

January 6, 2004

The Honorable Gale Norton
Secretary
U.S. Department of the Interior
1849 C Street, NW
Washington, DC 20240

Dear Secretary Norton:

We are writing concerning the development of the next five-year OCS leasing program for 2007 through 2012. Members of the American Chemistry Council recently attended the Department of the Interior OCS Policy Committee meeting where the process and timeline for the development of the next plan was discussed. In light of the natural gas crisis facing our country, and particularly our industry, this program is of great concern to us.

The nation's chemical industry is especially vulnerable to potential shortages in natural gas markets. The chemical industry is the nation's largest industrial consumer of natural gas. We use gas, like other consumers, for heat and power. But natural gas is also a raw material, a key ingredient, used to make thousands of products that everyone uses every day.

Natural gas prices have nearly tripled in recent years, sending our industry's gas bill up by \$10 billion in two short years. Today, the wellhead price of natural gas is well above \$6.00 per million BTU. This is an undeniable drag on the U.S. economy. Natural gas markets cannot respond adequately to colder than normal winters. Supply is inelastic; there is no spare capacity to turn on when demand increases. A cold winter will mean that industrial consumers will be forced to shut down capacity in the face of high and volatile prices.

The chemical industry's center of gravity is moving overseas. High and volatile natural gas prices are a major reason. Quarterly earnings reports from our members show that operating incomes from their U.S. based operations are severely lagging behind their overseas operations and these economics are driving investment decisions away from the U.S. market. ACC believes that a range of policy responses is needed to drive down the price of natural gas. The council supports legislation that dramatically improves energy efficiency and conservation, diversifies the nation's fuel supply by investing in coal gasification, nuclear energy and renewable energy, and increases access to the nation's proven natural gas reserves.

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From our perspective the natural gas reserves underlying the U.S. Outer Continental Shelf should be available for consideration as our country evaluates its options. With the DOI about to begin a planning process for the potential leasing of these lands, the American Chemistry Council strongly recommends that all promising regions of the United States OCS be considered and evaluated for their potential.

Although we were provided with the agency's governing statute, the Outer Continental Shelf Lands Act, and noted that it directs the agency to consider information on the different characteristics of all the OCS regions and an equitable sharing of the developmental benefits and environmental risks among those regions, we are also aware that the last five year plan only considered a small portion of the OCS. Many other environmentally sensitive countries successfully develop their offshore resources and we believe the U.S. should have the same opportunity. Our industry and all American gas consumers will continue to experience a difficult natural gas supply position until our country's balance for this resource is improved.

This resource constraint is in spite of the fact that the OCS Lands Act, which governs the use of the OCS, states that "It is hereby declared to be the policy of the United States that the Outer Continental Shelf is a vital national resource held by the Federal Government for the public, which should be made available for expeditious and orderly development, subject to environmental safeguards, in a manner which is consistent with the maintenance of competition, and other national needs..." The National Petroleum Council articulated a conservative estimate that these "moratoria" lands contain 80 TCF of technically recoverable resources.

The American Chemistry Council urges you to conduct an open, public process that seeks comment and input on all the areas of the OCS that are owned by all the American people, and that potentially contain a valuable resource that is in great demand by our country. We are in favor of a broad dialogue by a diverse group of stakeholders on ways to increase domestic natural gas production, and do not want to have prior policy decisions foreclose the possibility for a new consensus on how to safely and respectfully produce natural gas in these areas.

We look forward to participating in this process, and appreciate your consideration of our concerns.

If you have any questions or we can provide any additional information, please contact Tom Gilroy at (703) 741-5804 (tom_Gilroy@americanchemistry.com).

Sincerely,

Charles W. Van Vlack
Executive Vice President
American Chemistry Council