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MAR 2 5 2011

Mr. John A. Anderson
Manager, Natural Gas Regulatory Activities
Office of Oil and Gas Global Security and Supply
Office of Fossil Energy

Dear Mr. Anderson

Having reviewed the FLEX application to export up to 9 mtpa of domestic LNG, I can see no reason that this application should be rejected. Economic efficiency dictates that scarce natural resources should be directed to the uses in which they are most valuable. The potential excess supply of domestic LNG at world prices, coupled with high demand for LNG in export markets, warrants the export of some of our domestic LNG to markets where it is more highly priced and valued. To prohibit exports would be to depress domestic natural gas prices, causing increased domestic consumption and decreased domestic production. Neither of these outcomes is economically desirable, the increased consumption coming from falsely low price signals, and decreased production meaning suboptimal reduction of the extraction and use of the resource in world markets.

My only concern with the application is that the few initial export terminal operators will have some market power over setting the price at which they buy gas for export, and as such domestic producers may not reap the full benefit of the higher export prices. This problem is alleviated as more and more export terminals are constructed, creating competition amongst the terminal operators, which will raise the price that they pay for domestic gas up to the price they receive for exports. Your office should therefore encourage additional applications for export terminals and have these up and running as soon as market conditions allow.

My graduate mineral and energy policy class took on this FLEX application for LNG export as a class assignment, and my comments above are the consensus of the group. Our hope is that special interest groups who will be harmed by these exports, the exports ultimately raising the domestic price of natural gas, will not prevail in their objections. We note that the natural gas using industries have already voiced their objections publically, claiming that the higher domestic prices will hurt gas-using industries in the US. Prohibiting exports on this ground would only serve as a form of trade protection for these industries, who, if they cannot compete globally when paying the “true” price of gas that reflects its global scarcity, should instead be encouraged to restructure their businesses such that they use less energy or switch to energy sources that are relatively less scarce.

Sincerely,

Graham A. Davis
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Division of Economics and Business
Colorado School of Mines

PUBLIC SUBMISSION

As of: March 28, 2011
Received: March 25, 2011
Status: Pending_Post
Tracking No. 80c10e7c
Comments Due: March 28, 2011
Submission Type: Web

Docket: DOE-HQ-2011-0013
Application for Long-Term Authorization to Export Liquefied Natural Gas: Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC

Comment On: DOE-HQ-2011-0013-0001
Application for Long-Term Authorization to Export Liquefied Natural Gas: Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC

Document: DOE-HQ-2011-0013-DRAFT-0006
Comment on FR Doc # 2011-01812

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General Comment

See attached file(s)

Attachments

DOE-HQ-2011-0013-DRAFT-0006.1: Comment on FR Doc # 2011-01812