

UNITED STATES OF AMERICA  
BEFORE THE  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY



Gulf Coast LNG Export, LLC

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FE Docket No. 12-05-LNG

**MOTION FOR LEAVE TO INTERVENE AND PROTEST OF  
THE AMERICAN PUBLIC GAS ASSOCIATION**

Pursuant to Sections 590.303 and 590.304 of the Administrative Procedures with Respect to the Import and Export of Natural Gas,<sup>1</sup> the American Public Gas Association (“APGA”) files this motion to intervene and protest in the above captioned proceeding. In support, APGA states the following:

**I. COMMUNICATIONS**

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<sup>1</sup> 10 C.F.R. §§ 590.303, 590.304 (2012).

## II. INTERVENTION

APGA is the national, non-profit association of publicly-owned natural gas distribution systems, with some 700 members in 36 states. Overall, there are some 950 publicly-owned systems in the United States. Publicly-owned gas systems are not-for-profit retail distribution entities that are 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. APGA members purchase interstate natural gas transportation services, usually as captive customers of a single interstate pipeline, at rates and under terms and conditions that are regulated by the Federal Energy Regulatory Commission (“FERC”). APGA’s members are active participants in the domestic market for natural gas where they secure the supplies of natural gas to serve their end users.

On January 10, 2012, Gulf Coast LNG Export, LLC (“Gulf Coast”) filed an application in FE Docket No. 12-05-LNG seeking long-term, multi-contract authorization to export approximately 2.8 billion cubic feet per day (“Bcf/d”) of domestically produced liquefied natural gas (“LNG”) by vessel (“Application”). Gulf Coast seeks authorization to export LNG from a yet to be developed LNG export terminal at the Port of Brownsville, Texas, to any country that has or in the future develops the capacity to import LNG, and with which trade is not prohibited by U.S. law or policy. Gulf Coast’s application in the instant docket requests authority to export LNG both to nations with which the United States has, or enters into, a Free Trade Agreement requiring national treatment for trade in natural gas (“FTA Nations”) and non-FTA Nations.

APGA has a direct and substantial interest in this proceeding that cannot be adequately represented by any other party. APGA respectfully submits that good cause exists to grant its motion to intervene.

### III. PROTEST

Gulf Coast's request for authority to export domestically produced LNG to non-FTA Nations is inconsistent with the public interest and should be denied. Earlier this year, the U.S. Energy Information Administration ("EIA") released a report on the effect of LNG exports in response to a U.S. Department of Energy Office of Fossil Energy ("DOE/FE") inquiry.<sup>2</sup> The EIA Export Report concludes that exporting domestic LNG will significantly increase domestic natural gas prices. In addition, EIA recently issued its Annual Energy Outlook 2012 ("*AEO2012*"), which substantially reduces the level of estimated technically recoverable natural gas in the United States. These new assessments undermine the basis for Gulf Coast's application, which is premised on the assumption that vast recoverable reserves will keep domestic gas prices low despite LNG exports.

Instead, it appears likely that exports will lead to potentially significant price increases that will jeopardize the viability of natural gas as a "bridge-fuel" in the transition away from carbon-intensive and otherwise environmentally problematic coal-fired electric generation. Inflated natural gas prices will also inhibit efforts to foster natural gas as a transportation fuel, which is important to wean the U.S. from its historic, dangerous dependence on foreign oil. Furthermore, high natural gas prices and resulting increases in the price of electricity will reverse the nascent trend toward renewed domestic manufacturing before it gains momentum.

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<sup>2</sup> *Effect of Increased Natural Gas Exports on Domestic Energy Markets*, U.S. Energy Information Administration (January 2012) ("EIA Export Report").



Eventually, Gulf Coast's plan to export LNG will not prove economically viable.

Economically recoverable domestic natural gas may prove even less robust than the revised projections, especially given looming environmental costs and regulations. Foreign alternatives will one day remove the price arbitrage opportunity that Gulf Coast seeks to take advantage of, as natural gas reserves and export capacity expand around the world.

