

From: [Kikuta, Lisa](#)
To: [LNGStudy](#)
Subject: 2012 LNG Export Study
Date: Thursday, January 24, 2013 1:53:24 PM
Attachments: [2013-01-23 Comments to DOE LNG Report by NERA.PDF](#)

Please find attached comments on the 2012 LNG Export Study, submitted on behalf of Mr. Ronald R. Cox, Vice President of Power Supply for Hawaiian Electric Company, Inc. Thank you.

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Ronald R. Cox
Vice President
Power Supply

January 24, 2013

U.S. Department of Energy (FE-34)
Office of Natural Gas Regulatory Activities, Office of Fossil Energy
P.O. Box 44375
Washington, DC 20026-4375

Via email: LNGStudy@hq.doe.gov

Re: Comments on 2012 LNG Export Study

Hawaiian Electric Company, Inc., on behalf of itself and its wholly-owned subsidiaries, Hawaii Electric Light Company, Inc. and Maui Electric Company, Ltd., respectfully submits the enclosed comments to the 2012 LNG Export Study. We are writing in support of long-term authorization to export liquefied natural gas produced from domestic resources to non-Free Trade Agreement (NFTA) countries. We support the construction of U.S. LNG export facilities that would provide access to abundant natural gas supplies being developed in the U.S.

The magnitude of infrastructure required to economically produce LNG requires a large base-load customer, making long-term financial commitments in order to justify the enormous investment required. However, once such a facility is placed in-service, incremental expansions can be made to supply the LNG needs of additional, smaller customers. While Hawaii is currently exploring the possibility of using domestically produced LNG to substitute for imported oil, a transition to LNG requires first and foremost access to a reasonably priced source of LNG. World-scale LNG facilities, underpinned financially by export commitments to NFTA customers, will provide the foundation upon which smaller volume LNG users, such as Hawaii, can piggyback.

Very truly yours,

Enclosure

**COMMENTS OF THE HAWAIIAN ELECTRIC COMPANY,
HAWAII ELECTRIC LIGHT COMPANY, INC.,
AND MAUI ELECTRIC COMPANY, LTD.**

ON THE

NERA REPORT:

***Macroeconomic Impacts of LNG Exports from the United States*
prepared for the
DEPARTMENT OF ENERGY'S OFFICE OF FOSSIL ENERGY (DOE/FE)
January 23, 2013**

Hawaiian Electric respectfully submits these comments on behalf of itself and its wholly owned subsidiaries, the Hawaii Electric Light Company, Inc. ("HELCO") and the Maui Electric Company, Ltd. ("MECO") (collectively referred to as "Hawaiian Electric" or "Companies"). The Companies are public utilities that generate, purchase, transmit and distribute electricity to approximately 95 percent of the state of Hawaii's population. Hawaiian Electric serves the island of Oahu, HELCO serves the Big Island, and MECO serves the islands of Maui, Molokai and Lanai. All the Hawaiian Electric utilities are subject to strict oversight by the Hawaii Public Utilities Commission ("PUC" or "Commission") pursuant to Hawaii Revised Statutes ("HRS") Chapter 269.

NERA REPORT Introduction:

U.S. shale gas production has increased significantly due to hydraulic fracturing and horizontal drilling techniques that have reduced production costs. With this increased volume of domestic natural gas supply available, a number of companies have applied to the DOE/FE under section 3 of the Natural Gas Act ("NGA") for authorization to export domestic natural gas as Liquefied Natural Gas ("LNG") to international markets where prices are currently higher. DOE/FE must determine whether applications to export domestically produced LNG to non-free trade agreement ("FTA") countries are consistent with the public interest. An analysis performed by the Energy Information Administration ("EIA") and originally published in January 2012, entitled *Effect of Increased Natural Gas Exports on Domestic Energy Markets* ("EIA Study"), examined how specified scenarios of increased natural gas exports could affect domestic energy markets. DOE commissioned NERA to conduct an economic analysis to include a feasibility analysis of exporting the specified quantities of natural gas used in the EIA Study, as well as a range of additional global scenarios for natural gas supply and demand, including cases with no export constraints.

