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

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April 12, 2022

The Honorable Jennifer Granholm
Secretary
U.S. Department of Energy
1000 Independence Ave, SW
Washington, DC 20585

Re: Policy Options to Establish DOE LNG Consumer Protections

Dear Secretary Granholm:

We urge you to implement the consumer protection polices listed in this document to protect U.S. consumers from the market-power of foreign countries purchases of LNG. With only 12.4 billion cubic feet per day (Bcf/d) of nameplate LNG capacity operating, U.S. prices for natural gas and electricity have already been impacted. Consumers and manufacturers desire certainty that their government put their natural gas needs first, not second to LNG exports. The Natural Gas Act requires you to ensure that LNG exports to NFTA countries are not inconsistent with the public interest. One hundred percent of IECA's member companies are from the manufacturing sector.

The U.S. Energy Information Administration (EIA) reports natural gas Henry Hub futures of over $6.70 per MMBtu, a 13-year high, adding to inflation.[1] Market analyst say we could see $9-10 per MMBtu prices later this year. In 2022, prices have increased over 65 percent and have resulted in a substantial increase in electricity prices.[2] Every one dollar increase in natural gas increases electricity prices by $13 per MWh. Price volatility has soared. The amount of natural gas in storage in the lower 48 is 17 percent below the five-year average for this time of year, despite significant increases in production.[3]

IECA supports shipping U.S. LNG to our allies and prioritizing national security. However, in 2021, shipments to China were only 3,816 tons less than South Korea, the number one destination, and more than twice that of any EU country. Since September of 2021, China has

[1] EIA Natural Gas Weekly, April 6 2022: https://www.eia.gov/naturalgas/weekly/?src=email
[2] "The LNG Export Boom Is Draining U.S. Natural-Gas Supplies and Lifting Prices," The Wall Street Journal, https://www.wsj.com/articles/the-lng-export-boom-is-draining-u-s-natural-gas-supplies-and-lifting-prices-11648648528
[3] Natural Gas, U.S. Energy Information Administration, https://ir.eia.gov/ngs/ngs.html?src=email

locked up 9 additional supply contracts for U.S. natural gas with terms of up to 20 years. How does that support U.S. national security?[4]

The DOE's approval of more export volumes does not guarantee that our allies will receive the LNG supply. Once an LNG cargo leaves the U.S., it could go anywhere. In regard to national security, it starts at home, by first securing natural gas for industries that supply materials for our national defense.

The consumers of U.S. LNG are foreign government regulated electricity, natural gas utilities and state-owned enterprises (SOEs) with automatic cost pass-throughs. Their governments have entrusted them with the responsibility to keep the lights on and factories running in their country. And with that mandate, they can literally buy-away natural gas from domestic consumers, even in the middle of the winter when our demand is highest. In short, they have market power over U.S. consumers.

Without protections, U.S. consumers will see even higher natural gas and electricity prices, and impacts to reliability as LNG exports increase. What good is it to have an abundant supply of natural gas resources unless it is used as an advantage to all Americans?

We cannot let what happened to Australian consumers happen here (see Figure 1). Australian consumers are paying the Asian LNG net-back price. Their domestic prices are directly connected to Asia LNG pricing. As a result, Australian consumers are not benefiting from their country's vast resources.[5]

On March 30, 2022, U.S. Trade Representative Katherine Tai testified before the House Committee on Ways and Means. The key message was that the U.S. must shift its trade policy to rebuilding its domestic manufacturing industries and lessening ties to unfriendly economies. Ambassador Tai stated, "We are feeling increasing senses of insecurity in terms of our supply chains, and our reliance on partners who we aren't comfortable relying upon...We can't just wait for China to change. We need to start doing things on our side such as the reshoring and rebuilding of our manufacturing base."[6]

She is absolutely right, but the manufacturing sector cannot invest and create jobs without assurances that our natural gas and electricity prices will not be imperiled by excessive LNG exports and the unfair market power of foreign country buyers.

In 2021, the U.S. trade deficit increased from $676.7 billion to $859.1 billion, a 27 percent increase. The trade deficit with China increased 14.5 percent to $355.3 billion.

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[4] Long-term Contract Information and Registrations, U.S. Department of Energy, https://www.energy.gov/fecm/articles/long-term-contract-information-and-registrations

[5] Australia Competition and Consumers Commission, gigajoules and Australian dollars have been converted into MMBtus and U.S. dollars.

