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

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October 3, 2014

The Honorable Fred Upton
Chairman, Committee on Energy and Commerce
U.S. House of Representatives
2183 Rayburn House Office Building
Washington, DC 20515

The Honorable Henry Waxman
Ranking Member, Committee on Energy and Commerce
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, DC 20515

RE: Australians' Gas Bills Soar Amid LNG Export Boom

Dear Chairman Upton and Ranking Member Waxman:

The Industrial Energy Consumers of America (IECA) would like to bring to your attention a September 25, 2014 Wall Street Journal article by Ross Kelly entitled, "Australians' Gas Bills Soar Amid Export Boom,"[1] which illustrates how unfettered Australian LNG exports have created serious economic threats to the Australian manufacturing sector and energy consumers. The article is a cautionary tale on why the U.S. should take a measured approach to approving LNG export terminals.

In Australia, domestic consumers are being asked to pay the Asian LNG export "net-back" price, which is the price of LNG in places like Japan and China which is at $16 per mmBtu, less the costs of liquefaction and transportation between those countries and Australia. For example, $16 per mmBtu of gas in China minus $4-5 liquefaction and transportation costs, nets back to Australia at $11-$12 mmBtu. That is the price that Australian consumers will be asked to pay. The government of Australia allowed unfettered approval of LNG exports and their domestic consumers have been severely impacted. The Australian government failed to protect their consumers from OPEC cartel crude oil-linked LNG pricing.

The U.S. net back price is $16 per mmBtu, minus $6 for liquefaction and transportation costs or $10 per mmBtu. This means that LNG exports will drive U.S. prices to at least $10 per mmBtu before they are equivalent to Asia's prices, then the U.S. will have lost its advantage.

Like the U.S., Australia has significant natural gas resources, and they are producing at an all-time high. Australia started exporting LNG in 1989 and has accelerated LNG exports. Public policymakers thought they had a lot of domestic natural gas for domestic consumption. However, they failed to understand that the natural gas resources were already committed under long-term contracts for shipments of LNG, making the LNG not readily available to domestic consumers and thus creating a shortfall.

Some key points from the Wall Street Journal article include:

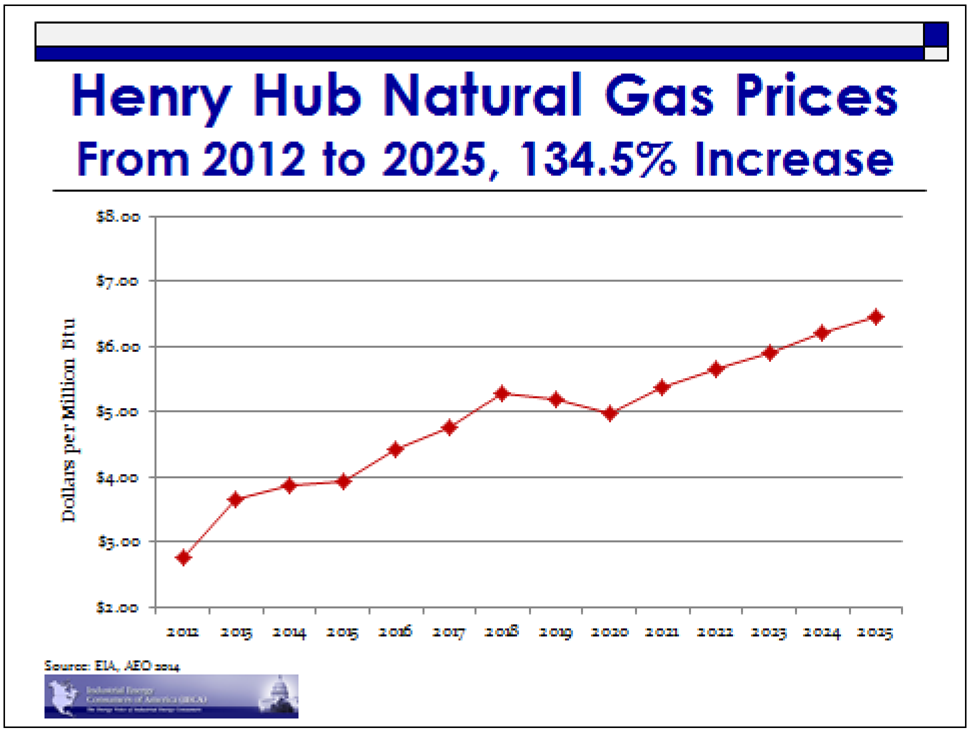
- Australian wholesale domestic gas prices have almost tripled over the past couple of years;
- In Australia's most populous state, New South Wales, a cross-industry pricing regulator recently warned that shrinking domestic supplies of natural gas could push the typical household gas bill up by as much as 18%;

[1] "Australians' Gas Bills Soar Amid Export Boom," Ross Kelly, Wall Street Journal, September 25, 2014, http://online.wsj.com/articles/australians-gas-bills-soar-amid-export-boom-1411665596#printMode

- Australian manufacturers accustomed to paying A$3-A$4 per gigajoule for long-term supply contracts will be competing with customers in Asia willing to pay up to A$18 a gigajoule, including LNG processing and shipping costs;
- Australia is on track to export three times what it consumes domestically by 2020;
- Australian manufacturers are rethinking their Australian investments in the wake of rising energy bills.

In the U.S., the Department of Energy (DOE) has already either fully approved or conditionally approved 11.2 Bcf/day in total volume to non-free trade countries, which represents a significant increase of 15.8 percent over U.S. 2013 natural gas demand. And, the Energy Information Administration's (EIA) AEO 2014 forecasts a rise in the Henry Hub natural gas prices by 134.5 percent by 2025, as compared to 2012 (see figure 1). Since 2012, Henry Hub prices have risen by 41.1 percent.

FIGURE 1



Natural gas is not a renewable resource. Unfettered LNG exports increase both natural gas and electricity costs, and reduce the manufacturing sector's ability to compete and create jobs. U.S. policymakers should look to the Australian LNG export example as a warning for what can occur due to escalating LNG exports.

Sincerely,

Paul N. Cicio
President

cc: House Committee on Energy and Commerce
The Honorable Ernest Moniz, U.S. Department of Energy