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REPLY OF THE NATURAL GAS SUPPLY ASSOCIATION REGARDING: 2012 LNG EXPORT STUDY

The Natural Gas Supply Association (“NGSA”), on behalf of its member companies, submits the following reply to comments to the Department of Energy (“DOE” or “Department”) on the 2012 LNG Export Study prepared for the Department by NERA Economic Consulting.

NGSA is a trade association that represents integrated and independent companies that produce and market domestic natural gas. NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets, to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas.

NGSA members market natural gas to a wide range of parties, all of whom currently benefit from its current abundance in the new era of shale development. With a 42 percent increase in the size of the U.S. natural gas resource base since 2007,¹ there is more than enough natural gas to accommodate both exports and domestic consumers to the benefit of the U.S. economy.

The Department of Energy commissioned NERA to determine the economic impact of exporting natural gas in order to inform its decisions on the pending applications. NERA’s study examined numerous supply-demand scenarios and, in every scenario, concluded that the U.S. would gain net economic benefits by allowing LNG exports.² NERA clearly spelled out substantial benefits associated with LNG exports, such as increased economic activity, tax revenues and a reduction in trade imbalance. NERA assumed full employment in

¹ *Biennial Report: Potential Supply of Natural Gas in the United States*, Potential Gas Committee, April 2011.

² *Macroeconomic Impacts of LNG Exports from the United States*, NERA Economic Consulting, December 3, 2012, page 1.

the U.S. in its study; however if it had taken into account the actual jobless rate, the study would have captured even more economic benefits in the form of more job growth spurred by natural gas production, as well as the construction and operation of LNG export facilities.

Indeed, the development of natural gas from U.S. shale and “tight” gas formations is projected to produce benefits that will flow throughout the entire economy over the next two decades, according to a study of the impact of growing natural gas production by IHS.³ With increased natural gas production, IHS found that the benefits of unconventional natural gas activity will contribute to a revitalization of the manufacturing sector, with 94 percent of the jobs accruing to natural gas customers, creating jobs and revenues, and just 6 percent of jobs accounted for by producers. According to the IHS study, employment related to natural gas development is expected to grow from more than 900,000 workers in 2012 to exceed 1.6 million workers by 2020, combining direct employment, indirect employment and induced employment. Looked at another way, the valued-added contribution to the nation’s Gross Domestic Product (GDP) made by unconventional natural gas activity is estimated at over \$121 billion in 2012, growing to \$225 billion in 2020.

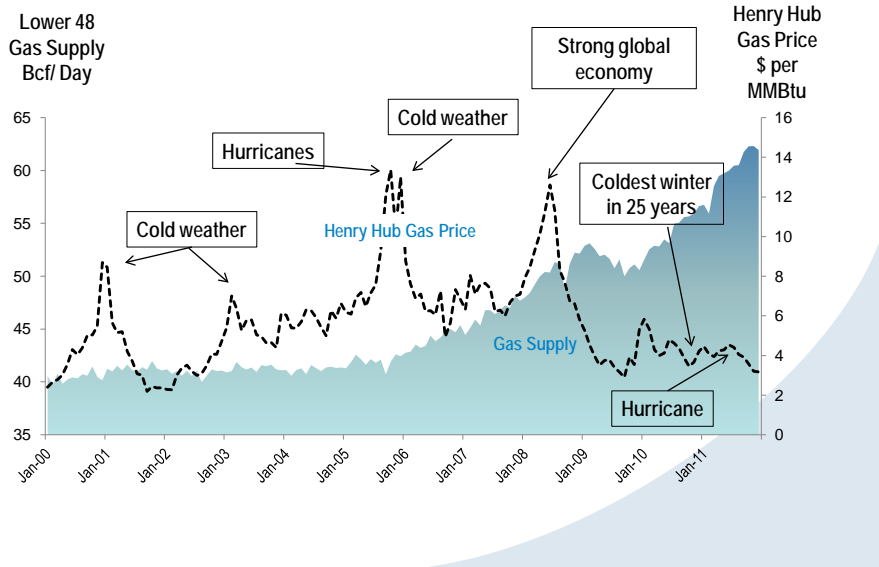
In addition to the widespread positive impact of increased natural gas production on the economy, there are other substantial benefits to petro-chemical industries that NERA’s study did not address. LNG exports would trigger market signals that encourage natural gas production including the production of natural gas liquids (“NGLs”). NGLs include ethane, propane and other heavier hydrocarbons that are building blocks used by petro-chemical industries. The current abundance of natural gas production has led to an ample supply of these building blocks. Focusing only on natural gas ignores the economic benefits of abundant NGLs.

