LNGStudy

From: Hal Miller [hmiller@galwaygroup.com]
Sent: Wednesday, January 23, 2013 6:04 PM
To: LNGStudy
Cc: Alina Dumitrasc
Subject: 2012 LNG Export Study
Attachments: 2012 LNG Export Study - Initial Comment.pdf

Attached please find a letter addressed to Secretary Chu in support of US LNG exports.

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GALWAY GROUP LP

Advisors and Investment Bankers to the Energy Industry

January 23, 2013

The Honorable Steven Chu
Secretary
U.S. Department of Energy
1000 Independence Avenue SW
Washington, DC 20585
RE: 2012 LNG Export Study

Dear Secretary Chu,

Thank you for the opportunity to comment on the 2012 LNG Export Study.

Galway Group is pleased with the analysis and conclusions of the 2012 NERA study. We strongly agree with and support the study's finding that "across all scenarios, the U.S. was projected to gain net economic benefits from allowing LNG exports." LNG exports are in line with the Administration's reported export policies and, as the NERA report succinctly points out, are likely to yield significant benefits for the US economy**.**

It is our view that LNG exports are essential to attracting foreign investment across the natural gas value chain, and to ensuring stable natural gas production that benefits US consumers, exporters and industry alike. Additionally, we view LNG exports as critical to our strategic allies and significant to our relationship with these key allies. As an energy consulting firm, Galway Group provides strategy, commercial, financial and technical advice to American and multinational companies. The views included herein reflect our experience working with our diverse client base on natural gas and LNG projects for over two decades.

Foreign investment: Our company provides support to American and multinational companies that are considering investment in the development of the natural gas infrastructure and reserves. Over the past couple of years, we have witnessed a surge of interest in natural gas projects in the United States. Multinational companies have repeatedly demonstrated their commitment to investing billions of dollars in US LNG export projects. Given our slow domestic economic growth and rising trade deficit, this inflow of foreign capital is critical and should, therefore, be facilitated through clear policy frameworks on LNG exports.

Economic benefits: Studies, both from the EIA and from industry players, have repeatedly shown that the US has significant reserves of natural gas. Unless these reserves are commercialized by allowing exports, the country stands to forgo a tremendous opportunity to gain export revenue and generate employment. Furthermore, the North American natural gas market (including Canada and Mexico) is highly integrated. Given the large resource base available on the continent, US gas will inevitably be exported either from US export terminals, or via terminals built in neighboring states. Blocking LNG exports from the US will only have an adverse impact on exporting states and US LNG terminals, but will not stop US gas molecules from leaving the country.

Geostrategic implications: The majority of US LNG exports would be destined for countries that have strategic ties to the United States. Our relationship with buyer companies and with their governments is critical to our foreign policy objectives. Exports to these countries would strengthen our collaboration and solidify our alliances. Furthermore, US LNG exports would be indexed to the US (Henry Hub) natural gas price, which is significantly lower than other international price basis. It is, therefore, likely that exports will pressure sellers who currently set the terms of the global LNG trade to show more price flexibility. US exports will not only provide negotiation leverage to our strategic allies in their gas procurement processes, but would also enhance their energy security.

Production: Despite the record low gas prices, which are below breakeven costs in some cases, US domestic production has remained stable over the past couple of years. This is due, in part, to existing contracts that require companies to maintain certain levels of drilling in order to retain their land leases. If the price of gas remains at unsustainably low levels, upstream companies will eventually decrease their production to minimize losses. We are already experiencing a decrease in drilling activity, which is likely to continue absent an export market that can absorb new US natural gas production at a slightly higher price point. Only then will the US reach its full production potential and achieve gains across the natural gas value chain.

Gulf Coast: Given its strategic location, with access to South American, European and Asian markets, as well as its extensive natural gas infrastructure, the Gulf Coast is well-positioned to become a global LNG hub. Currently, existing LNG import terminals located in the Gulf Coast and other regions remain idle or underutilized. These multi-billion dollar assets can be put to more productive use by turning them into import/export terminals, thus maximizing facility and capital utilization and deriving net economic gains for the Gulf region and for the economy as a whole.

Concluding remarks: As a company that has worked in the energy space for over two decades delivering global energy transactions, Galway Group urges the expedient approval of all US LNG export applications. We acknowledge that there will be winners and losers in the process, as is always the case with free markets, including exports of agricultural, manufacturing and industrial goods. However, we fully support the conclusion of the NERA study that "in all of these cases, benefits that come from export expansion more than outweigh the losses from reduced capital and wage income to U.S. consumers." History has shown that, as exemplified by petroleum rationing in the 1970s, government interference has led to inefficiencies and significant net losses for the country as a whole.

At this critical juncture in our economic recovery, the question the Department ought to ask is how to support the competitiveness and commercialization of the abundant US natural gas reserves. In an increasingly competitive global LNG market, US exports stand to benefit from a large resource base, robust legal and financial structures, and low finding costs. Moving forward, these benefits will provide the US with a competitive edge on the international market. We, therefore, urge the Department of Energy to favorably consider the findings of the NERA report, and to act expediently and decisively in favor of US LNG exports.

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