#### **A. Background**

So far, fourteen companies have applied to export domestically produced LNG from the contiguous United States to FTA and Non-FTA nations based on the promise of huge unconventional domestic gas reserves.<sup>3</sup> Most of those fourteen applicants own or are affiliated with companies that own existing or previously planned LNG import terminals. The total export capacity applied for to date is 18.70 Bcf/d and 14.61 Bcf/d to FTA and Non-FTA nations, respectively.<sup>4</sup> Total marketed natural gas production was approximately 66 Bcf/d in the U.S. in 2011;<sup>5</sup> therefore, based on current marketed production, the total applied for export capacity would result in roughly 27% of current marketed production leaving the country. The combined volume of requested export authority is substantial by any measure.

At 2.8 Bcf/d or 1.02 trillion cubic feet per year ("Tcf/d"), Gulf Coast's application is the single largest export request by volume. According to Gulf Coast, based on 2011 projections of gas demand, the Gulf Coast project would singlehandedly increase total domestic demand for natural gas by 3.9% in 2018, the year exports are anticipated to commence.<sup>6</sup> All told, over the 25

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<sup>3</sup> Summary: Long-Term Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower-48 States (as of July 16, 2012), available at [http://fossil.energy.gov/programs/gasregulation/Long\\_Term\\_LNG\\_Export\\_Concise\\_07-16-12.2.pdf](http://fossil.energy.gov/programs/gasregulation/Long_Term_LNG_Export_Concise_07-16-12.2.pdf)

<sup>4</sup> *Id.*

<sup>5</sup> EIA Export Report at 1.

<sup>6</sup> Application at 13.

years of requested export authorization, Gulf Coast could export up to 25.55 Tcf, which is equivalent to just over a year's worth of total domestic demand for natural gas.<sup>7</sup>

### **B. Gulf Coast Failed to File Sufficient Information with Its Application**

Typically, the DOE/FE grants authority to export a requested quantity of LNG to any nation that has, or develops, the capacity to import LNG and with which the United States has, or enters into, a Free Trade Agreement requiring national treatment for trade in natural gas ("FTA Nations") relatively quickly after receiving an application.<sup>8</sup> The DOE/FE grants this authority pursuant to NGA section 3(c), which provides that applications to export shall be "deemed to be consistent with the public interest" and must be "granted without modification or delay."<sup>9</sup>

In this instance, however, the DOE/FE has hesitated to authorize exports even to FTA Nations, because Gulf Coast's application is, essentially, incomplete. DOE/FE has authority under NGA section 3(c) to "ensure that applications are filed with sufficient information to confirm that the applicant is engaged in a meaningful (*i.e.*, not frivolous) effort to undertake natural gas export or import activities."<sup>10</sup> Gulf Coast failed to file sufficient information with its application to confirm that it is engaged in a meaningful effort to export LNG.

There is no LNG terminal or even a previously planned terminal at the Port of Brownsville. Instead, Gulf Coast only has an option to lease property from the Port of Brownsville, should its export plans begin to coalesce.<sup>11</sup> In addition, Gulf Coast remains vague in its business plan. Gulf Coast provides little information other than statements that "some of

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<sup>7</sup> *AEO2012* at 111 (total domestic natural gas consumption was 24.13 Tcf in 2010; EIA projects that total domestic natural gas consumption will rise to 25.39 Tcf by 2015).

<sup>8</sup> *See, e.g., Cameron LNG, LLC*, FE Docket No. 11-145-LNG, DOE/FE Order No. 3059.

<sup>9</sup> 15 U.S.C. § 717b(c) (2011).

<sup>10</sup> *Jordan Cove Energy Project, L.P.*, FE Docket No. 11-127-LNG, DOE/FE Order No. 3041.

<sup>11</sup> *See* E-mail from Gulf Coast LNG, LLC to DOE/FE filed May 16, 2012, in FE-Docket No 12-05-LNG.

the proposed exports may be secured through long-term contracts, large volumes are likely to be acquired on the spot market,”<sup>12</sup> and “the title holder at the point of export may be Gulf Coast or one of Gulf Coast’s [Liquefaction Tolling Agreement (“LTA”)] customers, or any other party that has purchased LNG from an LTA customer pursuant to a long-term contract.”<sup>13</sup> Gulf Coast itself does not appear to be a well established business entity, but rather a sole proprietorship owned entirely by an individual and his family<sup>14</sup> that was created just prior to submitting its application in the instant proceeding requesting export authority.<sup>15</sup> The Application provides almost no information about Gulf Coast, and the company does not appear to have a website.

Gulf Coast’s plans are too vague for its application to be deemed “meaningful” without more information regarding the ability of the company to establish an export terminal, the source of natural gas to be exported, and the contractual arrangements underpinning those planned exports.

