From:	Amanda K Prestage
To:	LNGStudy
Cc:	Anderson, John; Tracy, Lisa
Subject:	2012 LNG Export Study
Date:	Thursday, January 24, 2013 9:59:01 AM
Attachments:	FILED - DCP Comments on the 2012 LNG Export Study .pdf

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Attached are Dominion Cove Point LNG, LP's comments to the NERA Study.

Please let me know if you have any questions.

Thanks,
Amanda

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January 24, 2013

Mr. John Anderson
U.S. Department of Energy
Office of Fossil Energy
Docket Room 3F-056, FE-50
Forrestal Building
1000 Independence Avenue, SW
Washington, DC 20585

Re: 2012 LNG Export Study

Dear Mr. Anderson,

On December 5, 2012, the Department of Energy (DOE) invited comments regarding the 2012 LNG Export Study to help to inform DOE in its public interest determinations of the authorizations sought in the 15 pending applications to export liquefied natural gas (LNG) to non-free trade countries. The attached comments Dominion Cove Point LNG, LP (DCP) is filing today address the results and conclusions of the 2012 LNG Export Study on the factors evaluated. Those factors include the impact of LNG exports on: domestic energy consumption, production and prices, and particularly the macroeconomic factors identified in the NERA analysis, including Gross Domestic Product (GDP), welfare analysis, consumption, U.S. economic sector analysis, and U.S. LNG export feasibility analysis, and other factors included in the analysis. DCP has also included comments on the feasibility of various scenarios used in the analyses.

If you have any questions, please contact Amanda Prestage at 804-771-4416.

Respectfully submitted,

/s/ Matthew R. Bley

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

In the Matter of

2012 LNG EXPORT STUDY

COMMENTS OF DOMINION COVE POINT LNG, LP ON THE 2012 LNG EXPORT STUDY

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Filed: January 24, 2013

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

In the Matter of

2012 LNG Export Study

COMMENTS OF DOMINION COVE POINT LNG, LP ON THE 2012 LNG EXPORT STUDY

As requested by the Department of Energy ("DOE"), Dominion Cove Point LNG, LP ("DCP") submits the comments provided herein on the 2012 LNG Export Study (herein the "LNG Study"). DCP understands that both the LNG Study and the comments and responses thereto will inform DOE as it conducts public interest determinations on fifteen (15) applications, including DCP's application[1] (herein DCP's Application"), requesting approval to export liquefied natural gas ("LNG") to non-free trade countries. DCP appreciates the opportunity to present these comments and further reserves its right to present additional comments on the LNG Study during this and any additional comment periods; respond to any and all comments during the response period; and address the LNG Study during any and all DOE hearings and evaluations of DCP's Application.

As requested, these comments address the results and conclusions of the LNG Study with respect to: (1) domestic energy consumption, production and prices; (2) the macroeconomic factors identified in the NERA Economic Consulting report on the Macroeconomic Impacts of LNG Exports from the United States ("NERA Analysis"), including but not limited to its evaluation of Gross Domestic Product ("GDP"), welfare, consumption, impacts to the U.S. economic sector; and, (3) U.S. LNG export feasibility. DCP applauds DOE's efforts to conduct and release for public comment the NERA Analysis of macroeconomic impacts of LNG exports and the related Energy Information Administration Study ("EIA Study") on effects of increased natural gas exports on domestic energy markets. As DOE has acknowledged, the results of the EIA study were limited and reflected natural

[1] Dominion Cove Point LNG, LP, FE Docket No. 11-128-LNG, Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries at P. 14-19.

gas supply, demand and corresponding prices based upon specified levels of LNG exports. In contrast, NERA, utilizing a macroeconomic general equilibrium model, projects results for numerous scenarios of LNG exports and concludes that "peak natural gas export levels, specified by DOE/FE for the EIA study, and resulting price increases are not likely."[2] As such, combining the NERA Analysis with the EIA Study provides vital and invaluable information that will assist DOE in its complex evaluation of the implications of approving pending applications for the export of LNG to non-free trade countries and its conclusions support DOE's approval of applications such as DCP's on both commercial and public interest bases.

