



Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

1155 15th Street, NW, Suite 500 • Washington, D.C. 20005
Telephone 202-223-1420 • Fax 202-530-0659 • www.ieca-us.org

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS
FEBRUARY 4, 2013

PAUL N. CICIO, PRESIDENT

Summary

1. The DOE NERA LNG export report should give policy makers pause by its description of who gets hurt by LNG exports. **The net benefits of lower natural gas prices that U.S. consumers are receiving today is transferred to those who would produce, export and import the natural gas. Under every scenario, domestic prices of natural gas and electricity rise, and wages and investment in all other industries fall.** The quote below from the NERA report can be found on page 7.

“Expansion of LNG exports has two major effects on income: it raises energy costs and, in the prices, depresses both real wages and the return on capital in all other industries, but it also creates two additional sources of income. First, additional income comes in the form of higher export revenues and wealth transfers from incremental LNG exports at higher prices paid by overseas purchasers.”

2. Some proponents of LNG exports are urging the U.S. Department of Energy (DOE) to approve without delay “all” of the applications to export LNG to Non-Free Trade countries. **Unrestrained or thoughtless timing of the approval of export terminals “lock-in” unprecedented new natural gas demand for 30 years and thrust all of the risk and uncertainties of the future onto domestic consumers and manufacturers – while exporters and other countries benefit.** This is an unacceptable public policy approach. Once terminals are approved, there is no putting the genie back in the bottle.

When a terminal is approved to export LNG, it will lock-in mostly take-or-pay contracts for 30 years in order to secure the financing of the facility, and a lot can happen in 30 years that cannot be anticipated today.

In fact, there is a significant number of public policy driven impacts on the table right now that will either spur greater domestic demand or reduce domestic natural gas production. Neither DOE export study factors them into how domestic prices or economic growth would be impacted.

Industrial Energy Consumers of America (IECA)

Our voice on this issue is unique. Unlike some other major manufacturing-based trade associations, our company membership does not include oil, natural gas, coal or electric utilities.

IECA membership represents a diverse set of energy consuming industries including: chemical, plastics, steel, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, brewing, cement, agricultural equipment, and auto. Revenues of these companies exceed \$1.1 trillion, they operate in over 1,000 facilities nationwide, and employ more than 1.4 million employees worldwide.

The manufacturing sector is the largest consumer of natural gas. The industrial sector consumes about 40 percent of U.S. natural gas, and that volume is rapidly increasing. Industrial demand for natural gas increased 14.6% since 2009. We consume about 33% of the natural gas directly, and consume about 25% of the U.S. electricity, of which over 30% is generated from natural gas. We estimate the industrial sector consumes at least another 8% of the nation's gas via electricity that we consume.

Because of the low cost of natural gas, industrial companies have announced new facility capital investments of over \$95 billion that will consume over 6 bcf/d of natural gas, about a 10 percent increase in U.S. demand. This figure excludes increases in demand from existing facilities that are improving their operating rates.

Key points

1. The real solution to having an abundant supply of natural gas is not exporting it – it is using more domestically to fuel economic job creation. Exports will occur but that should not be the focus of policy makers, it should be on how to use this great resource to maximize jobs, economic growth and value-added exports, especially of manufacturing products. Using natural gas domestically and especially in the manufacturing sector yields the greatest gains in job creation and value-added products along with increased exports of those products.
2. Export terminal approvals need to be slowly approved to let the domestic market adjust so that we do not have a market shock and price spikes.
3. According to DOE sponsored LNG export reports, the sector of the economy most impacted by LNG exports is manufacturing and especially the energy intensive trade exposed industries (EITEs). This finding should give policymakers pause because EITE industries are vital to economic growth because they produce the “building block” of manufacturing commodity products from which literally all other manufactured products are produced (see appendix). Putting it differently, every other industry in the country is dependent upon EITE industry products to produce “their” products.

Literally everything that we as consumers use daily cannot be produced without Energy Intensive Trade Exposed (EITI) products (see appendix). Even the food that we consume is produced using nitrogen fertilizer, an energy-intensive natural gas consuming product. (Approximately 80% of the cost of producing nitrogen fertilizer, commodity chemicals and plastics is natural gas.)

To us, these sound like very important industries.

- According to the Bureau of Labor Statistics (BLS), in 2011, energy-intensive trades exposed industries employ 1,800,974 people and operate 38,909 facilities.

- The BLS states that from 2000 to 2011, EITE industries value-added index increased by 35.6 percent versus “all” manufacturing, that increased at only 28.4 percent.
- According to the International Trade Administration, from 2000 to 2011, EITE industries exports rose by 159 percent, faster than “all” manufacturing at just 95 percent.
- From 2009 to 2011, EITE industries increased exports by 40.5 percent while “all” manufacturing increased by 39 percent. EITE exports in 2011 were nearly \$305 Billion.

