



Industrial Energy Consumers of America
The Voice of Industrial Energy Consumer

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November 22, 2011

The Honorable Jeff Bingaman
Chairman
Committee on Energy and Natural Resources
304 Dirksen Office Building
Washington, DC 20515

The Honorable Lisa Murkowski
Ranking Member
Committee on Energy and Natural Resources
304 Dirksen Office Building
Washington, DC 20515

Re: November 8, 2011 – Hearing on Approval Process and Potential for Liquefied Natural Gas Exports

Dear Chairman Bingaman and Ranking Member Murkowski:

Thank you for having the hearing on the “approval process and potential for liquefied natural gas exports” on November 8, 2011. We offer the following comments for the record.

As substantial industrial consumers of natural gas and natural gas fired electricity, we are not opposed to natural gas exports but we do have concerns regarding the approval process for permitting of waterborne exports of natural gas. The hearing is especially timely because six export applications have been filed and many more are anticipated.

Natural gas availability and price is a public health, safety, jobs and economic matter. Unlike other traded products, natural gas exports have the potential to impact every citizen of the country. Manufacturing competitiveness, energy independence and security is an issue. Consuming domestically produced natural gas to make value-added products here and ship them offshore is a better alternative for manufacturers and the country.

It is also important to note that while natural gas prices have been fairly flat for the last couple of years, the Chicago Mercantile Exchange price of natural gas eight years from now is selling for over 84 percent above today’s price (see chart in appendix), substantially above EIA Energy Outlook price forecasts. In other words, the market is changing quickly and it is very important for Congress to ensure that the interest of the public is served within the process of considering approval of export requests.

The Natural Gas Act provisions that guide natural gas export applications were written at a time when our domestic natural gas supply was in question and accelerating LNG imports was the priority. We know, because IECA was strongly in support of LNG imports. The Natural Gas Act of 1938 never anticipated that the U.S. would potentially export natural gas. For all of the above reasons, it is very timely for the Congress to review existing law and make important changes that are common sense and truly protect the interest of the public.

1. Congress needs to re-evaluate the process of reviewing natural gas export applications.

The Natural Gas Act assumes that exporting natural gas is in the “interest of the public.” Doing so sets up a “rubber-stamp” approval process for shipments to free-trade agreement countries and does not have adequate checks and balances. Approving applications to export natural gas for a 20-year period of time has potentially significant long term implications for the U.S. consumer and needs to be carefully done, with transparency and a lot of careful study. In our view, careful evaluation is not happening.

Exporting natural gas, the equivalent of increasing demand, increases the relative price of natural gas and electricity. Exporting natural gas will result in higher costs to heat and cool homes, run factories and produce electricity than what it would cost without natural gas exports.

Congress should change the Natural Gas Act to not assume that exporting is in the interest of the public as an underpinning assumption. Each export application needs to be evaluated straight-up on its merits and with up to date market forecast data.

Examples that undermine the assumption that exporting natural gas is in the interest of the public are too numerous to list. We offer two examples below.

a) The study provided by Sabine Pass LNG Terminal to DOE to support their application said that exports from their terminal would increase the price of natural gas by 10.6 percent by 2015. A 10.6 percent increase to residential consumers would increase their annual cost about \$5.9 billion. Higher natural gas prices will also increase electricity prices. Both reduce manufacturing competitiveness. How could higher natural gas and electricity prices be in the interest of the public?

Since then, five other applications have been received. According to DOE data, these terminals would increase demand by about 14 percent and several other companies are preparing their applications. Considering that U.S. demand has only increased by 3.4 percent since 2000, these terminals represent a substantial increase in demand that will surely raise natural gas prices well above the 10.6 percent estimate by the Sabine Pass application.

b) Taxpayers will spend about \$4.5 billion of scarce federal dollars to fund LIHEAP to lower the cost of energy to families. Given the above mentioned price increases, exporting is inconsistent and in conflict the public policy that funds LIHEAP.

2. Upon receiving an export request to ship to a free trade agreement (FTA) country, the DOE is not required to make the public aware of the request. There will be no announcement of the request in the Federal Register or opportunity for the public to comment.

Transparency is needed. The public should be informed and should be given the opportunity to file comments.

3. The process wrongfully relies heavily upon studies provided by the export applicant to justify approval.

When the DOE receives an application to export, it also receives a study that justifies the approval of the application. There is absolute certainty that the study is going to say that exporting is in the interest of the public. The DOE should not rely upon the applicant’s study in determining whether the application is in the public interest.

4. No study is done by the DOE to ensure that the interest of the public is served.

One apparent problem is that the DOE does not do any study of its own that would consider real time changes in the supply and demand picture as it evaluates the application. And, simply looking at EIA forecasts are not a solution either because EIA forecasts do not include recently approved export terminals and pending EPA regulations on the electric generation industry and the industrial sector that will substantially increase demand.

