Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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March 23, 2016

Jordan Cove Energy Project, L.P.	**)**	**FE Docket No. 12-32-LNG**
	)	
Amendment Application	**)**	**Jordan Cove Energy Project, L.P.;**
	)	**Application for Long-Term**
	)	**Authorization to Export 350 Bcf/yr**
	)	**of Liquefied Natural Gas Produced from**
	)	**Domestic and Canadian Natural Gas**
	)	**Resources to Non-Free Trade Agreement**
	)	**Countries for a 25-Year Period**

NOTICE OF INTERVENTION, PROTEST AND COMMENT

The Amendment Application seeks to increase the volume of LNG, for which Jordan Cove Energy Project (Jordan Cove) requests export authorization, from the equivalent of 292 Bcf/yr to 350 Bcf/yr of natural gas (0.96 Bcf/d). The DOE/FE has not yet issued a final order on the Pending Application.

On March 11, 2016, the Federal Energy Regulatory Commission (FERC) issued a decision denying applications for approval and Section 3 authorizations for both the Jordan Cove LNG export terminal and the associated 232 mile pipeline, known as Pacific Connector, under Docket No. CP13-483-000 and Docket No. CP13-492-000 respectively.

In its decision, FERC states "Because the record does not support a finding that the Jordan Cove LNG Terminal can operate to liquefy and export LNG absent the Pacific Connector Pipeline, we find that authorizing its construction would be inconsistent with the public interest. Therefore, we also deny Jordan Cove's request for authorization to site, construct and operate the Jordan Cove LNG Terminal."

In the order denying the application, FERC describes on pages 7, 8, and 9 the many requests which Jordan Cove was asked to clarify what executed agreements it had for use of the pipeline and export of the LNG. In all cases Jordan Cove says they "had entered into non-binding Heads of Agreements with various Asian companies for liquefaction and transportation capacity." Therefore, they did not have firm contracts to sell the LNG or volume sufficient to justify the pipeline.

1. The FERC March 11 decision is correct.

Multiple studies report the same conclusion, that there is a worldwide glut of LNG. Multiple studies indicate that it could take until 2030 for global supplies to balance.[123456789]

[1] "LNG glut seen persisting until 2022 but market won't fail, Citigroup says,"

2. A U.S. Government Accountability Office (GAO) report[10] says that neither Congress, nor the DOE, has ever defined "public interest." DOE is using guidelines developed in 1984 for imports to inform LNG export public interest decisions.

The GAO report entitled, "Federal Approval Process for Liquefied Natural Gas Exports," dated September, 2014 includes the following statement on page 11.

> In passing the NGA, Congress did not define "public interest;" however, in 1984, DOE developed policy guidelines establishing criteria that the agency uses to evaluate applications for natural gas imports. The guidelines stipulate that, among other things, the market - not the government – should determine the price and other contract terms of imported natural gas. In 1999, DOE began applying these guidelines to natural gas exports."

Criteria used for decision-making on LNG imports should not be used to inform decision-making on LNG exports. In 1984, LNG imports were needed and they reduced risks of all kinds to domestic consumers and manufacturers. LNG exports will do the reverse. There is all pain and no gain for consumers. LNG exports, according to the DOE report, "The Macroeconomic Impact of Increasing US LNG Exports," will reduce the price that Asian countries pay and increase U.S. prices and eventually, our prices will reach parity with Asia, and the U.S. will have lost its competitive advantage. Importantly, manufacturers will have lost their competitive advantage, with very serious long-term implications for a viable manufacturing sector, jobs, and investment.

IECA is not against exports. We are against excessive exports that can occur, because the DOE has not developed appropriate consumer focused "public interest" guidelines.

The DOE needs to conduct a rulemaking to establish public interest guidelines for LNG exports. DOE and FERC should not give final approval to any LNG export application without having established these guidelines and evaluated the each LNG terminal application using the guidelines.

3. FERC should not approve LNG export terminals that will not be constructed near-term; otherwise the original "public interest" finding will no longer be valid.