Furthermore, the DOE/FE has a duty to ensure that Gulf Coast’s request for broader export authority to non-FTA Nations is not inconsistent with the public interest pursuant to NGA section 3(a).<sup>16</sup> APGA respectfully submits that Gulf Coast’s proposal to export domestically produced LNG to non-FTA Nations is inconsistent with the public interest because it is essentially incomplete, will increase domestic natural gas and electricity prices, and will limit natural gas supply at a time when the nation has an opportunity to forge a path toward energy

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<sup>12</sup> Application at 6.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* at 2-3 (Michael Smith owns 97% of Gulf Coast Stock; the Kaily Morgan Smith Irrevocable Trust and the Tara Marielle Smith Irrevocable Trust each own 1.5%).

<sup>15</sup> Delaware records indicate the Gulf Coast LNG Exports, LLC was incorporated on December 19, 2011, less than a month before it filed its application in the present docket.

<sup>16</sup> 15 U.S.C. § 717b(a) (2011).



independence. Ultimately, exports by Gulf Coast will fail to compete with natural gas exports by other nations.

### **C. Exports Will Increase Domestic Natural Gas Prices**

The “public interest analysis of export applications” should be “focused on *domestic* need for natural gas,” threats to *domestic* supply, and “other factors to the extent they are shown to be relevant.”<sup>17</sup> Relatively low and stable domestic natural gas prices make natural gas competitive against coal and fuel oil and viable as a transportation fuel. The DOE/FE should not pursue policies that directly increase natural gas commodity prices for American consumers, thereby making natural gas less competitive in this country as a replacement for foreign-sourced fuels or for fuels that are less clean and more carbon-intensive.

#### **i. Gulf Coast’s Application Does Not Accurately Forecast the Impact of Exports on Domestic Prices**

Gulf Coast’s application provides no analysis of the effect on domestic prices natural gas prices of an additional 2.8 Bcf/d in incremental LNG exports and fails to provide analysis of a realistic total LNG export volume. Instead, Gulf Coast cites a report by a consulting firm, Deloitte, that assumes and analyzes a scenario where total domestic LNG export capacity only reaches 6 Bcf/d and is limited to exports from just three export terminals, all on the Gulf Coast.<sup>18</sup> The Deloitte Report does not consider total applied for export capacity, export facilities planned on the Mid-Atlantic and Pacific coasts, or the specific export proposal before the DOE/FE in the instant proceeding.

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<sup>17</sup> *Sabine Pass Liquefaction, LLC*, Opinion and Order Denying Request for Review Under Section 3(c) of the Natural Gas Act, October 21, 2010, FE Docket No. 10-111-LNG.

<sup>18</sup> Application at 13 (citing, Deloitte Center for Energy Solutions and Deloitte MarketPoint LLC, *Made in America: The Economic Impact of LNG Exports for the United States* (2011) (“Deloitte Report”).

Gulf Coast requests authority to export 2.8 Bcf/d, an amount that would increase the volume of exports that Deloitte projects by nearly 50%. Gulf Coast also plans to export from an entirely new export terminal, while the Deloitte Report assumes that only three terminals will be built. As stated above, Gulf South admits that its requested export authorization would singlehandedly increase total domestic demand for natural gas by 3.9% in 2018.<sup>19</sup> The impact of this volume of incremental exports on domestic prices warrants analysis.

In addition the DOE/FE should consider the cumulative impact of actual proposed exports.<sup>20</sup> The total amount of export authority requested is far more significant than the 6 Bcf/d relied upon by Deloitte. As indicated above, the total export capacity applied for to date is 18.70 Bcf/d and 14.61 Bcf/d to FTA and Non-FTA nations, respectively.<sup>21</sup> Furthermore, Gulf Coast must expect that aggregate exports of LNG will top 6 Bcf/d; otherwise, it would not have requested 2.8 Bcf/d in export authority after another company with ties to the same founder (Freeport LNG Expansion, LLC) filed two separate applications for 1.4 Bcf/d each in export authority to non-FTA Nations.<sup>22</sup> Altogether, Freeport LNG and Gulf Coast have requested 5.6 Bcf/d in export authority to non-FTA Nations from the Gulf Coast of Texas. The aggregate export capacity of just Freeport LNG and Gulf Coast applications comes to 7.6 Bcf/d when combined with the export authority previously granted to Sabine Pass.