The Natural Gas Act needs to be changed to require the DOE to complete a study for each application. The Natural Gas Act designates the DOE as the protector of the public interest. There is an assumption that exporting is in the interest of the public yet there is no DOE study to ensure that approval actually is in the “interest of the public.” The study needs to take into consideration a 20-year look at supply, demand and price and consider, for example, an estimate of natural gas demand that will occur as a result of recently approved export terminals and pending EPA regulations on the electric generation industry and the industrial sector.

5. The export approval process does not give adequate time for intervening parties to develop their own study for consideration by the DOE for Non-Free Trade applications.

The DOE relies upon independent third parties to intervene either for or against the applicant. If a party wishes to oppose the terminal, they will need to provide a study that makes the case – and there is insufficient time to do so. The studies that the DOE would consider by an intervener would be similar in scope to the studies filed by the export applicant. It takes several months to develop and implement such studies and puts interveners at a significant disadvantage. IECA recommends that interveners be given six months to provide a study.

6. The EIA data is used as a reference point for supply, demand and price by both the DOE and the export applicant and does not include significant pending natural gas demand from EPA regulations or exports that are already approved.

For example, page 9 of the Sabine Pass application cites the EIA Annual Energy Outlook 2010 “which estimates that annual domestic demand will grow only 0.2 percent to reach 24.86 Tcf in 2035.” The problem is that EIA Outlook forecasts do not include the increases in natural gas demand that will occur as a result of pending natural gas export applications nor pending EPA regulations on the electric utility or industrial sector that will result in substantial increases in demand. Using the EIA forecast underestimates forward demand and price. IECA recommends that DOE be required to have the EIA run a new demand/price scenario for each application that incorporates already approved export terminals and pending EPA regulatory impacts.

7. The application process does not consider the long term implication of U.S. prices potentially being set by international demand - just as it is with crude oil.

With each export terminal approval, we move closer to the reality that U.S. natural gas prices will eventually be priced by international demand – just as crude oil is today. Right now, U.S. consumers are insulated from global demand and their prices are lower because of it. IECA recommends that this scenario needs to be included with each application because each application takes us another step closer to global pricing. Pricing U.S. natural gas at international levels would almost triple the price and increase electricity prices.

8. Export permit approvals should include consumer safe guards.

The Natural Gas Act says that exporting natural gas is in the interest of the public but does not require sufficient actions and safe guards to ensure that the public interests are served over the 20-year period

of time. All approvals should have consumer protections. In that way, the interest of the public will be served over the 20 year period covered by the export terminals.

Thank you for having the hearing and we look forward to further discussions on this important topic.

Sincerely,

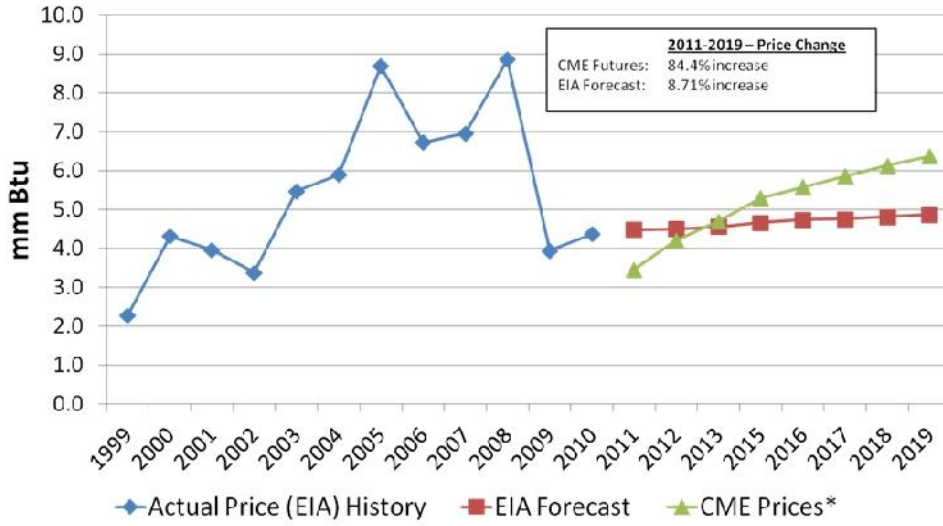
Paul Cicio
President

cc: Senate Committee on Energy and Natural Resources
House Committee on Energy and Commerce
House Committee on Natural Resources
The Honorable Steven Chu, Secretary of Energy
The Honorable Jon Wellinghoff, Chairman, Federal Energy Regulatory Commission

APPENDIX

Natural Gas Prices

Futures Show Price is Accelerating 84.4% by 2019



Source: EIA *Chicago Mercantile Exchange Prices for December 2011-2019 - November 14, 2011