

H.R. 4318, THE OUTER CONTI- NENTAL SHELF NATURAL GAS RELIEF ACT

LEGISLATIVE HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND
MINERAL RESOURCES

OF THE

COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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C O N T E N T S

	Page
Hearing held on Thursday, November 17, 2005	1
Statement of Members:	
Gibbons, Hon. Jim, a Representative in Congress from the State of Nevada	1
Prepared statement of	2
Peterson, Hon. John E., a Representative in Congress from the State of Pennsylvania	3
Statement of Witnesses:	
Bennett, Michael L., President and Chief Executive Officer, Terra Industries Inc., Sioux City, Iowa	23
Prepared statement of	25
Bradley, David, Executive Director, National Community Action Foundation, Washington, D.C.	8
Prepared statement of	10
Gerard, Jack N., President and CEO, The American Chemistry Council, Arlington, Virginia	16
Prepared statement of	18
Hunt, Geoffrey P., Senior Vice President, Communications and Human Resources, OSRAM SYLVANIA, Danvers, Massachusetts	5
Prepared statement of	7
Oellig, Keith, President, Dauphin County Farm Bureau, Grantville, Pennsylvania	20
Prepared statement of	22
Additional materials supplied:	
American Forest and Paper Association, Statement submitted for the record	45

**LEGISLATIVE HEARING ON H.R. 4318, "THE
OUTER CONTINENTAL SHELF NATURAL GAS
RELIEF ACT."**

**Thursday, November 17, 2005
U.S. House of Representatives
Subcommittee on Energy and Mineral Resources
Committee on Resources
Washington, D.C.**

The Subcommittee met, pursuant to call, at 2:38 p.m., in Room 1324 Longworth House Office Building, Hon. Jim Gibbons Chairman of the Subcommittee] presiding.

Present: Representatives Gibbons, Faleomavaega, Peterson, Drake, and Pombo, ex officio.

Also Present: Representatives Brown and Abercrombie.

**STATEMENT OF THE HONORABLE JIM GIBBONS, CHAIRMAN,
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES**

Mr. GIBBONS. Thank you very much, ladies and gentlemen. And first of all, let me express my apology for the delay in getting started with this hearing. It is the Floor schedule that has gotten in our way.

The Committee today is meeting for a legislative hearing on H.R. 4318, the Outer Continental Shelf Natural Gas Relief Act.

Mr. GIBBONS. Before I begin, I would like to ask unanimous consent that the gentleman from Hawaii, Mr. Abercrombie, and the gentleman from South Carolina, Mr. Brown, may participate in the hearing.

Without objection, so ordered.

Ladies and gentlemen, the intent of H.R. 4318, offered by Mr. Peterson and Mr. Abercrombie, is to increase domestic production of natural gas, reduce energy prices for American consumers, and increase Federal and State revenues from development of resources on the Outer Continental Shelf, otherwise known as the OCS.

As the price of natural gas hovers between \$12 and \$14 per thousand cubic feet, a whopping 50 percent higher than what it was this time 2 years ago, the American consumer, our constituents, will be paying higher costs to heat their homes this winter. My constituents in Nevada are expected to pay anywhere from 13 to 15 percent more this winter for natural gas.

Additionally, Nevada's electric utilities are also experiencing price increases due to high costs of natural gas, with 3.75 to 6.5

percent rate increases effective this fall. And industries that are energy-intensive like the chemical and manufacturing, and fertilizer and agricultural industries, the very industries that provide those conveniences we depend upon like food and shelter for our constituents, will be forced to send their investments, their manufacturing and chemical plants—and, thus, their jobs—overseas in search of lower natural gas costs.

No one is immune. Schools and hospitals and nursing homes in the Midwest are expecting heating costs to rise nearly 60 percent this winter, all because of the high cost of energy.

The increasing costs of energy in this country are the result of years of poor planning in the development of vast Federal resources in this great country. This lack of foresight has put an economic squeeze on our entire Nation. The barriers we face in providing our communities affordable, low-cost and competitive energy are barriers to energy production that we can address here in America. But this Congress must act to do so.

We have heard on this Subcommittee repeatedly that our Federal energy resources are vast. For example, the OCS could provide significant relief by providing an enormous amount of natural gas. But until we restructure the regulatory framework to enable this development, until this Federal Government ceases to ration American energy resources such as natural gas, our constituents will continue to pay higher energy bills and our manufacturing and agricultural industries will suffer. And who will bear the burden of these high costs? The answer is American families.

The witnesses before us today have firsthand experience with and knowledge of the use of natural gas to create the very building blocks upon which our economy functions. Hopefully, the testimony you share will enlighten those people, both on and off Capitol Hill, who continue to scoff at the seriousness of the natural gas crisis.

I look forward to hearing your testimony today. And I would like to recognize Mr. Peterson, since our Ranking Member isn't here right now. But when he and others arrive, if and when they have an opening statement, we will permit them to submit that opening statement.

Mr. Peterson, do you have any opening remarks?
[The prepared statement of Mr. Gibbons follows:]

**Statement of The Honorable Jim Gibbons, Chairman,
Subcommittee on Energy and Mineral Resources**

The Committee meets today for a legislative hearing on H.R. 4318, "The Outer Continental Shelf Natural Gas Relief Act of 2005."

The intent of this legislation, offered by Mr. Peterson and Mr. Abercrombie, is to increase domestic production of natural gas, reduce energy prices for the American consumer, and increase federal and state revenues from development of resources on the outer Continental Shelf (OCS).

As the price of natural gas hovers between \$12 and \$14 per thousand cubic feet—a whopping 50% higher than what it was at this time two years ago—the American consumer—our constituents—will be paying higher costs to heat their homes this winter.

My constituents in Nevada are expected to pay anywhere from 13 to 15 percent more this winter for natural gas.

Additionally, Nevada's electric utilities are also experiencing price increases due to the high costs of natural gas with 3.75 to 6.5 percent rate increases effective this fall.

And industries that are energy intensive—like the chemical and manufacturing and fertilizer and agriculture industries—the very industries that provide those

modern conveniences like food and shelter for our constituents—will be forced to send their investments, their manufacturing and chemical plants, and thus, their jobs, overseas in search of lower natural gas costs.

No one is immune—schools and hospitals and nursing homes in the Midwest are expecting heating costs to rise nearly 60% this winter—all because of the high cost of energy.

The increasing costs of energy in this country are the result of years of poor planning in the development of the vast federal resources of this great country.

This lack of foresight has put an economic squeeze on our entire country.

The barriers we face in providing our communities affordable, low cost, and competitive energy are barriers to energy production that we can address here in America—but this Congress must act to do so.

We have heard on this Subcommittee, repeatedly, that our federal energy resources are vast—for example, the Outer Continental Shelf could provide significant relief by providing an enormous amount of natural gas.

But, until we restructure the regulatory framework to enable this development...

Until this federal government ceases to ration American energy resources such as natural gas...

Our constituents will continue to pay high energy bills and our manufacturing and agriculture industries will suffer.

And who will bear the burden of these high costs?

The answer is American families.

The witnesses before us today have first-hand experience with, and knowledge of, the use of natural gas to create the very building blocks upon which our economy functions.

Hopefully the testimony you share will enlighten those people both on, and off, Capitol Hill who continue to scoff at the seriousness of this natural gas crisis.

I look forward to hearing the testimony from our witnesses.

I would now like to recognize the Ranking Member, Mr. Grijalva, for any opening statement he may have.

STATEMENT OF THE HONORABLE JOHN E. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. PETERSON. I am going to be very brief. I think you have covered the issue well.

I want to thank you, Chairman Gibbons and Chairman Pombo, for helping to put this hearing together. I want to thank Mr. Abercrombie, my good friend from Hawaii, for his strong, unwavering support for natural gas. I want to thank the five witnesses that are going to be here today.

But we are here today because of a problem caused by government. In my view, this is a government-induced problem; this is not one that just happened.

A decade ago we opened up the use of natural gas for electric generation, which was always prohibited, and we have encouraged the use of natural gas in many ways because it is the perfect, almost perfect, clean fuel. And we were warned back then by people like Daniel Yergin and others that if we did this and didn't open supply, we would develop a huge problem. And I have been watching this move forward for about 5 or 6 years, and here we are; and so—but there are solutions.

And why have I chosen the OCS? It is the largest pot of gas closest to the people with the least impact when you produce it. I mean, I believe that with all my heart. When you go offshore, out of sight, there is no impact on shore. And it is close to where the population centers are. Every other pot of gas, we have huge pipelines and costs and times related; or whether we go LNG, you have to build ports, ports that load, ports that accept, ships that haul.

Those are all part of the process with permitting, on both ends, building those ports in the sending countries and building the receiving ports in this country—a lot of years involved.

So, to me, the one that has the most potential, the one that is the most close to the population and to the users—so many of our plants are on the coastline—I think OCS should be our first.

But we need to open up—and I was talking to Alan Greenspan yesterday, and he said, we really need all of them. We need the OCS, we need LNG, and we need Midwest gas to stabilize the gas business in the country.

And I think we are all beginning to realize that natural gas is just a part of everything. I mean, there just almost isn't anything we use that isn't related to natural gas and the production of it. And anybody that heats, cooks, bakes, bends, melts is in trouble with today's prices that are competing in the global marketplace.

So we are here to listen to the witnesses, and I just want to thank them all for participating.

And I look forward to your testimony.

Mr. GIBBONS. Thank you, Mr. Peterson.

I will turn now to the cosponsor of the legislation, Mr. Abercrombie from Hawaii, for any opening remarks he may have.

[Recess.]

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman. The main thing is to get these folks on the record. I am with Mr. Peterson on this. I hope my being here today is indicative of the fact that this is not a party question. This is not an—I wish I could say it is not an ideological question. I don't think it is.

Unfortunately, as Mr. Peterson may have already alluded to this in his remarks, for some people it is an ideological question. We are legislators here. We are not theologians. And unfortunately, with regard to natural gas, I believe that we are coming up against what some people believe is sacred text. And as a result, some of us who think that there is not only a legitimate reason to raise the issue of how we explore foreign and extricate natural gas, some would think that is an legitimate endeavor that we need to be involved in legislatively, find ourselves having to defend the very idea that such a question should even be asked.

We want to try—and certainly I think this bill—and we appreciate your holding the hearing, Mr. Chairman—as a result, this bill needs to be aired in the context of, is natural gas an alternative fuel, readily available, reasonable in cost and domestic in origin, so that we don't have to see this wonderful natural resource underutilized in a world in which we now face rising prices, where consumers face incredible difficulties? And when I say, consumers, I don't just mean the individual; I mean industry as well. And we are missing a genuine opportunity to make a difference in terms of energy sufficiency and independence in this Nation.

I have come to that conclusion. I wish I could say that I understood that right from the very beginning.

But as my good friend, the Chairman, here knows, occasionally Members of Congress who sit on a committee actually pay attention to the testimony, read the information that comes in front of us, try to listen and try to exercise good judgment as a result.

And what has happened is that natural gas advocates have been able to break through the fog of ideological condemnation and at least get through to this member that this is something that is vital and necessary to be explored right now.

So I have taken a long time to say this, Mr. Chairman, and I apologize for that. But I don't apologize for the idea that this Committee, Republicans and Democrats alike, stand ready to respond to the natural gas advocates I think at a time when this case is ripe for the making. Thank you very much.

Mr. GIBBONS. Thank you, Mr. Abercrombie.

Mr. GIBBONS. Let me introduce the first panel. And after that, we will have them rise, and we will swear them in.

The first panel is going to consist of Mr. Geoffrey P. Hunt, Senior Vice President of Communications and Human Resources from OSRAM SYLVANIA, Danvers, Massachusetts; Mr. David Bradley, Executive Director, National Community Action Foundation, Washington, D.C.; and a familiar face to all of us up here, Mr. Jack Gerard, President and CEO, American Chemistry Council, Arlington, Virginia; Mr. Keith Oellig, President, Dauphin County, Pennsylvania, Farm Bureau, and Grantville, Pennsylvania; and Mr. Michael L. Bennett, President and Chief Executive Officer, Terra Industries Inc., Sioux City, Iowa.

Gentlemen, welcome. If you would please rise and raise your right hand.

[Witnesses sworn.]

Mr. GIBBONS. Let the record reflect that each of the witnesses, answered in the affirmative to the oath.

And we begin now by allowing our witnesses their testimony.

Gentlemen, we would ask, if you want to submit your full and written statement for the record, please do so. You are free to paraphrase and summarize your statements so that we try to keep within a 5-minute time frame there.

We can start on your right, our left over here, with Mr. Hunt.

Mr. Hunt, if you would like to begin, the floor is yours. Welcome to the Committee.

STATEMENT OF GEOFFREY P. HUNT, SENIOR VICE PRESIDENT, COMMUNICATIONS AND HUMAN RESOURCES, OSRAM SYLVANIA, DANVERS, MASSACHUSETTS

Mr. HUNT. Thank you, Chairman Gibbons.

I also would like to thank you for this opportunity to express our support of H.R. 4318. As introduced, my name is Geoffrey Hunt. I am a Senior Vice President of OSRAM SYLVANIA. OSRAM SYLVANIA is the North American business affiliate of OSRAM GMBH which is part of Siemens, the leading worldwide manufacturer and distributor of lighting products for general consumers and industrial and commercial users and automotive OEMs and consumers.

In the United States, under the Sylvania brand name, which has been an American icon for over 75 years, we employ over 9,000 people, including 6,500 hourly factory workers. Our annual sales are about \$2 billion.

We manufacture light bulbs, lamp components, and we process strategic raw materials in five States: Pennsylvania, Kentucky, New Hampshire, Indiana and Rhode Island.

Reliable and affordable supplies of natural gas are vital to our business. Natural gas is our exclusive, clean energy source to melt and form glass bulbs and tubing to process raw materials such as tungsten and rare earth phosphorus, as well as the forming and molding of glass and metal components and assembling finished lamps, whether they be incandescent, tungsten halogen, fluorescent or high-intensity discharge.

In 2004, we consumed approximately 3.3 million MCF of natural gas throughout our operations. In the past 5 years, we have seen gas prices escalate from \$3 per MCF to well over \$10 on the spot market. As compared to the year 2000, our bills in 2005 will be \$24 million higher. In fact, for 2004 to 2005 alone, gas costs for us had escalated by \$7 million. This is the single largest rate of increase in any of our costs of production.

At current supply levels, we expect to see gas prices exceed \$12 dollars in 2006/2007, which will add another \$7 million to our energy bills.

While the vast majority of our production is based in the U.S., nearly 60 percent of our competitors' products are manufactured outside the U.S., some in Europe where natural gas is less than \$5, and in Asia, particularly China, where gas is less than \$4. The competitive disadvantage is over \$20 million at the moment, already on top of the wage gap, which is growing.

Sylvania has attempted to offset the prices of natural gas through natural gas consumption productivity and efficiency projects; 5 percent of all of our capital spending has been devoted to natural gas productivity. We rebuild glass melding furnaces every 5 to 7 years, requiring investments of \$3 to \$6 million each. Achieving higher gas efficiency is a major component of new furnace design.

All these efforts for higher productivity have resulted in 5 to 8 percent of gas use reduction every year. This amounts to savings of from \$1.5 to \$2 million per year. But with natural gas prices going up, \$6, \$7, \$8 million per year, far exceeding the efficiency savings, it is a losing battle.

We are deeply concerned that if natural gas prices continue to escalate—this week now at \$11 per MCF—our competitiveness will further erode having unhappy consequences for our U.S.-based manufacturing strategy.

While some people may argue that passing the costs on to consumers is a remedy, price increases in our industry, with so many global competitors, is an impossibility. Incandescent light bulbs is an example. We have not had a price increase since 1985. In fact, I can show you a photograph of Sylvania lamps from 1924, a single incandescent bulb selling for 25 cents. So you could say we haven't had a price increase in perhaps 90 years.

Price increases to consumers to cover natural gas cost increases should be unnecessary as long as a timely, viable natural gas strategy is implemented. And globally competitive energy costs, especially natural gas, are a necessity to maintain our financial vitality and keep good-paying suitable jobs in the United States.

We agree fully with Representative Peterson and Representative Abercrombie that coastal offshore drilling for new natural gas supplies carried out in a responsible and expeditious manner should

be the most important priority in new energy legislation that should be taken up and enacted by Congress before the end of 2005.

Thank you very much.

