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

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April 17, 2019

The Honorable Clay Higgins
U.S. House of Representatives
424 Cannon House Office Building
Washington, DC 20515

Re: U.S. Manufacturers Oppose H.R 2248, the "License Natural Gas (LNG) Now Act"

Dear Congressman Higgins:

On behalf of the companies who represent 1.7 million manufacturing jobs, the Industrial Energy Consumers of America (IECA) strongly opposes H.R. 2248, the "License Natural Gas (LNG) Now Act." The bill is touted as legislation to remove unnecessary restrictions on LNG exports when in fact, it is entirely about removing a vital consumer protection provision under the Natural Gas Act (NGA) which requires that shipments of LNG to non-free trade agreement (NFTA) countries must not be inconsistent with the public interest. The reason that LNG exporters want this provision removed is because NFTA countries are the largest buyers of LNG. However, they are also countries that discriminate against U.S. manufactured goods. Despite the NGA consumer protection provision, **NO** application to export LNG has ever been delayed or denied by the U.S. Department of Energy (DOE). Finally, the LNG export volume already approved by the DOE is enough to supply nearly 100 percent of the European Union's LNG import capacity.

The DOE LNG studies have confirmed that LNG exports lower the price of natural gas to countries receiving the LNG, while increasing U.S. prices for both natural gas and electricity, directly impacting competitiveness of the manufacturing sector negatively. If the DOE approves high volumes of LNG exports and prices of natural gas and electricity rise, U.S. manufacturers will lose their competitive advantage and this puts trillions of dollars of manufacturing assets at risk, a sector with over 12.5 million high paying jobs. According to the U.S. Bureau of Labor Statistics (BLS), the oil and gas industry had only 415.1 thousand jobs in 2018 or 3.3 percent of that of the manufacturing sector. This means that even if oil and gas jobs doubled due to LNG exports, the gain in jobs would pale in comparison to what would be lost in the manufacturing sector. Given the high concentration of petrochemical jobs in the gulf coast region that rely on competitive natural gas and electricity costs, this area would be hardest hit by the lost manufacturing jobs. It is in the public interest to limit the volume of LNG exports.

On December 28, 2018, the DOE filed comments in the Federal Register that they will approve LNG export volumes to NFTA countries equal to 71 percent of U.S. demand. Volumes of the magnitude cannot possibly be in the public interest. It is for this reason that on January 31,

2019, IECA requested that the House Energy and Commerce Committee convene an oversight hearing on this important issue.[1]

REASONS THAT THE U.S. SHOULD LIMIT LNG EXPORT VOLUMES

1. The global LNG market is not a free market[2] and buyers of LNG who will compete for natural gas on the basis of price with U.S. consumers are state-owned enterprises (SOEs) and foreign government-controlled utilities with automatic cost pass-through. Their sole mission is to ensure that their country has sufficient natural gas supplies and that they have the ability to pay any price, no matter how high to secure it. When global LNG demand exceeds global supply, these entities have *market power* to buy natural gas at any price necessary to keep their countries operating. Eighty-eight percent of all LNG consuming countries have winter when we do, which means their winter demand will drive up U.S. natural gas and electricity prices. Price spikes and volatility will increase. Because the global LNG market is not a free market, it is prudent and in the public interest to limit exports of LNG.

2. Today's the U.S. natural gas market price is delinked from global markets and pricing impacts and it is for this reason the U.S. consumer is benefiting from lower prices. Lower prices have resulted in significant investment and good paying jobs in the manufacturing sector across the country. As U.S. LNG exports grow, the low U.S. natural gas price (Henry Hub $3 MMBtu) will become connected to the high global LNG prices (Asia $12 MMBtu), which increases the marginal price, increasing both natural gas and electricity prices for the entire U.S. market.

This is what has happened in Australia. The Australian example shows that using *market determined* levels of LNG exports is not in the public interest. Australia started exporting LNG in 1989 and has 70.65 MTPA of capacity operating and 16.95 MTPA under construction. Like the U.S., Australia has vast natural gas resources with growing production. Historically the consumer prices have been around $3.00 MMBtu. Now, because of LNG exports, the Australian consumer pays the *Asian LNG net back price*. This means that the Australian consumer pays the high Asian LNG price, less transportation and liquefaction costs, which has resulted in Australian domestic consumer prices at $8, $9, and $10 MMBtu. The net result is that the companies who own the nine operating LNG export terminals set the price for every Australian citizen, rather than the supply and demand of the Australian natural gas market. The Australian domestic market is no longer a free market and they no longer benefit from their vast natural gas resources.

