AMERICAN PUBLIC GAS ASSOCIATION

February 5, 2013

The Honorable James M. Inhofe
U.S. Senator
205 Russell Senate Office Bldg.
Washington, DC 20510

Dear Senator Inhofe,

On behalf of the American Public Gas Association (APGA), I would like to express our strong concerns regarding your recently introduced legislation, *the Expedited LNG for American Allies Act of 2013*. Though intending to aid North Atlantic Treaty Organization (NATO) allies and Japan by providing them with Free Trade Agreement (FTA) status with respect to domestic natural gas is an understandable objective, in reality it will increase domestic natural gas prices for consumers, sacrifice America's best chance to address our dependence on foreign oil, stifle a manufacturing renaissance, and will not guarantee that U.S. produced gas is actually sold to NATO countries or other allies, thereby likely negating any potential geopolitical benefits.

APGA is the national association for publicly owned natural gas distribution systems. There are approximately 1,000 public gas systems in 36 states and over 700 of these systems are APGA members. Publicly owned gas systems are not-for-profit, retail distribution entities owned by, and accountable to, the citizens they serve. They include municipal gas distribution systems, public utility districts, county districts, and other public agencies that have natural gas distribution facilities.

As you may know, over 20 applications for the export of LNG have been filed at the Department of Energy (DOE), with a total export capacity of 31.41 Bcf/day. If all of these projects were to be constructed, U.S. daily production of natural gas would have to increase by almost 48 percent to accommodate the demand from foreign countries. Common sense and simple economics dictate that this large-scale export of natural gas will cause the domestic price of natural gas to significantly increase.

This assertion regarding the impact of LNG exports on domestic gas prices is substantiated by both of the DOE studies on the subject. The Energy Information Administration (EIA) study on exports, titled *Effect of Increased Natural Gas Exports on Domestic Energy Markets*, projected that domestic natural gas prices would increase

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from 3-9 percent and electricity by 1-3 percent.[1] APGA believes that this study significantly understates the potential consumer price increases due to reliance on outdated economic data.

Similarly, the DOE commissioned NERA Economic Consulting study, titled *Macroeconomic Impacts of LNG Exports from the United States,* succinctly stated that "U.S. natural gas prices increase when the U.S. exports LNG."[2] The NERA study also demonstrates that other significant negative externalities occur when exporting LNG, including:

- Wages and return on capital for individuals and businesses outside of natural gas production decline.[3]

- Almost all sectors of the economy (other than natural gas production) suffer job losses and decreased output.[4]

In short, the debate about price increases is over. Exporting natural gas leads to higher prices for individuals and businesses and has other serious employment, wage, and investment consequences, all in the name of increasing profits for a few.

The addition of NATO allies and Japan as effective FTA partners in natural gas has the potential to exacerbate the negative impacts of LNG exports. If your legislation becomes law, exports of natural gas to these 28 countries, as well as any number of potential countries as determined by the Secretaries of State and Defense will occur automatically without regard for the significant domestic price increases, which would undoubtedly occur at the expense of natural gas consumers.

LNG exports will also have serious consequences for America's best opportunity to reduce its dependence on foreign oil in the form of natural gas vehicles (NGVs). NGVs are currently price competitive with conventional gasoline vehicles and are an attractive option for businesses and consumers due to significant fuel cost savings. The price of compressed natural gas (CNG) is currently low due to the fact that the natural gas market is largely limited to North America and due to abundant shale gas resources. In fact, consumers can save $1-2/gallon compared to gasoline or diesel, providing economically viable payback periods and lifecycle fuel cost savings, while also improving America's trade deficit by removing the need for imported oil to power our transportation sector.

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[1] *Effect of Increased Natural Gas Exports on Domestic Energy Markets*, U.S. Energy Information Administration (Jan. 2012) ("EIA Export Report"), p. 6.
[2] *Macroeconomic Impacts of LNG Exports from the United States*, NERA Economic Consulting (Dec. 2012), ("NERA Study"), p. 2.
[3] NERA Study, pgs 7 and 9.
[4] NERA Study, pgs.7-9

However, if large-scale export of LNG occurs, as your legislation would facilitate, then the fuel cost savings between CNG and gasoline/diesel will shrink, making NGVs less competitive. By making NGVs less economical, the transportation system will remain dependent on foreign oil, thereby exacerbating the U.S. trade imbalance.