[The prepared statement of Mr. Hunt follows:]

**Statement of Geoffrey P. Hunt, Senior Vice President
Communications and Human Resources, OSRAM SYLVANIA**

OSRAM SYLVANIA is the North America business affiliate of OSRAM GmbH, part of Siemens, the leading worldwide manufacturer and distributor of lighting products for general consumers, industrial and commercial users and automotive OEMs and consumers. In the United States, under the SYLVANIA brand, which has been an American icon for over 75 years, we employ over 9,000 employees, including 6,500 hourly factory workers and have annual sales of approximately \$2 billion. We manufacture light bulbs, lamp components and process strategic raw materials in five states—Pennsylvania, Kentucky, New Hampshire, Indiana and Rhode Island.

Reliable and affordable supplies of natural gas are vital to our business. Natural gas is our exclusive clean energy source to melt and form glass bulbs and tubing, process raw materials such as tungsten and rare earth phosphors as well as the forming and molding of glass and metal components in assembling finished lamps, incandescent, tungsten halogen, fluorescent, and high intensity discharge. We also use a variety of plastic parts requiring high density polyethylene resins which rely on natural gas for both raw material and processing energy. In 2004 we consumed approximately 3.3 million MCF of natural gas throughout our U.S. operations. In the past five years we have seen natural gas prices escalate from \$3 per MCF to well over \$10 on the spot market. As compared to natural gas costs in 2000, our bills in 2005 will be \$24 million higher. In fact, for 2004 to 2005 alone, gas costs for us have escalated by \$7 million. This is the single largest rate of increase in any of our costs of production. At current supply levels, we expect to see gas prices exceed \$12 per MCF in 2006/2007 which will add another \$7 million to our energy bills. Accordingly, since 2000, the rate of annual increase will exceed 25%.

Furthermore, while the vast majority of our production is based in the U.S., nearly 60% of our competitors' products are manufactured outside of the United States—some in Europe where natural gas costs are less than \$5 per MCF and Asia, particularly China, where gas is less than \$4 per MCF. By 2007, the competitive disadvantage will be over \$20 million on top of the wage gap vs. China which is already overwhelming.

SYLVANIA has attempted to offset the cost of natural gas through natural gas consumption productivity and efficiency projects. 5% of all capital spending annually has been devoted to natural gas efficiency. Key projects have included improved burner controls, improved insulation and combustion air, and thermal measuring devices—pyrometers and infrared optical process controls. We also have projects to reduce leakage, eliminate wasted BTUs and achieve shorter working times where heat applications are used for glass melting and forming. Occasionally we have considered propane as an alternate fuel, but only as a partial back-up source because propane is more expensive per BTU than gas and poses hazardous storage and security risks.

We rebuild glass melting furnaces every 5 to 7 years requiring investments of \$3 to \$6 million each time. Achieving higher gas efficiency is a major component of new furnace design.

All of the efforts to use gas more productively have resulted in 5 to 8% of gas use reduction each year. This amounts to productivity savings of \$1.5 to \$2.0 million each year. But with the natural gas costs going up \$6, 7, 8 million per year—far exceeding efficiency savings—it's a losing battle.

Over ten years ago at our Rhode Island glass factory, we switched from oil to gas/oxygen to improve glass melting quality and reduce sulphur and NOx emissions. With the rising cost of natural gas, two years ago we consolidated glass melting capacity at Wellsboro, PA and Versailles, KY for improved economies of scale. As a result, several hundred manufacturing jobs in Rhode Island were eliminated and not replaced in either Pennsylvania or Kentucky. I cannot say conclusively or exclusively that if gas were at \$3.00 per MCF, those Rhode Island jobs would be saved. But I can say, gas at \$7, 8, 9, 10 per MCF didn't help keep those jobs in Rhode Island.

We are deeply concerned that if natural gas prices continue to escalate—this week now at \$11 per MCF—our competitiveness will erode having unhappy consequences

for our U.S.-based manufacturing strategy. While some people may argue that passing the costs onto consumers is a remedy, price increases in the lamp market with so many global competitors is an impossibility. Moreover, price increases to consumers to cover natural gas cost increases should be unnecessary as long as a timely, viable natural gas strategy is implemented. Globally competitive energy costs—especially natural gas—are a necessity to maintain our financial vitality and keep good paying, suitable jobs in the United States.

We agree with Representative Peterson that coastal offshore drilling for new natural gas supplies carried out in a responsible and expeditious manner is the most important priority in new energy legislation that should be taken up and enacted by Congress before the end of 2005.

Mr. GIBBONS. Thank you very much Mr. Hunt.

We'll turn now to Mr. David Bradley from the National Community Action Foundation.

Mr. Bradley, welcome. The floor is yours.

**STATEMENT OF DAVID BRADLEY, EXECUTIVE DIRECTOR,
NATIONAL COMMUNITY ACTION FOUNDATION, WASHINGTON, D.C.**

Mr. BRADLEY. Thank you, Mr. Chairman.

I would like to submit my written testimony for the record and just briefly summarize if I could.

Mr. GIBBONS. For all our witnesses, we would ask unanimous consent for all of your full written statements to be submitted for the record. And without objection, they so will be.

Mr. BRADLEY. Thank you. My name is David Bradley. I am Executive Director of the National Community Action Foundation, which represents the Nation's 1,100 local community action agencies. These are the agencies that are multi-service in nature but, most importantly for this hearing, operate the federally funded low-income energy assistance programs, both LIHEAP and weatherization. And it is these two programs that are critical to Americans who are struggling to become more self-sufficient.

I am grateful to the Subcommittee for this opportunity to testify about the hardships low-income energy consumers have been experiencing as a result of high natural gas prices as well as oil prices.

A combination of energy market changes and slow growth, or negative growth, depending on the State, and the real income of low- and moderate-income population means that millions of households repeatedly find themselves unable to pay their household energy bills. In most of the past 5 years, this has been the case, and the Department of Energy predicts no significant letup in the prices expected for the rest of Fiscal Year 2006 and beyond.

I want to summarize the statistics provided in my written statement regarding the impact of high prices and especially natural gas prices on the working poor families that our agencies serve and to suggest a better framework for energy policy, one which adopts a key principle of the Outer Continental Shelf Natural Gas Relief Act.

Mr. Peterson and Mr. Abercrombie link the development of our most precious natural resources to improving the lot of low-income households who have been hit hardest by all volatile energy markets. As I describe at length in my written statement, when the Nation opted for competitive markets for oil in 1979, a bargain was struck in Congress that provided support for consumers unable

either to pay more for their household energy or to respond to high prices by buying more efficient equipment in cars. LIHEAP was launched and covered about half of the bills of the participants. One third of the eligible participated.

Weatherization, the long-term solution to energy affordability, saw its funding tripled to \$200 million a year in 1979. In 1981, LIHEAP was appropriated at \$1.85 billion, or more than \$4.3 billion in today's dollars.

Mr. Chairman, these days, fewer than 15 percent of the eligible can participate and receive benefits at the levels HHS Appropriations conference report will pay this year, which, as you know, was just defeated on the Floor.

If a low-income family signed up today for LIHEAP, these benefits would be out by the middle of January.

Federal funding to assist our poorest households is only very slightly higher than it was 20 years ago in nominal terms. Meanwhile, especially this year, energy prices are rocketing. Our data show that the average low-income natural gas customer will pay over \$1,250 for natural gas and nearly \$700 more for electricity during 2006.

The bills would take 4 to 5 percent of the incomes of the average consumers, those whose income exceeds 60 percent of their State median income. That indicates a significant loss in purchasing power to the moderate- or middle-income households that historically expended just over 3 percent of energy costs. For the average LIHEAP eligible household, the damage is about four to five times worse as those bills will devour about a fifth of their household resources.

Utility bills vary among regions, but the share of income required to pay them varies far less because people in the regions that have the lower bills have lower incomes on average. All poor people will pay about 20 percent of their incomes for essential energy services. Mitigating this impact was the original explicit bargain between the consuming and producing regions and the White House when oil prices were decontrolled in 1979. That social compact was virtually abandoned as LIHEAP and weatherization funding stagnated while the number who qualified mushroomed. It was certainly forgotten when we decontrolled natural gas prices in the early 1980s and was declared unnecessary by the Clinton Administration.

In summary, I would like to say that we must restore, in whatever legislation is considered, the bargain made with the American family when we began relying on the market to price energy and allow more development to our Nation's lands.

Market pricing and expanding supplies by themselves are not sufficient. Improving the energy efficiency of low-income dwellings is essential to making energy bills affordable. Bill assistance is crucial to maintaining affordable access to vital energy services for millions of low-income families.

We look forward to working with you as you design energy policy. And we urge you to keep the funding needs and the energy needs, both on LIHEAP and weatherization, but most importantly in general of the poor in your thoughts as the legislation becomes a model for future legislative activities. Thank you very much.

[The prepared statement of Mr. Bradley follows:]

**Statement of David Bradley, Executive Director,
National Community Action Foundation**

My name is David Bradley; I am Executive Director of the National Community Action Foundation, which represents the nation's 1100 local Community Action Agencies (CAAs). Community Action Agencies are multi-service organizations, and the federal low-income energy programs are a very important element of their portfolio of services to Americans who are struggling to become more self-sufficient.

I am very grateful to the distinguished Chairman, as well as to Mr. Peterson and to Mr. Grijalva, the Ranking Member of the Subcommittee, for this opportunity to talk about the hardships hundreds of thousands of low-income natural gas consumers are experiencing; they are streaming into Community Action Agencies seeking help with their bills this very afternoon, just as they have every day since agencies opened Low Income Home Energy Assistance Program (LIHEAP) this fall.

Community Action Agencies and Low-Income Energy Programs

CAAs in over 46 states are responsible for either administering the entire LIHEAP program or for providing expedited assistance to the families who face a crisis because they are threatened by loss of utility power or fuel deliveries. About one-third of LIHEAP resources are managed by CAAs. Our network is also the primary delivery system for the Department of Energy Weatherization Assistance Program (WAP), a more permanent solution to high energy prices.

Our 15 million customers are predominantly the working poor and their children, along with a million or so elderly persons living alone.

CAAs also take responsibility for reaching out to private partners, particularly utilities and regulators; we have secured substantially more resources and achieved some low-income consumer protections in a majority of the states. But these successes have not offset the impact of sharp price increases in recent years. More and more consumers cannot afford to pay for an adequate quantity of household energy and maintain safe, decent shelter.

Trends in Residential Natural Gas Bills and Their Impact

It is important to recognize two elements that are generally absent from the debates over LIHEAP and WAP funding. First, the residential customer must deal with the current level of home energy prices year in and year out because energy inflation has far outpaced wage growth as well as the consumer price index for most of the past two decades.

Further, a utility customer never gets a heating bill or a cooling bill. Those are abstractions convenient for political discussions of the problem. That is, the natural gas consumer gets a gas bill that probably includes water heating and cooking, and he gets an electric bill as well. The electric bill can include: heat, hot water, and cooking, but also lighting and refrigeration and, for many some air-conditioning. Customers are not given the choice of paying the heating and cooling portion, or about 40% of the real bottom line. Paying the energy bill is no longer a seasonal crisis for America's poor. That reality explains the real suffering of many very low-income Hawaiians whose electric power has always been the costliest in the nation. It explains why even many LIHEAP recipients, including those that have been weatherized, cannot keep their utilities connected year-round.

We have had double-digit increases in natural gas prices every year except in 2002, and no double-digit decline in price is expected for as long as DOE predictions stretch into the future. Neither low-income nor middle-income families have experienced real income growth at a similar rate. Chart 1 shows the recent patterns of increase in residential fuel prices in petroleum-based heat fuels and compares the rate of change in LIHEAP resources. Natural gas and heating oil prices began taking off anew in 2003 and liquid propane tracked these increases. Clearly, the needs of vulnerable consumers cannot be addressed as if each year's upward spiral were a one-time crisis requiring a one-shot infusion of a relatively small amount of emergency assistance and weatherization funding. Utility bills do not rise by the same percentage as commodity prices, but the pattern is the same.

Table 1 shows the annual natural gas bills that consumers who heat with natural gas can expect during the current fiscal year for different income levels in every region—map showing the states in each Census Division follows.

A majority of low-income homes use natural gas heat, as does about 60% of the nation. As shown, the market share varies greatly by region. Estimates of twelve months of gas bills for all the end-uses of gas, such as cooking and hot water, are shown for the nearly 33 million consumers who are income-eligible for LIHEAP

under federal law; and also for those whose incomes are too high to qualify them for LIHEAP. These are based on DOE survey databases and forecasts. Details of sources and methodology appear at the end of this testimony.¹

Utility customers have to pay their entire gas bill all year, and CAAs make it a priority to put customers on a level-billing monthly plan to even out the expenses. Failing to meet these obligations means disconnection, and disconnection, at the very least, means extra costs added to the un-affordable bill.

Of course, gas customers have electric bills as well; electricity is needed to make a gas furnace run and for refrigeration. Electricity is essential, a must-have for safe shelter.

Table 2 shows the real challenge: the annual bills that will need to be paid in this fiscal year and the “energy burden,” the percent of personal income that the average consumer in the region and income group would have to pay their vendors over the course of the year.

The Two Kinds of Indicators

There are two kinds of indicators of the hardships high energy bills impose; we have used these dry statistics to indicate human suffering that is a prime example of hidden poverty conditions in America’s communities.

The first indicator is energy burden; the proportion of income required for paying the bills. This has long been a policy measure for the affordability of housing or food. Table 2 shows:

- While bad for most households, low-income household budgets are hit four to five times as hard by energy costs. The year’s energy bills will take 4-5% of the incomes of the average consumers, those with incomes exceeding 60% of their state median income. That indicates a significant loss in purchasing power to the moderate- or middle-income household that historically expended just over 3% on energy costs.² Far worse, these high priced energy bills will devour about a fifth (20%) of the average LIHEAP-eligible household’s resources.
- The percentages of income shown mean that the low-income household can no longer meet its energy needs with its own income alone. However, most of those eligible for LIHEAP, even those in poverty, are not receiving assistance. About 15% of eligible households received LIHEAP in FY 2005 and the average payment was about \$300.
- The comparison between the regions also shows that the energy bills of Southerners, while a little lower than those of the colder Midwest, take up an even higher percentage of low-income gas customers’ resources, because incomes in the South are relatively lower.
- Weatherization, which can significantly reduce energy burden, is only available to a small fraction of those who qualify.

The poor will not be able to afford these bills, of course. The Census has periodic surveys of cohorts of lower-income individuals that are tracked through the Survey of Income and Program Participation.

- Low-income consumers will sacrifice necessities. Census data show that, in 2001 when energy prices were much lower and the weather was abnormally warm, 9.6 million consumers failed to pay at least one month’s energy bill last year because they could not afford it.
- Analysis of the previous group’s data revealed 77% of those who could not afford an energy bill endured at least one additional kind of hardship during the year, and the majority suffered three or four kinds of deprivation. The most common sacrifices reported were (in order of frequency):
 1. Delayed rent payments,
 2. Skipping needed medical or dental care, and
 3. Enduring poor nutrition or hunger.³

These coping techniques used by low-income families are essentially invisible to the community, and are more examples of the hidden face of poverty. Furthermore, the Census survey also found that about half of those suffering from energy-related hardships were not poor or even income-eligible for LIHEAP, but most were at or below the median income.

The second and more extreme indicator is utility disconnection, especially in those homes where the customer remains without service for an extended period. Usually, the suffering is not known unless and until the poor end up in a shelter or a hospital because the home is too cold or overheated, or unless a child dies by fire in a home without lights, as did one-year old baby Jonah Flores of Columbia Heights in Washington, D.C. last month. The lack of reporting systems in most states means only the utility or the oil dealer and the affected customer are aware of the miserable conditions in the house.

The figures generally remain a secret kept by individual utilities. Few regulatory commissions require reports on the number of consumers who are disconnected but still occupying their homes.⁴ However, Pennsylvania tracks these data and after a new statute made disconnection easier for utilities, nearly 100,000 occupied homes remained disconnected in September, with as many as 60,000 predicted to remain without gas or service by December. Mr. Chairman, enduring those conditions is direct evidence that the customer cannot pay and is no casual deadbeat, as some utility regulators believe. In Pennsylvania, as well as the few other states that require utilities to report service disconnections and reconnections, not only has there been a dramatic increase over the past few years in service disconnections, but the gap between disconnections and reconnections has also increased at an alarming rate.

Wisconsin and Minnesota have sensible rules to prevent such incidents; thousands were recently reconnected for an affordable minimum payment after spending a summer without gas service. The Governors of Illinois and Michigan have issued emergency orders requiring utilities to accept a somewhat smaller debt repayment than is due under normal collection rules. For many, even that sum may be too high.

