TESTIMONY BY LaRAYE OSBORNE

Vice President, Environment, Health and Safety
Cargill, Incorporated

Senate Homeland Security and Government Affairs Committee
Permanent Subcommittee on Investigations

Hearing on Natural Gas Market and Recent Trends of Increasingly High and Volatile Prices
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Chairman Coleman and members of the Permanent Subcommittee, my name is LaRaye Osborne and I am the Vice President of Environment, Health and Safety for Cargill, Incorporated, headquartered in Wayzata, Minnesota. Cargill is an international provider of food, agricultural and risk management products and services.

We appreciate the opportunity to offer our thoughts on natural gas prices and the impact they have on Cargill's operations. A copy of my oral testimony has been submitted for the Permanent Subcommittee's record.

My testimony will focus on three areas: First, Cargill's energy requirements; second, Cargill's efforts to conserve energy and, in the United States, to reduce its reliance on natural gas resources; and third, Cargill's suggestions for additional lines of inquiry as the committee grapples with this issue that has so critically affected residential and manufacturing consumers of natural gas.

First, let me provide a picture of Cargill's energy consumption. Cargill consumes over 65 million MMBTU's of natural gas globally, approximately 50% of which is consumed in our U.S. operations. Of the nearly 60 countries where we operate, North America is the highest cost gas region in the world, with current prices near $ 8.50 per MMBTU.

For this fiscal year, Cargill budgeted more than $1 billion for energy purchases necessary to run our global operations. Unfortunately, skyrocketing natural gas prices have negatively affected our performance against that budget. In the United States, we have seen a 38% increase in natural gas costs for the first six months of this fiscal year compared to the first six months of our last fiscal year. That amounts to approximately $32 million in additional costs for natural gas for our U.S. operations.

Increased natural gas costs have ripple effects throughout our energy portfolio. Natural gas is used to generate electricity. In fact, the last 15 moderate-to-large sized electrical power plants built in the United States are gas-fired generators. Consequently, at least in part as a result of increased natural gas costs, our global electrical energy costs have increased 15% for the first six months of this fiscal year compared to last year. As more and more natural gas is burned for electricity production, we believe that gas prices will continue to increase for all consumers, and that electricity prices will follow suit.

Next, let me describe Cargill's strategy for dealing with increasing energy costs and, more particularly, natural gas costs in the United States.

First Cargill set aggressive energy conservation goals for the company. In 2000, we set a goal to improve our energy efficiency by 10% by 2005. We achieved that goal and have set a new goal to improve energy efficiency by yet another 10% by 2010. To support these goals, $100 million, in addition to usual business unit capital allocations, was made available for energy projects last fiscal year. That money was spent. Achieving the goals is also supported by quarterly reporting of performance against goals and the sharing of best practices. In fact, as we faced unprecedented increases in energy costs early in this winter season, our Chairman and CEO communicated directly with all U.S. based employees about the need and opportunity for energy conservation at work and at home.

The second aspect of Cargill's strategy relates to use of renewables. Currently, 6% of Cargill's energy needs come from renewable resources, or roughly twice the industry average. We established a goal of increasing that percentage to 10% by the end of 2010. In the United States, we have several examples of renewable energy resources being substituted for natural gas use. Each of our beef processing plants has placed covers over waste water treatment lagoons that capture naturally-occurring methane. This methane is conditioned and used in the processing plant boilers, displacing 21% of the aggregate natural gas demand of these locations. Several of our oilseeds processing locations have implemented similar projects, capturing methane from the landfills in the communities in which they operate – methane that would otherwise escape into the atmosphere or burned in flaring systems that have no energy benefit. Finally, at several of our operating locations we have developed and permitted the capacity to switch from natural gas to bio-based energy sources like the soy bean oil or animal fats we produce. The ability to optimize our energy dollars by switching to animal fat during periods of peak natural gas pricing saved Cargill more than $1 million in this fiscal year alone.

The third aspect of our strategy relates to committing significant resources to switch fuels to those in more abundant supply at lower cost and to co-generation. I'll provide two examples.

Our wet corn milling plant in Blair, Nebraska, represents the largest single corporate capital investment in the state of Nebraska. Cargill has invested more than $1 billion in the plant over the past 13 years. It employs more than 460 individuals who produce high fructose corn syrup, ethanol, animal feed, and bio-based plastics from the corn grown by local farmers. Corn wet milling requires thermal energy to break down the corn supplied by farmers into its component parts, each of which is used in one of the products just listed. Our existing boiler operates on natural gas which cost the plant over $49 million per year. As natural gas costs continued to rise, the competitiveness of the operation was threatened. Consequently, we recently decided to convert from gas to coal as the primary fuel. The new boiler will utilize the latest emissions control technology and provide us with an affordable and safe source of thermal energy for the long-term.

Cargill also works hard to maximize co-generation through the use of combined heat and power systems. These systems at industrial & commercial locations get the "most bang

for the buck" generating both steam and power from the same fuel. Cargill on a global basis co-generates 7% of our total electrical demand and in some locations exports power to the grid. While combined heat and power systems are a proven technology, a majority of such systems operate outside the U.S. For Cargill, co-generation applications are some of our greatest opportunities to improve energy efficiency, reduce the environmental impact of energy use and enrich our communities.

I'll finish my testimony by responding the Committee's request for Cargill's perspectives on addressing the high cost of natural gas.

Let's tackle the supply issue first. As every member of this committee is aware, there are many opportunities under discussion for increasing gas supply, including development of additional terminals and distribution infrastructure for imported liquefied natural gas, or LNG, and expanded exploration and drilling for natural gas along the Outer Continental Shelf. Each possibility that has been subject to public discussion has pros and cons, Cargill is focusing on managing its own energy demands optimally, and is not taking a position on these difficult issues of public policy. We trust that Congress, which has the broadest national perspective, will appropriately balance all of the issues and interests in deciding how to address supply issues.

Cargill does encourage Congress to consider means for facilitating use of renewable fuels and co-generation. Use of renewable fuels as an alternative to gas in existing boilers usually requires changes to a boiler's air emission permits, permits that typically are issued by individual state or regional authorities under the umbrella of the federal Clean Air Act. Our experience is that the technology for timely fuel-switching exists and its positive impact on air emissions has been demonstrated. Consequently, we would encourage the federal government to partner with state and regional environmental authorities to streamline the process by which these fuel switches are authorized. Quick turn-around times for permit issuance will invite greater application of alternatives to natural gas in industrial operations.

Cargill also believes that Congress has a role to play in encouraging greater use of co-generation applications to improve the energy efficiency of the economy overall. Opportunities include creating incentives for public utilities and transmission system operators to purchase and introduce into the grid excess electrical energy generated by these investments and accelerated depreciation for co-generation equipment, or equipment converted from natural gas use to other energy alternatives,

With that I'll close my remarks. I'd like to again thank Senator Coleman and the members of the Permanent Subcommittee for holding this hearing and for allowing us to express our thoughts on this topic of great importance.

Thank you.