The consequences for our country's manufacturing renaissance would likely be similarly devastating. Industry is poised to invest billions of dollars in new petrochemical plants, ethane crackers and other natural gas intensive facilities in the U.S. based on the promise of sustainably low domestic natural gas prices.[5] For example, Sasol North America, Inc. is currently considering investing in the first gas-to-liquids plant in the U.S., an innovative technology for producing diesel and other liquid fuels without oil; and U.S. natural gas prices are a primary consideration regarding whether the investment will go forward.[6] If large-scale exports go forward (as intended by your legislation), Sasol, Dow, and other manufacturers, which have $90 billion in private investment in new manufacturing capacity,[7] may well be lost due to the fact that energy intensive industries have a highly elastic demand for natural gas. If the price of natural gas rises, manufacturers will stop their plans to invest and create new jobs in many communities throughout the U.S., and relocate their plants overseas.

Given these drastic adverse consequences to U.S. consumers and businesses of large-scale LNG exports, it is important to consider whether your legislation would accomplish its stated objectives. The objectives you stated for your legislation can be summarized as follows:

1. Provide energy for allies and friends while decreasing their need for natural gas and oil from Russia and Iran; and,
2. Create new jobs and economic opportunities for Americans through LNG export.

APGA believes that there are legitimate questions as to whether your legislation will achieve its primary and secondary objectives. It is highly unlikely that your legislation will achieve its primary objective of reducing our allies' dependence on natural gas and oil from such countries as Russia and Iran as there is no mechanism to ensure that natural gas exported from the U.S. will actually be sold to any of our allies or friends. As you know, natural gas will be sold where the price is highest; and the geopolitical interests of the U.S. or our allies will not be considered when producers are determining to which country the natural gas will be sold.

As for the second of your legislative objectives, a wide range of studies project the contrary for almost all sectors of the economy other than natural gas producers. The

[5] Press Release, Dow Chemical, *DOE Report on LNG Exports Short Changes Manufacturing and U.S. Competitiveness* (Dec. 6, 2012) available at http://www.dow.com/news/press-releases/article/?id=6138.
[6] Clifford Kraus, *South African Company to Build U.S. Plant to Convert Gas to Liquids*, New York Times (Dec.3, 2012).
[7] Press Release, Dow Chemical, *DOE Report on LNG Exports Short Changes Manufacturing and U.S. Competitiveness* (Dec. 6, 2012) available at http://www.dow.com/news/press-releases/article/?id=6138.

NERA study referenced above projected that natural gas producers would receive almost all of the economic benefits, while individuals (unless they own stock in a producer company) and other businesses would only experience increased energy prices, decreased wages and return on capital, and job losses. We believe that the widespread costs which will be borne by all other sectors of the economy (other than natural gas producers and investors in LNG export) will far outweigh any potential economic benefit.

APGA strongly believes that the U.S. is at a crossroads. Natural gas has a tremendously important role to play in keeping energy prices affordable for U.S. consumers, reducing our dependence on foreign oil, and reviving domestic manufacturing. No matter how well-intentioned, exporting LNG threatens those three objectives in the name of short term profits for investors in LNG export projects and for producers as a result of the projected price increases with which we will be hit.

Countries with undeveloped economies export their raw material. We should not place America on this list. In lieu of exporting our affordable premium fossil fuel, we should focus on adopting policies that encourage greater domestic demand. It is a much better choice, in both the short- and long-term, to accelerate the transition from imported oil to domestic natural gas to fuel our transportation sector.

For all of the above reasons, which we would be pleased to discuss with you, APGA urges you to reconsider your position and to withdraw the subject legislation.

I thank you for your time and consideration.

Sincerely,

Bert Kalisch
President & CEO