Recently, NCAF, the AARP, Consumers Union, Consumer Federation of America and National Consumer Law Center joined in a letter to the two associations of investor-owned utilities to ask them to approach their members and urge their consideration of humane re-connection policies for their long-standing customers and for Katrina evacuees with a poor credit history who were setting up new accounts. (CAAs have assisted over 196,000 evacuees to get resettled.) We have had no answer to this request to date, and it is already far too cold to be without gas or lights in the upper Midwest.

Both the Census⁵ and recent DOE Residential surveys⁶ show that in 1997, 1998 and 2001, about 2 million households a year were going without either heat or lights, or both, for some period of time because of inability to pay a bill or to afford to fix their heating equipment. With prices now double or triple what they were in those years, the situation is far worse.

Energy futures and the Low-Income consumer: An Opportunity for Fairness

Having a significantly larger domestic supply of gas, along with a policy of requiring commercial and utility gas storage, would have a stabilizing impact on prices. Allowing high market price could call forth investment in exploration, alternative fuels and accelerated upgrades of inefficient equipment and buildings is appropriate, but this should not occur until after protections against abuse and exploitation of all small consumers are in place.

Those small consumers who are too poor to respond to the market, i.e. those who lack capital or credit to invest in efficiency improvements, must be guaranteed access at least to the quantity of energy needed to maintain healthy conditions in their homes and ensure the ability to travel to their work.

This was the original, explicit bargain between the consuming and producing regions and the White House when oil prices were decontrolled in 1979; LIHEAP was created that year and by 1981 was worth nearly twice its inflation-adjusted present value. DOE Weatherization funding was tripled.

Unfortunately, that social compact was virtually abandoned in the early 1980's. LIHEAP funding stagnated while the number who qualified mushroomed. The compact was certainly forgotten when the White House decontrolled natural gas prices in the early Reagan years, and dangerous conditions that come with lack of enough electricity competition. Consumers were assured that 6.5 cent per kilowatt hour electricity lay right around the corner when the electric industry was deregulated in many states. Neither of the promises—affordable energy or energy security for the most vulnerable families—has been realized in a generation.

The results have been largely hidden because, like so many poverty conditions that exist inside the homes of the impoverished; life in the squalid and dangerous conditions that come with lack of enough electricity and gas is a private misery.

No matter how private, it is still a profound level of misery. Lack of affordable energy is devastating to the efforts of the working poor CAAs serve; families that are working in our programs to lift themselves out of poverty by building assets and stabilizing their families. It is also devastating to the health and security of the elderly poor who are trying, with the help of their CAAs, their partners in the public and private sectors, and volunteers our agencies mobilize to remain independent in their older homes while conscientiously paying their bills.

Mr. Chairman, LIHEAP benefits at the level in the HHS Appropriations conference report will not pay as much as one-fifth—two months and one week—of the

year's energy bills for the average poor household.—family being certified for benefits today is on its own to find the money to pay the rest of the year's bills soon after New Year's Day. There are about \$4.5 billion in resources of one kind or another that provide direct bill payment assistance, counting all of the LIHEAP block grant, and all the utility discounts and charitable funds available last year. Chart 2 shows all of the resources available beside the expected expenditures for all who are income-eligible for LIHEAP; clearly the support does not quite measure up. States are beginning to find new funds and reprogram others this winter which, collectively, may add up to several hundred million more. That will not make a measurable difference to most of the low-income consumers; 85% have not participated in LIHEAP in recent years.

It is also important to note that the avoided bills for a gas consumer who was weatherized in the past few years means bill are \$470 lower this year than if the investments had not been made.⁷ The approximately 7.5 million homes weatherized by our network using DOE and other funds will, collectively, reduce bills by billions this year and every year. The tall bar on the right in the graph includes these savings; otherwise, it would be even a bit higher. As we move forward, it is important not just to pay bills, but to lower those bills by making low-income homes more energy efficient.

Mr. Chairman, it is time that the link between our market-based energy policy, wherein the development of new sources of energy or efficiency, be welded to a policy of ensuring that every American can buy enough energy to keep their home safe and their family healthy. I am not an energy expert, but rather an expert on how our local institutions can help low-wage workers and their families move out of poverty and stabilize themselves in a self-sufficient life. I look forward to working with you on developing the mechanism in the Outer Continental Shelf Natural Gas Relief Act which collects new funding to add to LIHEAP and WAP and in using those funds to restore the protections once promised and keep them in place in the future.

Thank you very much.

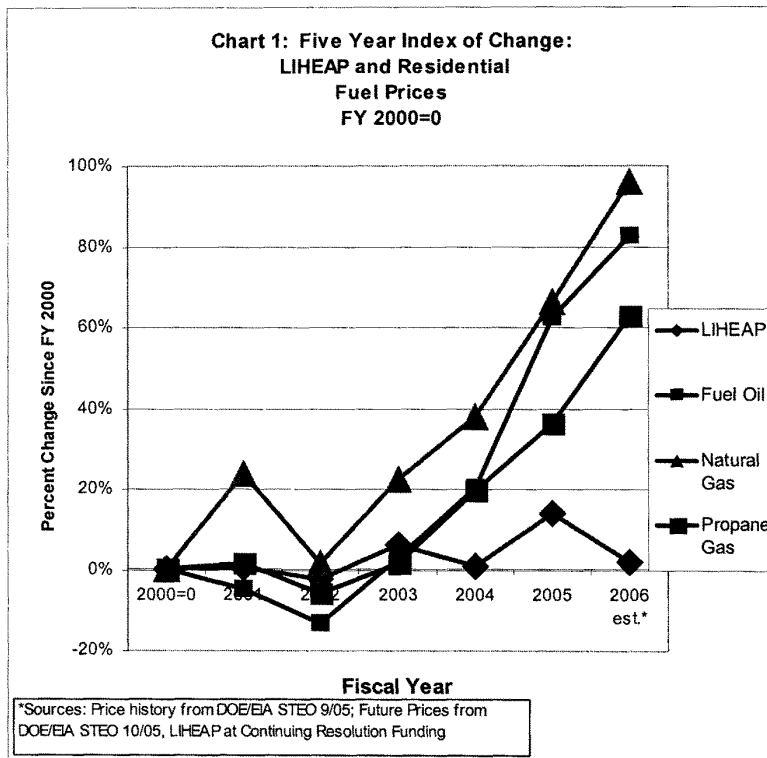
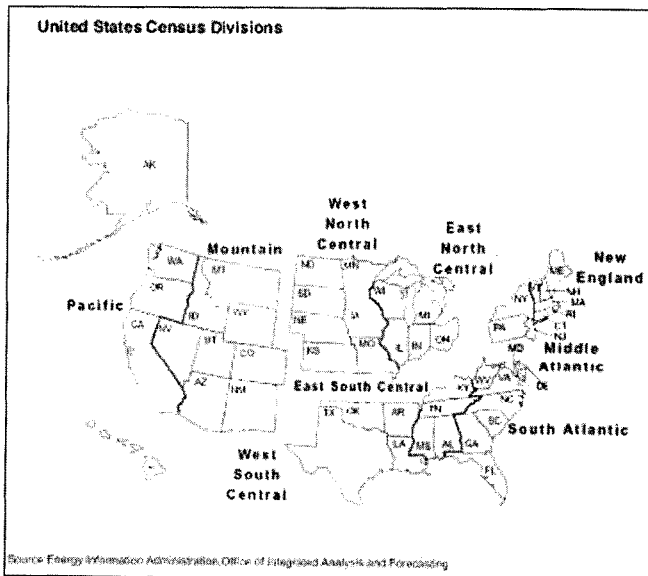


Table 1. Est. Total Natural Gas Bill of Gas-Heated Homes
by Poverty Level and LIHEAP-Eligibility, FY 2006

CENSUS DIVISION	LIHEAP-ELIGIBLE	EVERYONE NOT LIHEAP-ELIGIBLE	% of LIHEAP-Eligible that have Nat. Gas Heat
New England	\$1,559	\$1,858	43%
Middle Atlantic	\$1,165	\$1,504	60%
East No. Central	\$1,679	\$1,711	79%
West No. Central	\$1,300	\$1,509	53%
South Atlantic	\$1,079	\$1,469	30%
East So. Central	\$1,172	\$1,406	34%
West So. Central	\$1,223	\$1,521	53%
Mountain	\$953	\$1,018	61%
Pacific	\$682	\$887	48%
National Avg.	\$1,253	\$1,422	53%

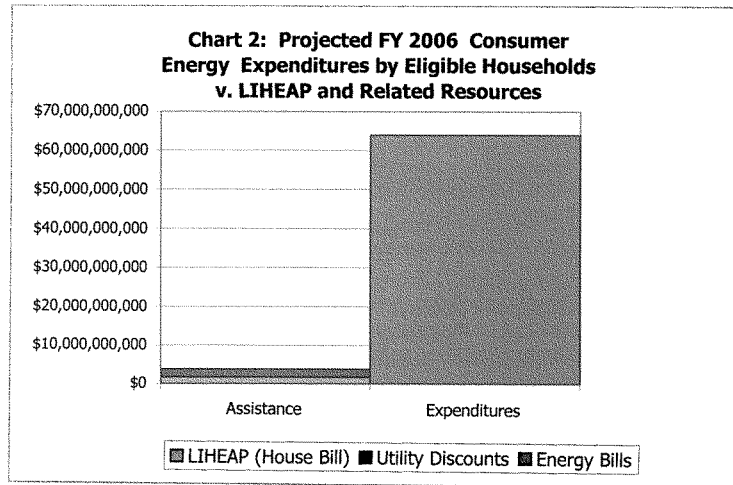
The Maximum Income Threshold for Poverty is \$15,067 for a Family of 3.
Analysis Prepared for NCAF by Economic Opportunity Studies, Inc.
www.opportunitystudies.org



Census Division	Table 2. Energy Bills & Energy Burden of Households with Natural Gas Heat by LIHEAP Eligibility, FY 2006					
	LIHEAP-ELIGIBLE			EVERYONE NOT LIHEAP-ELIGIBLE		
	Average All Bills	Energy Burden Average	% of US LIHEAP-Eligible	Average All Bills	Energy Burden Average	% of US Not LIHEAP-Eligible
New England	\$1,926	20%	5%	\$2,627	4%	5%
Middle Atlantic	\$1,735	21%	15%	\$1,967	4%	13%
East No. Central	\$2,213	19%	16%	\$2,192	5%	16%
West No. Central	\$1,854	17%	7%	\$1,989	5%	7%
South Atlantic	\$1,939	20%	8%	\$2,027	4%	20%
East So. Central	\$1,922	23%	7%	\$1,998	5%	6%
West So. Central	\$1,787	22%	12%	\$2,030	5%	11%
Mountain	\$2,008	14%	7%	\$1,863	4%	6%
Pacific	\$1,833	9%	15%	\$1,903	3%	16%
National Avg.	\$1,932	18%	100%*	\$2,038	3%	100%*

*Column may not total to 100% due to rounding

Energy Burden is the Percent of Income Required to Pay Bills.
 The Maximum Income Threshold for Poverty is \$15,067 for a Family of 3.
 Prepared for NCAF by Economic Opportunity Studies, Inc. www.opportunitystudies.org



ENDNOTES

¹ This analysis is based on updates of the 2001 U.S. Department of Energy Residential Energy Consumption Survey (RECS) data (see <http://www.eia.doe.gov/emeu/recs/contents.html>) performed by Oak Ridge National Laboratory and further modified by Economic Opportunity Studies. See the ORNL paper Joel F Eisenberg, The Impact of Forecasted Energy Price Increases on Low-Income Consumers, November 2005. Oak Ridge national Laboratory, TN. ORNL/Con 495 at <http://weatherization/ornl.gov>. Household records were adjusted to incorporate current price and weather projections from the Energy Information Administration. Economic Opportunity Studies Inc (EOS) changed the ORNL data base to update incomes for the sample households based on the U.S. Bureau of the Census Current Population Survey data for census divisions. The

projections are a model that assumes that the weather-adjusted usage remains constant regardless of price; this is obviously not realistic, especially for households with very limited disposable income. The results indicate what it would take for the consumer to stay as comfortable as at the time the RECS survey was administered and to use the same appliances and lighting in the same way. Related analyses are available at www.opportunitystudies.org. See "The 2006 Energy Bills of Low-Income consumers and their Impact": October 2005.

² See the most recent HHS LIHEAP Notebook 2003 at <http://www.liheap.ncat.org/pubs/energynotebook03.doc>

³ These statistics are measures of household well-being from the 1998 and 2001 cohort of Survey of Income and Program Participation (SIPP) respondents. <http://www.sipp.census.gov/sipp/>. The data are from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) 1996 Panel Wave 8 Topical Module; the details of information provided by those who said they were unable to afford their full energy costs were analyzed by EOS and are found at <http://www.opportunitystudies.org/weatherization/national.php>. See also the SIPP working paper: Kurt Bauman "Direct Measures of Poverty as Indicators of Economic Need: Evidence from the Survey of Income and Program Participation U.S. Bureau of the Census Population Division Technical Working Paper No. 30," November 1998.

⁴ Nonpayment of Energy Bills by Low-Income Customers, Francine Sevel, The National Regulatory Research Institute and Mitch Miller, Pennsylvania Public Utility Commission, June 2005.

⁵ Survey of Income and Program Participation, 2001 op.cit

⁶ Data are from the RECS 1997 and RECS 2001 survey public use data files. <http://weatherization.ornl.gov/metaevaluation.htm.eia.doe.gov/emeu/recs/contents.html>

⁷ <http://weatherization.ornl.gov/metaevaluation.htm.eia.doe.gov/emeu/recs/contents.html>

Mr. GIBBONS. Thank you very much Mr. Bradley.

We will turn now to Mr. Jack Gerard, the President of the American Chemistry Council.

And if I am not mistaken, Mr. Gerard, this is your first appearance before Congress in your new role as President of the American Chemistry Council.

Mr. GERARD. That is correct.

Mr. GIBBONS. Welcome. The floor is yours. We look forward to your testimony.

**STATEMENT OF JACK N. GERARD, PRESIDENT & CEO,
AMERICAN CHEMISTRY COUNCIL, ARLINGTON, VA**

Mr. GERARD. Thank you, Mr. Chairman. It is a pleasure to be with you today, and we appreciate the opportunity to testify on behalf of the American Chemical Industry, which has sales over \$500 billion in the United States, employ over 900,000 people with the average wage of about \$70,000 a year.

I want to particularly thank you, Chairman Pombo, Congressmen Peterson and Abercrombie, today for your leadership, for your willingness to be outspoken and unwavering in your support to increase access to the Nation's abundant supplies of natural gas. On behalf of all Americans whose livelihoods depend on affordable natural gas, we will stand with you until we get this job done.

I would like to make a simple prediction today: Winter is coming. Home heating bills will climb by as much as 70 percent. Natural gas will be in short supply. Factories will be forced to close or cut back operations. Jobs will be lost. The economy will contract.

What I can't predict is how Congress will respond to this crisis.

What more will it take to finally pass legislation to permit more access to new supplies of natural gas in deep sea waters? Some people have called what is happening with natural gas prices a concern, a problem or perhaps a bump in the road.

It is not. It is a crisis, not just for the business of chemistry but for our entire Nation.

Let me explain. Our industry uses natural gas to create compounds that go into 96 percent of all manufactured products in the United States, from shampoo, plastic water bottles, carpeting, aspirin, water purification systems, computer equipment, mattresses, and the list goes on and on. The materials used to formulate medicines come from the business of chemistry.

So far, more than 100 chemical facilities in the U.S. have been forced to close largely because of out-of-control natural gas prices. More than 100,000 skilled workers have lost their jobs in our industry alone.

Unless the Congress opens up the deep waters of the Outer Continental Shelf to sensible production and infrastructure, there is little relief in sight. Business Week Magazine recently reported that, of the 120 major new chemical plants under construction around the world—I might say, major chemical plants being defined as those that require at least a \$1 billion investment—of those 125 facilities around the world, there is only one that is slated for the United States; 50 are in China, where natural gas is less than half the price that Americans pay, and their government is aggressively pursuing a pro-growth strategic national energy policy.

America's natural gas bill will top \$200 billion this year. In 1999, the last year natural gas sold in its historic band, the Nation's gas bill was a bit more than \$50 billion. That \$150 billion difference is the price that gas consumers, homeowners, schools, hospitals, farmers and businesses are paying for government policies that simultaneously increase demand while at the same time restrict supply.

Policies that drove utilities to switch much of their power generating capacity from coal to natural gas has turned out to be the straw that broke the camel's back. We can't have it both ways. It can't continue.

It is failing millions of Americans whose livelihoods depend on reliable supplies of natural gas at affordable prices.