In addition the Deloitte Report premised its price projections on a total of over 2,170 Tcf of technically recoverable natural gas, a number put forth by the Potential Gas Committee in April 2011, before the EIA reduced its estimate of unproved technically recoverable gas in

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<sup>19</sup> Application at 13.

<sup>20</sup> See *Sabine Pass Liquefaction, LLC*, FE Docket No. 10-111-LNG, Order No. 2961 at 33.

<sup>21</sup> Summary: Long-Term Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower-48 States (as of July 16, 2012).

<sup>22</sup> See FE Docket Nos. 10-161-LNG and 11-161-LNG.



*AEO2012*. EIA now estimates that the “unproved technically recoverable resource (TRR) of shale gas for the United States is 482 trillion cubic feet.”<sup>23</sup> This number is “*substantially* below the estimate of 827 trillion cubic feet in *AEO2011*.”<sup>24</sup> This reduction “largely reflects a decrease in the estimate for the Marcellus Shale, from 410 trillion cubic feet to 141 trillion cubic feet,” a reduction of over 65%.<sup>25</sup> EIA revised its Marcellus Shale estimates due to a U.S. Geological Survey (“USGS”) report that concluded that there is only 84 Tcf of “undiscovered, technically recoverable natural gas” in the Marcellus Shale formation,<sup>26</sup> and due to improved data from producers as drilling has expanded in the Marcellus area.<sup>27</sup>

The magnitude of this reduction is sobering. Not only are Delloitte’s projected price increases inaccurate, the entire basis for Gulf Coast’s application is undermined. Gulf Coast’s application is premised on huge reserves of domestic natural gas,<sup>28</sup> but DOE/FE must take a harder look at these claims given the recently revised estimates by EIA and USGS. DOE/FE’s previous decision in the *Sabine Pass Liquefaction, LLC* proceeding, Docket No. 10-111-LNG, accepted the applicant’s projections regarding natural gas supplies and the impact of exports without conducting an independent analysis. That will no longer suffice in light of the most recent EIA studies.

Specifically, DOE/FE must consider the EIA Export Report, which presumably it requested due to a lack of thorough and independent price impact data in pending LNG export proceedings. The EIA Export Report is of particular relevance in the instant proceeding because

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<sup>23</sup> EIA, Annual Energy Outlook 2012 Early Release (Jan. 2012) at 9.

<sup>24</sup> *Id.* (emphasis added).

<sup>25</sup> *Id.*

<sup>26</sup> *Assessment of Undiscovered Oil and Gas Resources of the Devonian Marcellus Shale of the Appalachian Basin Province*, United States Geological Survey (Aug. 23, 2011).

<sup>27</sup> *AEO2012* at 9.

<sup>28</sup> Application at 17.

it considered a scenario similar to the one covered in the Deloitte Report as part of a set of scenarios, only more thoroughly.

**ii. EIA Export Report**

As requested by the DOE/FE, EIA analyzed four scenarios of export-related increases in natural gas demand:

- 6 (Bcf/d), phased in at a rate of 1 Bcf/d per year (low/slow scenario),
- 6 Bcf/d phased in at a rate of 3 Bcf/d per year (low/rapid scenario),
- 12 Bcf/d phased in at a rate of 1 Bcf/d per year (high/slow scenario), and
- 12 Bcf/d phased in at a rate of 3 Bcf/d per year (high/rapid scenario).<sup>29</sup>

In addition, DOE/FE requested that EIA consider the four scenarios of increased natural gas exports in the context of four cases from the EIA's then current *AEO2011* that reflect projected domestic natural gas supply situations and growth rates for the U.S. economy:

- the *AEO2011* Reference case,
- the High Shale Estimated Ultimate Recovery ("EUR") case (reflecting more optimistic assumptions about domestic natural gas supply prospects, with the EUR per shale gas well for new, undrilled wells assumed to be 50 percent higher than in the Reference case),
- the Low Shale EUR case (reflecting less optimistic assumptions about domestic natural gas supply prospects, with the EUR per shale gas well for new, undrilled wells assumed to be 50 percent lower than in the Reference case), and
- the High Economic Growth case (assuming the U.S. gross domestic product will grow at an average annual rate of 3.2 percent from 2009 to 2035, compared to 2.7 percent in the Reference case, which increases domestic energy demand).<sup>30</sup>

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<sup>29</sup> EIA Export Report at 1.

