Industrial Energy Consumers of America (IECA)
The Voice of the Industrial Energy Consumers

Issue Brief: Manufacturing Companies Face Growing Natural Gas Scarcity Due to Inadequate Pipeline Capacity

June 19, 2024

Issue Description

Every year, on a regional basis, and especially on the East Coast, manufacturing companies face growing natural gas scarcity due to the lack of interstate pipeline capacity. Inadequate pipeline capacity is negatively impacting our ability to operate and expand manufacturing facilities. State and federal policymakers are either not aware or do not understand the implications. During winter and summer peak natural gas demand, manufacturers are the first to be curtailed. When this happens, manufacturers must reduce or stop operating their facilities with a significant economic impact, which could cost millions of dollars per day per facility.

At the federal level, the solution is permitting reform, which would increase the speed of processing permits and their construction in a timely manner. Judicial reform is needed to limit how long activists can slow or stop pipelines from getting built. At the state and regional level, the only short-term policy solution is for electric utilities to pause the shutdown of coal-fired generation units. Manufacturing companies need to advocate for themselves because no one else will. The utilities and homeowners are going to get the natural gas – we will not. Growing data center electricity demand that also requires 24/7 reliability is increasing the spotlight on the dilemma and is encouraging Democrats to second guess their opposition to pipelines.

Lastly, there is no agency in Washington, DC that has jurisdiction for natural gas pipeline capacity reliability and its interface with the electric market. The FERC Chairman Willie Phillips and the North America Electricity Reliability Corporation (NERC) have jointly requested that Congress give someone (agency) that responsibility. The FERC and NERC have responsibility for electricity reliability.

Implications to IECA Members

There are serious implications to natural gas and electricity costs, reliability, competitiveness, and economic growth. Natural gas or electricity curtailments cost tens of millions of dollars per day. The Energy Information Administration (EIA) confirms that we do not have an alternative to natural gas. Equipment that uses natural gas cannot be converted to electricity.[1] Without increased pipeline capacity, manufacturing cannot expand existing facilities, build new ones, or increase employment. Pipeline capacity limitations also directly impact reliability of electricity. We are also the first to be curtailed if there is insufficient electricity supply at great costs.

IECA Actions

Over the last three years, IECA has met with and sent letters to the FERC, governors on the East Coast, the Senate and House energy committees, and filed comments for the record on related hearings. Permitting is the jurisdiction of the Senate Committee on Energy and Natural Resources (ENR) and the Senate Committee on Environment and Public Works (EPW). In general, Democrats are not supportive of pipelines, which makes advancing permitting reform difficult.

In May 2024, IECA launched an advocacy campaign that is focused on Democrats and to urge their support for permitting reform legislation. They are not aware that manufacturing is in the crosshairs of the reliability dilemma. In June 2024, we have launched an effort to form an ad-hoc national coalition of manufacturing companies and trade associations to focus on federal, regional, and state policy solutions. In June, IECA met with the U.S. Department of Energy's (DOE) Assistant Secretary for Electricity to brief him on the issue and requested that they assist IECA's efforts by acting as a convenor.

Current Status

Interstate natural gas pipeline capacity additions are not keeping up with demand. In 2022, a record low of capacity was added. While U.S. natural gas consumption continues to rise, along with a record number of LNG exports and pipeline shipments to Mexico (see Figures 1-4). In Washington, Republican senators and a limited number of Democrats are supporting permitting reform legislation with the intention to vote it out in 2024. There is an inadequate understanding of the issue by state policymakers.

- The problem is especially severe along the entire East Coast, which is supplied by the Transcontinental Gas Pipeline (Transco). Transco has plans to expand pipeline capacity, but the expansions are insufficient. Electric utilities plan to voluntarily shutdown over 40 coal-fired generation units on the East Coast and much of that capacity will be replaced with natural gas generation which will continue to put pressure on limited pipeline capacity.