It is in this country's vital national interest to maintain a robust, highly competitive, chemical industry. But it is an undisputable fact of our time that this cannot be achieved with natural gas prices anywhere near present levels.

Simply put, our Nation's energy policy is acting as a de facto manufacturing policy. And it is a policy that is not working.

This Committee has already demonstrated that there is bipartisan support for more access to deep sea sources of natural gas. This winter, we think it will become painfully clear that the Nation's natural gas supplies are insufficient to meet its needs. It will become painfully clear that Congress can no longer continue to support a 25-year-old policy that was developed in a long gone era when natural gas was cheap and plentiful.

There has never been a better or a more critical time to pass natural gas supply legislation.

We urge you to seize the moment. Thank you very much.
[The prepared statement of Mr. Gerard follows:]

**Statement of Jack Gerard, President and CEO,
The American Chemistry Council**

Good morning, Chairman Gibbons and members of the subcommittee. My name is Jack Gerard, President and CEO of the American Chemistry Council. Thank you for the opportunity to testify on behalf of the U.S. chemical industry, an industry that accounts for more than 500 billion dollars in U.S. sales and employs nearly 900,000 Americans in high-wage jobs.

I want to begin by personally thanking Chairman Pombo on behalf of all Americans whose livelihoods depend on affordable natural gas. The chairman has been leading the fight to keep deep sea exploration provisions in the budget reconciliation bill and we deeply appreciate the fight he is waging for America's natural gas consumers.

I also want to thank Congressman Peterson for being such an evangelist for more access to new sources of natural gas supply. Congressman Peterson has known for a long time that paying the highest natural gas prices in the world puts American-based manufacturing at a severe competitive disadvantage, and that this is largely a self-inflicted wound.

I would like to offer a prediction. Winter is coming. Home heating bills will climb by as much as 70 percent. Factories will be forced to close or cut back operations. Jobs will be lost. The economy will contract. What I can't predict is how Congress will respond to this crisis. What will it take to finally pass legislation to permit more access to new supplies of energy in deepsea waters?

For the next few minutes I will explain why the cost of natural gas is so important to our industry—and by extension—to the entire economy and I will elaborate on what we think needs to be done to end the crisis in the U.S. natural gas market.

The chemical industry uses 2.5 trillion cubic feet of natural gas each year. That's more than 10 percent of the nation's total consumption and it's more than the State of California uses.

Our manufacturers use gas to heat and power their facilities, but uniquely, natural gas is our most important raw material. Natural Gas is to chemical manufacturing as flour is to baking.

Chemical makers transform natural gas molecules into the essential materials that are found in computers, cars, clothing—and thousands of other products that everyone of use everyday. The chemistry share of the materials value of a bottle of shampoo is 100%. For carpets it is 68%. For tires it is 62%. For semiconductors it's 30%. Even for paper cups it's 22%. In fact, chemistry is contained in 96 percent of all manufactured goods and chemistry directly supports 25 percent of U.S. GDP.

This year, for the first time in history, the nation's natural gas bill will top \$200 billion. My industry's gas bill will exceed \$20 billion. In 1999, when gas last sold in its historic band of \$2 to \$3 per million Btus, the nation spent just over \$50 billion and my industry's bill was \$5 billion.

Think about it. Americans have \$150 billion less to spend this year on other things. And, because natural gas is an ingredient used to make chemicals—and chemicals are ingredients used to make nearly everything the nation manufactures—the cost of nearly everything Americans buy is going up.

When consumers have less money to spend on goods that cost more, the economy contracts. Every recession since the Eisenhower Administration began with a steep runup in energy costs. That is precisely what is happening now.

My industry's gas bills have increased by more than \$40 billion since the beginning of the decade. That's \$40 billion we didn't have to invest in research, in building new plants, and creating new jobs.

That \$40 billion is also the reason why chemical company CEOs are being forced to put more of their future capital investment in other countries and less here in America. The other day, Frank Mitsch of Fulcrum Global Advisors, was quoted as saying that CEOs who spend money to build new production capacity in the US, at this time, should—quote—"have their heads examined."

Last week, Congressman Peterson and members of the energy and interior Appropriations subcommittees heard testimony from Andrew Liveris, President and CEO of Dow Chemical—the nation's largest chemical company.

Andrew said that Dow is building a \$4 billion chemical plant in Oman. That plant will employ 1,000 people in high paying R&D, engineering and operations jobs. Until three years ago, that new plant, and those 1,000 jobs, was going to be built in Freeport, Texas. Andrew said that the high cost of natural gas here—now 12 times higher than it costs on the Arabian Peninsula—is why Dow moved the project.

Business Week wrote earlier this year that of 120 world-scale chemical plants (those costing \$1 billion or more) under construction around the globe, only one is in the United States. The industrial core of our country, Business Week said, “is being hollowed out” by natural gas costs that are far and away the highest in the world.

That \$150 billion I mentioned a minute ago is the price that natural gas consumers—homeowners, schools, hospitals, farmers and businesses—are paying for government policies that simultaneously increase demand and restrict new sources of supply.

Policies that drove utilities to switch much of their power generating capacity from coal to natural gas has turned out to be the straw that broke the camel’s back.

Congress is trying to have it both ways. It can’t continue. It is failing millions of Americans whose livelihoods depend on reliable supplies of natural gas at affordable prices.

Winter is coming. The economics firm, Energy and Environmental Analysis, says that industrial demand destruction may be as great as 3.5 bcf/d this winter in order to balance demand and supply and ensure reliable service to residential and commercial.

- 3.5 bcf/day is equal to closing 70 chemical plants;
- it equals 57 percent of chemical industry’s daily consumption;
- it equals 73 percent of pulp and paper, food processing, and primary metals industries daily consumption (third, fourth and fifth largest industrial consumers);
- it equals 100 percent of the daily residential winter consumption of Ohio, Wisconsin, Minnesota and Indiana combined.

We believe that a wide range of policy responses are needed to unknot this problem. We support funding for energy efficiency measures; investment in diverse sources and supplies of fuel, especially gasification technology; and, upgrades to natural gas infrastructure. They are detailed in our written statement.

The chemical industry is hard at work trying to manage our natural gas costs by becoming more efficient consumers. On Wednesday, the American Chemistry Council honored 11 member companies for implementing efficiency improvements in 2004 that together enough energy to power a city the size of Minneapolis. In 2004, ACC members managed to reduce energy consumption per pound of output by 6 percent and greenhouse gas emission intensity were down by 7.6 percent. Since 1974, the U.S. chemical industry has improved its energy efficiency by 46 percent. Being more energy efficient is one of the smartest business investments this industry makes, but we can’t save our way out of this problem.

From a policy perspective, what is most obvious to us is that new sources of supply are needed to meet the new sources of demand.

That is why large natural gas consumers, like the chemical industry, support increasing access to new sources of natural gas in the deep waters of the Outer Continental Shelf (OCS). More sources of new domestic natural gas supplies, in our view, is in the nation’s economic and security interests.

This Committee has already shown that there is bipartisan support for more access to deep sea sources of natural gas. This winter, we think that it will become painfully clear that the nation’s natural gas supplies are insufficient to meet its needs. It will become painfully clear that Congress can no longer continue to support a 25-year old policy that was developed in a long gone era when natural gas was cheap and plentiful.

There has never been a better—or more critical—time to pass natural gas supply legislation. I urge you to seize the moment.

Attachment: Additional Policy Measures Needed

In addition to supporting legislation that leads to more access to deep sea sources of natural gas, the American Chemistry Council supports the following government actions.

- 1. We join the Alliance to Save Energy in asking Congress to immediately provide 10 million dollars to begin funding the energy efficiency public education campaign called for in Title I of the Energy Policy Act.**

Funds are needed now for a nationwide energy conservation and efficiency campaign. The public must be told that natural gas will be in short supply this winter. Consumers will pay record prices to heat their homes, factories will be closed and jobs will be lost. If every American home turned their thermostat down by two degrees this winter, that would free up 3 Bcf/d of natural gas, an amount equal to the daily output from three LNG terminals. If the Committee passes an emergency

supplemental appropriations bill this fall funding a national campaign it would help American consumers make it through the winter. We also call on Congress to fully fund the energy efficiency provisions authorized in Title I of the Act. Among many other things, funding Title I will accelerate adoption of new appliance energy efficiency standards and it would provide funds to states to help adopt the latest building codes and achieve high rates of compliance.

2. Fund the incentives for innovative energy technology authorized in Title XVII of EAct05 to diversify this nation's fuel portfolio.

Title XVII of the Act authorizes DOE to create programs and provide federal assistance to help commercialize a number of new energy technologies. These technologies have the potential, over time, to fundamentally change the way the nation makes and uses energy. Gasification technology, in particular, has the potential to become the foundation for the nation's future energy infrastructure. The United States has the world's largest proven and potential supplies of coal and biomass. On a Btu basis, U.S. coal reserves are the equal of world petroleum reserves. Gasification technology converts coal and biomass (and other energy-bearing raw materials) under heat and pressure into a high quality gas. Since the raw material is not burned, gasification produces remarkably little pollution. Gasification technology is exceptionally versatile. The gas it produces can be used to heat homes and businesses, make power, low-sulfur diesel fuel, fertilizer and chemicals. Given gasification's strategic potential, ACC believes it is especially critical for DOE to design a successful gasification commercialization program and for Congress to fully fund that program.

3. Restore damaged natural gas processing facilities along the Gulf of Mexico.

Sixteen natural gas processing plants in Louisiana and Texas, with capacities equal to or greater than 100 million cubic feet per day, remain closed six weeks after Hurricane Rita hit the coast. These plants process nearly 15 percent of U.S. natural gas consumption. ACC's members depend on the liquid hydrocarbons that are removed from the natural gas supply by the processing plants. Those natural gas liquids are the raw materials we use to make hundreds of chemicals that our customers use to make thousands of products that everyone uses every day. We have asked the federal government to examine what is causing an extended delay in restoring those processing plants and what, if any, assistance the government can provide to restore those vitally needed plants. If the government asks Congress for funds in an emergency supplemental appropriation to assist in the restoration of the damaged processing plants, we ask the Committee to support those requests.

4. Condition funding of hurricane recovery projects on achieving maximum efficiency in the generation, transmission and use of energy.

Extensive power loss in the Gulf states after the hurricanes meant that nationally-critical energy facilities, like crude oil terminals, petrochemical facilities, natural gas processing plants, refineries and product pipelines were rendered inoperable because of a lack of electricity. The energy infrastructure in the Gulf is clearly of strategic importance to the United States. Given the energy infrastructure's dependence on electricity, it is in the national interest for that infrastructure to be supplied by highly reliable, robust and resilient sources of electricity. ACC believes any federal funds made available to address the damages sustained by electric utilities should be to design and build a transmission grid in the Gulf Coast region that will ensure a reliable source of power to the many facilities that comprise a significant part of the nation's energy infrastructure.

Mr. GIBBONS. Thank you Mr. Gerard.

We turn now to Mr. Oellig.

Mr. Oellig, welcome, the floor is yours. We look forward to your testimony.

STATEMENT OF KEITH OELIG, PRESIDENT, DAUPHIN COUNTY (PA) FARM BUREAU, GRANTVILLE, PENNSYLVANIA

Mr. OELIG. Thank you. Good afternoon.

My name is Keith Oellig. I am a third-generation hay and grain producer from Grantville. I grow corn, barley, wheat and soybeans on 1,600 acres of land in Grantville, Pennsylvania. Grantville is

located in Dauphin County near Harrisburg, PA, in the south central part of the State. I have been farming for 20 years. Currently, I serve as the President of my county farm bureau along with other volunteer commitments.

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to share Pennsylvania Farm Bureau's perspectives on the impacts of high natural gas prices. I am speaking today because I purchase fertilizer which uses natural gas as a base.

All my crops are sold locally in Dauphin County to area businesses. The hay and straw are sold for feed to the horse trainers at Penn National Race Track. My wheat goes to a local flour mill for sale to Hershey foods to make the Kit-Kat bar. My corn is sold to a local hog producer.

Today I am representing the Pennsylvania Farm Bureau that represents more than 37,000 farm and rural families. The Pennsylvania Farm Bureau is a membership organization which represents all agricultural commodities.

Many Pennsylvania farmers are paying higher expenses for electricity, fertilizer and farm chemicals. These industries use natural gas to heat their barns. Also, vegetable and grain farmers use nitrogen-based fertilizer to fertilize their vegetables, corn, barley, soybeans and wheat. I am here to tell you, to express agriculture's frustration with high natural gas prices and the need to increase our natural gas supply.

As a grain producer, I think about ever-escalating costs of natural gas every day. Not only does it increase the cost of fertilizer to fit my bottom line, but it also impacts the economy of my local community. Unfortunately, I cannot pass that cost along. Therefore, higher fertilizer prices directly affect my operation.

I am very pleased with the recent passage of the comprehensive energy bill. This energy bill will begin to solve our Nation's energy woes. However, much more needs to be done to encourage domestic exploration and recovery of natural gas. Congress must act to address our Nation's energy needs, especially the challenge farmers face with high fertilizer prices.

For those not involved in agricultural production, allow me to explain how our industry uses natural gas. The natural gas is a fundamental feedstock ingredient for the production of nitrogen fertilizer. Nitrogen fertilizer is produced when air and hydrogen are combined using natural gas as a feedstock. In my operation, I use liquid nitrogen fertilizer which I spread on my crops.

High natural gas prices come at a time when commodity prices are extremely low. Nitrogen fertilizer costs have sky-rocketed in the past 5 years. Pennsylvania farmers and other farmers across the country have paid record prices for nitrogen fertilizer. Last year, I purchased four trailer loads of nitrogen fertilizer for my crops that equates to about 100 tons of nitrogen. Last year, I also paid \$190 per ton compared to \$105 per ton in 2002.

In fact, a local fertilizer dealer where I purchased my fertilizer stated the price for 2006 would be at least \$205 per ton. That is an increase of \$100 per ton over 2002.

Unfortunately, corn prices have not gone up accordingly. In fact, I am receiving the same price per bushel of corn that I received in 1999, yet I am paying 50 percent more for the fertilizer.

Due to the low corn prices and the low corn yields in 2005, my income was \$215 per acre. My income per acre was \$360 in 2004. Unfortunately, the cost of liquid nitrogen was \$41 in 2005 compared to \$32 per acre in 2004. In other words, I grossed 60 percent less per acre last year yet paid 35 percent more for fertilizer.

The Pennsylvania Farm Bureau appreciates the efforts by U.S. Representative Peterson to open the Outer Continental Shelf for natural gas. The agricultural community is eagerly awaiting a solution to the problem of high prices for energy. I appreciate the opportunity to speak before the Committee, and I welcome any questions the Subcommittee might have.

Thank you.

[The prepared statement of Mr. Oellig follows:]

Statement of Keith Oellig, Pennsylvania Farm Bureau

Good afternoon. My name is Keith Oellig and I am a third generation hay and grain producer from Grantville, Pennsylvania. I grow corn, barley, wheat and soybeans on 600 acres of land in Grantville, Pennsylvania. Grantville is located in Dauphin County near Harrisburg, PA in the south-central part of the state. I have been farming for 20 years. Currently, I serve as the President of my County Farm Bureau along with other volunteer commitments.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to share Pennsylvania Farm Bureau's perspective on the impacts of high natural gas prices. I am speaking today because I purchase fertilizer, which uses natural gas as a base. All of my crops are sold locally in Dauphin County to area businesses. The hay and straw are sold for feed to the horse trainers at Penn National Race Track. My wheat goes into the local flour mill for sale to Hershey Foods to make the Kit-Kat bar. My corn is sold to a local hog producer.

Today I am representing the Pennsylvania Farm Bureau that represents more than 37,000 farm and rural families. The Pennsylvania Farm Bureau is a membership organization, which represents all agricultural commodities. Many Pennsylvania farmers are paying higher expenses for electricity, fertilizers, and farm chemicals. These industries use natural gas to heat their barns. Also vegetable and grain farmers use nitrogen-based fertilizers to fertilize their vegetables, corn, barley, soybeans and wheat.

I am here to today to express agriculture's frustration with high natural gas prices and the need to increase our natural gas supply. Many people use natural gas to generate electricity, which is used to heat our homes and cook our food. I believe most people do not stop to consider the importance of natural gas in our everyday lives. As a grain producer, I think about the ever-escalating costs of natural gas every day. Not only does the increasing cost of fertilizer affect my bottom line, but it also impacts the economy in my local community. Unfortunately, I cannot pass that cost along. Therefore, high fertilizer prices directly affect my operation.