The Australian Competition and Consumer Commission started publishing LNG netback prices in order to boost price transparency.[3] The Australian consumer net back prices have increased from 7.27 Gj in 2017 to 10.69 Gj YTD 2018, a 47 percent increase. In approving LNG export

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[1] https://www.ieca-us.com/wp-content/uploads/01.31.19_Letter-to-Hill-for-LNG-Oversight_Final.pdf

[2] "WoodMac: Uncontracted demand by world's seven largest LNG buyers to quadruple," LNG World News, December 13, 2018, https://www.lngworldnews.com/woodmac-uncontracted-demand-by-worlds-seven-largest-lng-buyers-to-quadruple/?utm_source=emark&utm_medium=email&utm_campaign=daily-update-lng-world-news-2018-12-14&uid=55872

[3] "Australian watchdog starts LNG netback price publication," October 2018, LNG World News https://www.lngworldnews.com/australian-watchdog-starts-lng-netback-price-publication/?utm_source=emark&utm_medium=email&utm_campaign=daily-update-lng-world-news-2018-10-05&uid=55872

terminals, the Australian government let markets determine the volume of exports, which has now directly caused disastrous impacts to consumers and the manufacturing sector as jobs continue to decrease.

FACTS ON U.S. NATURAL GAS RESOURCES

1. According to the EIA, by the end of 2019, U.S. LNG export capacity will double to 9 billion cubic feet a day (Bcf/d), a volume equal to 11 percent of U.S. 2018 demand. See Figure 1.

2. The DOE has already approved volumes to free trade agreement (FTA) countries equal to 58.1 Bcf/d, 71 percent of 2018 U.S. demand. For NFTA countries, 23.7 Bcf/d has been approved, a volume equal to 29 percent of 2018 U.S. demand, and volume pending approval is at 27.3 Bcf/d, or 33 percent of 2018 U.S. demand. These pending approvals are waiting for NEPA approval at the Federal Energy Regulatory Commission (FERC).

3. The FERC must provide an environmental permit before construction of an export terminal can begin. Figure 2 and 3 are from the FERC and display the enormous volume of LNG export capacity that has been approved and under construction, approved and not under construction, pending applications, and projects in pre-filing.

4. The U.S. has only 57 years of technically recoverable natural gas resources in the lower 48. The U.S. Energy Information Administration's Annual Energy Outlook (AEO) for 2019 states that the U.S. total demand that includes net exports from 2018 to 2050 is 1,277 Tcf. The EIA says there is 2,215 Tcf of technically recoverable resources. The EIA report also says that 85 percent of U.S. natural gas resources in the lower 48 are unproven. Page 2 of the EIA's oil and gas assumptions states that the "Estimates of TRR (technically recoverable resources) are highly uncertain, particularly in emerging plays where relatively few wells have been drilled."

