Industrial Energy Consumers of America (IECA)

The Voice of the Industrial Energy Consumers

"AMERICA FIRST LNG INVENTORY POLICY"

TO PROTECT THE PUBLIC INTEREST AND TO INSULATE THE U.S. MARKET FROM THE NEGATIVE IMPACTS OF LNG EXPORTS

Consumer protections under the Natural Gas Act (NGA).

Congress granted protection for domestic consumers from natural gas export volumes to NFTA countries, which would negatively impact the public interest under the NGA. About 80 percent of all U.S. LNG exports are shipped to NFTA countries. There are explicit provisions to protect the "public interest," even in the event of unforeseen circumstances. Below are excerpts from the Federal Register and explicitly makes clear that the U.S. Department of Energy (DOE) has the authority under the NGA to protect the public interest. For every one dollar increase in the HH natural gas price, consumers pay on average $34 billion more for natural gas and $17 billion more for electricity for an estimated total of $51 billion annually.

LNG exports have three characteristics that justify action by DOE. As export volumes grow, price and reliability risks increase for U.S. consumers.

1. Energy Information Administration (EIA) data proves that LNG export volumes are highest during our winter peak heating season months of November through February which accelerates a reduction in U.S. inventory, increasing the price on natural gas and electricity and reduces reliability.
2. LNG customers are countries who will pay any price to keep the lights on in their country. They are insensitive to price. No matter how high US prices will go, they will buy-away our natural gas even when our inventories fall and prices rise.
3. The LNG 25-year contracts shift supply and price risk from LNG buying countries to the U.S. consumer and economy. The 25-year contracts guarantee that other counties will get the natural gas even when our inventories are low and falling. The US consumer does not. No US entity has 25-year contracts, not even electric utilities.

Examples how LNG exports negatively impact domestic prices.

During the winter of 2021-2022, U.S. inventories decreased because of cold weather (Storm Uri) and lower production, and still, LNG exports were maximized, which accelerated the reduction of inventory, resulting in much higher prices. The monthly average Henry Hub natural gas price increased from $2.00/MMBtu to $8.40 MMBtu, a 300 percent increase and electricity prices increased by 30 percent.

This winter (2024-2025) the EIA reports that we started with inventories that were 6 percent above the five year level and as of March 7, 2025 inventories are 12 percent below the five year level, a precipitous drop of 18 percent. Henry Hub prices increased from $1.50/MMBtu to $4.27/MMBtu or up 285 percent. Manufacturers saw spot natural gas prices as high as $120/MMBtu. Despite falling inventories, DOE/EIA report that, for example, during the week of February 24, 2025, LNG exports reached new record levels of 16.8 Bcf/day, marking the eight consecutive day of LNG demand surpassing 16 Bcf/day.

DOE has not taken any action heretofore to insulate U.S. consumers from higher prices and declining reliability that can occur when natural gas inventories are low.

> <u>Federal Register on June 21, 2018</u>
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> The DOE is responsible for authorizing exports of domestically produced natural gas, including liquefied natural gas (LNG), to foreign nations pursuant to section 3 of the NGA. Under section 3(a) of the NGA, the DOE reviews applications to export natural gas to countries with which the United States has not entered into a free trade agreement (FTA) requiring national treatment for trade in natural gas and with which trade is not prohibited by U.S. law or policy (NFTA countries). NGA section 3(a) states that the DOE "shall issue such order upon application, unless, after opportunity for hearing, it finds that the proposed exportation or importation will not be consistent with the public interest."
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> Additionally, under section 16 of the NGA, the DOE is authorized to "prescribe, issue, make, amend, and rescind such [export] orders...as it may find necessary or appropriate..." to satisfy its statutory responsibilities. The DOE has maintained, however, that [in the event of any unforeseen developments of such significant consequences as to put the public interest at risk, the DOE is fully authorized as necessary to protect the public interest.]

Establish an LNG Inventory Policy to insulate the U.S. market from the negative impacts of LNG exports when inventories are low.

There is a direct relationship between levels of inventory and prices. When inventories are low, prices rise and vice versa. The Energy Information Administration (EIA) releases its inventory report every Thursday. It is transparent market data that all consumers and producers rely upon.

For purposes of protecting the public interest when inventories are low, the DOE should condition LNG export orders for shipments to NFTA countries in a manner that gives the DOE the option to require LNG exporters to reduce the rate of exports if U.S. natural gas inventories are low. For example, DOE could require export volume to be reduced by 5 percent. Once inventory levels increase to levels that do not impact reliability and price, the DOE can allow the export rate to resume at market demand.

Whether or not the DOE requires some level of reduction would be dependent upon the inventory level with a forward view for the following month, which will be informed by weather forecasts, natural gas production levels, and other factors that impact inventory levels.

For example, if inventory levels fall but an assessment that anticipates warmer weather for the following month could preclude action by the DOE to require export reductions.

The policy can be implemented without impacting LNG contracted volumes.

Industry sources estimate that export terminals have about 80 percent of their export capacity under long-term contract and the balance is spot business. It is unfathomable that DOE would need to reduce export volume by 20 percent. Therefore, DOE's action to require reductions would not impact contracted volumes.

Establishing this policy will result in LNG export terminals taking near term action to reduce any impact associated with the policy and will build this scenario into their business model and operating procedures. For example, exporters may consider investing in private storage facilities. Export facilities are accustomed to wide swings in export volumes due to a host of business conditions.

LNG Supply to U.S. Allies.

For national security purposes, if U.S. inventories fall, and U.S. allies need more LNG, the DOE can decide to not require the LNG exporters to reduce volumes. However, the fact is that the DOE cannot direct shipments to our allies anyway. Once a ship is in the open water, it can change ownership and destinations many times.

No cost to taxpayers.

Implementation of the policy would not cost taxpayers.

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