I am very pleased with the recent passage of the comprehensive energy bill. This energy bill will begin to solve our nation's energy woes. However, much more needs to be done to encourage domestic exploration and recovery of natural gas. Congress must act to address our nation's energy needs, especially the challenge farmers face with high fertilizer prices.

For those not involved in agricultural production, allow me to explain how our industry uses natural gas. Natural gas is the fundamental feedstock ingredient for the production of nitrogen fertilizer. Nitrogen fertilizer is produced when air and hydrogen are combined using natural gas as the feedstock. In my own operation I use liquid nitrogen fertilizer, which I spread on my crops.

High natural gas prices come at a time when commodity prices are extremely low. Nitrogen fertilizer costs have skyrocketed in the past five years. Pennsylvania farmers and other farmers across the country have paid record prices for nitrogen fertilizer. Last year I purchased four trailer loads of liquid nitrogen fertilizer for my crops, which equates to about 100 tons of nitrogen. Last year I also paid \$190 per ton, compared to \$105 per ton in 2002. In fact, the fertilizer dealer where I purchase my fertilizer stated that prices for 2006 would be \$205 per ton. That is an increase of \$100 per ton over 2002. Unfortunately, corn prices have not gone up accordingly. In fact, I am receiving the same price per bushel of corn that I received in 1999, yet I am paying 50 percent more for fertilizer. Due to the lower corn price and lower corn yield in 2005, my income was \$215 per acre. My income per acre was \$360 in

2004. Unfortunately, the cost of liquid nitrogen was \$41 in 2005 per acre compared to \$32 per acre in 2004. In other words, I grossed 60 percent less per acre last year, yet paid 35% more for fertilizer.

The Pennsylvania Farm Bureau appreciates the efforts by our U.S. Representatives to open the outer continental shelf for natural gas. The agricultural community is eagerly awaiting a solution to the problem of high prices for energy. I appreciate the opportunity to speak before the Committee and I welcome any questions the subcommittee may have.

Table 1.
Prices Paid by Mr. Keith Oellig

YEAR	Corn price paid/bushel	Nitrogen fertilizer prices per ton	Urea fertilizer prices per ton	Price of fertilizer per acre for liquid nitrogen
1999	\$2.15	N/A	N/A	
2000	\$2.20	N/A	N/A	
2001	\$2.30	N/A	\$220	
2002	\$2.85	\$105	\$170	\$21
2003	\$2.60	\$125	\$240	\$25
2004	\$2.40	\$158	\$250	\$32
2005	\$2.15	\$190	\$325	\$38
2006	N/A	\$205	\$360	\$41

* Average corn produced is 125 bushels per acre

* Applies 400 lbs of 30% liquid nitrogen per acre

YEAR	Prices received per bushel	Yield/bushels per acre	Income per acre	Liquid Nitrogen Costs per acre ⁰
2004	\$2.40	150	\$360	\$32
2005	\$2.15	100	\$215	\$41

Mr. GIBBONS. Thank you very much, Mr. Oellig.

I want to compliment you. That was so well timed. You were within 5 seconds of 5 minutes.

And, Mr. Bennett, I hope you're testimony is as good as the farmer's testimony was. So, welcome, the floor is yours. We look forward to your testimony.

**STATEMENT OF MICHAEL L. BENNETT, PRESIDENT AND CEO,
TERRA INDUSTRIES INC., SIOUX CITY, IOWA**

Mr. BENNETT. Thank you.

I am Mike Bennett, President and Chief Executive Officer of Terra Industries headquartered in Sioux City, Iowa. Terra is an international producer and marketer of nitrogen products. We operate four plants in the United States, one in Canada, two in the UK, and we have a joint venture operation in Trinidad. All told, our company employs 1,200 people.

In the manufacturing facilities we have in the midwestern and southeastern U.S., we provide good-paying jobs to about 750 U.S. citizens. As you might have gathered from Mr. Oellig's testimony,

the U.S. needs reliable and plentiful supplies of natural gas to produce nitrogen and to meet critical agricultural and food production needs.

Natural gas is the primary purchase feedstock ingredient for the production of nitrogen fertilizer and represents as much as 90 percent of the cash cost to produce anhydrous ammonia, which is the building block material from which we produce other commercial nitrogen plant nutrients.

All told, the domestic nitrogen industry consumes about 2 percent of the natural gas used in this country. And it is important to note that natural gas is our feedstock, not simply a source of fuel for heat. And as a result, we really have no viable alternatives.

At today's gas prices, the cost of natural gas, as I mentioned, accounts for up to 90 percent of the production costs of anhydrous ammonia. Thus, when U.S. natural gas prices increased significantly beginning in the year 2000, the cost of production of ammonia rose significantly. Average U.S. ammonia production costs doubled between 1999 and 2003, which is the latest full year for which data is available. In looking at today's current costs, the cost of producing this product has doubled again from those levels of 2003.

And certainly, fertilizer producers can try to pass along these cost increases, but our ability to do so is constrained by the commodity nature of the business and competition from producers in nitrogen-exporting countries that have access to lower priced gas.

As a result, rising natural gas prices cause our margins to shrink eventually turning those margins into losses, and as a result, companies are forced to reduce production, idle or even permanently close plants depending on the specific economic conditions they face.

As a result of the ongoing natural gas crisis in America, 22 nitrogen fertilizer production facilities have closed since 1999; 17 of those plants—and four of those 17 were owned by Terra—have closed permanently, representing a 20 percent drop in total production capacity while five plants remain idle at this time.

The operating rates for the U.S. ammonia industry have declined significantly from historical levels. And all told, we have seen a 35 percent decline in U.S. ammonia production from 1999 until the 2003/2004 fertilizer year.

And as a result, U.S. imports have increased. We used to be nearly self-sufficient in the production of nitrogen fertilizer in the 1990s. This past year, more than 40 percent of our nitrogen fertilizer was imported from countries that have abundant low-cost natural gas. And this percentage will certainly increase in the coming year.

In the past 2 months alone, three of the largest remaining U.S. nitrogen fertilizer producers, including Terra, have idled a significant portion of their facilities and/or reduced production due to the unprecedented rise in natural gas feedstock costs.

And certainly, as Mr. Oellig has pointed out, these extreme conditions harm our customers and farmers as well. Farmers are facing not only high fertilizer costs but also higher costs for other inputs which are affected by sky-rocketing energy costs. The higher input costs make U.S. farmers less competitive with other countries as they market their crops. And these difficult circumstances are

causing farmers to delay decisions about what crops they will plant and how much fertilizer they will apply, thereby providing no indication for nitrogen producers or our commerce on how to effectively plan for the spring planting and upcoming fertilizer application season.

To that end, and to—as the solution to this crisis, we agree that the comprehensive energy bill passed earlier this year took a number of steps that were very positive for energy policy, but certainly production was a clear missing item from that bill. And to that end, we believe that the recommendations that would open additional Federal lands and offshore areas to oil and gas exploration production, especially the lease/sale area 181 in the Gulf of Mexico and other coastal areas on the Outer Continental Shelf, are vitally important for our Nation.

[The prepared statement of Mr. Bennett follows:]

**Statement of Mike Bennett, President and CEO,
Terra Industries Inc., on behalf of The Fertilizer Institute**

Introduction

Mr. Chairman and members of the subcommittee, I am Mike Bennett, President and Chief Executive Officer of Terra Industries Inc. On behalf of Terra and The Fertilizer Institute (TFI) of which Terra is a member, I appreciate the opportunity to testify before the House Committee on Resources, Subcommittee on Energy and Minerals Resources regarding the high price of natural gas and its impact on Terra and its customers. Furthermore, I would like to thank you, Mr. Chairman, for scheduling this important hearing and for your leadership in addressing the critical issue of increasing this nation's supply of natural gas, which is so vital to the U.S. plant food industry, its many local retail agribusiness outlets and the farmers and livestock producers they serve.

Terra

Terra Industries Inc. is a leading international producer of nitrogen products, which we sell to industrial customers and agribusiness dealers for eventual sale to farmers. The company employs approximately 1,200 people in North America and the United Kingdom, and is headquartered in Sioux City, Iowa. Terra is traded on the New York Stock Exchange.

Terra owns and operates seven nitrogen products manufacturing facilities, four of which are in the Midwestern and Southeastern United States, providing good-paying jobs to about 750 U.S. citizens.

TFI

TFI is the leading voice of the nation's fertilizer industry, representing the public policy, communication and statistical needs of fertilizer producers, retailers and transporters. In addition to energy policy, issues of interest to TFI members include the environment, international trade, security, transportation and worker health and safety.

Fertilizer and Energy

The United States needs reliable and plentiful supplies of natural gas to produce nitrogen and meet critical agriculture and food production needs. Natural gas is the primary purchased feedstock ingredient for the production of nitrogen fertilizer and represents as much as 90 percent of the cash cost to produce anhydrous ammonia—the building block for most other forms of commercial nitrogen plant nutrients. The nitrogen fertilizer industry uses approximately three percent of the total natural gas consumed in the nation.

Nitrogen Fertilizers

Anhydrous ammonia is the source of nearly all the nitrogen fertilizer produced in the world. Ammonia is produced by combining nitrogen with hydrogen. The nitrogen is obtained from the atmosphere, while the hydrogen is obtained from natural gas. At today's gas prices, the cost of natural gas, as I mentioned, accounts for up to 90 percent of the production cost of ammonia. Thus, when U.S. natural gas prices increased significantly beginning in the year 2000, the cost of domestically produced ammonia also rose significantly. Average U.S. ammonia production costs doubled

from 1999 to 2003, the latest year for which data are available, and are sure to have increased again in 2004 and 2005 as natural gas prices have continued to rise.

While fertilizer producers can try to pass along these cost increases, our ability to do so is constrained by the commodity nature of the business and competition from producers in nitrogen exporting countries with access to lower priced gas. As a result, rising U.S. natural gas prices cause producer margins to shrink, eventually turning those profit margins into losses. Consequently, companies are forced to reduce production, temporarily idle, or even permanently close plants depending on the specific economic situation they face.

As a result of the ongoing natural gas crisis in America, 22 nitrogen fertilizer production plants have closed since 1999. Seventeen of those plants—four of them owned by Terra—have closed permanently, representing a 20 percent drop in total production capacity, while five plants remain idle. Operating rates for the U.S. ammonia industry have also declined significantly from historical levels. The permanent and temporary closures in combination with the drop in operating rates have resulted in a 35 percent decline in U.S. ammonia production from nearly 18 million tons of material in the 1998-99 fertilizer year to less than 12 million tons in the 2003-04 fertilizer year. U.S. nitrogen imports have increased from just over 6 million tons to more than 10 million tons in that same period. Consequently, the U.S. fertilizer industry, which typically supplied 85 percent of its domestic needs from U.S.-based production during the 1990s, now relies on imports for nearly 45 percent of nitrogen supplies.

In the past few weeks alone, three of the largest remaining U.S. nitrogen fertilizer producers, including Terra, have idled a significant portion of their facilities and/or reduced production.

The Impact of High Natural Gas Prices

On the U.S.

The U.S. natural gas crisis is exacting a heavy toll on America's nitrogen fertilizer producers, our customers and the end-users they supply. The resulting negative financial impact is unprecedented and is irreversibly crippling the U.S. nitrogen fertilizer manufacturing industry, which supplies approximately one-half of U.S. farmers' nitrogen fertilizer needs. America's food security, and by extension, our national security will be jeopardized if we don't take fast and decisive action to address our country's natural gas crisis.

On Terra Industries Inc., our Customers and End-users

It is no exaggeration to say that Terra and other producers with nitrogen manufacturing operations in North America may not survive unless we find a way to lower natural gas prices through increased supply. To illustrate the drastic effect that natural gas prices have on Terra and other nitrogen producers' profitability and viability, consider that a \$1.00 per MMBtu change in the price of natural gas moves Terra's annual operating income by about \$100 million. For the first nine months of 2005, Terra's North American natural gas costs were \$7.66 per MMBtu. At this price, which represents Terra's cost before the recent extreme runup in gas prices, Terra's annual cost for natural gas to operate its U.S. plants at capacity would be approximately \$735 million.

These extreme conditions are harming our customers and farmers as well. Farmers are facing not only higher fertilizer costs, but also higher costs for other inputs, which are affected by skyrocketing energy costs. The higher input costs also make U.S. farmers uncompetitive with other countries as they market their crops. These difficult circumstances are causing farmers to delay decisions about what crops they will plant and how much fertilizer they will apply, thereby providing no indication to nitrogen producers or our customers of how to effectively plan for the spring planting and fertilizer application season.

Ironically, the U.S. energy crisis—a direct result of U.S. energy policy—is making the crops we're best suited to grow the least viable in global markets.

Conclusion

Actions Taken

Recently, I and many of my colleagues in the nitrogen producing industry met with U.S. Department of Energy Secretary Samuel W. Bodman, as well as a number of key farm-state senators and congressmen. After describing agriculture's natural gas crisis situation, I cannot say in all honesty that we left any of those meetings encouraged about the short- or long-term energy future for our producers, retailers, farmers or nation. Energy conservation, renewable fuels and increased imports of Liquefied Natural Gas (LNG), while important, will not save this nation's nitrogen fertilizer industry from being forced to idle remaining U.S. production capacity

because of cost pressures from high natural gas prices. The only way to avoid the further decline of the U.S. fertilizer industry and a nationwide economic disaster in farm country is to increase U.S. supplies of natural gas significantly and as soon as possible.

Recommendations

Mr. Chairman, allow me to relay recommendations toward that end, which we believe should be immediately included in federal energy legislation and policy. These recommendations include opening additional federal lands and off-shore areas to oil and gas exploration and production, especially the lease/sale area 181 in the Gulf of Mexico and other coastal areas on the Outer Continental Shelf (OCS).

Currently, 85 to 90 percent of the OCS is off-limits to natural gas exploration due to a combination of congressional and state moratoria. Industry estimates suggest that the OCS contains gas reserves large enough to supply all current U.S. industrial and commercial needs for 40 years. Regarding "Lease Sale 181," the U.S. Interior Department estimates that the 6 million acre area contains natural gas reserves of 1.3 trillion cubic feet. Terra Industries and TFI strongly believe that opening these areas to natural gas drilling is the fastest way to bring new natural gas to market and bring much needed relief to our industry and our nation's food producers. One option that might go a long way toward achieving these goals is the "Outer Continental Shelf Natural Gas Relief Act" recently introduced by Rep. John Peterson.

Also, any federal policies that can be implemented to make it easier to get permitting and to build new LNG terminals in the United States as quickly as possible are vital. We believe these federal policy initiatives are critically important to the energy security, food security and our national security.

Finally, Terra Industries and TFI urge members of this subcommittee and all Members of Congress concerned about the ongoing U.S. natural gas crisis, to contact Secretary Bodman and request that the U.S. Department of Energy move quickly to promulgate rules and regulations for loan guarantees and investment tax credits for construction of coal gasification facilities as authorized by Congress in the recently enacted federal energy bill.

To conclude, allow me to again thank you Mr. Chairman and members of the subcommittee for your leadership in addressing the critically important issue of high natural gas prices in this country and its impact on the U.S. fertilizer industry and its customers. Thank you for the opportunity to testify today.

Mr. GIBBONS. Well, you were mighty close. But no banana.

Thank you, Mr. Bennett. We appreciate your testimony.

In fact, we appreciate all of the testimony of each of our witnesses here today. It has helped us greatly in terms of the panel better understanding the issues that we are all facing as a Nation with regard to energy costs and especially with natural gas.

What we are going to do now, for the panel, is we are going to turn to a question period where members of the Committee will have an opportunity to ask questions. We'll try to limit it to 5 minutes, but there may be more than one round of questions as we go round. And I do understand the time frames that some of you are under, the restrictions and that you have to leave at a certain point. We will try to get as many questions asked and answered as possible.

And so I am going to turn now to the gentleman from Hawaii, Mr. Abercrombie, and allow him to begin his questions.

Mr. Abercrombie.

Mr. ABERCROMBIE. Thank you.

Mr. Gerard, in your testimony, did you add some material in your summary that was not in the formal written record? I believe you mentioned something about China which caught my attention. But I wasn't able to—I have read your testimony. And I went back over it, and I couldn't find it.

Mr. GERARD. Yes, I probably got pieces of it. I will share that with you, Congressman Abercrombie, my reference to China.

Mr. ABERCROMBIE. See, we pay close attention to what you say.

Mr. GERARD. And we appreciate that very much. My reference to China dealt with the Business Week article that was recently written talking about, there are 120 major new chemical plants planned around the world. And 50 of those are slated for China and only one of them for the United States out of those 120.