The export of LNG does not endanger new petro-chemical projects, expansions and restarts of existing projects because the abundance of natural gas and NGLs can support both growth in U.S. demand and LNG exports. In fact, the petro-chemical industry should benefit from the abundance of natural gas and NGLs, supplies of which will be increased by LNG export activity. The last decade has demonstrated the natural gas producing industry’s ability to rapidly increase production. If demand for U.S. natural gas grows rapidly because of exports and expansion of manufacturing and power users, U.S. supply can also grow rapidly to meet that demand. Furthermore, international supply and demand fundamentals provide an economic limit to potential volumes of LNG exported. Export demand would not be “unchecked.” In addition, the development of U.S. supply areas that are geographically dispersed, and now even located close to Northeast demand centers, along with the recent and ongoing expansive build-out of pipeline and storage infrastructure, have acted to mitigate volatility. LNG exports would not undo that added domestic flexibility.

³ “America’s New Energy Future: The Unconventional Oil and Gas Revolution and the U.S. Economy, Volume 1” IHS, October 2012.

Natural Gas Price Stability

As supply grew, price has remained low, stable



Because supply and demand fundamentals provide an economic limit to exports, the DOE should resist efforts to place artificial caps on LNG exports. Allowing the market, not regulators or legislators, to determine the size of the United States' exports is the best and most effective method of "capping" exports. In the 1950s, 1960s and 1970s, regulation of natural gas prices and legislation limiting natural gas use ultimately dis-incentivized natural gas exploration and production, led to natural gas shortages and helped create price volatility. The DOE should not repeat the mistakes of the past.

We are concerned that some customers seek limits on the potential use of natural gas by other customers and believe that would be a very bad precedent. Retreat from free trade principles is not in keeping with U.S. trade policies and would encourage other countries to erect trade barriers of their own on resources needed by U.S. companies.

The NERA study and numerous other timely analyses have assessed the economic impacts of LNG exports, including studies by the Brookings Institution Energy Security Initiative⁴; Brookings Institution Hamilton Project⁵; Deloitte Center for Energy Solutions⁶; the Council on Foreign Relations Strategy for Natural Gas Exports; Rice University's James A Baker III Institute

⁴ *Liquid Markets: Assessing the Case for U.S. Exports of Liquefied Natural Gas*, Brookings Institution Energy Security Initiative, May 2012

⁵ *A Strategy for U.S. Natural Gas Exports, Discussion Paper 2012-04*, Michael Levi, The Hamilton Project, Brookings Institution, June 2012.

⁶ *Exporting the American Renaissance: Global Impacts of LNG Exports from the United States*, Deloitte Energy Solutions Center, October 2011.

for Public Policy⁷; and a preliminary analysis by the Bipartisan Policy Center. These analyses provide all the information that the DOE needs to make a well-informed decision⁸. All of these studies concluded that LNG exports would have only modest price impacts on customers. DOE should resist the call for even more studies, which amounts to little more than a delay tactic by opponents.

In addition to extensive industry programs to ensure safe and environmentally responsible operations, natural gas development is extensively regulated by the states, which oversee drilling fluids and produced water management as well as implementing federal environmental laws. These laws include the Clean Water Act for surface water discharge and storm water runoff; the Clean Air Act for air emissions associated with processing equipment and engines; the Safe Drinking Water Act for underground injection disposal or reuse of produced water and flowback fluids; the Federal Land Policy and Management Act for onshore permitting; and the National Environmental Policy Act for permitting and environmental impact assessments. In addition, natural gas operations are also governed by the Occupational Safety and Health Act; the Emergency Planning and Community Right-to-Know Act.

In conclusion, the NERA 2012 LNG Export Study was conducted soundly and makes a strong case that allowing natural gas exports is in the country's best interest. We therefore encourage the DOE to expeditiously proceed with the review and approval of export applications.

Respectfully submitted,



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⁷ *U.S. LNG Exports: Truth and Consequence*, Kenneth Medlock, Rice University James A. Baker III Institute for Public Policy, August 15, 2012.

⁸ *Initial Modeling Analysis of Potential Economic Impacts of LNG Exports*, from comments filed at DOE by the Bipartisan Policy Center, January 24, 2013, pages 3-5.