



Agriculture Energy Alliance

Representing agriculture as a producer and consumer of energy

October 19, 2005

The Honorable Samuel Bodman
Secretary of Energy
United States Department of Energy
1000 Independence Avenue, SW
Washington, D.C. 20585

Re: H.R. 6 Title XVII – Industrial Gasification Loan Guarantee Program

Dear Secretary Bodman:

The Agriculture Energy Alliance urges you to promulgate rules and include funding for the loan guarantee program established by Title XVII of the recently passed comprehensive energy bill, H.R. 6. Title XVII provides you with the authority to make loan guarantees to support the construction of projects using innovative technologies. This program can operate with **no** significant incremental cost to the U.S. Treasury, because the limited cost of the loan guarantees can be paid **either** by a Congressional appropriation **or** by payments from the private borrower. See Sec. 1702 (b). All that is required to move the program forward are the implementing regulations from DOE.

The Agriculture Energy Alliance represents 74 members of a broad-based coalition of farm organizations and agribusinesses focused on encouraging policies to address the natural gas pricing crisis. The farm sector depends on significant use of natural gas for food processing, irrigation, crop drying, heating farm buildings and homes, crop protection chemicals and nitrogen fertilizer production.

During debate on H.R. 6, the Agriculture Energy Alliance advocated myriad policies to increase supply and decrease demand for natural gas. We were pleased to see that Congress approved provisions to facilitate development of clean coal technologies by offering loan guarantees and tax incentives for industrial gasification projects. Facilitation of clean coal technologies is a critical component in helping to ease the current natural gas supply/demand problem which has led to the extraordinarily high prices we now see. Wider government participation is necessary to encourage the development of innovative technologies that allow manufacturers to produce gas from coal, petroleum coke, biomass and other abundant domestic energy sources.

These innovative technologies will enable manufacturers to shift from natural gas to other energy sources, but they require very significant upfront capital investments. The capital costs are particularly high for facilities that are the first of their kind; construction costs do not decline until contractors gain experience and multiple competitors enter the field. As a result, the “first-mover” faces a cost disadvantage that can deter him from proceeding. The loan guarantee

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program can compensate for this disadvantage by enabling the developer to obtain better credit terms. In this way, it encourages the development of new technologies that otherwise might remain on the drawing board.

The loan guarantee program would provide an immediate benefit to the nitrogen fertilizer industry, which uses natural gas as its feedstock. With the ability to utilize proven gasification technologies U.S. fertilizer producers could shift to coal or petroleum coke, and would therefore make more gas available for other applications. The availability of these additional supplies should help to moderate natural gas prices throughout the economy. Currently, natural gas makes up in excess of 90 percent of the cost of producing a ton of anhydrous ammonia, a nitrogen fertilizer and the chemical building block for all other nitrogen fertilizer products. Rising natural gas prices have contributed to a dramatic increase in the price to farmers for nitrogen fertilizers. According to USDA, ammonia prices have jumped from \$250 per ton in the spring of 2002 to \$416 per ton in the spring of 2005 to well over \$500 per ton today. With U.S. farmers using approximately 12 million tons of nitrogen fertilizers per year, the increase translates into an estimated \$8-10 billion tax on the farm economy.

Today farmers are barely holding their farming operations together due to increased costs of fuel, fertilizer and other energy costs. These higher costs will be borne by the American consumer in the form of higher food prices.

By helping the nitrogen fertilizer industry, the loan guarantee program would also help the broader American economy by enabling the industry to reduce its demand for natural gas.

Provisions in H.R. 6 establish specific conditions and requirements for the issuance of the loan guarantees, thereby assuring that the risk of loss to the Treasury will remain extremely low. This, in turn, will assure that the "cost" of the guarantees – whether paid by Congressional appropriation or the private borrower – will also remain quite low. A small offsetting payment will be sufficient to insure the Treasury against the very limited risk that the borrower will **both** default on the guaranteed loan **and** leave insufficient collateral to pay the remaining balance. As noted earlier, private borrowers will be willing to make such a payment in order to obtain the more favorable credit terms associated with a government-guaranteed loan.

