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

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February 8, 2013

U.S. Senate
U.S. House of Representatives

RE: Approval of LNG export permits "without delay" to non-Free Trade Agreement (FTA) countries is ill-advised policy and thrusts all of the risks and uncertainties for the next 30 years onto U.S. consumers and manufacturers in exchange for relatively little economic gain

Dear Members of Congress:

The United States' newfound natural gas resources and the prospect of LNG exports have brought us to an important crossroad. Some members of Congress 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. 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. In fact, DOE is charged by law to protect the interests of the public. IECA encourages Congress to hold hearings on this issue to ensure that the DOE does this job well.

Our voice on this issue is unique. Unlike some other major manufacturing-based trade associations, our membership does not include oil, natural gas, coal or electric utilities. The Industrial Energy Consumers of America (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 and cement. Annual 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.

We respectfully ask Congress to step back from the position to approve without delay "all" of the LNG export applications to non-free trade countries for reasons described below. 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 public policy decisions that impact supply or demand onto domestic consumers and manufacturers – while exporters and other countries benefit. This public policy deserves considerably more thought and analysis. Once terminals are approved, there is no putting the genie back in the bottle.

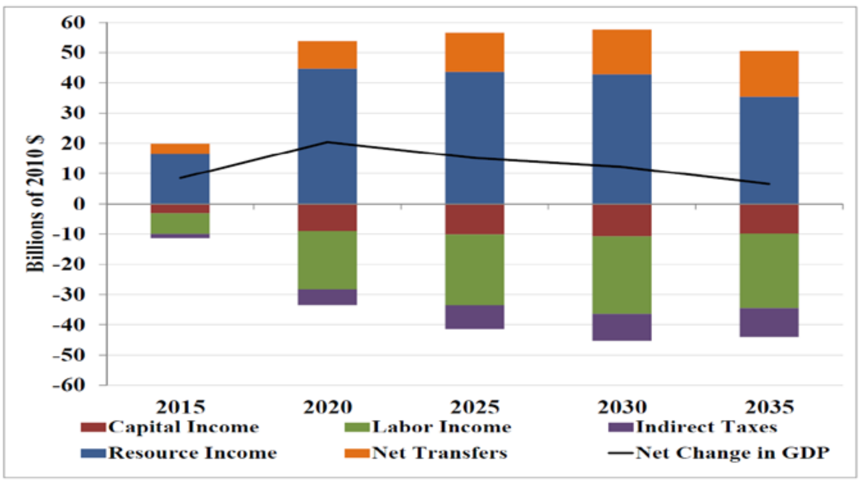
IECA is grateful that the DOE released the National Economic Research Associates (NERA) report entitled, "Macroeconomic Impacts of LNG from the United States." We appreciate that the DOE is diligently pursuing answers to important questions regarding how LNG exports impact the public and the economy. However, the report is flawed because it uses over two year old AEO

2011 demand assumptions that greatly underestimate domestic demand and price impacts. Despite this, it is instructive and a start along the important pathway to addressing important questions about a policy that will have substantial impact on the economy for decades to come.

1. 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 harmed by exports. The chart indicates that in 2015 there is only a net $10 billion benefit to the U.S. economy. In 2020, there is only 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 Purdue 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."[1]

Figure 3: Change in Income Components and Total GDP in USREF_SD_HR (Billions of 2010$)



It is also important to note that because 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 reduced and could possibly turn negative.

2. 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.

The NERA report should give members of Congress pause by its description of who gets hurt by LNG exports. 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.

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[1] Wallace E. Tyner, James and Lois Ackerman Professor; Kemal Sarica, Post-doctoral Associate, Purdue University, "Comparison of Analysis of Natural Gas Export Impacts from Studies Done by NERA Economic Consultants and Purdue University," January 14, 2013.

"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."

3. "Approval without delay" of LNG export terminals ignores consideration of the future risks to the U.S. consumer – and the risks are great and not addressed in either DOE export reports.[2]

We ask that you embrace a full appreciation of the implications of what "approval without delay" of these LNG export terminals will mean to the economy and to your constituents for the next 30 years. 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. A lot can happen in those 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 of the DOE export studies factors them into how domestic prices or economic growth would be impacted (see appendix on page 4).

In many respects these decisions are so important that they will dictate the economic legacy of this Administration and Congress. The fact that Congress has held only one hearing on this matter illustrates a lack of understanding of the significant consequences and the trade- offs to the economy, energy costs to all consumers and to the competitiveness of the manufacturing sector. We look forward to working with you on this important matter.

Sincerely,

Paul N. Cicio
President

cc: The Honorable Barack Obama
The Honorable Steven Chu

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.1 trillion in annual sales, over 1,000 facilities nationwide, and with more than 1.4 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: chemical, plastics, steel, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, brewing, cement, agricultural equipment, and auto.

[2] U.S. Energy Information Administration, "Effects of Increased Natural Gas Exports on Domestic Energy Markets," January 2012 and W. David Montgomery, et al, "Macroeconomic Impacts of LNG Exports from the United States," NERA Consulting, December 2012.

APPENDIX

Examples of public policy issues that could slow natural gas production which would decrease supply and correspondingly 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 these new regulations could result in sensitive regional watersheds being placed off limits to drilling.

Examples of public policy issues that will result in greater natural gas demand include:

National Ambient Air Quality Standards for:
- Ozone – Proposal due 2013, 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

New Source Performance Standards for:
- GHG for new power plants – Proposed 4/12, final due 3/13
- GHG for existing 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
- Greenhouse Gas NSPS for refineries – Required action by EPA under the CAA
- Greenhouse Gas NSPS for industrial facilities – Required action by EPA under the CAA

As outlined above, the long list of EPA regulations is well documented. All of these regulations drive greater use of natural gas for years to come and result in less use of other fossil fuels such as coal, diesel, propane and gasoline.