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March 5, 2024

The Honorable Jennifer Granholm
Secretary
U.S. Department of Energy
1000 Independence Ave, SW
Washington, DC 20585

Re: Manufacturing Input on LNG Export Pause Assessment

Dear Secretary Granholm:

Manufacturing companies make up one hundred percent of the membership of the Industrial Energy Consumers of America (IECA). LNG export policy has both short- and long-term economic impacts to manufacturing competitiveness, investments, and jobs. It is for this reason that we supported the U.S. Department of Energy's (DOE) pause on further approvals, until a public interest assessment is completed. Therefore, as you proceed to organize and complete the assessment, we urge you to include the issues below that directly impact the price and reliability of natural gas and electricity nationwide.

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with \$1.1 trillion in annual sales, over 12,000 facilities nationwide, and with more than 1.8 million employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, consumer goods, building products, automotive, independent oil refining, and cement.

Impacts to Manufacturing Sector

The manufacturing sector consumes 25 percent of U.S. natural gas and 23 percent of U.S. electricity. The manufacturing sector represents 12.5 million jobs, 10 percent of GDP, \$1.6 trillion in exports, and trillions in capital assets that become at risk if we lose

competitiveness due to higher natural gas and electricity prices and reliability impacts. This is especially true for energy-intensive trade-exposed (EITE) industries that consume an estimated 80 percent of all the energy within the manufacturing sector.

The hallmark of sound and reasoned energy policy, including LNG export policy, is that it should not have a negative impact on domestic consumers of natural gas and electricity, supply chains, and national security. In the case of LNG exports, we should export, but not volumes that threaten domestic consumers and national security and not without consumer protections. Every \$1 per MMBtu increase in the price of natural gas adds \$34.2 billion in annual costs to domestic consumers, plus the increased cost of electricity. U.S. policymakers fret when gasoline prices increase. The combination of natural gas and electricity costs dwarf that of gasoline.

Without action by the DOE to insulate the U.S. market from the impacts of LNG exports, consumers and the entire economy will be impacted with accelerating natural gas and electricity inflation for decades to come. It is for this reason that IECA has proposed the LNG Inventory Policy.¹ Action is needed now because there is no putting the genie back in the bottle.

ISSUES TO ADDRESS AS PART OF THE PUBLIC INTEREST ASSESSMENT

Previous DOE LNG studies did not consider the issues below.

U.S. consumers do not have an alternative:

We suspect that there is no other non-renewable commodity in the U.S. that will export such a high volume as a percent of annual production and for which there is no immediate substitute to support reliability and cannot be imported to provide relief. Residential, commercial, manufacturing consumers, and electric utility companies that use natural gas to generate power have no alternative for natural gas. And, unlike other energy commodities like crude oil or gasoline, in the event of low inventories, the infrastructure to increase imports of natural gas does not exist. Consumers are entirely exposed and dependent, as is the entire economy and national security. Therefore, it is appropriate for policymakers to protect and prioritize U.S. consumers over LNG exports.

There are some policymakers that suggest that manufacturers should switch from using natural gas to electricity. There are very few manufacturing equipment that use natural gas that can switch to electricity. But even if we could, a Btu of electricity is about 300 percent more expensive than a Btu of natural gas, which would substantially increase our energy costs and impact competitiveness.

¹ IECA LNG Inventory Policy, https://www.ieca-us.com/wp-content/uploads/02.05.24_LNG-Inventory-Policy.pdf.

Market power:

LNG exports have market power because they are insensitive to the price of U.S. natural gas and their demand is highest in the winter when we have our highest demand. Most consumers of LNG are electric and gas utilities and state-owned enterprises (SOEs) of countries that have automatic cost pass through and the responsibility to keep the lights on in their country. Even in the dead of winter when U.S. inventories are low, and when prices are higher than normal, they will pay any price, no matter how high, to keep the lights on in their country. That is unbridled market power. If there are insufficient physical molecules to supply both exports and domestic consumers, the 20-year LNG contracts assure that the exporters get the gas and domestic consumers do not.