4. The DOE sponsored report by National Economic Research Associates (NERA) entitled, “Macroeconomic Impacts of LNG from the United States” while flawed, because it underestimates domestic demand and price impacts, is instructive and a start along the important pathway to addressing important questions that could negatively impact the economy for decades to come.

The NERA report illustrates that the consequences and the uncertainties are indeed very great and in every export scenario, it is the American consumer that is damaged through higher natural gas and natural gas-fired electricity prices, lower wages and lower domestic manufacturing investment.

5. The DOE NERA study illustrates that **LNG exports contribute insignificant benefits to the economy, raise energy costs for U.S. consumers, while reducing wages and manufacturing investment under every scenario.**

We urge you to look at Figure 3 of the NERA report. The chart describes who benefits and who is hurt from exports. Figure 3 indicates that in 2015 there is a net \$10 billion benefit to the U.S. economy. In 2020, there is a \$20 billion gain and this steadily decreases each year to about \$5 billion in 2035. This is a trivial amount given that the U.S. is a \$14 trillion economy. The Perdue University study explains it this way, “The \$10 billion gain (in 2015) in the NERA study amounts to 6 hours of U.S. economic activity.”

It is also important to note that the study uses outdated demand forecasts by the industrial, electric and transportation sectors that result in understated price impacts. If higher demand and price forecasts are used, the net benefit to the country would be even smaller and could possibly turn negative.

The NERA report should give policymakers pause by its description of who gets hurt by LNG exports. The net benefits of lower natural gas prices that U.S. consumers are receiving today is transferred to those who would produce, export and import the natural gas. Under every scenario, domestic prices of natural gas and electricity rise, and wages and investment in all other industries fall. The below quote from the NERA report can be found on page 7.

“Expansion of LNG exports has two major effects on income: it raises energy costs and, in the prices, depresses both real wages and the return on capital in all other industries, but it also creates two additional sources of income. First, additional income comes in the form of higher export revenues and wealth transfers from incremental LNG exports at higher prices paid by overseas purchasers.”

6. Some proponents of LNG exports are urging the U.S. Department of Energy (DOE) to approve without delay “all” of the applications to export LNG to Non-Free Trade countries. Unrestrained or thoughtless timing of the approval of export terminals “lock-in” unprecedented new natural

gas demand for 30 years and thrust all of the risk and uncertainties of the future onto domestic consumers and manufacturers – while exporters and other countries benefit. This is an unacceptable public policy approach. Once terminals are approved, there is no putting the genie back in the bottle.

When a terminal is approved to export LNG, it will lock-in mostly take-or-pay contracts for 30 years in order to secure the financing of the facility, and a lot can happen in 30 years that cannot be anticipated today.

In fact, there is a significant number of public policy driven impacts on the table right now that will either spur greater domestic demand or reduce domestic natural gas production. Neither DOE export study factors them into how domestic prices or economic growth would be impacted.

Examples – Public policy issues that could slow natural gas production or increase costs include:

Intangible Drilling Costs (IDCs) tax provision:

The IDC allows the oil and gas industry to deduct expenses and generate the cash flow needed to invest in drilling. Congress is considering eliminating this provision. If Congress took this provision away, capital available to drill could drop by up to one-third. Production of natural gas would drop precipitously and prices would rise quickly.

U.S. Department of the Interior, Bureau of Land Management (BLM) proposed rule to regulate hydraulic fracturing on federal lands:

The BLM rule will slow permitting, slow-down drilling and increase costs that will be passed onto consumers.

EPA regulation of hydraulic fracturing on private lands:

EPA is leading an inter-agency task force study that is widely believed will result in regulation of hydraulic fracturing. The primary focus is on water protection and could result in sensitive regional watersheds placed off limits to drilling.

Examples – Public policy issues that will result in greater natural gas demand include:

The long list of EPA regulations is well documented. All of these regulations drive greater use of natural gas for years to come and less use of other fossil fuels such as coal, diesel and gasoline.