Sydney Morning Herald, March 17, 2016.
[2] "LNG oversupply likely to persist for rest of the decade: Analyst, Huileng Tan, CNBC, March 8, 2016.
[3] 'The 'Golden Age of Gas' Flames Out,' Wall Street Daily, December 7, 2015.
[4] Joseph Markman, 'Projects'' Progress Could Mena a World Awash in LNG', E&P Mag, September 8, 2015.
[5] 'LNG oversupply could lead to 'blood on the battlefield', Business News (Australia) February 26, 2016.
[6] 'LNG Golden Promise Fading for Goldman on Wave of Oversupply', Bloomberg Business, November 4, 2015.
[7] 'LNG oversupply could lead to 'blood on the battlefield', Business News (Australia) February 26, 2016.
[8] 'LNG Golden Promise Fading for Goldman on Wave of Oversupply', Bloomberg Business, November 4, 2015.
[9] http://af.reuters.com/article/commoditiesNews/idAFL3N16U5C4?sp=true.
[10] "Federal Approval Process for Liquefied Natural Gas Exports," U.S. Government Accountability Office (GAO), September 2014.

Jordan Cove and all other applications to export are reviewed by the DOE to determine whether an application to export LNG to non-free trade countries is not in the "public interest." The DOE review process of LNG applications is a "snap-shot" in time analysis of supply, demand, economic impact, among other factors. If an applicant does not build the LNG export terminal right away, the assumptions and findings associated with the public interest determination are no longer valid. Any macroeconomic study covering long-term periods of time, such as 25 years, will be incorrect. Even the Federal Reserve and the EIA forecasts are never remotely correct over long-term periods. The longer the time period the greater the inaccuracy.

It is important to note that all of the DOE sponsored macroeconomic LNG export studies cite very small economic gains from LNG exports. This provides even more reason for FERC to ensure that these LNG facilities have firm "long term" contracts to sell LNG and that the facilities are going to be built near-term. If they are not constructed in the near term, FERC should require the DOE to redo the public interest determinations.

The last 18 months have brutally demonstrated that the oil and gas market can and does have significant violent swings. No one predicted the incredible drop in crude oil and natural gas prices and the resulting catastrophic drop in drilling investment in the U.S., which will have a large impact in the future production of natural gas for the next decade or more. The entire restructuring of the oil and gas industry and its economics have changed and the DOE macroeconomic modeling used to originally provide conditional approval of LNG export applications is questionable at best.

4. DOE cannot use the recent study entitled, "The Macroeconomic Impact of Increasing US LNG Exports" as a reference for comments on the amended Jordan Cove application.

This DOE sponsored study evaluates the economic impact of quantities of LNG exports of 12-20 bcf/d. The incremental volume associated with this application request for an increase in export volume of Jordan Cove would not take U.S. export levels to the threshold of 12 bcf/d.

If DOE and FERC use this study, then it is important for IECA to point out one of several important perspectives from the study that should raise questions in its use.

IECA disagrees with the following major conclusions:

> **An increase in LNG exports from the United States will generate small declines in output at the margin for some energy –intensive, trade exposed industries.**
>
> **Negative impacts in energy-intensive sectors are offset by positive impacts elsewhere.**

The study analysis fails to consider the "relative competitive cost impact" to EITE industries of LNG exports. One study bullet point reads: "In every case, greater LNG exports raise domestic prices and lower prices internationally. The majority of the price movement (in absolute terms) occurs in Asia." Page 17 of the study says that LNG exports increasing from 12 Bcf/d to 20 Bcf/d during 2026 and 2040, reduces prices in the Asian-Pacific market by 73 cents per million British thermal units, while increasing U.S. prices by 15 cents per million British thermal units – a combined net negative relative impact to competitiveness of 88 cents, or **a 40% equivalent increase, as compared to current prices**. A 40 percent impact to relative competitiveness is very significant and is not addressed in the study cost impacts.

Page 76 of the study states, "The largest increase in [LNG] exports occurs in the HRR cases, and it is in these cases where we see the largest increase in Henry Hub (topping out at $0.86 in the late 2030's) and the largest decrease in JKM (approaching $5.50 by 2040)." This means that our global competitors would see a decrease in prices of $5.50, while U.S. prices would rise $0.86, for **a total negative competitive impact of $6.36**. This would represent a substantial negative impact to U.S. EITE competitiveness.

The analysis also does not take into consideration existing energy subsidies (including subsidies for natural gas) provided by countries that U.S. EITE industries compete against. Several Asian countries subsidize natural gas to industrial companies, including China. China represents about 70 percent of the U.S. manufacturing trade deficit.

The Industrial Energy Consumers of America (IECA) wishes to intervene and be made a party to this proceeding, with all of the rights attendant to such status pursuant to 10 C.F.R. 590.303(b).

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 2,900 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, automotive, brewing, independent oil refining, and cement.