Because the LNG Study as a whole presents information pertinent to DCP's Application, DCP's comments refer to specific data presented in its application; information that can be located at: Dominion Cove Point Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries, FE Docket No. 11-128-LNG, including:

Appendix A: Navigant Supply Report

Appendix B: Navigant Price Report

Appendix C: ICF Economic Benefits Study

1. *<u>Domestic energy consumption, production and prices</u>*

DCP strongly agrees with the following key finding in the NERA Analysis:

> Net benefits to the U.S. would be highest if the U.S. becomes able to produce large quantities of gas from shale at low cost, if world demand for natural gas increases rapidly, and if LNG supplies from other regions are limited. If the promise of shale gas is not fulfilled and costs of producing gas in the U.S. rise substantially, or if there are ample supplies of LNG from other regions to satisfy world demand, the U.S. would not export LNG. Under these conditions, allowing exports of LNG would cause no change in natural gas prices and do no harm to the overall economy.[3]

DCP agrees that global market forces and the availability of natural gas from other sources will limit price increases and ensure that there will be adequate natural gas supply in the U.S. to meet demand requirements.

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[2] NERA Economic Consulting, "Macroeconomic Impacts of LNG Exports from the United States, at P. 9.

[3] Id. at P. 1-2.

Further, as noted in DCP's Application for its export project ("DCP Project") at its Cove Point LNG Terminal (herein the "Cove Point Terminal")[4], upon the necessary approval by DOE and FERC, DCP will operate the Cove Point Terminal as a bidirectional facility. As a bidirectional facility, the Cove Point Terminal will have the capability to export LNG during times of high domestic natural gas production and high world demand (the current market situation) and in contrast, import LNG (and vaporize it into natural gas) for delivery into the domestic interstate pipeline network during times of low domestic supply or low foreign prices as compared to domestic prices. Thus, DCP will have the ability to be responsive to competitive market forces and better serve both DCP's customers' commercial interests, as well as the public interest.

2. ***<u>The macroeconomic factors identified in the NERA analysis</u>***

The macroeconomic factors identified in the NERA Analysis and the resulting model outputs provide a realistic estimation of impacts on the domestic economy from LNG exports, including economic impacts that result from policy, regulatory and economic decisions and conditions stemming from LNG exports.

A. Gross Domestic Product (GDP)

DCP agrees that the near term impact on GDP will be very positive and further anticipates that the long-term contribution (2018 to 2040) to GDP from the DCP Project itself will be substantial. In support of the findings in the LNG Study, DCP provides data regarding the impacts that the DCP Project alone will have on the GDP.

The DCP Project will result in: (1) direct and indirect job creation; (2) direct economic stimulation from construction; (3) indirect economic stimulation; (4) promotion of domestic production of petroleum and liquid hydrocarbon; (5) improvement in the U.S. balance of trade; and (6) increased tax and royalty revenues.

The short-term economic impacts from construction and operation of the DCP Project have

[4] Dominion Cove Point LNG, LP, FE Docket No. 11-128-LNG, Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries at P. 11.

the potential to support between 2,700 and 3,400 "job years"[5] in Calvert County, Maryland, as well as approximately 1,000 additional jobs in the rest of the State of Maryland. Moreover, the significant inter-linkage between various economic sectors provides the potential to support an additional 3,850 to 4,820 jobs in the rest of the Nation during peak construction. During operations from 2018 through 2040, the economic activity at the Cove Point Terminal is estimated to result in 320 jobs yearly across the Nation. Moreover, economic activity associated with the long-term upstream supply of natural gas for exports from the Cove Point Terminal would result in an average of over 18,000 new jobs annually.[6]

Additionally, the DCP Project has the potential to create significant short-term economic activity in the region and throughout the state during the construction and operation phases. In 2015, construction of the DCP Project will create between $183 and $230 million in "value added" (meaning the contribution to GDP, calculated as the difference between the outputs generated from expenditures and the expenditures for intermediate goods and services) within Calvert County and an additional $80 to $100 million in the rest of Maryland. Annual activities during operations from 2018 through 2040 are expected to generate an additional $22 million in value added annually for Calvert County, Maryland, and over $47 million for the U.S. in total.[7]

In aggregate, $44 billion in total value added is projected to result from anticipated upstream expenditures of $32 billion needed to supply the LNG exports over the 25-year period. The top sectors that will benefit, as a function of total value added, include real estate and equipment rentals; oil and gas support activities; educational, medical, hotel, food, and other services; wholesale and retail trade; and IT, scientific, environmental, and waste management services.[8]

Incremental production of hydrocarbon liquids from 2016 through 2040 associated with LNG exports by DCP is estimated at 8.5 million barrels per year, with an average projected market value of $1.2 billion per year. This increased domestic production will help reduce reliance on foreign

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[5] A "job-year" is defined as the amount of work performed by one full-time individual in one year (typically 2,080 hours). For ease of presentation, the DCP Project impacts in "job-years" are referred to herein simply as jobs.