Moreover, because the program allows private borrowers to pay the cost of their own loan guarantees, DOE does not need a large Congressional appropriation in order to institute the program. An appropriation of \$10 million over five years (FY07-11) would be sufficient to develop the implementing regulations and administer the program, with the costs of individual loan guarantees being paid by the private borrowers. This limited amount can be taken from the \$50 billion in Hurricane Katrina funding that has already been approved; clearly, part of the Hurricane Katrina relief effort should include investment in innovative energy infrastructure that will relieve the pressure on the nation's aging Gulf Coast facilities.

In sum, Congress has provided the Department of Energy with a powerful tool to speed efforts to commercialize industrial gasification technologies. Congress has also developed responsible provisions that will require applicants to demonstrate the readiness of the technology for commercial application, provide at least 20% private equity for the project, and conduct the

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appropriate level of due diligence related to project financing consistent with traditional commercial lending practices.

We believe that providing industrial gasification loan guarantees will provide many important benefits and those benefits will provide a direct gain to the U.S. fertilizer producer and the U.S. farmer. Adding an alternative feedstock to natural gas for nitrogen production will bring some relief to the soaring natural gas pricing situation.

It is more important than ever to encourage the use of alternative energy technologies for U.S. manufacturing today. Based on the six fold increase in natural gas prices since 1999 and the volatility in these natural gas prices post two major hurricanes, it is imperative that the U.S. invest in a diverse domestic energy portfolio. We respectfully request that you give the industrial gasification loan guarantee program full consideration as you finalize your FY 2007 budget. We also urge you to promulgate rules for this important provision as expeditiously as possible.

Sincerely,

**Agribusiness Association of Iowa
Agribusiness Council of Indiana
Agricultural Council of California
Agricultural Retailers Assn.
Agrium Inc.
Alabama Crop Management Assn.
American Farm Bureau Federation
American Soybean Assn.
Arkansas Plant Food Assn.
CF Industries
CHS Inc.
California League of Food Processors
CoBank (CO)
Colorado Grain & Feed Assn.
CropLife America
Delaware Maryland Agribusiness Assn.
Diamond of California
Far West Agribusiness Assn.
Florida Fertilizer & Agribusiness Assn.
Georgia Agribusiness Council, Inc.
Georgia Feed & Grain Assn., Inc.
GROWMARK, Inc.
Hawaiian Alliance for Responsible
Technology & Science
Illinois Fertilizer & Chemical Assn.
Indiana Grain & Feed Assn.
Indiana Plant Food & Ag Chemicals
Assn.**

**Intermountain Farmers Assn.
Iowa Institute for Cooperatives
Kansas Agribusiness Retailers Assn.
Kansas Grain and Feed Assn.
Land O' Lakes, Inc.
Louisiana Ammonia Producers
MFA Incorporated
Michigan Agri-Business Assn.
Minnesota Agri-Growth Council
Minnesota Crop Production Retailers
Missouri Ag Industries Council, Inc.
Montana Agricultural Business Assn.
National Association of Wheat Growers
National Barley Growers Assn.
National Chicken Council
National Corn Growers Assn.
National Council of Farmer Cooperatives
National Sorghum Producers
National Grange
National Renderers Association, Inc.
National Sunflower Assn.
National Turkey Federation
Nebraska Agri-Business Assn.
North Dakota Agricultural Assn.
Oklahoma Ag Retailers
Oregon Wheat Growers League**

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**Plant Food Association of
North Carolina, Inc.
PotashCorp
Rocky Mountain Agri-Business Assn.
Society of American Florists
South Carolina Fertilizer &
Agrichemical Assn.
South Dakota Agri-Business Assn.
Southern Crop Production Assn. (GA)
Tennessee Agricultural Production Assn.
Terra Industries
Texas Ag Industries Assn.
Texas Agricultural Cooperative Council
The Fertilizer Institute
The McGregor Company (WA)
The Mosaic Company
U.S. Canola Assn.
USA Rice Federation
Virginia Crop Production Assn.
Virginia Poultry Federation, Inc.
Western Peanut Growers Assn. (TX)
Western Plant Health Association (CA)
Willard Agri-Service of
Frederick, Inc. (MD)
Wisconsin Fertilizer and Chemical Assn.**

Cc: The Honorable Pete V. Domenici
The Honorable J. Dennis Hastert