For manufacturers, if prices rise, and we cannot produce our products at a profit, there is demand destruction, which means we reduce or stop production. Furthermore, if there is insufficient supply, manufacturers are the first to be curtailed for both natural gas and electricity. Both happened during the winter of 2020 when prices increased 300 percent. And more recently during the January 2024 cold snap.

LNG long-term contracts:

It is ironic that while LNG exports decrease U.S. consumers' reliability, it gives LNG buying countries guaranteed access and reliability of natural gas under contracts for as long as 20 years. These firm supply contracts shift all risks of increased LNG exports onto U.S. consumers. These growing risks are not surmountable without action by the DOE to protect consumers under the Natural Gas Act (NGA).

While the 20-year LNG contracts guarantee higher demand, a lot of things can go wrong that disrupt increases in domestic supply of natural gas and pipeline capacity that is needed to serve the increased LNG demand. And if production and pipeline capacity does not increase to accommodate the increases in LNG export demand, the domestic market suffers reliability and price impacts.

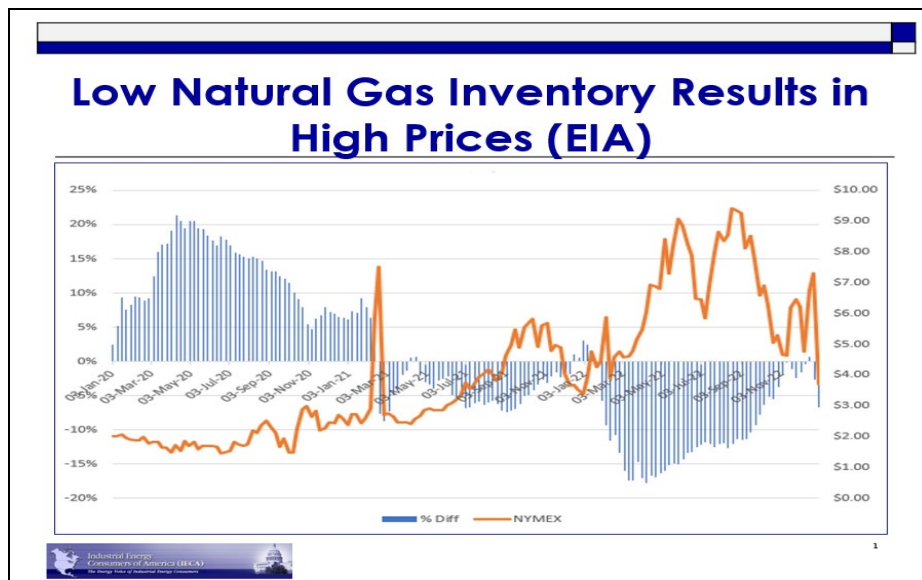
Things that can go wrong include lower crude oil prices that result in less oil and associated gas production, lower drilling rates like what we are seeing today, lower natural gas production because of poor economics, insufficient pipeline capacity to move natural gas from producing regions like Marcellus, or inadequate pipeline capacity because of politics and special interests that oppose pipelines. And natural gas production does not increase every year to meet demand. Natural gas production decreased in three of the last nine years.² All of the above have happened before and will happen again. It is just a question of time. Finally, for decades, coal power generation and its low cost would provide an alternative to natural gas when prices increased effectively placing a cap on how high

² Natural Gas, U.S. Energy Information Administration, <https://www.eia.gov/naturalgas/>

natural gas prices could increase. With the accelerating decrease in coal generation this price relief is quickly decreasing. Not having coal in the mix of generation increases the potential for higher prices and reliability problems.

LNG’s rising winter and summer peak demand impacts:

Accelerating volumes of LNG exports do have increasing impacts to reliability and prices of natural gas and electricity that are accentuated when inventories are low and during peak winter and summer demand. The relationship is fundamental to the law of supply and demand. Low inventories result in high prices and high inventories result in low prices. This is what happened in the winter of 2021-2022 and prices increased by 300 percent (see figure below).