<sup>30</sup> *Id.*

In contrast, the Deloitte Report is inadequate. The Deloitte Report considers only one volume of future exports, 6 Bcf/d, which EIA appropriately determined would be the “low” export scenario. In addition, the Deloitte Report simply plugs this 6 Bcf/d volume in as the export capacity of the U.S. from 2016 through 2035 without analyzing the potential effect of divergent growth rates in export capacity or an expansion of export capacity over that time period. In the Deloitte Report, there is no accounting for the slow or rapid development of export capabilities. Even more deficiently, the Deloitte Report fails to consider the potential effects of different gas reserve scenarios or economic growth trends.

The conclusion that Gulf Cost pulls from the Deloitte Report – that LNG exports will increase natural gas prices by 1.7% at the average U.S. citygate over the entire period from 2016 to 2035 – is also vague and incomplete compared to the detail provided by EIA.<sup>31</sup> Under every scenario, EIA forecasts that exports will increase domestic natural gas prices. According to EIA, “[l]arger export levels lead to larger domestic price increases.”<sup>32</sup> EIA also concluded that “rapid increases in export levels lead to large initial price increases,” but that slower increases in export levels will, “eventually produce higher average prices during the decade between 2025 and 2035.”<sup>33</sup>

Even under the “low/slow” baseline scenario, EIA projects that wellhead price impacts will peak at about 14% in 2022 before moderating to just under 10% around 2026.<sup>34</sup> Under the low/rapid baseline scenario EIA projects that wellhead prices will be approximately 18% higher in 2016 than they otherwise would be, but that impact will also moderate to just under 10% by

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<sup>31</sup> Application at 15.

<sup>32</sup> EIA Export Report at 6.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.* at 8.



2026.<sup>35</sup> In fact, under all of the “low” scenarios accounting for different economic and shale reserve conditions, EIA predicts price impacts well above 10% that then moderate.<sup>36</sup>

EIA projects that prices will increase by 36% to 54% by 2018 under the “high/rapid scenario,” depending on natural gas supplies and economic growth. Given the number of export applications that DOE/FE has received to date and the total export capacity requested of 18.70 Bcf/d and 14.61 Bcf/d to FTA and Non-FTA nations, respectively, it appears that “high/rapid” was the most realistic scenario considered by EIA.

In addition, it may be that the Low Shale EUR case reflecting less optimistic assumptions about domestic natural gas supply prospects than the *AEO2011* Reference Case may be the more accurate scenario considered in the EIA Export Report, given the reduction in technically recoverable gas per the early *AEO2012* overview report. Under the high/rapid scenario in the Low Shale EUR case, EIA projects that exports could increase natural gas prices by 54% in 2018.<sup>37</sup> Even under the slow/low scenario in the Low Shale EUR case, EIA projects that exports will increase domestic wellhead prices by 20% in 2020.<sup>38</sup>

Even these projections may not accurately predict the full scope of price increases resulting from unchecked LNG exports because the EIA Export Report very conservatively assumes that domestic prices will only be affected by domestic supply/demand factors but will not be affected by prices in the global market. The EIA Export Report also fails to consider several factors that may further limit economically recoverable domestic gas supplies and

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<sup>35</sup> *Id.*

<sup>36</sup> *Id.* at 9.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

increase domestic natural gas demand in the near future, such as increased regulation of hydraulic fracturing and pending coal plant retirements.

#### **D. Effect of High Prices**

Currently, relatively low natural gas prices give the U.S. an opportunity to wean itself off of carbon-intensive coal and expensive foreign oil, to attract renewed domestic manufacturing, and to stimulate displacement of gasoline by CNG-fueled vehicles. Increased prices due to exports jeopardize each of these prospects and ultimately our national security and national wellbeing. Estimates of domestic natural gas resources are still markedly higher than just a few years ago, but given revised supply projections, U.S. policy makers cannot take current low prices for granted.

