From:	Guith, Christopher
To:	LNGStudy
Subject:	LNG Comment Letter
Date:	Thursday, January 24, 2013 4:20:34 PM
Attachments:	DOE LNG comment letter 1-24-13.pdf

Please find attached the comment letter from Karen Harbert, President & CEO, Institute for 21st Century Energy, an affiliate of the U.S. Chamber of Commerce.

Christopher Guith
Vice President - Policy
Institute for 21st Century Energy
U.S. Chamber of Commerce
202-463-5582 (w)
202-834-3214 (c)
www.energyxxi.org

INSTITUTE FOR 21ST CENTURY ENERGY
U.S. CHAMBER OF COMMERCE

Karen Alderman Harbert
President and CEO

1615 H Street, NW | Washington, DC 20062
(202) 463-5558 | (202) 887-3457 Fax
www.energyxxi.org

January 24, 2013

The Honorable Steven Chu
Secretary
United States Department of Energy
1000 Independence Avenue
Washington, DC 20585

Dear Secretary Chu:

The Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses and organizations of every size, sector and region, is pleased to submit written comments in support of the conclusions reached in the study recently released by the Department of Energy (DOE), *Macroeconomic Impacts of LNG Exports from the U.S.* (the study), conducted by NERA Economic Consulting. Not impeding free trade of liquefied natural gas (LNG) will provide an economic boost across the economy and enable America to more fully capitalize on its incredible natural gas resource base. This view is sustained by the study's conclusion that, "in all of the scenarios analyzed…the U.S. would experience net economic benefits from increased LNG exports."

One tremendous bright spot of recent energy and economic development is the increasing production of natural gas from shale formations. The unconventional gas being unlocked by U.S. industry is having profound and positive impacts on our economy and energy security. This rapid development was catalyzed by market forces and the unleashing of technology and innovation developed over many years. The U.S. must ensure that the market is free to fully realize the potential of this resource. Ensuring an efficient and transparent regulatory process for DOE's import and export authorization program is essential to this process. If the shale gas boom we are experiencing has taught us anything, it is that government cannot predict where technology breakthroughs will occur. Therefore, it is important to allow the market to work to efficiently allocate resources and to let the private sector take the associated investment risks.

Some may argue that any significant volume of exported LNG would create upward pressure on natural gas prices that would impact industrial consumers of methane (the form of natural gas that would be exported), especially energy intensive industries. However, the laws of supply and demand dictate that licensing of new export facilities would send the necessary market signal that would encourage producers to increase natural gas production, as well as exploration. Because the construction of an export facility requires some three to five years, there would be

ample time for the market signal to have resulted in additional production coming on line, significantly insulating against any long-term upward price pressure.

Additionally, the increased exploration and production of methane would have an ancillary impact of also increasing the production of natural gas liquids (NGLs). These hydrocarbons, such as ethane or butane, are the feedstocks of the petrochemical industry and are used to produce plastics, fertilizers, and pharmaceuticals. This increased production would, in turn, place downward price pressure on NGLs, helping to offset any potential upward pressure created by LNG exports.

Shale gas supply

The Unites States has a large and growing natural gas resource base. We have seen our reserves and resource base grow because of the significant technological advancements in producing natural gas from shale formations. The Energy Information Administration's AEO2012 estimates that proved and unproven reserves of nature gas are 2,203 trillion cubic feet (tcf). Of this, shale gas reserves are 542 tcf. The AEO2012 also acknowledges the uncertainty of the shale gas numbers based on the limited envelopments that have occurred. Historically, as new resources are developed, actual reserves increase. This occurs when rising price signals spur development of incremental resources. A reserve base of 2203 tcf is many generations of supply and should be seen as a significant competitive advantage for the United States. This resource base is sufficiently large to allow the market to work to best allocate how development occurs for both domestic use as well as potential exports.

Regulatory process

The key decision criteria stated in the Natural Gas Act for the DOE authorization decisions is "...The Commission shall issue such order upon application, unless, after opportunity for hearing, it finds that the proposed exportation or importation will not be in the public interest...." Congress clearly intended that there would be a presumption that the free trade of natural gas would be in the public interest. Implicit in this statutory language is that markets work better at allocating capital and the market and can respond more effectively to changes than the government can. The study's fundamental conclusion that LNG exports would result in a net economic benefit across all scenarios fully supports the conclusion that it is in the public's interest to not impede natural gas exports.

