Industrial Energy Consumers of America (IECA)
The Voice of the Industrial Energy Consumers

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February 5, 2024

The Honorable Jeff Duncan
Chairman
Subcommittee on Energy, Climate, & Grid Security
U.S. House of Representatives
Washington, DC 20515

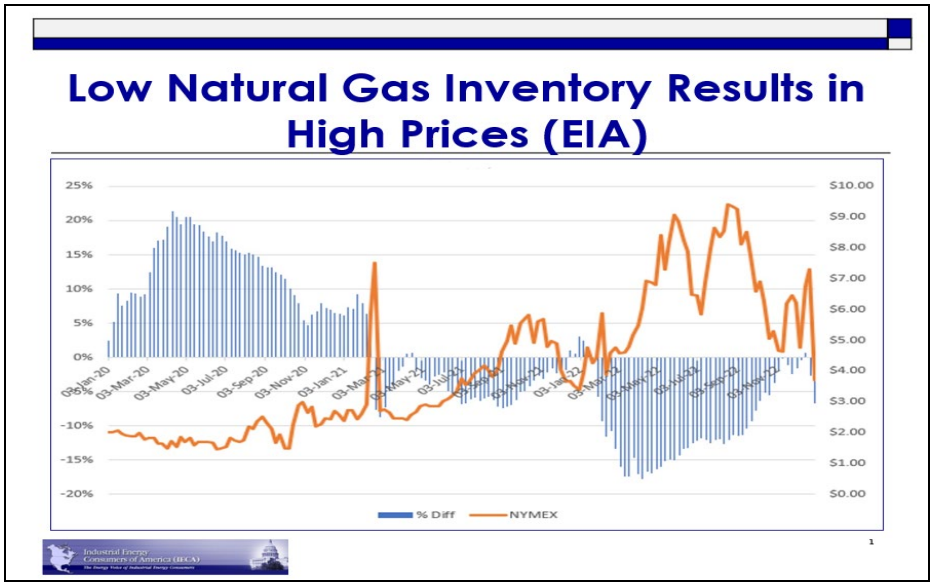
The Honorable Diana DeGette
Ranking Member
Subcommittee on Energy, Climate, & Grid Security
U.S. House of Representatives
Washington, DC 20515

Re: Comments for the Record for Hearing on "Politics Over People: How Biden's LNG Export Ban Threatens America's Energy and Economic Security"

Dear Chairman Duncan and Ranking Member DeGette:

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.

The U.S. experienced these dynamics in real terms in 2022 when U.S. inventories were low and exports increased. As a result, U.S. consumers paid $84 billion and $53 billion more for their natural gas and electricity than they paid in 2021. The combined $137 billion cost increase fueled inflation throughout the entire economy (see figure below).



The U.S. Department of Energy (DOE) has approved 48 billion cubic feet/day (Bcf/d)[1] in LNG exports, a volume equal to approximately 60 percent of U.S. net natural gas supply in 2022[2], which is more than what is needed to supply Europe. This amount does not include the volume consumed during the liquification process, which accounts for another estimated 8 to 10 percent of demand. And, if policymakers want to advance the case for national security, they should consider the very high volume of Chinese LNG contracts with US export terminals. The DOE maintains a list of the contracts.[3]

We suspect that there is no other non-renewable commodity in the U.S. that will export such a high volume and for which there is no immediate substitute to support reliability. And 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. All risks of increased LNG exports are passed onto consumers. These growing risks are not surmountable without action by the DOE to protect consumers under the Natural Gas Act (NGA).

Under the NGA, Congress granted the DOE the authorization and responsibility to protect the public interest regarding LNG exports to non-free trade agreement (NFTA) countries. The vast amount of approved LNG exports is shipped to these countries. The volumes already approved could have devasting impacts, unless action is taken. The Obama, Trump, and Biden administrations have all failed to protect the public interest by approving such large volumes and without consumer protections in place. The Biden pause does not impact the export volumes already approved.

We urge both Congress and the Biden administration to support implementation of an LNG Inventory Policy before the winter of 2024-2025 to insulate the domestic market from the negative impacts of LNG export demand during peak demand and when inventories are low. See our proposed LNG Inventory Policy in the appendix. The LNG policy does not cost the U.S. taxpayer anything and does not impact supply to our allies.