Inflated prices will decrease the viability of natural gas as a bridge-fuel from carbon-intensive coal. Current low prices make natural gas-fired electricity generation an economically sound alternative to coal-fired generation. Sustained low prices may encourage this transition by private initiative regardless of increased environmental regulations as investors find natural gas competitive with coal. If exports inflate natural gas prices, the economics turn against cleaner burning natural gas.<sup>39</sup>

In addition, pending environmental regulations will soon force coal retirements, and further greenhouse gas regulation may cause additional retirements in the future. If natural gas prices remain low, the U.S. may be able to transition away from carbon intensive coal without causing electricity prices to increase significantly. If natural gas prices are high, however, electricity prices will spike as relatively cheap coal-fired generators are forced to retire for regulatory reasons. Spiking electricity rates will have rippling effects on the U.S. economy.

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<sup>39</sup> EIA Export Report at 17.

Currently, the U.S. imports billions of dollars worth of oil from around the globe, a great deal of which is used for gasoline to fuel vehicles. The replacement of current gasoline-powered fleets with natural gas vehicles (and support infrastructure) would significantly reduce U.S. dependence on foreign oil, and thereby enhance U.S. security and strategic interests and reduce our trade deficit. Substantial resources are being expended today to put that infrastructure in place, including an initiative in Texas not far from the Port of Brownsville.<sup>40</sup>

Earlier this year, in his State of the Union Address, President Obama spoke of “an America that attracts a new generation of high-tech manufacturing and high-paying jobs - a future where we’re in control of our own energy, and our security and prosperity aren’t so tied to unstable parts of the world,” and “an economy built on American manufacturing, American energy.”<sup>41</sup> Low natural gas prices in the U.S. provide the path forward. Lower energy prices are spurring a nascent return to American manufacturing. Gulf Coast’s application cites the jobs its export plans may create.<sup>42</sup> Gulf Coast does not acknowledge, however, the many jobs in other sectors of our economy that may be destroyed if the DOE/FE sanctions further natural gas exports and predicted increases in natural gas prices occur along with increased price volatility.<sup>43</sup>

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<sup>40</sup> Texas S.B. 20 (On July 15, 2011, the governor of Texas signed S.B. 20, supporting a network of natural gas-refueling stations along the Texas Triangle between Dallas/Ft. Worth, San Antonio, and Houston. The new legislation will lay a foundation for wider-scale deployment of heavy-duty, mid- and light-duty natural gas vehicles (“NGVs”) in the Texas market).

<sup>41</sup> President Barack Obama, State of the Union Address (Jan. 24, 2011), transcript available at: <http://www.whitehouse.gov/state-of-the-union-2012>.

<sup>42</sup> Application at 23-24.

<sup>43</sup> *Evaluating the Prospects for Increased Exports of Liquefied Natural Gas from the United States*, Brookings Institution, at 18 (January 2012) (“Brookings Report”) (“The industrial sector is highly price-sensitive with respect to energy inputs.”); Leticia Vasquez, *Methanol Resurgence Seen Lifting Gas Demand*, Gas Daily (Aug. 1, 2012) (reporting that the resurgence in domestic methanol production from natural gas “hinge[s] partly on whether liquefied natural gas projects move forward” because competitive methanol production requires gas prices below \$5 per MMBtu.).



Economic data demonstrate that when domestic energy prices increase, the country loses manufacturing jobs, particularly in the fertilizer, plastics, chemicals, and steel industries.<sup>44</sup>

Low natural gas prices make efforts to transition away from coal and foreign oil and to resuscitate American manufacturing economically viable. LNG exports will drive up domestic natural gas prices, as the EIA has determined, thereby undermining these national priorities. The DOE should not pursue an export policy that undermines the efficient, local use of a domestic fuel stock and America's first and best opportunity to move toward energy independence by decreasing reliance on foreign oil.

#### **E. Gulf Coast's Exports Will Not Prove Economical**

Gulf Coast's export plans likely will prove uneconomical. Currently, there are significant disparities between domestic natural gas commodity prices and prices in some nations that rely on LNG imports. These disparities provide Gulf Coast and other would-be exporters with appealing arbitrage opportunities in the short-term, but they may not last. Gas rich shale deposits are a global phenomenon that are just now beginning to be tapped. As other nations develop their resources and export capacity and as U.S. natural gas prices increase due to the very exports Gulf Coast proposes, international and domestic prices will converge, leaving the U.S. with the worst of all worlds, i.e., higher (and likely more volatile) domestic prices that thwart energy independence and that undermine the competitiveness of the manufacturing sector that relies heavily on natural gas as a process fuel.