[6] Dominion Cove Point LNG LP, FE Docket No. 11-128-LNG Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries at P. 16.

[7] Id. at P. 16-17.

[8] Id. at P. 17.

sources of oil and help U.S. industry, particularly the petrochemical industry.[9]

LNG exports, along with associated natural gas liquids ("NGLs") production, will help realign the U.S. balance of trade by a range of $2.8 billion to nearly $7.1 billion per year. The value of the exports is estimated to reduce the total U.S. trade deficit (compared to the 2010 deficit) by between 0.6 and 1.4 percent.[10]

Estimated tax revenues generated as a result of the construction phase of the DCP Project peak in 2014 with a total of $130-$163 million nationally. Total U.S. taxes are estimated to increase by nearly $11 million per year from 2018-40, not including income taxes, property taxes, or gross receipt taxes. In addition, the long-term operation of the Cove Point Terminal is expected to produce up to $40 million per year of property tax revenues. Also, upstream economic activity associated with gas production to support the incremental LNG exports is associated with $25 billion in government royalty and tax revenues to federal, state, and local governments over the 25-year period, with an average of approximately $1 billion in annual revenues. Another $9.8 billion in royalty income over the 25 years will be provided to landowners in the form of mineral leases.[11]

Thus, not only will LNG exports nation-wide contribute favorably to the GDP, but DCP's proposed exports by themselves will result in favorable contributions to the GDP.

B. Welfare analysis

DCP agrees that positive changes will occur with respect to the U.S. economy, employment, trade and energy supply with the addition of LNG export capabilities in the continental U.S. The NERA Analysis concludes that the "U.S. would experience net economic benefits from increased LNG exports…and found that even with exports reaching levels greater than 12 Bcf/day and associated higher prices than in the constrained cases, there were net economic benefits from allowing unlimited exports in all cases."[12] DCP agrees with this conclusion.

[9] Id. at P. 17.
[10] Id. at P. 17-18.
[11] Id. at P. 18.
[12] NERA Economic Consulting, "Macroeconomic Impacts of LNG Exports from the United States, at P. 6.

Further, DCP agrees with another observation expressed in the NERA Analysis that, "[n]et benefits to the U.S. economy could be larger if U.S. businesses were to take more of a merchant role."[13] Though DCP agrees, DCP has chosen to not take a merchant role in LNG export because the DCP Project makes business sense if DCP "provides a service to its customers of liquefying natural gas and loading onto LNG tankers at the Terminal for export, [which] may also include rights for the customers to import LNG for vaporization and send-out as regasified LNG into the domestic market, when it is desired by the customers."[14]

C. Consumption and U.S. economic sector analyses

As noted in the NERA Analysis, the modeling "results suggest that the wealth transfer from exports of LNG provides net positive income for the consumers to spend after taking into account potential decreases in capital and wage income from reduced output."[15] This conclusion is consistent with DCP's conclusions regarding consumption (defined by the NERA Analysis as total spending on goods and services in the economy) and the benefits of LNG exports from the Cove Point Terminal; conclusions detailed in the ICF Economic Benefits Study ("ICF Study") included as Appendix C to DCP's Application. As part of that study, ICF assessed the national and regional impacts of the DCP Project, quantifying both the direct and secondary benefits. The ICF Study discusses the results in the creation of new jobs and the impact on the existing economy (in terms of income, wages, taxes, etc.). The ICF Study also details the macro-level, national and international implications of the DCP Project, including the impact on the U.S. balance of trade and the economic impact of upstream expenditures due to the significant new demand for the gas to be exported. The ICF Study is premised on a project with inlet capacity of 0.75 Bcf/d, assumed to be operated at 90 percent of capacity. To the extent that DCP constructs a larger project — consistent with the requested export authorization for up to 1 Bcf/d — the economic benefits will be even greater. The

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[13] Id.

[14] Dominion Cove Point LNG, LP, FE Docket No. 11-128-LNG, Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries at P. 7-8.

[15] NERA Economic Consulting, "Macroeconomic Impacts of LNG Exports from the United States, at P. 57.

benefits of the DCP Project far outweigh any perceived detriment of modestly increased domestic natural gas prices.

