



John Engler

President and CEO

IDENTICAL LETTER SENT TO REPRESENTATIVE J. DENNIS HASTERT

April 25, 2006

The Honorable Bill Frist
United States Senate
Washington, DC 20510

Dear Senator Frist:

I understand you sent a letter to the President yesterday requesting he direct the Federal Trade Commission and the Justice Department to investigate whether increased prices for gasoline and home energy are caused by so-called "price gouging" by energy companies.

While we encourage the federal government to vigorously enforce market manipulation laws, it should be recognized that America is in the midst of an energy crisis. Congress and the Administration have contributed to this problem and now should look in the mirror to help fix it.

The National Association of Manufacturers (NAM) has for many years pointed out that there is a fundamental imbalance in the U.S. demand and supply structure. We warned that this imbalance and misguided public policies that restrict the development and modernization of our natural gas and oil infrastructure would lead to the increases Americans are experiencing in home heating/cooling and transportation fuels. Further, the dramatic increases that began last summer when Katrina struck, and which continue today, will soon result in inflationary pressure on goods and services throughout all sectors of our economy.

Here is why Americans are paying record high prices for energy today:

- 1) Demand increases due to China and India's rapidly developing economies which compete with the U.S. for supply
- 2) Supply restrictions due to U.S. policy limiting domestic production — on and off shore
- 3) Demand increases due to U.S. policy limiting nuclear power and coal-fired generators in favor of gas fueled power plants
- 4) Unrealistic phase-in for ethanol as a gasoline additive, along with encouraging a proliferation of boutique fuels created by Congress

Instead of laying blame elsewhere, here is what Congress and the Administration can do *now* to fix the problem:

- 1) Open the Outer Continental Shelf for deep-water oil and natural gas exploration and development

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- 2) Open Arctic National Wildlife Refuge for oil and natural gas exploration and development
- 3) Pass the House Gasoline for America's Security Act to accelerate construction of additional refining capacity plus necessary infrastructure
- 4) Accelerate the construction and siting of nuclear power and clean coal plants
- 5) Pass the President's Clear Skies Act of 2005
- 6) Reform the Clean Air Act to allow for fuel-switching in times of crisis
- 7) Codify New Source Review reforms to streamline the air quality permitting process

The NAM understands the thrust and purpose of the President's Advanced Energy Initiative seeking to reduce foreign sources of oil by 2025. However, the U.S. must take immediate action to resolve the crisis for the next 10 to 15 years. The impact of opening the OCS will have positive impacts on oil and gas markets providing immediate relief of transportation fuels and home energy cost.

Make no mistake, increases in oil and natural gas prices are the direct result of policy and regulatory decisions made – or *not* made, as the case might be – on Capitol Hill. Meanwhile, America's manufacturers, who consume roughly one-third of our nation's energy, are fighting in support of a diverse mix of energy sources and against the countless illogical mandates imposed by Congress that force U.S. energy users to abandon sensible coal and nuclear options.

Policies enacted in Congress have favored natural gas for sound reasons, including environmental sensitivity. But these policies, combined with economic growth, have pushed up demand for natural gas to record levels. We can change a lot of laws in this country, but the law of supply and demand is not one of them.

Congress should act now to adopt sensible solutions to increase supply.

Sincerely,



John Engler

JE/km

cc: President George Bush
Members of the United States Senate
Members of the United States House of Representatives

VIA FACSIMILE