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January 25, 2024

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

Dear Secretary Granholm:

As LNG exports increase, so do reliability and price risks for the natural gas and electricity markets. The hallmark of a sound and reasoned energy policy is that it should not have a negative impact on domestic consumers of energy. This administration should ensure that its LNG policy protects U.S. consumers from the accelerating risks that come with increased LNG exports. LNG exports have market power over U.S. consumers. Therefore, we urge you to implement the IECA LNG Inventory Policy, which would insulate the U.S. market from much of the risk that is described in this letter.¹ Importantly, the policy would not cost taxpayers. Given the increasing risks to reliability, we urge you to pause the approval of new LNG export facilities.

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. 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.

Natural gas reliability directly impacts electricity reliability and prices. Energy reliability has significant human safety, economic, supply chain, and domestic national security implications. The U.S. has experienced several recent winter storms that have impacted reliability and are described in several NERC/FERC reports. Winter weather increases peak natural gas demand and decreases production, as described in their recent winter

¹ IECA LNG Inventory Policy, https://www.ieca-us.com/wp-content/uploads/11.27.23_LNG-Exports_-_Natural-Gas-Inventory-Policy-Slides.pdf, and https://www.ieca-us.com/wp-content/uploads/Policy-Options-to-Insulate-the-US-NG-Market-12_8_23.pdf

assessment report.² Summer peak demand has also seen new highs placing increased stress levels on the power sector. S&P Global reports that on January 16, the country set a new daily record of gas consumption at 141.5 Bcf/day as compared to average daily demand of 88 Bcf/d and in August 2023, gas fired power briefly crossed the 50 percent mark for the first time.³ Both data points illustrate how dependent we are upon natural gas being available when we need it.

Unlike crude oil and the Strategic Petroleum Reserve, there is no federal reserve of natural gas which can be used to ensure reliability. And, unlike crude oil, we cannot import natural gas if inventories are low and reliability is threatened. Europe has an inventory policy in place to protect their consumers, which requires that their natural gas inventory is full before winter.

The U.S. Department of Energy (DOE) has approved 43.4 billion cubic feet/day (Bcf/d)⁴, a volume equal to approximately 54 percent of U.S. net natural gas supply in 2022, which is more than what is needed to supply Europe.⁵ This amount does not include the volume consumed during the liquification process, which accounts for another 8 to 10 percent of demand. These amounts also do not include the increasing pipeline shipments to Mexico, most of which is for LNG exports. We suspect that there is no other non-renewable commodity in the U.S. that will export such a high amount and for which there is no substitute, and for which cannot be imported to support reliability.

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. The LNG terminals also lockup dwindling natural gas pipeline capacity with the backing of these contracts, thereby reducing pipeline capacity that is available to U.S. consumers. According to the FERC, in 2022, we added the smallest addition of interstate pipeline capacity in 25 years. Manufacturers cannot compete with LNG exporters for pipeline capacity.

Congress gave the DOE the authority and responsibility under the Natural Gas Act to ensure that LNG shipments to non-free trade agreement (NFTA) countries are not inconsistent with the public interest. The below explanation provides clear justification for action to protect domestic consumers.

As LNG export volumes increase, reliability risks and costs for both natural gas and electricity increase due to the combination of accelerating increases in peak LNG export demand and domestic demand during peak winter weather. Because those two peak

² NERC: 2023-2024 Winter Reliability Assessment: [Report \(nerc.com\)](https://www.nerc.com)

³ Bloomberg, January 23, 2024, [News Article — Bloomberg Government \(bgov.com\)](https://www.bloomberg.com/news/articles/2024-01-23-us-gas-consumption-reaches-record-high)