And that is driven by and large by the natural gas price in China; it is half or less than what it is here.

Mr. ABERCROMBIE. And it is driven, is it not, or would it be fair to speculate that part of it is driven in what I believe to be the relentless Chinese commitment to expanding their industrial and manufacturing base? They see natural gas as a vital if not central component in that; do they not?

Mr. GERARD. Absolutely, and my reference to their strategic energy policy, they are very aggressive, as you see around the world, at oil, gas and other feedstock and energy supplies. And they are buying it. They are locking it up for the future. And they are serious about preserving that 9 percent plus growth that they have in that country.

Mr. ABERCROMBIE. Can you make sure that becomes part of the record, either that article and/or your commentary?

Mr. GERARD. I will do that.

Mr. ABERCROMBIE. And can I follow with you on that right now? With regard to the China example, are you familiar or any of the other members of the panel familiar with what the policy for drilling is in China with regard to natural gas? I am simply unaware. I am a layperson in most of this right now. So some of these questions may seem a bit naive to you. But believe me, I am probably typical of—no I am not typical—I meant in terms of—

Mr. GIBBONS. Any member who wears a lei is not typical.

Mr. ABERCROMBIE. This is my standing against the cold wind out there, the lei I am wearing. But what I mean by that is, I am not necessarily familiar with the—where drilling is likely to take place.

Obviously the Outer Continental Shelf has come to the forefront here for good and bad reasons. So is there an Outer Continental Shelf in China? Is there drilling in the ocean, or is there drilling on the surface? And what is the Chinese policy there? What is taking place?

Mr. GERARD. I will get you more material on that, Congressman. But what I have been told generally is, when you look at the Chinese situation, you look at Southeast Asia, Australia and others where they're importing significant amounts of LNG and other things, but they are also looking domestically onshore, and I have been told they are also looking offshore. I don't know what the current situation is, but I can get that for you.

Mr. ABERCROMBIE. Is it fair to say then that other nations, particularly in the Pacific, where a lot of manufacturing and industrial expansion is taking place right now, all of them, are they not, exploring natural gas possibilities, resources, reserves et cetera?

Mr. GERARD. My understanding is that the United States is the only developed country in the world that restricts access to our energy resources.

Mr. ABERCROMBIE. Could you, for purposes of—because the Committee doesn't necessarily have resources itself to do it, if you or any of the other folks there or allied industry people, if they could get for the Committee some kind of formal understanding of what the drilling practices, proposals, policies, either in existence now or contemplated in other nations particularly around the Pacific rim, I think it would be very useful to us.

Mr. GERARD. Happy to do that.

Mr. GIBBONS. Would the gentleman yield for a second? If you want to add something to that, if you would look up and add into that the Chinese natural gas production, domestic natural gas production and its natural gas consumption would be helpful, too.

Mr. GERARD. We will do it.

Mr. ABERCROMBIE. Thank you very much.

One of the things that was brought up to me—let me—if you just give me a few more seconds to maybe elaborate a little on my opening remarks. We understand what the situation is here. Some of us, in fact, I expect most of us who have been in political life for some time and have had good relations and support from the environmental community—I think we know who we are talking about here, groups that are concerned about the environment, concerned about alternative energy and so on—find ourselves in a position where I have even characterized it at one point where we have been put in the village stocks now. We have fallen away from the true path and must live on the edge of the village and have been taken over by the dark side.

And in some respects, it is amusing, and in other respects, it is irritating. And in some respects, it is disheartening. But that is the reason why you see the bill in front of you the way it is today.

I am in a position—and I think a lot of members are like me in this respect—I am trying to differentiate natural gas exploration and extraction from oil exploration and extraction. And I realize that for many people that is silly, or it is antithetical to their interests, and in some instances, there may be cases where companies do oil and natural gas exploration. But for our conversation's sake, for the sake of this bill, if you will grant me that, that it is important for some of us, in order to advance natural gas exploration and extraction, that we have to make a separation or try to do it at least legislatively.

Is it true—and I have been told that it is true—that it is possible to explore for natural gas and in the course of events, if you discover oil in the course of that exploration, that it is possible to bypass the oil and go to the natural gas? Technologically, is it possible to do that? Or is that some kind of—if you can't answer, then can you get me an answer on that?

I need to know, and the Committee needs to know, what are the technological capacities out there to enable us to explore and extract natural gas without getting into the legislative and ideological complications of oil exploration?

Mr. GERARD. I would be happy to get that for you, Mr. Abercrombie. I don't know the direct answer to that. I am not an expert in that field. However, I would say I think it is important also, and we greatly appreciate the stand and the position you're taking in

the current debate and realize that this issue has been polarized for many years. I would also suggest, however—

Mr. ABERCROMBIE. Can I ask you to write a letter to my wife?

Mr. GERARD. I would be happy to do that for you. But in the current climate—I think—in the past—experience is important to remember here. I believe it is Congressman Peterson has a pie chart that shows, when you look at the potential risks or exposure from development in the Outer Continental Shelf, our experience is that there is more that goes into the environment from natural seepage on the ocean floor than there's ever been from any spills.

Mr. ABERCROMBIE. I understand that. And I agree with all that, and I appreciate it. But if you can help me or any member or anybody in the audience can help me with the idea, is it possible technologically to explore for and extract natural gas absent the necessity of also taking at the same time oil? It may seem foolish. But we are trying to talk about what we can do here to break through some real genuine ideological barriers and perceived wisdom out there that simply will not allow natural gas, that the discussion about natural gas to even get on the table without it being caught in the oil exploration vise.

Then one last thing, because my time is running out here, we have been told here that even if we did this, that—what was the—John, was it 30 days they said was the only—30 years or 30 months, something like that, of natural gas that is available before it would run out. Do you remember? That was said to us several times.

In other words, one of the arguments made to us by people who are upset with the idea that we would even be trying to extend natural gas exploration is that there is nothing out there; there is not enough out there anyway to make it worth our while. And that seemed to me to be, I didn't have the figures in front of me to be able to refute that, but it didn't make sense on its face to me. Anybody can talk about that with authority?

Mr. GERARD. Our view is this, Congressman Abercrombie, number one, there are significant supplies of natural gas. We are not sure we fully appreciate how vast that resource is. I believe USGS at the Department of Interior has estimated over 420 trillion cubic feet. Depending on how you quantify that, we are talking about 30, 40, 50, 60 years of natural gas supply.

Mr. ABERCROMBIE. Could you quantify that or again ask your colleagues and allies to quantify what are we talking about with natural gas? If we were able to succeed with this bill, what is the likely reserve or possibilities and so on that we are looking at, and how will that translate into helping American industry and manufacturing? Thank you. I appreciate it.

Mr. GIBBONS. Thank you, Mr. Abercrombie.

And of course, we cannot go without recognizing the presence of the full Committee Chairman, Mr. Pombo, here today.

Welcome. No opening statements?

We will turn to Mr. Peterson for questioning.

Mr. PETERSON. Thank you very much. I want to thank all of you for your good, clear testimony. A lot of people think I am a mad man because I have been working this issue pretty hard, and I do feel a sense of urgency. And I know you do.

If we pass this bill that was signed by the President in 2005, this year—and we know that is not doable—it would be several years and probably the only gas we would touch for a couple of years, a potential 2 to 3 years, is in track 181 that is right beside where we produce today, and it is a tragedy that it has not been leased because every well that has been produced can be instantly hooked into the collection system. And that is the only quick gas we can get.

How long do we have to resolve this issue that we don't lose the bulk of the jobs you provide in this country?

Mr. GERARD. I guess I will take this one as well.

That is a tough question to answer. Let me give you a little anecdotal evidence as to what that means. We believe if the Congress will send a signal to the marketplace, you'll begin to see the gas price moderate, which will give us hope and allow us perhaps to extend that window in which we have to make tough choices.

As I mentioned earlier, we already shut down 100 plus chemical plants, lost 100,000 people. We believe that if some relief isn't in sight or the market doesn't get a signal, there will be more and more of that. The CEO of Dow Chemical testified last week. He had a \$4 billion plant—that's a \$4 billion plant with a thousand high-wage employees slated for Freeport, Texas, 3 years ago. That plant has now been moved to Oman. And it's been moved there only because of the natural gas price.

Now, if the Congress will move quickly and send a signal through conservation and other things, we might be able to ride through the short-term window. But if it doesn't happen relatively quick, the longer-term signal, at least to our industry sector in the chemical business—we are global operators. We have no choice. When the board gets together and says, where are you going to spend your money and you can get gas for a dollar in Saudi Arabia versus \$14 in the United States, it is not a decision. It is an easy answer.

Unfortunately, it is impacting our industry. It is impacting our country. Business Week, in that same article I talked to Congressman Abercrombie about, mentioned that the net effect of this is, we are hollowing out our industrial core in this country.

So it is tough to give you much of a definition, Congressman, as to the window. But it can't go on forever, obviously.

Mr. PETERSON. Now the steel and aluminum industry are not impacted quite as heavy as chemical because they use it for heat only. But Alcoa Aluminum was quoted about a month ago or 6 weeks ago in a story that they were going to have to watch energy prices in this country. And if they consistently stayed high and that it had this parenthesis, especially natural gas, we will have to redetermine if we can produce here. That is the aluminum industry. And they are impacted heavily. I don't mean to minimize that, but not as heavy as some of you. And so I guess the point I want to say is, how do we get this message to the American public? That is what I have been trying to do. I am trying to talk to the American public. Because I am a firm believer, every group I have spoken to, even women who are even more environmentally sensitive than men, have come up to me and said, you know, I am pretty active on environmental issues, but you're right on this issue.

I have not had people come up to me in my district and give me a hard time about this policy, and I give it in every speech. How do we get the American public to understand this? The press doesn't understand it. I was on a debate recently with one of my friends from the south, and in the opening of the program, they were talking about gasoline prices and oil markets. And I said, folks, we are here to talk about natural gas. We are not here to talk about oil and gasoline. But gasoline is—because every night on the nightly news, the price of gas is the story. The story is a little better today than it was a few months ago, but it is not better for what we are talking about here today.

Have any of you planned an overall media campaign to let the American public know where we are at and the potential? Because I believe—you mentioned almost a million jobs in chemicals, I heard this morning at a briefing, 2 million in plastics. You add fertilizer people who bend, melt, heat, treat dry wood, there's at least 4 million jobs under siege here in my view. Is that an appropriate guestimate?

Mr. GERARD. I think so. Absolutely.

Mr. PETERSON. And any of you have a plan of helping sell this thing to the American public? Because if the American public understands this, we will do it.

Mr. OELLIG. I think it is important—through our farm, we have, Texas Eastern has a pipeline that goes through our farm. From that pipeline there is a natural gas line that goes into Hershey for the Hershey chocolate. And it is kind of interesting, in my testimony, you know, my wheat is processed and used by Hershey to make the Kit-Kat bars plus other products. Well, if natural gas gets too high, there is an incentive to move that production away from that area, losing my market for my wheat. And then, in central Pennsylvania, the pressure from development, there is no incentive for the next generation of farmers to take over.

So, you know, the environmentalists, they are really going to hurt themselves because, as far as I am concerned, the farmer is the best conservationist there is. So thank you.

Mr. PETERSON. Anybody else?

Mr. BRADLEY. I would offer that about 60 percent of low-income homes heat with natural gas and including in the State of Pennsylvania. Once those bills hit in cold weather here, just look at today, once those bills hit in let's say January, LIHEAP benefits run out. They start dealing with it. The press is going to be very interested in what is going on. I would think that would create a pretty good opportunity to say, here are some policies that directly impact the livelihood of 33 million low-income people.

Mr. GERARD. I would just add, Congressman, that we have strategic efforts going on right now. There was a news article in New Jersey today. People are starting to complain. Their gas bill is going up 24 to 28 percent. Last week, the Florida public utility commission, or whatever the regulatory body is, is already passing through a surcharge now for the additional costs of that natural gas.

I think, as we continue to beat this drum collectively together—and we as industry have to do a better job with this. And we understand that. But over the course of the next 3 or 4 months, I

believe the American public will get focused on this issue. If the natural gas price today were equated to the price of gasoline, we would be over \$7 a gallon. And I think once that begins to flow through and the consumer begins to see that, we're going to have people's attention, and then we really have to go to the solution.

Mr. PETERSON. Milk would be \$28 a gallon.

Anybody else?

Yes, Mr. Hunt.

Mr. HUNT. Congressman, we have actually done a fair amount of our communication to the general public and to our customers. But it is in the arena of conservation overall in terms of usage of lighting products, of course, that use electricity. So natural gas doesn't really come into play directly with that argument.

But, certainly, the issue of conservation and productivity with consumers and industrial users has been a message that we have been investing in for decades.

I would add this, though, that we have been somewhat reluctant, I think, to go on record and act as if we are complaining about the rising prices and raw materials. It is our job to find ways to offset that, discover ways of being more productive and more efficient.

The problem with this particular process or requirement of ours in natural gas is that certain policies have put a cap and a lid on supplies that in turn have created a suspension in what we would say are free-market movements in prices. And it has created an artificial barrier to being more efficient and being more competitive.

And as a result of that, we find if we have to turn to other avenues for cost reduction and to remain globally competitive—and unfortunately, one of the side effects is the reduction in direct labor. I mentioned earlier that the impact of gas prices on our business for the past 5 years is perhaps between \$25 and \$30 million. That equates to about 800 jobs in terms of skilled trades and skilled technicians in our factories.

And that is sort of a fact that has just compounded into every single industry in this country. As I flew down here this morning from Boston, I also happened to read in the Boston Globe an interesting article about the sharp run-up in plastic inflating the tab for groceries, and here we are with a 9 percent increase. One food industry official who asked not to be identified said most milk producers added a surcharge of 9 cents a gallon last month and tacked on another 5-cent increase this month. This is because of the price of milk containers. And of course, the polyethylene resins that are used to make milk bottles comes from natural gas.

Mr. GERARD. Congressman Peterson, I hate to keep taking your time. One of the things I was reminded of, in the energy bill you just passed, there is an authorization for energy efficiency public education campaigns, and we would encourage you to try to fund that as soon as possible at the Department of Energy to try to get the efficiency message out, but also educate the public on how serious this increase in natural gas prices is.

Mr. PETERSON. You talked in your testimony about competing with bulbs made in other countries. That is with cheaper labor and with cheaper energy, and you just gave me the thought that really scared me, because, Hershey foods is now paying the highest gas prices in the world to make Kisses. They are also paying the

highest sugar prices in the world. It is the blend of things. Can you pay the highest prices for sugar and the highest prices for energy—and I love Hershey Kisses—God forbid we eat Hershey Kisses made in some other country. And we could, when you stop to think about it, because it is the layering of costs. You can't be high in three or four areas and be able to play the game.

Mr. OELLIG. Are you sure you're not?

Mr. PETERSON. No, I'm not sure. I don't think they are making them anywhere else.

Mr. HUNT. Congressman, also, I think your first question about capital planning, obviously, the cost of materials and energy is a significant component of cost to production in deciding either way to expand or to install new facilities for new products. And we are no different from any other company trying to make those decisions. And you try to base those decisions based on proximity to your customer, as well as the lowest cost for production. But also, what information is the most reliable?

And the way that we would look at the natural gas situation right now is that it doesn't look as if there is going to be much relief. We have seen prices escalating 25 percent per year in the past 5 years.

How high can it go? Another 25 percent for the next 5 years? And if that seems to be the prevailing trend, that will have a great influence on our decisionmaking about where to expand production facilities either here or some place else.

Mr. PETERSON. Thank you very much.

Mr. GIBBONS. Thank you very much. Let me ask just a couple of brief questions here that I would like to just kind of add to what has already been discussed.

And Mr. Oellig, you talked about the cost of fertilizer going up significantly in your operation in the farming industry. Would it be cheaper for you today to buy fertilizer made overseas with cheaper gas?

Mr. OELLIG. We probably are, and I don't know it. It is like he was saying, the fellow next to me, at one time—

Mr. GIBBONS. Mr. Bennett.

Mr. OELLIG. Sorry about that. But at one time most of the fertilizer was produced in the United States, and now he says 40 percent of it is imported. Well, I really have no idea whether I am using imported fertilizer or domestic fertilizer. But if nothing is done with natural gas, pretty soon all of our inputs will be imported.

Mr. GIBBONS. Let me ask Mr. Bennett a question then.

Mr. Bennett, is there a substitute for natural gas as a feedstock for the production of fertilizer?

Mr. BENNETT. Not from a practical standpoint. Certainly hydrogen can be secured or sourced from other hydrocarbons. In an extreme example, coal gasification. This is a very capital-intensive process, and today there is very little of that capacity in the United States or built in the United States.

