November 29, 2013

The Hon. Ernest Moniz
Secretary of Energy
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

RE: LNG Export Approval and Rescission Process

Dear Mr. Secretary:

Recently, calls have come from various narrow special interests urging you to reevaluate both the process for the approval of license applications for export of liquefied natural gas (LNG) and the process for rescission of already-issued export licenses.

We are writing both to remind you of the many reasons for expediting LNG export license applications, and to respond to a wide variety of assertions put forth in letters by America's Energy Advantage (AEA) and the Industrial Energy Consumers of America (IECA).

The reasons for expediting LNG export license applications are manifold.

1. LNG exports will support a price level that will stimulate continued development of gas.

U.S. shale gas production, which has risen by 50 percent over the 2007-2012 period, has contributed to a fall in natural gas prices. From a high of $11.00 per million cubic feet in 2008, the price has dropped to a current wellhead price of about $3.70 per million cubic feet. Most analyses forecast that prices will remain below $5.00 MMBtu over the next five to ten years.

Most of the increase in demand for natural gas between now and 2018 will come from the power generation sector, approximately 5.1 Bcf/day, according to a recent report by Bentek Energy. Residential, commercial, and industrial demand, as well as exports, will add increments to overall gas demand that are much smaller than those from power generation.

By 2018, potential domestic production will have increased by 14.3 Bcf / day, but domestic demand will have increased by only 8.3 Bcf/day. Accordingly, LNG exports and pipeline shipments to Mexico can fill the gap between the fast-growing U.S. natural gas production capacity and the slower growing domestic demand for gas.

A number of analyses have concluded that LNG exports in the range of 6 to 12 Bcf / day would not have a significant impact on domestic prices. And the Bentek Energy report predicts that natural gas prices in the U.S. should remain in the range of $4.18 MMBtu through 2018.

Without the added demand from abroad for U.S. LNG, supply will outstrip demand to such an extent that exploration and production will suffer. A Brookings Institution study notes that the costs associated with producing, processing, and shipping gas, and the global market in which U.S. gas will compete, will place upper bounds on the amount of LNG that will be economic to export. (Liquid Markets: Assessing the Case for U.S. Exports of Liquefied Natural Gas, May 2012)

2. LNG exports and the continued development and exploration that it will stimulate will create jobs and economic growth

LNG exports would spur significant gains in nationwide employment, resulting in net job growth of between 73,100 to 452,300 net jobs between 2016 and 2035.[1]

And the net effect on U.S. GDP is very positive, ranging from $15.6 to $73.6 billion per year between 2016 and 2035. This includes the impacts of associated liquids production, increases in the petrochemical manufacturing of olefins, and all economic multiplier effects. [2]

According to a new report from ICF International, [U.S. LNG Exports: State-Level Impacts on Energy Markets and the Economy], over half of all states could *each* see over $1 billion in state income gains from LNG exports by 2035 and at least 6,000 net jobs.

In natural-gas producing states, LNG exports could contribute as much as $10 to $31 billion cumulatively per state to their economies by 2035. This includes states such as Texas, Louisiana, and Pennsylvania. Employment in natural gas-producing states could see employment gains as high as 60,000 to 155,000 jobs by 2035. And large manufacturing states, such as California and Ohio, will see employment gains upwards of 30,000 to 38,000 jobs by 2035.

Non -producing states will also benefit, due to the boost in demand for steel, cement, equipment, and other goods. According to the report, states with a large manufacturing base, such as Ohio, California, New York, and Illinois, will see economic gains as high as $2.6 to $5.0 billion per state by 2035.

3. LNG exports will reduce our trade deficit

LNG exports provide a compound attack on the trade deficit. Domestic exploration and production, stimulated by increased export demand, will mean less need for imports of energy. Moreover, the continued competitive advantage of inexpensive natural gas will cause US manufactured products to maintain a cost advantage versus imported manufactured goods. And of course LNG exports themselves will lower America's trade deficit directly every time a ship loaded with LNG leaves port. All in all, the trade deficit is projected to be reduced by more than $164 billion in 2020, according to the IHS.[3] In fact, one terminal alone has the capacity to reduce the U.S. trade deficit by between $2 billion and $8 billion.

4. LNG exports will enhance the US geopolitical position

The United States is in a unique geopolitical position to benefit from its new energy status. Europe remains highly dependent on Russia for natural gas, which supplies 34 percent of its total natural gas imports. Russia has a long record of attempting to exert as much influence as possible in Europe and Asia through gas exports. Japan has suffered from enormous spikes in energy after shutting down its nuclear reactors in response to the Fukushima disaster. LNG exports from the United States can provide our allies and trading partners with an inexpensive, reliable source of energy. This cannot help but place the United States in a more favorable geopolitical position.

Support for increased LNG exports here at home is broad and deep. In the U.S. Congress, 34 members of the Senate and 110 members of the House have expressed support for expediting LNG exports. They join nine governors and a plethora of state-level officeholders. A host of editorial boards, think tanks, trade associations, economists, experts and academics also support LNG exports.

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[1] ICF International: "U.S. LNG Exports: Impacts on Energy Markets and the Economy," May 2013, p.106
[2] Id at p.107
[3] IHS, "America's New Energy Future: The Unconventional Oil and Gas Revolution and the US Economy," September 2013

Despite all these positive reasons for supporting LNG exports and expediting the licensing approval process, misinformation and obfuscation is still being offered up to the Department by opponents of LNG exports. We would like to correct the record.

- One argument holds that a LNG export license should be up for reconsideration at any time. We wholeheartedly disagree. Obviously, injecting that level of uncertainty would kill off investment in what are multi-billion dollar investments. These investments requiring the recoupment of costs over a long, multi-year timeframe. Investors in a given project rely on the assurance that the project will remain open over that period. Moreover, holding up exports would cause us to be in violation of WTO rules.

- It has been argued that the current rescission policy "picks winners and losers." This argument distorts reality. In fact, re-opening a license approval in the middle of a going concern would open the government to picking winners and losers - based on the whims of certain manufacturers. Capital investments in the manufacturing sector are subject to market forces just the same as energy producers are. Manufacturers and other industries are always subject to changes in prices of inputs, including raw materials, labor, capital and energy. These are, simply stated, market forces.

- Some groups, such as the IECA, complain about the export license approval process as being unfair to "consumers." We do not halt or hinder the export of other commodities in other sectors in the event the domestic price rises; why would we in the case of natural gas? IECA and ACA ignore the already-significant delays, in months and years, the export license approval process has imposed upon projects.

- Many of the arguments against LNG exports misunderstand or misrepresent how LNG exports will be priced. Currently the world market price of gas is pegged to the price of oil. This is much higher than the U.S. domestic price of gas. American exporters will typically be engaged in long-term contracts with fixed prices, linked to Henry Hub prices, not world oil prices. U.S. LNG exports will actually undercut the world market price.

It should be clear that LNG exports from the United States are in the broad public interest. The only reason for denying export license applications would be if one were to define the "public interest" as assuaging the fears of a small band of special interests.

For all the foregoing reasons, the Department of Energy should reject arguments that allow for the rescission of export licenses, and it should expedite all pending applications as being in the public interest.

Respectfully submitted,

Margo Thorning, Ph.D
Senior Vice President and Chief Economist
American Council for Capital Formation