The most basic benefit of the proposed LNG exports will be to encourage and support increased domestic production of natural gas and NGLs. The DCP Project would allow domestic natural gas that might otherwise be shut-in as a result of a lack of market demand to be available for sale into the global LNG market. The steady new demand associated with LNG exports can spur the development of new natural gas resources that might not otherwise be developed. In the recent order authorizing LNG exports from Sabine Pass, DOE concluded that it was “persuaded that directionally, natural gas production associated with exports... will result in increased production that could be used for domestic requirements if market conditions warrant such use. Overall, this will tend to enhance U.S. domestic energy security. ”[16]

Moreover, the development of the gas resources for export by DCP will also result in the increased production of NGLs. In its *Sabine Pass* order, DOE/FE found that the applicant demonstrated that the production of domestic natural gas will yield NGLs which will, in part, offset the need to import oil. NGLs are used as home heating fuels, refinery blending and agricultural crop drying, and the U.S. petrochemical industry uses ethane in particular as a feedstock in numerous applications. New supplies of NGLs from shale production (including the Marcellus and Utica) create a new competitive advantage for the industry that presents a tremendous opportunity to strengthen U.S. manufacturing, boost economic output and create jobs. Indeed, the recent development of shale gas has already led the U.S. petrochemical industry to announce significant expansions of petrochemical capacity, reversing a decades-long decline. The DCP Project will further this trend by supporting additional natural gas development. ICF estimates that LNG exports from Cove Point Terminal will result in the incremental production of approximately 8.5 million barrels of hydrocarbon liquids per year, with a market value of approximately $1.2 billion per year (in real 2011 dollars). Of particular importance in the current economic climate, the DCP Project also

[16] *Sabine Pass,* Order No. 2961 at P. 35.

will result in new jobs for American workers that will lead to greater capacity for consumption across the economy.

3. ***U.S. LNG export feasibility analyses***

DCP agrees with the NERA Analysis that LNG exports depend upon the availability, demand and price for natural gas both globally and in the U.S. and that LNG exports will vary depending upon competitive market forces. DCP's proposal to operate its Cove Point Terminal as a bidirectional facility is entirely consistent with the NERA Analysis, its internal expectations as to the fluctuating nature of LNG exports, and the conclusions that the domestic economy will only benefit from LNG exports. Specifically, DCP states as follows in its application:

> Following the approval and construction of the liquefaction and export facilities, the Cove Point LNG Terminal will be operated as a bi-directional facility. The Terminal will retain the capability to import LNG and vaporize it into natural gas for delivery into the domestic interstate pipeline network, and add the capability of liquefying natural gas to export as LNG to foreign markets. Thus, the Cove Point LNG Terminal then will be responsive to competitive market forces. When U.S. gas prices are low compared to prices in other countries (as they are now), domestic gas can be exported from the Terminal. In contrast, if prices of LNG in other parts of the world fall below the U.S. prices, DCP's customers may utilize the Terminal to import LNG and supply the regasified natural gas to the domestic market.[17]

4. ***Conclusion***

The completed LNG Study, consisting of the EIA Study and NERA Analysis, has provided DOE, the public and the applicants for LNG export authorizations the extensive data and analysis necessary for DOE to evaluate (and approve) the pending applications for LNG export. The LNG Study demonstrates that "LNG exports are only feasible under scenarios with high international demand and/or low U.S. costs of production."[18] These findings demonstrate that concerns that LNG exports would raise domestic natural gas prices to economically harmful levels are unfounded. Instead, LNG exports will be constrained by global markets for natural gas and supply and government regulation of natural gas production and prices in other countries. Even more

[17] Dominion Cove Point LNG, LP, FE Docket No. 11-128-LNG, Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries at P. 11.

[18] NERA Economic Consulting, "Macroeconomic Impacts of LNG Exports from the United States, at P. 76.

compelling, the NERA Analysis demonstrates that “consumer well-being improves in all [LNG export] scenarios…[and] there are net benefits to the U.S.”[19] Overall, the LNG Study demonstrates that LNG export to non-free trade countries will benefit the public interest in the U.S. and the current global supply and demand conditions indicate that DOE should proceed as expeditiously as possible to allow such exports to occur. Accordingly, DCP respectfully requests that based upon this extremely comprehensive and extensive analysis, DOE proceed to approve, as soon as possible, the Dominion Cove Point LNG, LP Application for Long-Term Authorization to Export LNG to Non-Free Trade Agreement Countries.

[19] NERA Economic Consulting, “Macroeconomic Impacts of LNG Exports from the United States, at P. 76 -77.