Shale gas formations are not isolated to the United States – this is not a U.S. phenomenon; it is a world-wide phenomenon.<sup>45</sup> The State Department launched the Global

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<sup>44</sup> U.S. House Committee on Natural Resources Democrats, *Drill Here, Sell There, Pay More: The Painful Price of Exporting Natural Gas* (March 2012) available at <http://democrats.naturalresources.house.gov/reports/drill-here-sell-there-pay-more>

Shale Gas Initiative (“GSGI”) in April 2010 in order to help countries identify and develop their unconventional natural gas resources.<sup>46</sup> To date, partnerships under GSGI have been announced with China, Jordan, India, and Poland.<sup>47</sup> The big energy players, including ExxonMobil, Chevron, Shell, BP, etc. are spending billions of dollars world-wide to pursue shale gas plays.<sup>48</sup>

The United States is at the forefront technologically of the development of shale gas reserves. A recent study by MIT concludes that the U.S. should export its technology and expertise.<sup>49</sup> According to MIT, the development of international non-conventional natural gas reserves will create a more liquid market with less disparity between prices around the globe.<sup>50</sup> The U.S. should follow this strategy, instead of spending billions of dollars to build facilities in order to export a commodity that will likely be abundant world-wide before the LNG export facilities can even be completed.

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<sup>45</sup> E.g., Dallas Parker, *Shale Gas: Global Game Changer*, Oil and Gas Financial Journal (Feb. 8, 2011); Vello A. Kuuskra and Scott A. Stevens, *Worldwide Gas Shales and Unconventional Gas: A Status Report*, (“The final segment of this ‘paradigm shift’ - - the worldwide pursuit of gas shales and unconventional gas - - has only just begun, with Australia, China and Europe in the lead. Europe’s gas shale geology is challenging, but its resource endowment and potential are large.”) available at: <http://www.rpsea.org/attachments/articles/239/KuuskraaHandoutPaperExpandedPresentWorldwideGasShalesPresentation.pdf>. Debajyoti Chakraborty, *Asia’s First Shale Gas Pool Found Near Durgapur*, Times of India Online, (January 26, 2011); Hillary Heuler, *Shale Gas in Poland Sparks Hope of Wealth, Energy Security*, Voice of America Online (June 11, 2011) (Reporting on efforts by U.S. and other western gas companies to develop gas from shale deposits); Mark Summor, *The Shale Gas Run Spreads Worldwide*, IPS, Deccan Herald (Aug. 1, 2011)(“Recent discoveries of deeply buried oil shale layers containing natural gas or oil are being reported in Australia, Canada, Venezuela, Russia, Ukraine, Poland, France, India, China, North Africa and the Middle East. Taken together, say some energy analysts, these ‘plays’ could become a game-changer, making Australia and Canada into new Saudi Arabias”).

<sup>46</sup> See <http://www.state.gov/s/ciea/gsgi/>.

<sup>47</sup> *Id. see also*, Rakteem Katakey, *India Signs Accord with US to Assess Shale-Gas Reserves*, Bloomberg News (November 8, 2010) (The US signed a memorandum of understanding with India to help it assess its shale gas reserves and prepare for its first shale gas auction at the end of this year.); Kate Andersen Brower and Catherine Dodge, *Obama Says US, Poland Will Cooperate on Economy, Energy*, Bloomberg News (May 28, 2011). (Reporting on President Obama’s pledge to share U.S. shale gas extraction expertise and technology on a recent trip to Warsaw); *see also*, *Energy in Poland: Fracking Heaven*, The Economist (June 23, 2011).

<sup>48</sup> Ken Silverstein, *Big Oil Betting on Shale Gas*, EnergyBiz (July 31, 2011).

<sup>49</sup> MIT Energy Initiative, *The Future of Natural Gas*, at 14 (2011).

<sup>50</sup> *Id.*

Furthermore, even at today's prices, domestic natural gas is at a disadvantage compared to gas sourced from certain other nations. For example, there are three Canadian export facilities under construction in British Columbia, and Canadian natural gas still tends to trade lower than domestic gas in the contiguous United States.<sup>51</sup> Canada and the U.S. are not alone in developing LNG export capacity; investors in Australia hope to overtake Qatar as the world's largest exporter of LNG.<sup>52</sup> Qatar meanwhile has a moratorium on further developing its vast reserves of natural gas; natural gas is largely a by-product of liquids production in Qatar and sells for far less than even today's U.S. prices.<sup>53</sup>