Mr. GIBBONS. On a comparison basis, just so that we can get our mind wrapped around the difference in the cost of something, producing hydrogen like coal gasification, what would the price of

fertilizer be if you had to go to coal gasification or producing hydrogen for fertilizer?

Mr. BENNETT. Well, it is a little bit difficult to answer in that way because at the end of the day the cost of gasification technology to produce fertilizer would take probably more than or as much as twice the capital expenditure. And these are very capital-intensive facilities.

The replacement cost for one of our facilities would be in the vicinity of \$500 million. And so one of these plants, of which there are a number left in this country, you would be looking at perhaps as much as \$1 billion.

We do think coal gasification technology, which has been supported in the energy bill, is important, but it is only part of a total, comprehensive approach to the solution.

I would like to point out, though, that from a cost-of-fertilizer perspective, as I indicated, this past year we imported what I believe is in excess of 40 percent of our nitrogen supplies; and what has really happened in this natural gas environment is that the U.S. fertilizer producer is the marginal producer in the world.

Today, the world has a relatively balanced supply demand dynamic in nitrogen fertilizer, and so nitrogen fertilizer will generally seek a price that will allow enough marginal production to operate to satisfy demand. And so today, no, foreign fertilizer is not cheaper for our customers than domestic fertilizer; it is the same price. Certainly, the producers of that product have a much lower cost basis than we do because of the difference in feedstock costs.

Mr. GIBBONS. But they have transportation.

Mr. BENNETT. And there is some of that offset by transportation; there is no question about that.

For us to be dead competitive with a foreign producer that brought product to the U.S., we don't need to have exactly the same gas costs because we do have some transportation advantages. But in today's environment, when stranded gas countries may be paying \$1 or \$2 in BTU and we are paying today perhaps \$10 to \$12, it is almost an overwhelming differential. And certainly freight can only make up a small percentage of that difference.

Mr. GIBBONS. Mr. Gerard, let me ask you a question.

Mr. GERARD. Can I follow up on that real quick, Mr. Chairman?

Mr. GIBBONS. Yes, you may.

Mr. GERARD. Thank you.

When you look at it in the macro, one of the things we don't often talk about is the ripple effect through the economy. The U.S. chemical industry was the single largest exporter of goods from the United States. We posted a \$20 billion surplus. Today, we are a net importer. And we watched this change just over the last half a dozen years as we began to export our jobs out of this country and then turn around and reimport the product. But—I will get you some more data on that.

But in the macro sense, I think that is a very significant change we are starting to see that affects our balance of payments and other things we haven't thought of.

Mr. GIBBONS. While you have the mike in front of you, let me kind of tag on to what Mr. Peterson was talking about; that is, the strategies that all of your consumer industries now are

contemplating, about bringing the American public into the awareness regime about the need for increased natural gas resources and what it is doing to them.

As I look at your industry, Mr. Gerard, you know, you in your testimony even said that you touch just about everything that you come in contact with in your life, whether it is in your home, whether it is in a school, whether it is in a hospital, whether it is in a workplace, or even to and from any of those places. You touch literally 300 million people in this industry. Now, maybe—I mean, in the country.

Maybe I am missing something here, but you have an enormous opportunity to educate the American public throughout the course of everything they do, whether they are looking at a milk bottle or a milk carton, or buying something at a store, whatever. It would seem to me that there is an opportunity for your industry to have a strategy to get to these 300 million people in this country.

Are you contemplating that? And if you are, what are your thoughts on it?

Mr. GERARD. We launched just 6 weeks ago, Mr. Chairman, an advertising campaign we call Essential To. I don't know if you have seen the ads on some of the cable channels. It talks about the essential nature of chemistry, and it attempts to connect the dots between the reality of our everyday living and also the role and relationship of chemistry to that living.

Now, we have to go back, and we are talking internally about what we need to do specifically to gas; but I will say on that, we have started that, recognizing there is a disconnect in the public's mind between all of these products—consumer products, cosmetics, the milk jug, all the rest of it—and really where that comes from.

In 2006, we will spend over \$20 million in this country to connect those dots. We need to go back and think further about—specifically on the natural gas crisis and what we can do there.

Mr. GIBBONS. You know, I am reminded of the fact that somebody said once that when they talk to their constituents, they thought about gaining more electricity, all you had to do was go over and turn the light switch up on the wall. If they needed more gasoline in their car, they just went to the gas station and pumped more into it. They have no concept beyond that immediate first contact, to them—what the source or the logistics of getting that product to them may be.

Let me finalize with one question to Mr. Hunt, because I know that you are in a vital industry. I mean, we are sitting here today in this very room illuminated because of a lot of the work that company does, Sylvania, in light bulbs. I mean, when we look around here, much of what we see is permitted by the industry that you have. And thank you for that.

But I am concerned that the competition overseas may require you either to downsize to the point where you are not the significant company that we all look to when we buy a set of four light bulbs at the grocery store. You know, I want to see them stay U.S.-made.

What is your strategy in terms of efficiency, in terms of even a natural gas policy in this country, that will help you maintain your lead in the industry?

Mr. HUNT. Well, Mr. Chairman, thank you for those kind remarks about our company.

I think one thing I would say at the outset is that no one here is looking for a handout, and we are not looking for a subsidy. We are basically looking for free market economics to work, so that there is a greater reliable supply of gas and prices are moderated.

The way that we have historically dealt with these sorts of escalating costs, no matter what the area of production, is through conservation, is through productivity, is through automation. At some point, though—and I think I referred to this in my written statement—the limit to what our knowledge is in terms of the productive use of gas to melt glass to make tubing in bulbs has produced productivity savings between \$1.5 and \$2 million a year.

Now, if gas prices are going up to a level that will increase our costs by \$7 or \$8 million a year, I mean, you don't have to be a mathematician to figure out it is a losing battle; and at some point, the levers that you can pull are running out. And many manufacturers have found really no choice but either to move production offshore or actually sell out to a non-U.S. organization.

Our strategy essentially is to continue to use innovation and find ways to be more productive, but at the same time we like to encourage that—give us a fighting chance with free market operations in natural gas and help lift the artificial barrier to more efficient operations that will keep all of us globally competitive and keep good high-paying jobs here in the U.S.

Mr. GIBBONS. Thank you. Thank you, Mr. Hunt.

As you can tell, none of us up here on the Committee have any concept of the 5-minute rule. We have all gone over significantly. And I will turn to my friend, Mr. Abercrombie, for any additional questions he may have.

Mr. ABERCROMBIE. Mr. Chairman, could I be allowed to enter into the record—as a result of the good offices of Mr. William Whitsitt, who is the President of the Domestic Petroleum Council, I think in response to some of my questions about the availability and the extent to which natural gas could be utilized in an effective, alternative energy way, he gave me testimony which was a statement of Charles Davidson, the Chairman, President, and CEO of Noble Energy, Inc., on behalf of the Domestic Petroleum Council and the Independent Petroleum Association of America on offshore natural gas and oil exploration and production technology before the Senate Committee on Energy and Natural Resources, April 19 of this year.

Mr. GIBBONS. Certainly. Without objection, we will submit that for the record.

[NOTE: The statement submitted for the record has been retained in the Committee's official files.]

Mr. ABERCROMBIE. And perhaps I can build off of that in the questions I wanted to explore.

As you can see, even here in this testimony that is provided by Mr. Davidson—through, as I said, Mr. Whitsitt—is Mr. Whitsitt here? If you would raise your hand.

Thank you very much.

Even there, what happens in most of the Committee hearings that we have, it comes up to oil and gas, even oil and natural gas.

And as Mr. Peterson pointed out, for the layperson, generally when they hear about this and they hear the word "gas," they don't even think of the phrase "natural gas," they think it is about gasoline.

So can somebody tell me, are the companies who explore for gas, natural gas, separate from oil companies? Are they one and the same? Is there a percentage? Are there independent natural gas producers, independent of oil companies? Or have they all been absorbed? Or are natural gas companies junior partners or little brothers or little sisters to oil companies?

Can anybody enlighten me on what the configurations of production companies, exploration and extrication companies are?

Mr. BENNETT. I think I can in a broad—

Mr. GIBBONS. Would the gentleman yield for a minute? I know that Mr. Whitsitt is in the audience here. Would you care to sit at the table, Mr. Whitsitt, and answer these questions?

Mr. ABERCROMBIE. I probably should have asked that, Mr. Chairman. Thank you.

Mr. GIBBONS. So if you wouldn't mind, just pull up a chair. And we are putting some of our witnesses in an uncomfortable position of talking out of school.

Mr. ABERCROMBIE. We haven't put you under oath, Mr. Whitsitt, so don't worry, the Justice Department isn't going to be outside the door.

Mr. WHITSITT. Thank you, Mr. Abercrombie. I appreciate it.

Mr. GIBBONS. What I would ask you to do is to please state your full name, your title, and who you work for, for the record.

Mr. WHITSITT. Sure. I am William Whitsitt. I am President of the Domestic Petroleum Council. And we represent 24 of the largest independent exploration and production companies that are based in the United States. They are also international companies in that they operate in 54 countries overseas and a good number of the 70-plus other countries that allow offshore exploration and production.

Mr. ABERCROMBIE. So you could answer, then, some of the questions that I posed previously. You don't have to do it right now, but if you would be kind enough to take into account what was asked; and if there is something you could give us in writing, I would be grateful.

But could you answer that question for me: Are natural gas exploration companies separate, junior partners? What are we talking about?

Mr. WHITSITT. Generally, they are not separate. Oil and gas exploration and production companies explore for both oil and gas.

Now, in our case, the large independents, we happen to be focused primarily on natural gas because of the nature of the resource base in the United States; onshore and offshore, we are about 70 percent gas production. But companies explore; even if they want to find oil or gas, sometimes they find the other. Technology is the same.

Mr. ABERCROMBIE. Good. If we were able to pass this bill, if we were able to get it out of Committee, get it on the Floor, get it through the Senate and everything that it takes to get legislation through, would it be possible for the companies that you know about, or for that matter, those that you represent, to explore and

extricate natural gas separate and apart from what you might naturally come upon—no pun intended—in terms of oil?

Mr. WHITSITT. The technical answer is “yes.” and in some cases where we have enough knowledge, we are pretty confident that we are going to find gas. But it is not always a certainty; and you could run the risk of finding oil and not being able to produce it, and that is not a good thing. So it does increase the risk.

But I will say that in conversations with our executives, it is absolutely clear that as a step toward the access we need, we have accepted the notion, and we believe a number of companies would in certain areas where their science is—where they have confidence in their science, they would be interested in exploring for natural gas and accepting some risk.

Mr. ABERCROMBIE. Thank you. Perhaps you could even, again, contact the Committee in writing about what you feel about those things, because I am abusing the time of the Chairman here already.

But you understand what our difficulty is, right? You understand what the legislative and ideological difficulty is that the Chairman and Mr. Peterson and I are up against?

Mr. WHITSITT. Absolutely. It is a political problem.

Mr. ABERCROMBIE. It is a political problem. It definitely is a political problem, and it has real consequences for members who maybe would like to vote for this, because they run the risk—and it is a real risk, it is not something to be dismissed lightly, and I certainly don't do that—of being castigated for being—I am already a tool of your institute, for example. Hell, I don't even know where you are, but I am already a tool of your council.

Now, I look at it, back, like speaking for the farmers here on the estate tax. I used to be a tool of labor and now I am a tool of capital, which shows that I am either very shrewd or stupid as hell.

Mr. Bennett, real quick.

Thank you very much. That is a terrific answer, and we needed to have it.

Mr. Bennett, I had the opportunity to drive a hydrogen hybrid car the other day, and it was explained to me—again, I am not an engineer or an automotive engineer or anything. It was explained to me—and you had it down in your testimony pretty good about nitrogen—that natural gas is crucial to the manufacture of hydrogen, correct?

Mr. BENNETT. It is.

Mr. ABERCROMBIE. So if we are talking about even for alternative fuels—alternative cars, alternative fuels for cars, for trying to deal with the gasoline question, natural gas is crucial to the question of alternative hybrid cars; is it not?

Mr. BENNETT. I would—

Mr. ABERCROMBIE. Could you agree, hydrogen is a factor in that?

Mr. BENNETT. Yes. I am not an expert in that area, but based on fuel cell technology and other approaches, I believe that natural gas would be certainly an important feedstock component of that hydrogen.

Mr. ABERCROMBIE. OK.

Then the last thing, Mr. Oellig—am I pronouncing your name correctly?

Mr. OELLIG. That is correct.

Mr. ABERCROMBIE. Mr. Oellig, you may be the key to all of this. Not you necessarily, personally, but you as representative of the farming interests of the country, as to how we get the message out here, following up on Chairman Gibbons' question and Mr. Peterson's.

If we can get the farm state—now, "farm state" includes Hawaii. Some people say to me, Well, it is easy for you to talk; you don't have any Outer Continental Shelf oil or natural gas that might be in Hawaii, so it is easy for you to say, Go do it in the Gulf of Mexico or in the Atlantic, or whatever kind of thing.

But I will tell you one thing: What I have been trying to do is to get ethanol going and to expand that and get the farmers to understand that we need to have—the politics is addition. And if you can get sugar cane growing and sweet sorghum, and you can bring in Texas votes and Florida votes and Louisiana votes and Hawaii votes, we can start growing alternative energy.

You have farm organizations across this country that can help get this bill passed. We need a national farmers union; we need Willie Nelson and the Farm Aid folks. You can do this. You need to go and reach out to the Urban League so that people in cities understand that the food just doesn't come from the Safeway, that it has to be grown somewhere.

We can reach out, it seems to me, to the environmental groups and say, If you want to protect farmland in this country and keep developers from taking it over, then you have to help us exist. The Chambers of Commerce, speaking to the Petroleum Institute and Council and others, chambers of Commerce should be all over this.

And the AFL-CIO, this is something where management and labor can get together. This is a jobs issue. In my view, this is a jobs issue. This is a fundamental manufacturing, industrial jobs issue in this country that should subsume management and labor and farmers versus the city, the urban folks.

Would you folks agree to that?

Mr. OELLIG. I would agree to that.

I think one of the concerns we might have: Recently, oil prices and gas prices have dropped, and they just automatically think natural gas prices drop along with it; and I think that is an educational problem we might have.

Mr. ABERCROMBIE. Good point.

Well, I think it is interesting when people talk about prices dropping for oil, we go from \$60 to \$57? I mean, I suppose that is a drop. But that is an interesting—what it means is that, psychologically, now we have already accepted the fact that \$25 or \$30 or \$35 or \$40 a barrel of oil is gone, so that we take some comfort in the fact that we have gone—that those of us control—those outside forces that control our destiny have given us a little breathing room compared to what little oxygen we had before.

So my mere point, and I am not trying to put this burden on you alone, but I expect you are a member of organizations, farm organizations. And all I am saying, here is an opportunity, I believe, for those organizations to reach out to other members that we need here. Because we can't pass this—and I am sure the Chairman will agree, we can't pass this if we are just going to rely on our own

membership to do this. We are going to have to have some of the folks that are so interested in tax cuts and prescription drugs and all the rest of this stuff that occupies center stage right now, some of these organizations like the Chamber of Commerce, the labor unions.

And I am going to reach out to the labor unions, I can assure you of that, the National Association of Manufacturers and so on, the restaurant association—stop worrying about the minimum wage and get your heads straight, those kinds of things.

Or for that matter, the National Rifle Association; if you are going to have the leisure to go out and hunt, you have to have a job first. So maybe you ought to get those guys for rural hunting and all the rest of that stuff. If you want to have jobs out there in farm country, for the hunters out there, they ought to get on the ball and get on this.

So that is what I am asking you folks to do. All of you at that table have national organizations with real reach and depth and power to be able to get other Members here, of our 435, to respond positively to this. Because absent that, this will not pass, no matter what happens in this Committee.

Thank you, Mr. Chairman, for your indulgence.

Mr. PETERSON. [Presiding.] If members of the panel have to leave, just quietly, we are going to extend a little bit if we can, because there are a few questions we have to—

A message I would like to leave to all of you is a message, and we hope that a message to America is number one on your priority list, of the problems we face. We have to let everybody know about this crisis, but it needs to be broad.

And I was a retailer for 26 years. And the homeowner, the plight of the homeowner should be in your message, no matter what you do; the plight of the church, I have churches that have already decided they are going to meet in the basement this winter. That is not right. That is just not right. YMCAs, schools, hospitals, and farmers.

You know, unfortunately, I was a retail—the ones I just mentioned will get more people thinking about it than talking about jobs and you big companies. I mean, unfortunately, that is the way it is.