[6] "U.S. Trade Chief Outlines Policy Shift, Citing Ukraine War and Pandemic," The Wall Street Journal, March 30, 2022, https://www.wsj.com/articles/u-s-trade-chief-outlines-policy-shift-citing-ukraine-war-and-pandemic-11648667442

This new era of increased LNG exports calls for a thoughtful-balanced policy that will allow for increased exports, but not at the expense of reliability and domestic natural gas prices that have become attached to or driven by the global LNG market, a non-free market. The U.S. market, a free-market, and its independent pricing must be insulated from the global market.

DOE POLICY OPTIONS TO ESTABLISH LNG CONSUMER PROTECTIONS

I. Reduce LNG export periods from 2050 to 2030.

The previous Administration extended the period of approvals from 2030 to 2050. That policy change shifts supply and price risk from the exporter and foreign country buyers to domestic consumers. It gives exporters and foreign country buyers access to our natural gas, while U.S. consumers do not have an alternative. We are captive.

II. Define the Natural Gas Act (NGA) public interest.

The NGA does not define public interest. The Obama and Trump Administrations defined it as "net economic benefit." Studies performed by the DOE concluded that there was a small net economic benefit that declined with time. Importantly, all of the benefits accrued to the natural gas industry and exporters while everyone else in the country experiences economic loss.

The Biden DOE should define public interest as, "the export volume, individually or collectively must not materially impact the price of natural gas in the US."

III. Condition LNG export orders.

- **a.** The DOE should condition LNG export orders that in the event U.S. natural gas inventories fall five percent below the five-year average, and upon notification by the DOE, will be required to reduce export volumes until U.S. inventories increase to the five-year average.

- **b.** The DOE should condition LNG export orders so that the approved volume must always be in the public interest, not just when it is approved. Past Administrations considered whether the requested LNG volume to NFTA countries were in the public interest. Once approved, there is no further consideration of whether the volume remained in the public interest. It was a one and done.

The Biden DOE should stop the one and done. The DOE should conduct periodical review of existing orders and certify that the orders do not individually or collectively materially impact the price of natural gas in the U.S.

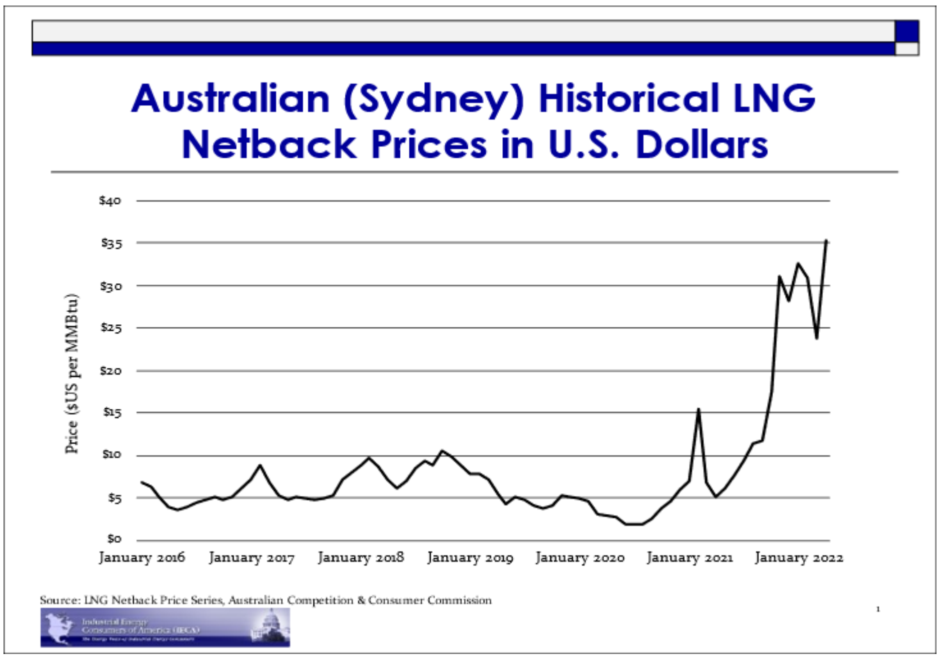
The review of orders is justifiable because domestic supply and the combination of domestic and LNG demand can change dramatically from year to year, driven by economic, weather, or policy-related events.

Consumers from across the country are counting on you to ensure that they will not be impacted by excessive LNG exports. Our companies would like to meet with you. Marnie Satterfield will coordinate this meeting. She can be reached at (202) 223-1420 or msatterfield@ieca-us.org.

Sincerely,

Paul N. Cicio
Paul N. Cicio
President and CEO

FIGURE 1



The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.1 trillion in annual sales, over 11,700 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, building products, automotive, brewing, independent oil refining, and cement.