History: constraining markets/demand has reduced supply

The United States has an unfortunate history of unintended and adverse impacts from government policy in the natural gas sector. One of the most significant was the policy-driven natural gas shortages of the 1970s, the direct result of U.S. government price controls at the wellhead. These shortages were further exacerbated by government restrictions on gas use by power and industrial users, which created wide seasonal volatility in natural gas markets. It was not until natural gas prices and use were deregulated that gas supply expanded through investment and innovation by producers, primarily independent production companies. This investment and risk taking occurred in deep gas, tight gas reservoirs, coalbed methane, and finally shale gas. All of these resource targets were seen as less economic than conventional

resources when exploration began, but it was the prospect of a growing natural gas market and market based prices that attracted investors.

When the natural gas market has been allowed to function, the answer to high prices has been innovation and private sector risk taking. This has resulted in new resources being developed that have lowered prices. Constraining demand had the opposite effect of limiting supply development, resulting in higher prices and reduced supply. The Institute believes that the government should let markets work and bring the power of innovation to our resource development. The study fundamentally supports this position in finding that, "[a]cross the scenarios, U.S. economic welfare consistently increases as the volume of natural gas exports increased."

Value of exports

On March 11, 2010, President Obama signed executive order 13534 creating the National Export Initiative with a goal of doubling exports by 2014. President Obama has acknowledged the importance of growing exports as an engine of growth for the U.S. economy. Enabling the market to rationalize the opportunity of exporting a portion of our vast natural gas wealth will contribute to this initiative. This value is both in the potential of directly exporting a commodity that the U.S. has in abundance and in communicating to the world that the U.S. believes in free trade and the competitive marketplace.

The U.S. is already experiencing a trade benefit due to the significant increases in unconventional oil and natural gas production, having become a net exporter of petroleum product exports in 2001 for the first time in 62 years. The Study finds identical benefits will be generated with natural gas, "[e]xports of natural gas will improve the U.S. balance of trade and result in a wealth transfer into the U.S." Moreover, the study also finds that when capital to finance LNG export facilities originates from foreign sources, "it will represent another form of wealth transfer into the U.S."

Principled Approach

Global energy markets are complex and dynamic, and as we have seen with natural gas over the past 10 years (a very short timeframe), it is impossible to predict the impact technology may bring to bear on markets. Therefore, when it comes to major government decisions that involve trade and other alternative natural gas demand, the best policy is to rely on core principles that have shown their value over time.

These principles should include:

- A regulatory process that is clear , transparent, and predictable;
- Allowing the market to determine the amount of natural gas that is exported; and
- Allowing the market to determine which developer exports natural gas and from where.

The government does have a role to ensure that data on supply and demand are made available in a timely manner. In addition, while government has a role to ensure that the environment is

protected during natural gas development and production, it is also critical that government does so in a way that does not impose unnecessary regulatory burdens that would unnecessarily limit the market responding to price signals and expanding production.

Trade Law Implications

While the report does not analyze how America's international trade commitments impact DOE's process, this is an absolutely vital issue that cannot be ignored. A review of U.S. trade policies endorsed by both Democratic and Republican administrations shows the United States has long been averse to the use of export restraints. An early example is the Constitution's so-called Export Clause, which provides that "[n]o Tax or duty shall be laid on Articles exported from any State." The United States has also undertaken commitments in the World Trade Organization (WTO) Agreement to forego quantitative export restraints such as discretionary or nonautomatic export licensing requirements. These considerations apply to LNG exports.

Underscoring the strength of this prohibition, the WTO appellate body in 2012 ruled in favor of the United States in a dispute with China, which had imposed restraints on the exportation of certain raw materials such as bauxite. There is broad support in the U.S. business community for the U.S. government's stance in this dispute and in the case of China's similar export restraints on rare earths, which are currently the subject of a separate dispute now before the WTO.

Export restraints are generally inconsistent with the WTO Agreement unless they can be justified under an exception. For instance, the WTO Agreement allows an exception for export restraints imposed with the goal of conserving "exhaustible natural resources." However, if U.S. proponents of export restraints indicate their goal in disallowing exports is to keep the domestic price of natural gas low, the WTO ruled in the raw materials case that such a position is inconsistent with the goal of conserving exhaustible natural resources. Further, it would be indefensible for the United States to embrace export restraints when it has found them objectionable when employed by other countries.

Export restraints not only violate the letter of U.S. trade law and international trade agreements but also their spirit. In fact, export restraints implemented by the United States would likely be emulated by other countries and could easily limit U.S. access to key natural resources that are not readily available from domestic sources, undermining U.S. competitiveness. Abiding by the letter and the spirit of the WTO clearly is in the public interest.

Conclusion

The United States has a tremendous resource endowment. What differentiates the United States from other parts of the world is that we have coupled resource endowment with a creative and entrepreneurial spirit, private ownership, a predictable and effective regulatory system, and free trade. Allowing businesses to operate in a globally competitive market has allowed U.S. companies to become global leaders and has benefited American consumers. This same formula will create the greatest value of our shale gas resources as well.

Sincerely,

Karen A. Harbert