



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

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Statement by Paul N. Cicio
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Senator Cantwell/Americans for Financial Reform/Commodity Markets Oversight
Coalition Press Conference
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Good afternoon Senator Cantwell and invited guests. My name is Paul Cicio; I am the president of the Industrial Energy Consumers of America, a non-profit trade association whose members are exclusively large consumers of energy products such as natural gas and electricity. IECA member companies employ about 900,000 employees.

These companies are major producers of steel, aluminum, cement, fertilizer, commodity and specialty chemicals, plastics, glass and paper. As you hopefully will note, these products are the basic building blocks of essentially all products consumed in the United States.

The price of energy commodities like natural gas to our companies is critical to our global competitiveness and jobs. We are competing with countries like China who actually subsidize and fix the price of natural gas to their manufacturers. That's right...no volatility and there is price certainty.

We want to extend our sincere gratitude to Senator Cantwell for her earnest and long term support for addressing the very serious issue of excessive speculation and the lack of market transparency.

It is essential that Congress act to bring transparency to all markets including the over-the-counter markets; establish aggregate position limits; and ban retail index funds from participating in the futures market for both energy and food commodities. Index funds are destroying the fundamental price discovery of the futures markets and are impacting the price that all consumers are paying for the energy needed to drive our cars, heat own homes, fuel our factories and feed our families.

I want to remind everyone that prior to 2000, the futures market worked very well and they can work well again if return the futures markets to consumers and producers and take them out of the control of Wall Street speculators and index funds.

IECA member companies spent all day yesterday visiting Senate offices on this important issue. What we found is that too many Senators still do not believe that that excessive speculation is a problem. To that point, let me offer you that proof by describing what happened to natural gas prices in the time period of January to August of 2008.

During the first half of 2008, the NYMEX price of natural gas rose from \$7.17 per mm Btu in January to a high of \$13.60 per mm Btu in July before prices began to recede.

During that same time period, the Energy Information Administration reports that domestic production increased by 8.6 percent; demand was essentially unchanged from the previous year and national inventories were within the five year average range for that time of the year. Based on supply and demand, prices should have fallen.

Unfortunately for homeowners, farmers and manufacturers, the net increase in the price of natural gas cost consumers about \$40.4 billion from January to August when compared to the same time period in 2007.

Actually, it cost consumers much more than that because in a growing portion of the country, natural gas fired electricity production sets the marginal price of electricity. What this means is that as the price of natural gas goes up, so does the price of electricity. That cost is not added to this figure.

I would like to turn our attention to my earlier comments that index funds should be banned. Let me provide a real example of the problem they present.

Attached to my written testimony is a copy of a Bloomberg News story dated June 14, 2009. The story is about one such index fund called the United States Natural Gas Fund. Bloomberg reports that according the fund's web site, it held July NYMEX futures contracts as well as swaps and ICE futures on natural gas equal to 98 percent of the value of the open interest of the July NYMEX that day. Let me repeat that...it held, it controlled shares equal to 98 percent of the value of the July NYMEX. That is huge.

The same index fund petitioned and received approval from the Securities Exchange Commission to increase the number of shares that it can offer retail consumers ten-fold. In June of 2009, they petitioned the CFTC to be exempted from speculative position limits.

This is only one such fund and the number of index funds is expanding rapidly.

Thank you for the opportunity to speak with you today.