FIGURE 1

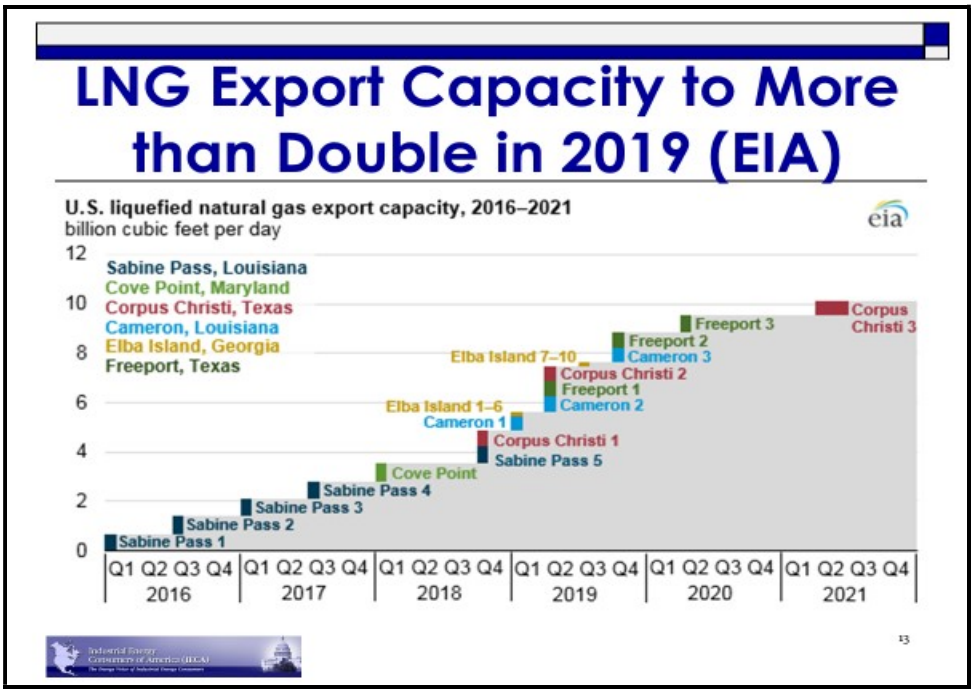


FIGURE 2

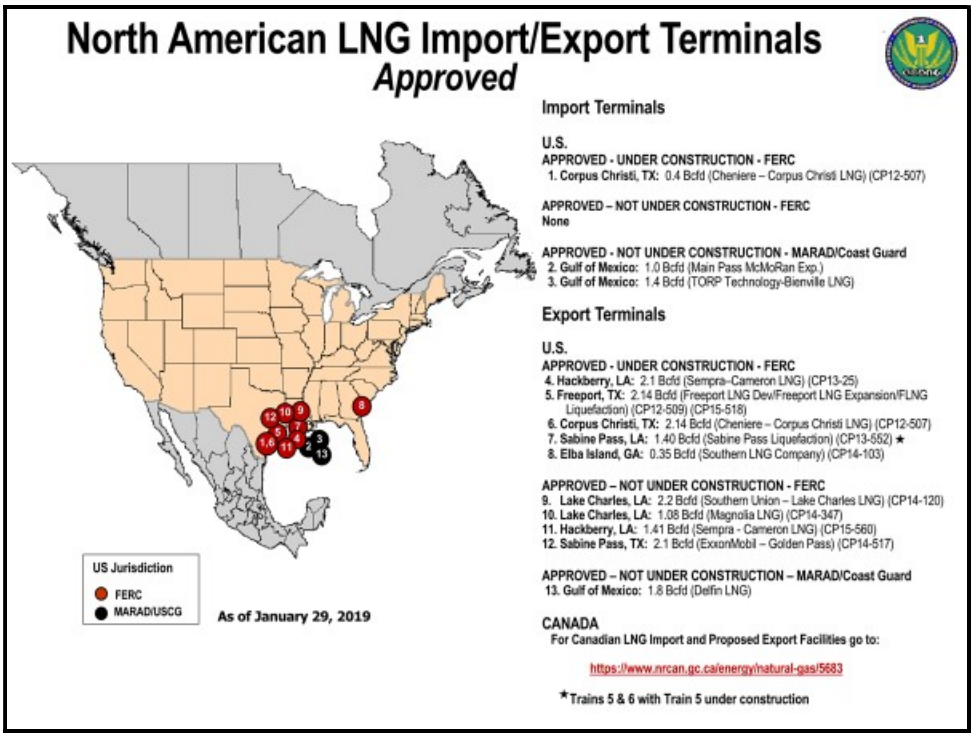
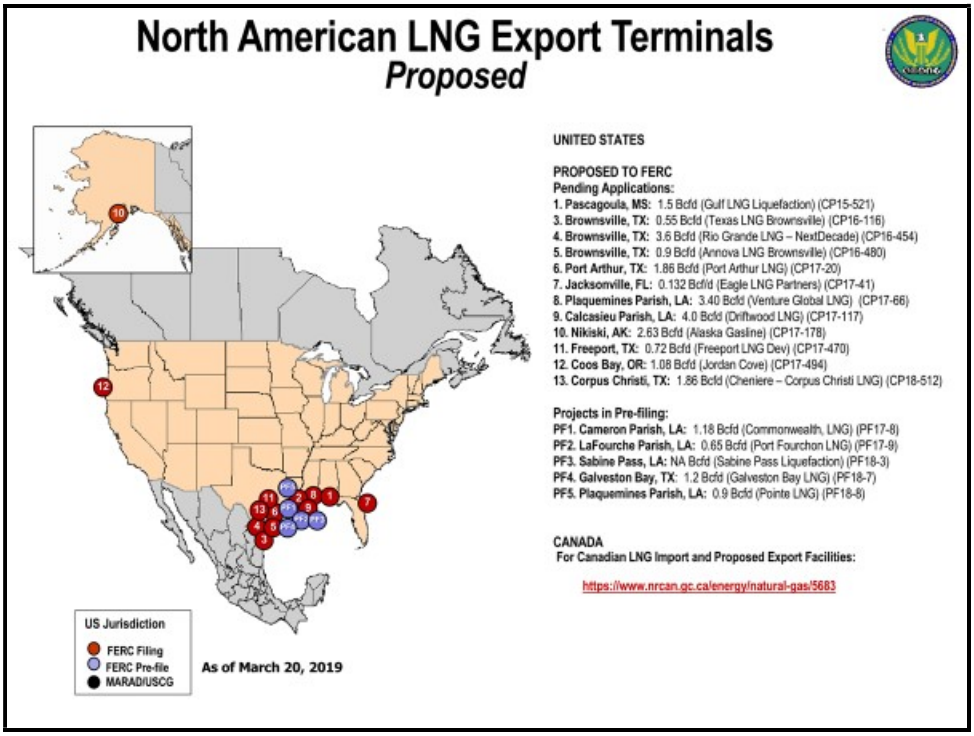


FIGURE 3



IECA and its member companies with facilities in Louisiana request a meeting with you to discuss this very important matter. According to the BLS, in 2018, Louisiana had 134.9 thousand

manufacturing jobs and only 32.4 thousand oil and gas jobs. These facts imply that you have more to lose than gain by accelerating LNG exports.

The DOE's intention to approve LNG export volumes equal to 52.8 Bcf/day, or 71 percent of U.S. 2017 demand to NFTA countries cannot possibly be in the public interest under the NGA and is unlawful.

Sincerely,

Paul Cicio
President

cc: U.S. House of Representatives

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 3,700 facilities nationwide, and with more than 1.7 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.