The low inventory scenario threat can be reduced by implementing an LNG Inventory Policy that would help to insulate the U.S. market from the negative reliability and cost impacts of LNG exports. The EU already has an inventory policy to protect its consumers.

As LNG export volumes increase, reliability risks and costs for both natural gas and electricity increase due to the combination of increases in peak LNG export demand and domestic demand during peak summer and winter weather. Because those two peak demands coincide, there is an accelerating risk of insufficient supply and higher prices for the domestic natural gas market, especially when U.S. inventories are low. Inventory levels below the 5-year average or below the previous year is a regular occurrence due to a number of reoccurring market factors.

Manufacturers cannot compete with LNG exports for pipeline capacity:

Natural gas pipeline capacity deserves special mention. Pipeline capacity is a vital issue for manufacturing because, unlike all other consumers, when there is insufficient capacity or supply, we are the first to be curtailed. Being curtailed means that the pipeline will forcefully reduce or stop the supply of natural gas to our facilities so that all other consumers have natural gas availability. This means slowing or shutting down our production at great expense that can easily cost tens of millions per day. As recent as the January 2024 cold snap, manufacturers in multiple states were curtailed. During the winter of 2021-2022, manufacturers were severely impacted along the entire East Coast. Our ability to invest and create jobs is dependent upon increased availability of natural gas and the pipelines necessary to deliver it. According to the FERC, in 2022, the U.S. added the smallest addition of interstate pipeline capacity in 25 years.

Manufacturers cannot compete with LNG exporters for pipeline capacity and their 20-year contracts. Very few manufacturing companies have the ability to contract for long periods of time due to the uncertainty of business conditions that impact natural gas demand. On a regional basis, with these 20-year LNG contracts in hand, the LNG terminals lockup dwindling natural gas pipeline capacity, which reduces pipeline capacity that is available to U.S. consumers. Competition for the limited pipeline capacity has resulted in our pipeline transportation costs accelerating. And activist efforts to block interstate pipelines and the ensuing delays have substantially increased the cost of new pipelines. All these costs are passed onto consumers.

Domestic prices rise to international levels – the U.S. manufacturing sector loses its competitive advantage to countries with which we do not have a free-trade agreement and especially to bad actor countries such as China. China has more contract volume for U.S. LNG than any country:

The goal of the U.S. natural gas industry is for U.S. prices to increase to international levels, which would result in much U.S. higher natural gas and electricity prices, increased profits for them, and loss of competitiveness for the manufacturing sector. This is what happened to Australia and why their federal government has implemented the Australian Domestic Gas Security Mechanism (*ADGSM*).

U.S. policymakers support reshoring of manufacturing jobs to strengthen our supply chain and become less dependent upon bad actor countries. Natural gas is a competitive advantage that substantially increases the potential for reshoring. Non-U.S. companies expressly mention that one of the top reasons is affordability of natural gas as to why they are building facilities here.

By not acting to protect the public interest, the DOE is giving that advantage away. That is inconsistent with the intent of the NGA as further described below.

The DOE has failed to consider the long-term trade implications of excessive LNG exports that reduce or eliminate U.S. manufacturing competitive advantage to compete with NFTA countries:

When Congress passed the Natural Gas Act, they made a very clear distinction between U.S. natural gas being shipped to free trade vs. non-free trade agreement countries and for a good reason. As a national policy, the U.S. supports free trade agreements. The current DOE LNG policy is inconsistent with that intent.

The vast majority of U.S. LNG is being shipped to NFTA countries. These are countries that discriminate against U.S. manufacturing goods. Shipping U.S. natural gas lowers the cost of natural gas in other countries with which we compete and will increase the cost of both natural gas and electricity here under a large number of market conditions described above. This is a double cost impact. In effect, shipping LNG to NFTA countries increases their ability to export greater quantities of manufacturing products to the U.S.

Thank you for pausing further approvals and for planning and implementing a public interest assessment. We would be pleased to meet to discuss these recommendations in more depth.

Sincerely,

Paul N. Cicio

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President & CEO