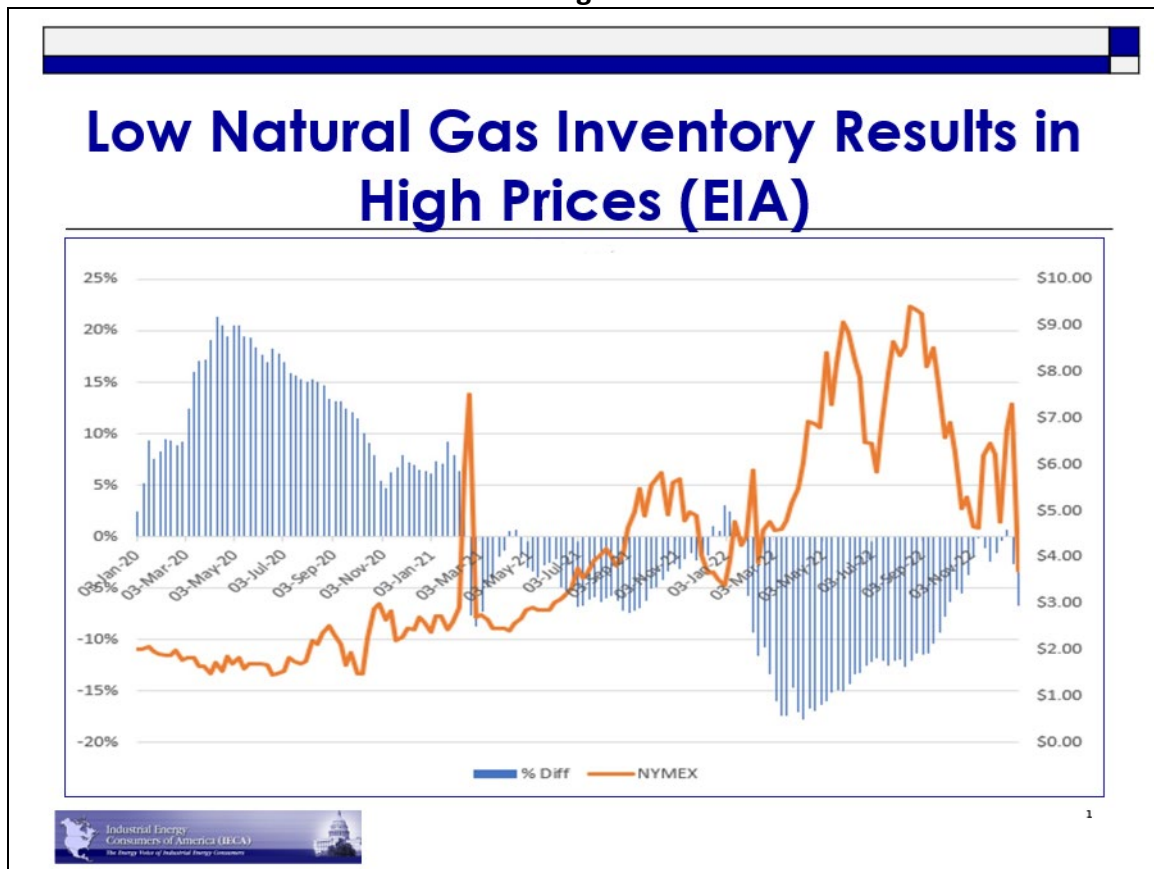
⁴ LNG, Federal Energy Regulatory Commission, <https://www.ferc.gov/natural-gas/lng>

⁵ U.S. Energy Information Administration (EIA) In 2022, net supply available after deducting lease, plant fuel and pipeline and distribution use.

demands coincide, there is an accelerating risk of insufficient supply for the domestic natural gas market when U.S. inventories are low. Without sufficient natural gas supply, electricity reliability of the power sector becomes at risk and increases electricity prices.

As an example, figure 1 below illustrates what happened during the winter of 2021-2022 when inventories were low and then, we had only 13 Bcf/d of LNG export capacity. Despite low inventories, LNG exports shipped at record levels, which substantially contributed to the increase in the price of natural gas from \$2.50 MMBtu to over \$9.00 MMBtu and a corresponding increase in electricity prices nationally. Spot prices for natural gas exceeded \$600 on a regional basis. This run up in the price of natural gas and electricity cost U.S. consumers hundreds of billions of dollars. Figure 1 clearly illustrates why it is so important that the DOE puts in place the IECA Inventory Policy.

Figure 1



What contributes to this dilemma is that LNG exports are insensitive to the price of U.S. natural gas. 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. prices are higher than normal, they will pay any price, no matter how high, to keep the lights on in their country. They have market power over domestic consumers. If there are insufficient

physical molecules to supply both exports and domestic consumers, the exporters get the gas and domestic consumers do not.

While the 20-year LNG contracts guarantee higher demand, a lot of things can go wrong that disrupt increases in the supply of natural gas and pipeline capacity that is needed to serve the increased LNG demand. They include lower crude oil prices that result in less oil production and associated gas, 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. All of the above have happened before and will happen again. It is just a question of time. As an example, natural gas production decreased in three of the last nine years.⁶ Other LNG exporting countries do not have these concerns because their domestic demand is very small, while the U.S. is the largest natural gas consumer in the world.

We urge you to put U.S. consumers first, not last, like it is today and put in place consumer safeguards. The NGA provides the DOE with several policy options that it has not used. Our policy paper outlines several options that should be considered.⁷ We look forward to working with you to ensure that U.S. consumers are a reliability priority over LNG exports.

Sincerely,

Paul N. Cicio

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President & CEO

cc: The Honorable Antony Blinken
John Kerry, U.S. Special Envoy for Climate
Ali Zaidi, White House National Climate Advisor
Federal Energy Regulatory Commissioners
Senate Committee on Energy and Natural Resources
House Committee on Energy and Commerce

⁶ EIA

⁷ IECA LNG Inventory Policy, https://www.ieca-us.com/wp-content/uploads/11.27.23_LNG-Exports_-_Natural-Gas-Inventory-Policy-Slides.pdf, and https://www.ieca-us.com/wp-content/uploads/Policy-Options-to-Insulate-the-US-NG-Market-12_8_23.pdf