGC), I am pleased to submit these comments in response to the Department of Energy's ("DOE") request for comments on the outlook for natural gas supply and demand in the United States.

PGC is a national trade association of industrial gas consumers who require natural gas in many of their key operations. PGC works to promote coordinated, rational, and consistent federal and state policies relating to natural gas and its transportation. PGC members represent a broad cross-section of U.S. industry, both geographically and in terms of products produced, including metals, cars, fertilizer, food and grain products, textiles, chemicals, glass and other manufactured products. These industrial operations employ millions of people and consume over half a trillion cubic feet of gas annually.

PGC is particularly concerned over the apparent imbalance between the domestic natural gas supply and demand. According to the EIA, total energy consumption in the U.S. is projected to increase 1.4 percent annually through the year 2025. Specifically, consumption of natural gas is anticipated to rise from 22.0 trillion cubic feet ("Tcf") in 2003 to 30.7 Tcf in 2025. However, domestic production is expected to grow only marginally during this period. In the face of increasing demand, PGC continues to believe that the U.S. should pursue a national energy policy that promotes domestic production in order to ensure that prices remain manageable for industries that rely on a steady supply of natural gas and petroleum products.

In light of the growing supply-demand imbalance, PGC believes that the United States should pursue all environmentally responsible options for exploration and production of domestic natural gas. Moreover, in light of the recent disruptions in the Gulf caused by hurricanes Rita and Katrina, PGC supports policies that encourage locational diversity of supplies. For example, the National Petroleum Council estimates that there are approximately 300 Tcf of natural gas and more than 50 billion barrels of oil yet to be discovered in the Outer Continental Shelf that can be recovered using today's technology. To provide some perspective as to the magnitude of these undiscovered resources, this is enough natural gas to maintain current U.S. production for almost 70 years and enough oil to maintain current production for more than 80 years. This amount of natural gas could heat approximately 75 million homes for 60 years or it could supply current industrial and commercial needs for 29 years.

As industrial consumers of large quantities of natural gas, PGC members have been impacted disproportionately by higher natural gas prices. The National Petroleum Council's September 2003 report provides evidence of this impact on the industrial sector.[1] As the NPC Study points out, industrial consumers used about 7.2 Tcf of natural gas in 2002. This constitutes about 32% of total U.S. gas consumption. Natural gas is used as boiler fuel, for process heat and, for some industrials, such as chemical and fertilizer producers, natural gas is used as a feedstock for which there is seldom any substitute. Therefore, as a result of increased natural gas prices, industrial manufacturers have shuttered plants, laid off workers and cut production.

As the NPC Study found, certain industrial sectors have been particularly hard hit by higher natural gas prices. For example, higher U.S. natural gas prices have resulted in temporary as well as permanent shut down of fertilizer plants throughout the United States. As the NPC Study reports, "the U.S. nitrogen operating rate fell to below 70% of capacity by the end of December 2000; by the end of January 2001, operating rates dropped to an all-time low of only 46% due to the significant rise in U.S. gas prices during January 2001. To put this into perspective, the average U.S. operating rate during the 1990s was 92%."[2]

The chemical industry is another industry suffering from the escalating natural gas prices. The NPC study found that "energy for both fuel and power needs and feedstocks account for up to 85% of total production costs" in the chemical industry. "Higher energy prices can have a substantial impact on the chemical industry. Reflecting higher fuel costs, the industry spent $31.4 billion in 2001 on purchases of fuel, power, and feedstocks, up 5% from 2000 and 65% from

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[1] National Petroleum Council, *Balancing Natural Gas Policy: Fueling the Demands of Growing Economy* (Sept. 2003) ("NPC Study").

[2] NPC Study, Vol. III at 3-41.

1999."[3] Other industries represented in PGC's membership have also been disadvantaged by increased natural gas prices.

The U.S. needs to expand on the energy policy improvements contained in the Domenici-Barton Energy Policy Act of 2005 by further encouraging a balanced fuel portfolio, to include contributions to our energy portfolio from wind power, hydro-electric power, and nuclear power, as well as from natural gas and other fossil fuels, coupled with continued emphasis on conservation, increased fuel efficiency and fuel flexibility.

In addition, PGC has long held the view that our nation's energy policy should help ensure adequate supplies of natural gas at reasonable prices. Moreover, PGC also strongly has supported policies designed to encourage increased natural gas infrastructure to bring much needed natural gas supplies to end-use customers. PGC believes that some of the proposals for new natural gas infrastructure, including new pipelines, storage facilities, new LNG terminals and expansions of existing LNG terminals, are in accord with these important policy goals. (For example, PGC filed comments supporting the expansion of the existing Cove Point LNG terminal and the associated pipelines and storage infrastructure, since the proposed expansion would provide multiple significant benefits to industrial end users in the Mid-Atlantic and lower Northeast regions.)

Absent access to increased energy supplies, U.S. industrials will continue to face higher natural gas prices, which in turn, make it increasingly difficult for U.S.-based industries to remain competitive in the global marketplace. In short, increasing our domestic supply of energy must be a cornerstone of any future U.S. energy plan.

PGC appreciates the opportunity to offer there comments to the Department of Energy and looks forward to working with the Department to achieve the important policy objectives discussed above.

Sincerely,

Dena E. Wiggins

Dena E. Wiggins
General Counsel
Process Gas Consumers Group

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[3] NPC Study, Vol. III at 3-44.