  The issue is complicated by the lack of multi-state oversight. One pipeline going through several states, each making decisions on building natural gas-fired generation independently and without consideration as to how much natural gas capacity will be available to the manufacturing sector.

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[1] EIA Confirms that the Manufacturing Sector Cannot Switch from Natural Gas to Another Fuel, https://www.ieca-us.org/wp-content/uploads/06.04.24_Fuel-Switching.pdf

- On Transco, depending where a manufacturing facility is located, there is either limited or no firm pipeline capacity available. And the firm capacity that is available is being taken by electric utilities and LNG exporters that can pass those scarcity prices to customers, manufacturing cannot.

- Manufacturing companies do not have an alternative for natural gas and their equipment cannot be converted to use electricity. Even if they could, an electricity Btu is about 300 percent more expensive than an Btu of natural gas, rendering us non-competitive.

- Existing manufacturing operations are at risk and threaten to halt investments in expansions or new facilities. Without natural gas pipeline capacity, the U.S. has neither natural gas or electric reliability, which threatens national security, supply chains, investments, and job creation.

- Until additional pipeline capacity or compression is added, our only hope to avoid more serious shortfalls of supply is to encourage state public service commissions to temporarily delay the shutdown of coal-fired generation.

Figure 1

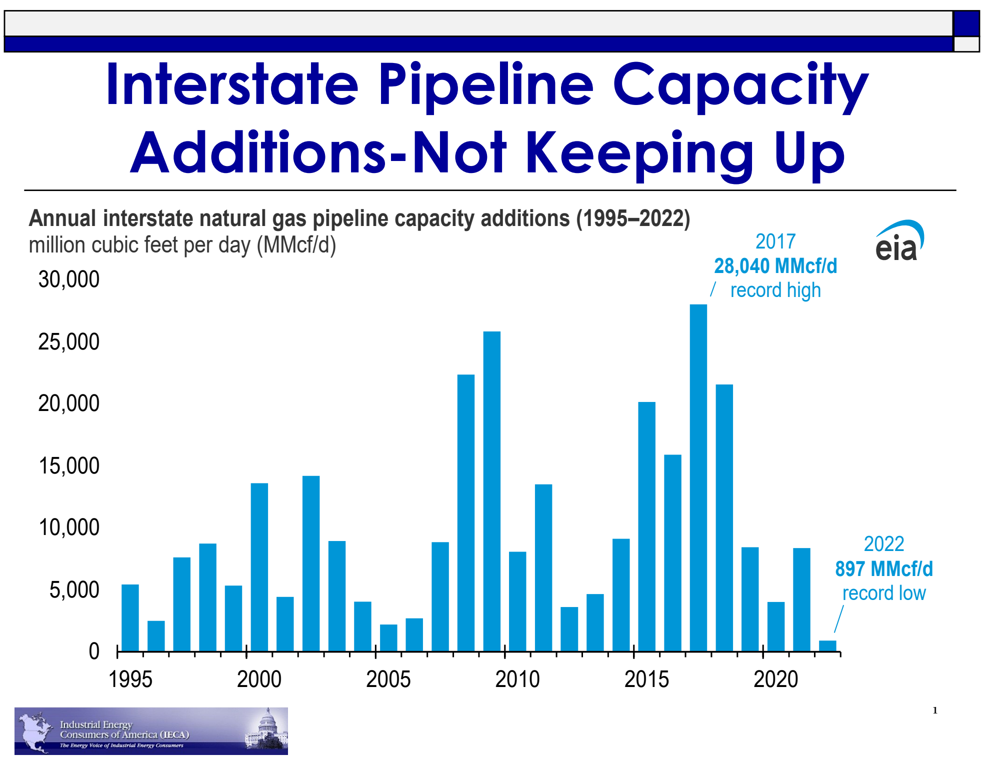


Figure 2

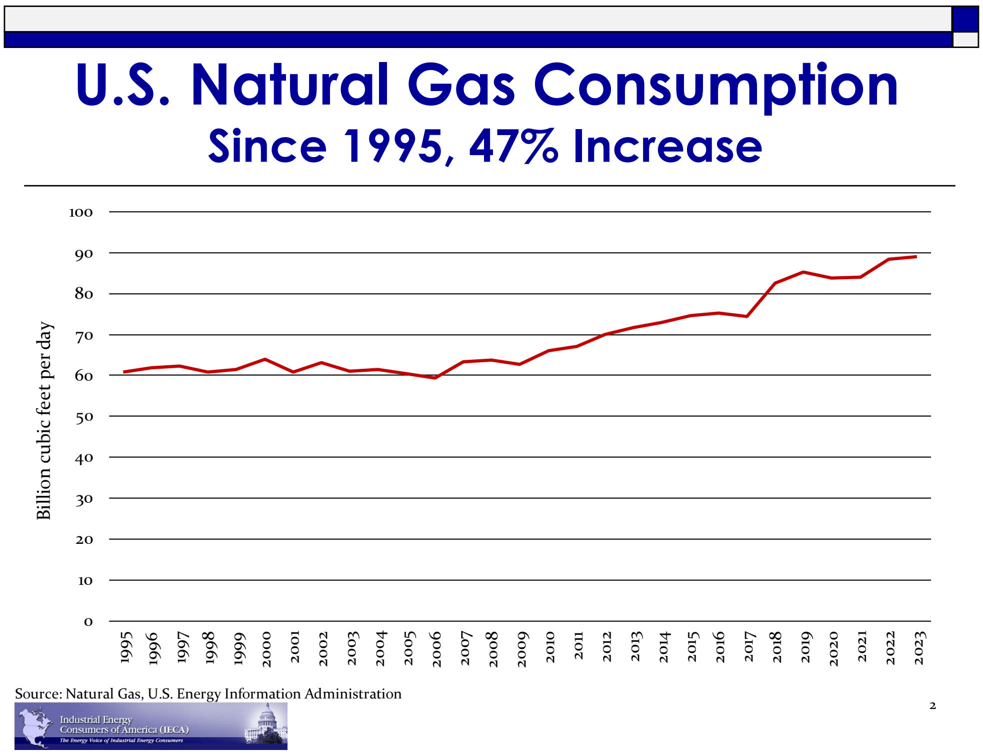


Figure 3

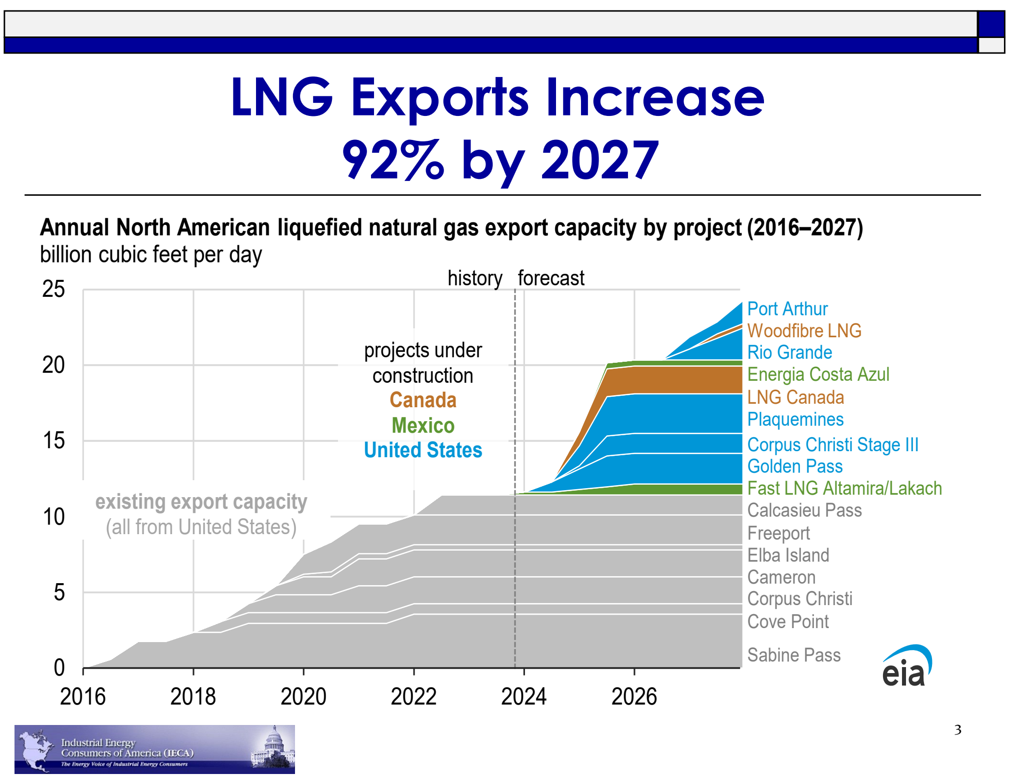
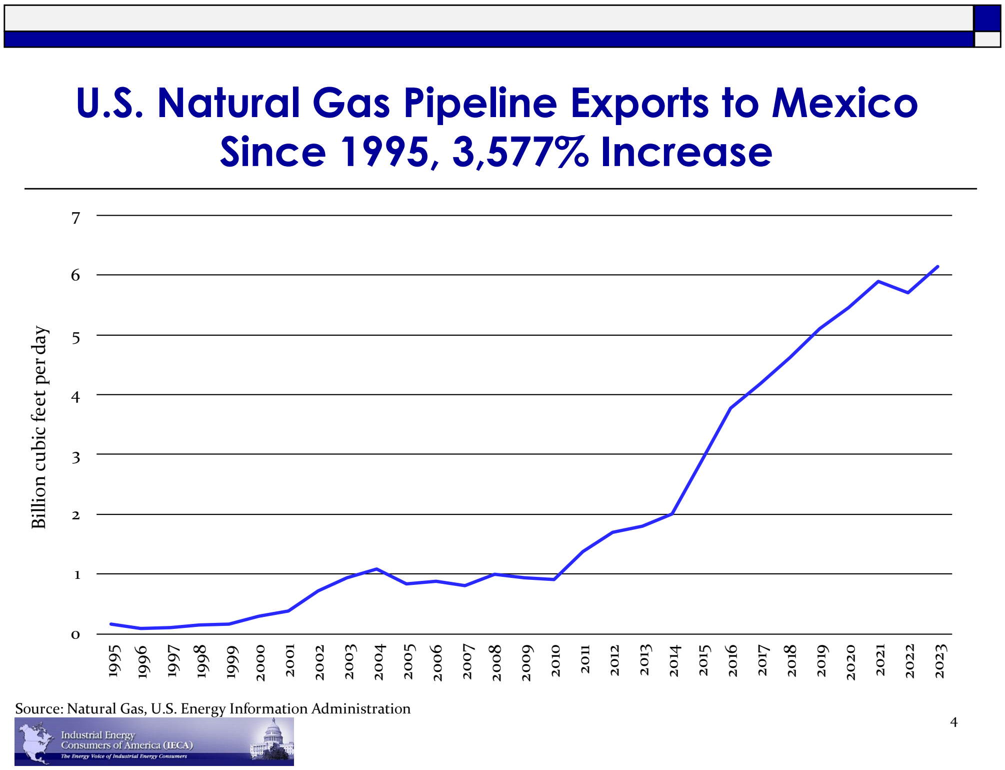


Figure 4


U.S. Natural Gas Pipeline Exports to Mexico
Since 1995, 3,577% Increase
Billion cubic feet per day
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Source: Natural Gas, U.S. Energy Information Administration
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