On December 5, 2012, the Department of Energy's Office of Fossil Energy posted the final NERA report, entitled *Macroeconomic Impacts of LNG Exports from the United States*. The NERA report is an economic evaluation of whether LNG exports from the U.S. would result in more money coming into or going out of the U.S. economy.. The results indicate an overall positive effect in all market scenarios studied; net economic benefits increased as the level of LNG exports increased. In particular, scenarios with unlimited exports always had higher net economic benefits than corresponding cases with limited exports. The report does indicate that increasing exports of LNG will cause overall U.S. natural gas prices to go up slightly and notes that the positive economic effect of LNG exports may be limited to select sectors of the economy.

Hawaiian Electric's Interest in LNG:

The Hawaiian Electric generation fleet consists almost entirely of liquid fossil fuel-fired combustion units. Replacing fossil fuel generation with renewable generation has been and will remain a key component of the Companies' obligations and efforts to comply with the mandates of the Renewable Portfolio Standards under Chapter 269, Part V, HRS, and the Hawaii Clean Energy Initiative ("HCEI") under the October 20, 2008 Energy Agreement Among the Governor of the State of Hawaii, the Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies.¹

As the integration of renewable energy progresses, Hawaiian Electric must continue to operate remaining portions of its combustion generation to provide firm base load power. At the same time, rapidly-evolving environmental regulations may require an intermediate-term switch from heavy fuel oil to a less polluting but more costly distillate fuel (diesel). In addition to a need for energy security², residents of the State of Hawaii already pay the highest kilowatt per hour rate for electricity in the U.S.

Hawaiian Electric is taking steps to implement a long-term strategy to reduce energy costs for the people of Hawaii while complying with federal environmental regulations. In addition to increasing use of renewable generation, this strategy calls for switching from liquid fossil fuels, at least in part, to natural gas and that is dependent upon importation of LNG. Generating power from natural gas will meet environmental regulation requirements and will significantly reduce the cost of electricity as compared to the use of liquid fossil fuels.

The potential to operate Hawaiian Electric's generating units on natural gas as the lowest-cost replacement for liquid fossil fuel, along with the convergence of federal environmental regulations, is driving Hawaiian Electric to pursue importation of LNG and has brought LNG into sharp focus in the State of Hawaii to complement the renewable resource integration and efficiency initiatives that are the cornerstones of Hawaii's energy independence and clean energy future. Developing the LNG importation infrastructure in Hawaii and procuring LNG as a long-term fuel solution in lieu of liquid fossil fuels however will take time. While Hawaiian Electric may start with small-scale use of LNG, greater use is projected to be possible around 2020.

Benefits of U.S. LNG exports to Hawaiian Electric:

In order to reduce the long-term cost of electricity to Hawaiian Electric customers while complying with environmental regulations through the use of LNG, the sourcing of LNG is critical. It is expected that LNG imports to Hawaii from the US mainland will be the most cost-effective option. LNG bound for domestic use in Hawaii does not need DOE authorization, so Hawaii does not have a direct stake in the outcome of the export applications. However, Hawaiian Electric believes that greater exports will be beneficial to its efforts to secure long-term supplies of LNG at reasonable and stable prices. As new U.S. LNG export facilities are

¹ <http://hawaii.gov/dcca/dca/HCEI/HECI%20Agreement.pdf>, as amended, October 20, 2008, <http://hawaii.gov/dcca/dca/HCEI/EAA01.pdf>.

² Hawaiian Electric provides Department of Defense installations with the bulk of their electrical needs in Hawaii. On Oahu, for example, the Department of Defense is Hawaiian Electric's single largest customer.

approved and LNG exports increase, the pool of potential U.S. LNG suppliers to Hawaii expands which in turn provides Hawaiian Electric with greater sourcing options and price leverage.

Conclusion:

Hawaiian Electric respectfully submits these comments in support of the NERA report and its findings, and urges consideration of the potential positive effects highlighted by the NERA report as the DOE/FE considers approval of U. S. LNG export projects pending licenses to export to non-free trade agreement countries. With the potential DOE/FE approvals that are likely to enhance the forward progress of U.S. LNG export projects, Hawaiian Electric expects that its LNG supply potential will be positively affected and thereby will further the Companies' efforts to lower the cost of electricity to its customers in the State of Hawaii.