LNG itself is at a disadvantage compared to pipelines due to higher fixed costs. For example, if Gulf Coast supplies Western Europe, it could one day find itself competing with shale gas piped from Poland or Ukraine at lower fixed costs. The cost of liquefaction, transportation and regasification processes and facilities must be acknowledged when considering the economic wisdom of LNG projects. The Brookings Institution estimates that current price spreads between the U.S. and potential export markets must remain intact for at least 10-12 years in order for investors to recoup the pre-planning and facility construction costs associated with an LNG terminal.<sup>54</sup> Beyond that, domestic prices must still be low enough to overcome foreign competition and the higher fixed cost of liquefaction, transport by vessel and regasification.

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<sup>51</sup> Brookings Report at 25.

<sup>52</sup> Ross Kelly, *Strong Australian dollar to help build cheap LNG export terminals, says Origin Energy CEO*, The Australian (April 28, 2011) available at <http://www.theaustralian.com.au/business/mining-energy/strong-australian-dollar-to-help-build-cheap-lng-export-terminals-says-origin-energy-ceo/story-e6frg9ef-1226046219296>.

<sup>53</sup> Brookings Report at 23.

<sup>54</sup> *Id.* at 29.



The EIA has reduced the projected technically recoverable resources of domestic natural and independently concluded that LNG exports will increase domestic prices substantially. Despite this sobering news, the U.S. may still have an opportunity to transition away from our reliance on coal-fired electricity generation, without risking price shocks, and finally make real progress towards energy independence. All of this, however, depends on relatively low and stable natural gas prices. DOE/FE should not turn a blind eye and allow the same businesses that gambled and lost on projections of the need for future natural gas imports to now potentially squander our Nation's future on what will likely turn out to be another failed venture as natural gas production and export capacity develop throughout the world.

#### IV. CONCLUSION

WHEREFORE, based on the foregoing, APGA respectfully requests that the DOE/FE (1) grant its motion to intervene in this proceeding with all rights appurtenant to that status, and (2) deny, as inconsistent with the public interest, Gulf Coast's application for export authority to non-FTA Nations.

Respectfully submitted,

AMERICAN PUBLIC GAS ASSOCIATION

By William T. Miller

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Justin R. Cockrell  
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Washington, DC 20005

Its Attorneys

July 27, 2012

UNITED STATES OF AMERICA  
BEFORE THE  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY

Gulf Coast LNG, LLC

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)  
)

FE Docket No. 12-05-LNG

VERIFICATION

WASHINGTON

§

DISTRICT OF COLUMBIA

§

§

Pursuant to C.F.R. § 590.103(b) (2012), William T. Miller, being duly sworn, affirms that he is authorized to execute this verification, that he has read the foregoing document, and that all facts stated herein are true and correct to the best of his knowledge, information, and belief.

William T. Miller

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Subscribed and sworn to before me this 27<sup>th</sup> day of July, 2012.

Leslie K. Nelson-Walski  
Notary Public

My Commission Expires:

**LESIE K. NELSON-WALSKI**  
Notary Public, District of Columbia  
My Commission Expires May 31, 2015



UNITED STATES OF AMERICA  
BEFORE THE  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY

Gulf Coast LNG, LLC

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FE Docket No. 12-05-LNG

**CERTIFIED STATEMENT OF AUTHORIZED REPRESENTATIVE**

Pursuant to C.F.R. § 590.103(b) (2012), I, William T. Miller, hereby certify that I am a duly authorized representative of the American Public Gas Association, and that I am authorized to sign and file with the Department of Energy, Office of Fossil Energy, on behalf of the American Public Gas Association, the foregoing document and in the above-captioned proceeding.

Dated at Washington, D.C., this 27<sup>th</sup> day of July, 2012.

William T. Miller

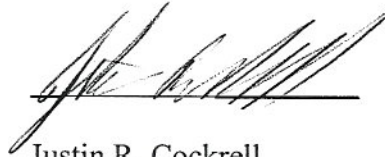
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## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon on the applicant and on DOE/FE for inclusion in the FE docket in the proceeding in accordance with 10 C.F.R. § 590.107(b) (2012).

Dated at Washington, D.C., this 3<sup>rd</sup> day of August, 2012.

By:

A handwritten signature in black ink, appearing to read "Justin R. Cockrell", is written over a solid horizontal line.

Justin R. Cockrell  
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