Industrial Energy Consumers of America (IECA)

The Voice of the Industrial Energy Consumers

LNG INVENTORY POLICY

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

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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.