Without consumer protections, U.S. energy security decreases. We also encourage LNG exporters and the natural gas producing industry to embrace consumer protections to avoid the coming backlash that will come, which could risk your operating franchise privileges long-term.

Key points:

- The hallmark of a sound and reasoned energy 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.

[1] Summary of LNG Export Applications of the Lower 48 States, U.S. Department of Energy, https://www.energy.gov/fecm/articles/summary-lng-export-applications-lower-48-states
[2] Natural Gas, U.S. Energy Information Administration, https://www.eia.gov/naturalgas/
[3] Long-Term Contract Information and Registrations, U.S. Department of Energy, https://www.energy.gov/fe/downloads/long-term-contract-information-and-registrations

- We support the actions by the Biden administration to pause further export approvals to NFTA countries and to conduct a public interest assessment.

- We oppose H.R. 7176 (previously H.R. 1130), the Unlocking our Domestic LNG Potential Act because its sole intent is to remove consumer protections associated with approval of LNG export facilities, that are embodied within the NGA.

- U.S. 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. Therefore, it is appropriate for policymakers to protect and prioritize U.S. consumers over LNG exports.

- 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.

- 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 accelerating increases in peak LNG export demand and domestic demand during peak 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 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.

- What contributes to this dilemma is that LNG exports 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. 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 domestic 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 Marcellius, 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.[4] 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 natural gas prices could increase. With the accelerating decrease in coal generation this price relief is quickly decreasing.

- 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. On a regional basis, with these 20-year 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 of these costs are passed on to the consumer.

- Other LNG exporting countries do not have the above concerns because their domestic demand is small as compared to their export volume, while the U.S. is the largest natural gas consumer in the world.

- None of the DOE LNG studies that were issued to justify higher LNG exports considered the above “accelerating peak demand - low inventory scenario.” Nor do the studies address the risks of constrained pipeline capacity to move natural gas from producing regions or consider the market power advantage that LNG 20-year contracts have over domestic consumers.

- The U.S. has experienced several recent winter storms that have impacted reliability and prices and are described in several NERC/FERC reports. Winter weather increases peak natural gas demand and decreases natural gas production, as described in their recent winter assessment report.[5] 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/d as compared to average daily demand of 88 Bcf/d, and in August 2023 gas-fired power briefly crossed

[4] Natural Gas, U.S. Energy Information Administration, https://www.eia.gov/naturalgas/
[5] 2023-2024 Winter Reliability Assessment, NERC, https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_WRA_2023.pdf

the 50 percent mark for the first time.[6] Both data points illustrate how dependent we are upon natural gas being available when we need it.

We urge you to put U.S. consumers first, not last, like it is today and put in place consumer safeguards.

Sincerely,

Paul Cicio
President & CEO
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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.

[6] Soaring US Power Demand Poses Climate Challenge for Utilities, Daniel Moore, Bloomberg, https://www.bgov.com/next/news/S7QEB1DWLU68

APPENDIX

LNG INVENTORY POLICY

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

FEBRUARY 2024

CONSUMER PROTECTIONS UNDER THE NATURAL GAS ACT (NGA)

Unlike crude oil, gasoline, diesel, or propane, Congress granted protection for domestic consumers from natural gas export volumes, which would negatively impact the public interest under the NGA. There are explicit provisions to protect the "public interest," even in the event of unforeseen circumstances. The EU and Australia have already taken action to protect their consumers from peak winter demand and its reliability and affordability implications. It is timely for the U.S. to do the same. 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.

Federal Register on June 21, 2018: 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."

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.

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 fall five percent below the five-year average. 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 actually 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, inventory levels could fall five percent below the five-year average 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. It is estimated that export terminals have about 80 percent of their export capacity under contract and the balance is spot business. Once the policy is implemented, a five percent reduction in inventory would never result in a requirement to reduce export volume by 20 percent. Therefore, DOE's action to require reductions of five percent would not impact contracted volumes.

Establishing this policy will result in LNG export terminals taking action to reduce the impact associated with the policy and will build this scenario into their business model and operating procedures. Exporters may also 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 by five percent below the five-year average, 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.