National Ambient Air Quality Standards for:

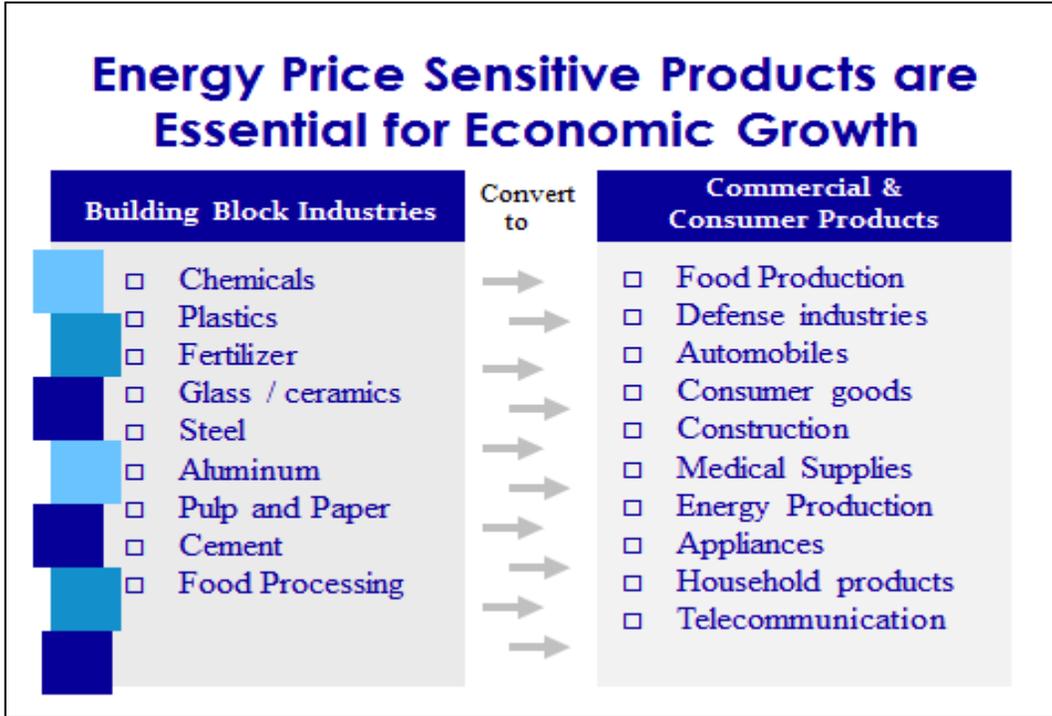
- Ozone – Proposal due 2/10, final due 9/14
- Sulfur Dioxide (SO₂) – Final 6/10
- Nitrogen Dioxide (NO₂) – Final 2/10
- Particulate Matter (PM) – Final 12/12
- Cross State Air Pollution Rule (CSAPR) – Vacated 8/12, rehearing requested
- GHG Rules – Upheld DC Court of Appeals 6/12
- Endangerment Finding – Rehearing denied 12/12
- GHG Tailoring Rule – Final
- Industrial Boiler MACT – Final 1/13

New Source Performance Standards for:

- GHG for new power plants – Proposed 4/12, final due 3/13
- GHG for existing power plants – Unknown, subject to Consent Decree
- National Emissions Standards for Hazardous Air Pollutants (NESHAP)
- Mercury Air Toxics Standards – Final 2/12, new units in reconsideration
- Coal Combustion Residuals Rule - Proposed 6/10, final due 6/13
- Cooling Water Intake Rule [316(b)] – Proposed 4/11, final due 5/13
- Power Plant Effluent Limitation Guidelines – Proposal 4/13, final 4/14
- GHG for refineries – Required action by EPA under the CAA
- GHG for industrial facilities – Required action by EPA under the CAA

There is good reason for Congress to encourage, not discourage, the DOE to take the time to examine carefully whether or not approval of each LNG export application is in the public interest.

APPENDIX



Energy Intensive Products are Essential to Economic Growth

- The aerospace/defense industry uses steel, aluminum, plastics and chemicals.
- The air transport industry uses steel, aluminum, plastics and chemicals.
- The auto and truck industries use steel, aluminum, plastics, chemicals.
- The beverage industry uses aluminum, steel, paper, glass and plastic.
- The biotechnology industry uses chemicals.
- The commercial and home building construction industry uses brick, steel, aluminum, wood, cement and glass.
- The oil and gas industry uses steel, chemicals, cement.
- The chemical industry uses chemicals, steel, cement and glass.
- The computer industry uses plastics, chemicals, and glass.
- The electrical equipment industry uses steel.
- The electric and gas utility sector uses steel and cement.
- The food industry uses fertilizer, chemicals, plastics and paper.



Energy Intensive Products are Essential to Economic Growth

- The heavy construction industry uses steel and rubber.
- The home furnishing industry uses wood, glass, chemicals.
- The home appliance industry uses steel, aluminum, glass and wood.
- The household products industry uses chemicals, plastic; paper, glass.
- The machinery industry uses steel, chemicals and plastics.
- The maritime industry uses steel.
- The packaging industry uses plastics, paper, aluminum and steel.
- The paper / forest products industry uses steel and chemicals.
- The refining industry uses steel, chemicals and cement.
- The pharmaceutical industry uses chemicals, glass and steel.
- Railroads use steel.
- The toiletries/cosmetics industry uses chemicals, plastics, paper, and glass.

