Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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January 6, 2015

The Honorable Barack Obama
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Re: Unfettered Exports of Liquefied Natural Gas (LNG) are not in the Public Interest

Dear Mr. President:

As significant consumers of natural gas and electricity, and providers of over one million good-paying manufacturing jobs, the Industrial Energy Consumers of America (IECA) urge concrete action in three areas related to the export of liquefied natural gas (LNG) to countries with whom the U.S. has no Free Trade Agreement (non-FTA countries). This request is timely given that the U.S. Department of Energy (DOE) has already either approved or conditionally approved LNG exports equal to the largest LNG exporter in the world, Qatar. This is troublesome because Qatar does not have a large manufacturing sector that is price-sensitive and competes globally. Exporting large amounts of LNG puts millions of jobs in the U.S. manufacturing sector at risk long-term.

First, we request that you direct the DOE to refrain from any further approvals of applications to export LNG to non-FTA countries, until the DOE complies with *both* the letter *and* the spirit of the Natural Gas Act (NGA). A September 2014 report by the Government Accountability Office (GAO) entitled, "Federal Approval Process for Liquefied Natural Gas Exports,[1]" indicates that the NGA did not define "public interest." Nor has the DOE. The NGA requires that the DOE conduct a public interest determination on applications for shipments to non-free trade countries. The fact that "public interest" has not been defined and given that the DOE has already either fully approved or conditionally approved nine applications is very troublesome. Without a definition of "public interest" how is it that the DOE can make informed decisions on behalf of the over 72 million consumers of natural gas and 145 million consumers of electricity?

The GAO report also indicates that the DOE is using 1984 guidelines for LNG "imports" to inform LNG "export" decision-making. Given that LNG imports reduce consumer risk and LNG exports increase consumer risk, we believe that using these 30-year old guidelines is contrary to sound public policymaking and should not be used.

Second, that the President makes clear his intention to veto legislation that makes changes to the Natural Gas Act that fast-tracks LNG export application approvals, undermines a public interest determination, circumvents legal recourse for consumers or automatically approves

[1] "Federal Approval Process for Liquefied Natural Gas Exports," Government Accountability Office, http://www.gao.gov/assets/670/666177.pdf.

LNG exports to WTO countries. The interests of domestic consumers should be first and foremost, LNG exports second. We should only export LNG to the extent that the domestic consumer is not harmed "long-term."

Approval of LNG export applications are for up to 30 years, and a lot can happen that cannot be anticipated today. The significant drop in crude oil prices is a perfect illustration as to why the U.S. needs to be very careful that it does not overcommit on LNG exports. Absolutely no one forecasted the significant drop in crude oil prices that will result in lower drilling investment, lower crude oil and natural gas production, and possible company bankruptcies and bond defaults. Rightfully so, banks are wary of financing new drilling investments.[2]

There is also a myth that the U.S. has a 100-year supply of natural gas at prices that would be considered affordable by the public. Factually, the Energy Information Administration (EIA) 2025 demand data indicates that the U.S. has only 9.6 years of proven reserves and only 49 years of technically recoverable resources in the lower 48 states. "Technically" recoverable does not mean that they are "economically" recoverable. Recently completed studies by the University of Texas[3] [4] [5] [6], David Hughes[7] and the Oxford Institute[8] and several others, raise legitimate questions about our ability to increase production without significantly higher prices. Certainly, prices that are well beyond what consumers, especially manufacturers' view as affordable. The first two studies illustrate that the EIA overestimates the resource base for the four largest natural gas fields between 30 to 36 percent. These studies are reason enough to put a hold on any final LNG export approval.

Third, to the point of the impossibility to predict what will happen in future years on either domestic supply or demand, we urge the DOE to attach terms and conditions to all export approvals that protect the domestic consumer if domestic prices sharply rise or if the economy becomes weighed down with greater costs than benefits from LNG exports. Public policymakers support the ongoing weighing of cost versus benefits of public policy decisions for regulations and to make adjustments to reduce costs to the public. LNG exports are no different.

Although authorized by the NGA to do so, the DOE does not plan to attach terms and conditions necessary to protect the public interest to an order to export LNG. Refusing to add terms and conditions sends the message that this Administration is willing to protect the investments in LNG terminals – while risking the trillions of dollars of existing investments made here by the manufacturing sector that become at risk if prices rise sharply. The General Agreement on

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[2] http://www.wsj.com/articles/oils-fall-puts-a-chill-on-u-s-drilling-1418256933.

[3] Browning, J., Tinker S. W., Ikonnikova, S., Gülen, G., et al. 2013b. Barnett shale model -1: Study develops decline analysis, geologic parameters for reserves, production forecast. Oil & Gas Journal, 08/05/2013, Volume 111, Issue 8.

[4] Browning, J., Tinker S. W., Ikonnikova, S., Gülen, G., et al. 2013c. Barnett shale model -2 (Conclusion): Barnett study determines full-field reserves, production forecast. Oil & Gas Journal, 09/02/2013, Volume 111, Issue 9.

[5] Browning, J., Tinker S. W., Ikonnikova, S., Gülen, G., et al. 2014. Fayetteville shale reserves and Production forecast, OGJ January 6, 2014.

[6] http://www.beg.utexas.edu/shale/pubs.php.

[7] http://www.postcarbon.org/wp-content/uploads/2014/10/Drilling-Deeper_FULL.pdf.

[8] http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/03/US-shale-gas-and-tight-oil-industry-performance-challenges-and-opportunities.pdf.

Tariffs and Trade (GATT), under Article XX: General Exceptions[9] provides for consideration of conservation of exhaustible natural resources and other important domestic issues. We urge you to avoid what has happened in Australia where LNG exports have resulted in the tripling of natural gas prices for Australian consumers.

Finally, we thank you for pursing free trade agreements that would have the effect of opening up markets for manufacturing goods and a level playing field. However, DOE approval of applications to ship to non-free trade countries undermines the success of such an endeavor and devalues the existing free trade agreements. This is yet another reason why the DOE should refrain from further LNG application approvals.

What separates public policy decision-making on exports of LNG from other exported products, is that manufacturers and homeowners do not have a substitute for natural gas and that it is not renewable. The case of LNG exports gives the U.S. a choice. We can prioritize natural gas supplies to drive widespread prosperity as a fuel and feedstock to grow the U.S. manufacturing sector, generate electrical power, create permanent jobs versus temporary jobs, or we can prioritize narrow shorter-term gains that reinforce and accelerate the divergence of wealth and income gripping the U.S. economy. The DOE sponsored NERA report[10], used to justify approval of LNG exports applications, and whose economic model was never peer-reviewed, highlights this point on page 7 of the report:

> "Expansion of LNG exports has two major effects on income: it raises energy costs and, in the process, depresses both real wages and the return on capital in all other industries…"

There is no energy policy decision more important or far reaching in its impact to long-term U.S. economic growth, human safety and comfort, than the decision to grant or deny LNG export applications for shipment to non-FTA countries. For this reason alone, great caution is needed in making LNG export approval decisions. The "risk" calculation should tilt to the benefit of the consumer, not the exporter.

Sincerely,

Paul N. Cicio
President

cc: The Honorable Ernest Moniz, U.S. Department of Energy

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[9] http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm.
[10] http://energy.gov/fe/services/natural-gas-regulation/lng-export-study.