When I talk about the business climate and how we are going to create jobs, people kind of—when you start talking about the homeowner, the church, schools, and the hospital, how we get hit all these different ways with these prices, we need to have the message be broad. And our message will be similar no matter who is giving it; I think it will be more effective.

But I want to just shift for a minute, because I am for opening up gas any way we can, and there is one—I am just going to throw something out here that will probably get me in trouble.

The President has the legal authority to take Lease 181 and put it in the 5-year plan, with the Secretary changing that plan today. Is there a strategy in business, especially in the business community, all of you, to ask this Administration to move forward on leasing 181 as fast as they can do it? They don't need legislation; am I correct?

I am told I am correct. It is not in the current 5-year plan, but the Secretary, I am told, can change the plan. I mean, that may be in my next course.

Has anybody thought about that potential? That is the fastest gas we can get.

Mr. GERARD. We have asked and asked, and are continuing to ask. We are told—and I believe the Secretary testified on this over on the Senate side a week or two ago—that he believes that this current 5-year planning cycle, or whatever, needs to run its course; that he doesn't have the ability to do it without legislation right now.

And I think that is a matter of opinion. Some people believe that is a correct interpretation, others don't. We have repeatedly asked; and we would be happy, Mr. Chairman, to lock arms with you and others and go down together and collectively ask, because we share your view. 181 is the quickest, the fastest, way we can get relief, and arguably it is the cleanest way to do it.

So we are with you; and we do have a strategy, and we keep asking and we will continue to ask.

Mr. PETERSON. The other gas that is out there that was found, and the leases were, I think, given back. But the Destin Dome was located 20 miles, 25 miles from Florida. This gas could be produced very quickly. It is less than 10 miles from the gulf stream natural gas pipeline running from Mobile to Alabama to Tampa Bay, Florida. And in my view—I mean, I think—you know, I just think we are in a crisis. I am saying the word "crisis" with a capital C, because it is going to threaten—you know, if we lose any portion of these 4 million jobs, this is a different country.

We have already lost millions of manufacturing—these are even better jobs. These are jobs that people have quality of life, have money to educate their kids, own a home, own a vacation place. I mean, these are the jobs we are going to lose that are the heart and soul of blue collar America that makes this country work. Those are the jobs we are going to lose.

And they are all going to be replaced, if they are replaced, with jobs with less benefits, with less pensions, with lesser health care benefits. I mean, these are the premier jobs.

That is my view; am I wrong there, the premier jobs left in America?

With that, I will welcome to our Committee today my good friend, Mr. Faleomavaega, from Samoa.

Mr. FALEOMAVAEGA. Mr. Chairman, I thank you. And I do want to offer my apologies to the members of the panel. I am sure that the testimonies that they have brought before the members of the Committee have been most edifying and, hopefully, get to a greater depth of information and bottom line—also educating our colleagues on this Committee about the importance of this energy resource.

Mr. Chairman, I have as much natural gas in my district as there is oil in the State of Hawaii, so well represented by my good friend and colleague here, Congressman Abercrombie. But there is a commonality of the problems that we are faced with, like the States of New Hampshire, Rhode Island, Maine, and even the State

of Massachusetts, talking about the seriousness of this effort to gain another added resource for the energy needs of our country.

And in the hearings that we have had in the past—and he could not have stated more eloquently, my good friend from Pennsylvania, saying that Canada is currently drilling natural gas right on our borderlines and doing it in a very environmentally protected process. And for the life of me, I can't see any difference in how we were able to get that oil from the slopes of Alaska and build one of—what I consider one of the greatest successes, that Alaska pipeline, with all the fears about environmental destruction to this and that, showing that it is a wonder.

Why can't we do the same in getting natural gas for the needs of our people?

I visited recently the country of Bolivia that, I understand, is one of the biggest depositors of natural gas in the world. Now, do we have to import natural gas from Bolivia because we can't do it ourselves in our own country? I say not.

And I think—and my own perception, I think there is a lot of sensitivity even by corporate America to be sensitive about the environment, but at the same time extract a resource that is very critical to the needs of our Nation's energy and the energy needs of our country.

Now, believe it or not, I am a member of this Subcommittee because there are mineral resources in my humble district. Believe it or not, there are billions of dollars worth of manganese nodules. And maybe some of you gentlemen might have companies that may want to do some exploration in getting these manganese nodules, composed of cobalt, manganese, nickel and copper that grow in the bottom of the ocean. That is another subject that I want to get into in our Mineral Subcommittee.

But I think this legislation is overdue, Mr. Chairman. I want to offer my cosponsorship, as well, to this proposed bill. And I sincerely hope that this will be an excellent joint effort on the part of management, our labor community, as well as the Congress, to see if we can push this legislation through.

And I am absolutely certain that we are going to depend on you gentlemen for your leadership and for your sensitivity in educating America on how important this resource is for the needs of the American people.

Mr. Chairman, with that, I thank you for giving me this opportunity to share my thoughts, and I look forward to working with our experts, the members of the panel that we have here before us.

Mr. PETERSON. This has been a group of about 12, and what I am proud of, it is about six Republicans and six Democrats that have been leading this. So it is bipartisan, and that is unusual around here.

But we are getting lots of people coming—I don't have, there is not a day goes by that someone on the Floor doesn't say, John, I will be with you next time. And we haven't done a vote count yet.

If we talk about this issue loud enough and clear enough and hard enough, all of us working together, we will educate the public, and they will be demanding that we do this.

Mr. FALEOMAVAEGA. Will the Chairman yield?

Mr. PETERSON. Sure.

Mr. FALEOMAVAEGA. I just want to make another added point that I think was stated in one of our markups, a concern about drilling in the Outer Continental Shelf and for the resources that are available there. And, of course, the concern expressed by some of our colleagues is the environmental damage that was done along the coastlines of some of the border States, the fear that doing this is going to cause a lot of harm to the environment and the shore, affecting, therefore, the tourism market that many of the States are dependent upon, the recreational fishing in all these areas.

I think all these issues can be worked out if we really put our brains together, and our efforts, to see that if drilling has already been done off the shorelines of Louisiana and Florida successfully, why can't we do it for natural gas?

But these are some of the things that we, as members of the Committee, have been concerned with, at least those who have a different view about drilling in the Outer Continental Shelf.

But as I said earlier, Mr. Chairman, I do want to commend you for your initiative, and I really believe that this resource for our country's energy needs is necessary.

And, again, I thank you for yielding.

Mr. PETERSON. Thank you.

This is the beginning of a battle. I hope all of you will join us, and all of your friends and colleagues. At the moment, we are the only game in town. We were one of a couple of games a couple of days ago.

But we need to put our shoulder to the wheel, and we need to do it quickly. I mean this sincerely. This needs to be an all-out push. I am going to—it is going to be an all-out push with me.

As I shared a few moments ago, I just challenge this Administration. Maybe they had better step up to the plate and do what they can do, if they can do it. We are going to find out if they can.

But we need to—as Alan Greenspan said to me, and maybe I shouldn't be quoting him. But he said, We need OCS, we need inland lead gas, and we need LNG for stability in our markets. Because—I want to conclude with this.

You know, we had a debate this morning in a meeting whether we should be using natural gas or not for electricity. And I know where I would come down on that debate, but that is not a debate we need today. But natural gas can be the bridge to alternatives making a difference.

Now, we all know there are those who think that windmills and sunshine is going to take care of us in the near future—ethanol. And they can all be a part, and I hope they all grow as fast as they can. But when we have the prices for oil and gas we have today—a lot of things work, but unfortunately, they have not been developed and the system of creating them in the factories and plants that are needed to do them, and the pipelines to connect us, aren't in place.

So, I mean, you are just years away, no matter what. But at \$60 oil and \$10 and \$12 gas, a lot of things compete, and a lot of things will grow and prosper. But we in the interim, this country—if this country doesn't get its natural gas prices in line, we will not be the leading manufacturer and producer of anything in the world, in my

view, because it just will put us in second, third, and fourth place. And that is not where this country ought to be.

And it is not that we have to go anywhere—we have it, and it is the clean fuel. It could be taking the pressure off of refinery needs, which takes years to build, because all our school buses, all of our transit buses, all of our taxicabs could be using natural gas in the urban areas where they are not getting clean air attainment. Construction vehicles can be run on natural gas. That can be—we can keep our overall transportation system adequately fueled until we get refineries on line with natural gas. There are parts of the world that use it basically for transportation. I mean, it is not rocket science.

So, in my view, natural gas is the bridge to the future. The current prices are a wall for this country remaining competitive, and we need to tear the wall down and have natural gas be affordable, so you can all get on with your businesses and grow and prosper and create those damned good jobs for American workers.

Thank you very much.

There will be additional written questions. We will have 10 days to complete and submit answers to the Subcommittee. I want to thank each and every one of you panelists.

Mr. ABERCROMBIE. Mr. Chairman, just before—

Mr. PETERSON. Sure.

Mr. ABERCROMBIE. If it would be all right to ask Mr. Whitsitt to respond to what we did, and anything else you think would be useful in the context of this, feel free to get it to us and we will make it part of the record.

Mr. WHITSITT. Mr. Abercrombie, Mr. Chairman, we will certainly do that. And I commend you. We absolutely need to move in the direction you are moving, and the progress we are seeing is, in large measure, because of these companies and associations here and their employees, who are getting angry about the gas situation.

Mr. PETERSON. Even my refiner in Warren, Pennsylvania, said he can't afford to pay the prices he is paying for natural gas, because he uses of millions of dollars of it to run his refinery. I mean, it is used by everybody.

So, again, we want to thank all of you; and just keep up the fight. Thanks for coming and sharing today, and early this winter we will win.

[Whereupon, at 4:22 p.m., the Subcommittee was adjourned.]

[A statement submitted for the record by the American Forest and Paper Association follows:]

**Statement submitted for the record by the
American Forest & Paper Association**

The Impact of High Natural Gas Prices on the Forest Products Industry

The American Forest & Paper Association (AF&PA) applauds the subcommittee for recognizing the urgent need for a greater domestic supply of natural gas and Reps. Peterson and Abercrombie for offering a constructive solution that will advance the energy debate. We are pleased to provide comments about the impact of natural gas shortages on the manufacturers of America's wood and paper products and to offer suggestions for public policy that will increase the supply of natural gas that is critical to helping U.S. manufacturers compete both domestically and overseas.

The U.S. forest products industry is vital to the nation's economy. We employ more than one million people and rank among the top ten manufacturing employers

in 42 states with an estimated payroll of more than \$60 billion. Sales of the paper and forest products industry top \$230 billion annually in the U.S. and export markets. We are the world's largest producer of forest products.

Energy is the third largest manufacturing cost for the forest products industry, making up 18 percent of total manufacturing costs for pulp and paper mills—up from 12% just three years ago. Annually, forest products companies purchase about 400 billion cubic feet of natural gas. While today the price of natural gas in the U.S. hovers around \$11 per million BTUs, in the last three months we have seen prices as high as \$14. That is a twofold increase since July and seven times historic averages. This increased price for natural gas also significantly increases purchased electricity and the price of chemicals needed for our manufacturing operations. Higher natural gas prices have the additional effects of increased transportation costs, as pulp is sourced from around the world.

Meanwhile, prices in the rest of the world are noticeably lower. For example, the approximately \$12 per million BTUs cost of gas in the U.S. dwarfs gas prices in the UK (8.20) Japan (\$5.25), Russia (\$1.45), Indonesia (\$2.70) and South America (\$1.65). Prices of natural gas in South America are around \$1.60, and in Russia the price for natural gas is less than \$2 per million BTU, putting our industry at a significant competitive disadvantage. This disadvantage is on top of other competitive disadvantages we face. Our taxes are higher than those of competing nations, and there are unfair trade barriers to the export of our products. The cost of compliance with our nation's environmental laws is directionally higher than the cost for some of the countries with which we compete, and transportation costs are greater than anywhere else around the globe. Government restrictions are also limiting our access to fiber—even though our forestry stock has increased by 39% since 1952. If we cannot successfully address these challenges, the public demand for forest products will increasingly be filled by other nations who do not adhere to our high standards.

Since the late 1990s, our industry has lost more than 140,000 jobs in manufacturing lumber, wood products, pulp, paper and paperboard and closed over 200 mills. In October alone, three mills closed including the last paper mill in Houston, Texas, all of them citing high natural gas prices among the reasons for the decision to shut down.

Ultimately, an adequate supply of energy at a reasonable price is needed for vibrant economic growth. Long-term solutions are essential to addressing this critical problem; however, it is also important that short-term steps be taken to mitigate the impact currently being felt by manufacturers. We believe that the Congress and the Administration should consider the following measures:

- Remove federal regulatory barriers to new energy supply;
- Support R&D efforts to bring on-line new energy technologies; and
- Implement demand reduction measures.

Barriers to Supply

Lasting relief from high prices for natural gas can mainly be achieved by increasing the supply of natural gas. Federal restrictions currently limit access to offshore natural gas resources in the Pacific, Atlantic, and Eastern Gulf of Mexico Outer Continental Shelf (OCS). AF&PA believes that the OCS is critical to America's energy security. It contains huge, untapped resources of oil and natural gas that are critically important to sustaining our national economic growth and maintaining much-needed jobs in virtually every sector of the economy.

For years OCS development has been limited to the Central and Western Gulf of Mexico. This has been a vital area—supplying almost 30% of the oil produced in the U.S. and about 20% of the natural gas. Nonetheless, Hurricanes Katrina and Rita have reminded us that disruptions in supplies from this area have major national implications affecting residential, commercial and industrial consumers throughout the country. While this area will remain very important, it is clear we must expand access to supplies in other parts of the OCS. Expanded access to new OCS areas is needed to ensure adequate future domestic energy supplies.

The National Petroleum Council estimates that there are approximately 300 trillion cubic feet ("Tcf") of natural gas and more than 50 billion barrels of oil on the OCS off the continental U.S. that can be recovered using existing technology but which have yet to be discovered. This is enough natural gas to maintain current OCS production for almost 70 years and enough oil to maintain current U.S. oil production for more than 80 years.

Lease 181

Some estimates indicate that Lease 181 might represent 20 percent of the entire Gulf gas production for the next six years. Most importantly, it is an immediate

source of supply because the pipeline infrastructure necessary to transport the gas to market is already built and operational in the area. For this reason AF&PA supports opening the remaining Lease 181 area. It has substantial energy resource potential and access to existing infrastructure that could help speed delivery to energy users.

State Empowerment

AF&PA also supports empowering states to explore and develop new natural gas sources and find ways to increase U.S. production. Specifically, we are in favor of the kind of approach outlined in Senator Lamar Alexander's "Natural Gas Price Reduction Act of 2005," (S. 726) and Chairman Richard Pombo's Ocean State Options Act (OSOA). In these legislative vehicles, states are granted permanent authority to decide whether to pursue energy production off their shores or to extend the ban on development. Further, the proposals take the wishes of neighboring states into account when determining the boundaries for gas and oil leases. The legislation also provides coastal states some share in the revenues to manage better the onshore impacts of development.

Research & Development

In the shorter term, research and deployment of technologies such as clean coal, coal gasification and biomass/black liquor gasification must continue to be pursued. For decades, the paper and forest industry has provided the majority of its own energy needs. Paper mills, for example, have run their paper machines using electricity largely supplied by mill-operated, on-site electric generators. We have embraced energy diversity. The industry has used both by-product biomass fuels (such as spent pulping liquor, hog fuels, bark, and wood chips) and purchased fossil fuels to produce steam and electricity used in its manufacturing processes.

Important R&D remains to be completed to prove that gasification technologies can work without adversely impacting mill operations. Continued cooperation with the federal government is crucial to reducing risk to a level that will allow significant industry participation. Similar initiatives are underway in the areas of clean coal technology and coal gasification. These technology development programs are essential to creating new and diverse sources of clean energy.

Environmental Technologies

While industry has been making advances in the areas of energy efficiency and self-generation of electricity, there has been a major increase in the demand for natural gas without a corresponding increase in supply. In fact, government policies have restricted access to supply of U.S. energy resources while simultaneously encouraging increased consumption of natural gas for environmental reasons. Environmental regulations have also fueled the demand for natural gas by manufacturers. Congress must reconsider many of the approaches that drive manufacturers toward natural gas.

We urge Congress and the Administration to make aggressive policy recommendations that will address the fundamental imbalance in natural gas supply for both the short-term and the long-term. Our nation's economic growth and the ability of U.S. manufacturers to regain their competitiveness are resting on the ability of Congress to do its part in achieving a balanced energy policy that will reduce natural gas costs for consumers.

