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

1776 K Street, NW, Suite 720 • Washington, D.C. 20006
Telephone (202) 223-1420 • www.ieca-us.org

March 24, 2014

The Honorable Ed Whitfield
Chairman
Subcommittee on Energy and Power
Committee on Energy and Commerce
2184 Rayburn House Office Building
Washington, DC 20515

The Honorable Bobby L. Rush
Ranking Member
Subcommittee on Energy and Power
Committee on Energy and Commerce
2268 Rayburn House Office Building
Washington, DC 20515

RE: H.R. 6, the "Domestic Prosperity and Global Freedom Act"

Dear Chairman Whitfield and Ranking Member Rush:

On behalf of the Industrial Energy Consumers of America (IECA), we request that this letter be submitted into the hearing record. IECA strongly opposes H.R. 6, the "Domestic Prosperity and Global Freedom Act." The legislation would have devastating impacts to the competitiveness of the manufacturing sector, investment and jobs long-term. The bill would accelerate exports of natural gas, driven by OPEC cartel LNG indexed prices[1], and drive up the price of natural gas and natural gas-fired power generation for homeowners, farmers and us in the manufacturing sector.

Congress should NOT support OPEC cartel LNG pricing by allowing unfettered exports of LNG. H.R. 6 is anti-consumer and imposes an OPEC tax on every U.S. consumer.

OUTLINE

1. **OPEC Cartel LNG Pricing.**
2. **The U.S. Department of Energy (DOE) has already approved LNG shipments to non-free trade countries equal to 15.3% of U.S. demand.**
3. **H.R. 6 does not have anything to do with the Ukrainian crisis or with helping our NATO allies.**
4. **Ukraine has more years of proven natural gas reserves than the U.S.**
5. **The public interest determination under the Natural Gas Act is critically important.**
6. **The DOE sponsored study by NERA Economic Consulting dated December 12, 2012, says the public will see higher energy costs, lower wages and a decline in manufacturing.**
7. **Congress should not support OPEC over the successful U.S. free market.**

[1] World LNG Report 2013 Edition, International Gas Union, http://www.igu.org/gas-knowhow/publications/igu-publications/IGU_world_LNG_report_2013.pdf/view

1. OPEC Cartel LNG Pricing.

Here is how it works. The OPEC cartel is both a large seller of crude oil and LNG. OPEC cleverly links the price of LNG to crude oil prices. This means that if crude oil prices rise, so does the price of LNG. It is for this reason that LNG sells in the Pacific for very high prices in the range of $15-$16 mmBtu. Clearly, the global LNG market is not a "free market." If OPEC decoupled the price from crude, the LNG price would likely fall. In contrast, the U.S. NYMEX Henry Hub price is in the mid $4.00 mmBtu range. It is these artificially high OPEC LNG prices that are driving natural gas exporters to push Congress/DOE for unfettered natural gas exports without consideration to domestic consumers – all in the name of supporting our NATO allies.

In contrast, the U.S. natural gas prices are determined by domestic supply versus demand. This is how "free markets" work.

This is a critically important contrast because the artificially high OPEC LNG price means that foreign buyers of LNG from U.S. export terminals will be willing to pay higher prices for it and "buy it away" from domestic consumers. The impact will first show up during the peak winter heating season demand and result in spiking prices for both natural gas and electricity. Longer term, as U.S. supply and demand comes into balance, and as increasingly larger volumes are exported, the prices will rise year round and <u>permanently</u> transform the U.S. market. OPEC's plan puts the U.S. on the pathway to substantially higher prices, the OPEC energy tax.

This is exactly what happened in Australia. Now, natural gas producers do not want to sell gas to Australian consumers unless they pay the LNG export prices. Manufacturers are leaving the country and power plants are beginning to convert from natural gas to coal.

U.S. homeowners have no idea that their future higher home heating and cooling costs will be significantly and permanently increased due to OPEC cartel prices.

2. DOE has already approved LNG shipments to non-free trade countries equal to 15.3% of U.S. demand.

The DOE has already approved six applications to export to non-free trade countries, an equivalent of a 15.3 percent increase in demand versus 2013 demand. This is a significant increase on top of growing new domestic demand.

3. H.R. 6 does not have anything to do with the Ukrainian crisis or with helping our NATO allies.

The legislation is being promoted by natural gas producing states over the interests of states that are dependent upon natural gas, the public and the manufacturing sector.

Exporting U.S. natural gas to help our Ukrainian and NATO allies is not a viable option for years to come. There are no export facilities that are ready to ship and even if they were, their output is already under contract to be sold. Helping them to drill for natural gas is the solution.

4. Ukraine has more years of proven reserves than the U.S.

According to the U.S. Energy Information Administration (EIA), Ukraine has 39 trillion cubic feet (Tcf) of proved natural gas reserves and at a 2012 consumption rate of 1.8 Tcf, they have a 21-year supply. This compares favorably to U.S. proven reserves of 334 Tcf, or a 13-year supply at the 2013 consumption rate of 26 Tcf. The problem is that Ukraine only produces 1 Tcf of gas.

The old adage of "give a person a fish and feed him for a day or teach him to fish and feed him for a lifetime" still applies. Drilling in Ukraine would create needed jobs, economic growth and energy independence. Exporting U.S. natural gas simply makes them dependent upon us rather than Russia.

5. The public interest determination under the Natural Gas Act is important.

Years ago, Congress wisely put in place a process to review applications to export LNG under the Natural Gas Act. Applications to ship to countries with which the U.S. has a free trade agreement are automatically approved. In fact, the DOE has approved 33 of these applications. If the application requests shipments to countries that do not have a free trade agreement, it must do a "public interest determination" to determine whether the shipments are in the public's best interest. If it is, the export application is approved. The public interest determination examines whether there is a negative or positive impact on the economy, domestic consumers, manufacturers, jobs, and investment. This is an essential and appropriate safeguard.

It is important to note that countries that do not have a free trade agreement with the U.S., almost without an exception, discriminate against the importation of manufacturing products produced in the U.S. A free trade agreement assures a level playing field.

H.R. 6 replaces "free trade countries" for "WTO countries." WTO designation does not require a level playing field. Congress should support efforts to achieve a level playing field for the manufacturing sector – not undermine them.

6. DOE sponsored study: NERA Economic Consulting, December 12, 2012 says the public will see higher energy costs, lower wages and a decline in manufacturing.

According to a DOE sponsored study completed on December 12, 2012 by NERA Economic Consulting, the big winners are those who own gas resources, producers of natural gas, exporters of natural gas and foreign countries. Page 21 of the report says that the losers are the public who will see higher energy costs, lower wages and a decline in manufacturing.

7. Congress should not support OPEC over the successful U.S. free market.

Congress should take a measured approach to LNG exports and protect the American consumer from unfair OPEC price influences. We do not believe that you or the Congress should support OPEC over the successful U.S. free market.

Sincerely,

Paul N. Cicio
President

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 1,500 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, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, brewing, independent oil refining, and cement.