"Domestic Supply and the Potential Benefits or Unintended Consequences Caused by Expansion of Natural Gas Exports"

Before the Senate Committee on Energy and Natural Resources

Tuesday, May 21, 2013

Opening Statement

Paul N. Cicio

President

Industrial Energy Consumers of America

Chairman Wyden, Ranking Member Murkowski and members of the Committee, thank you for the opportunity to participate in this important forum.

My name is Paul Cicio and I am the President of the Industrial Energy Consumers of America (IECA), a trade association whose member companies are exclusively from the manufacturing sector, and whose competitiveness is largely dependent upon the price of natural gas and electricity.

IECA companies have combined revenues of $1.3 trillion, over 1.7 million employees and have over 1,500 facilities nationwide.

The U.S. industrial sector has benefited greatly from the shale natural gas revolution. This newfound resource has brought new life to the energy-intensive trade-exposed industries (EITEs) that use energy to produce all of the building block products that are then used by all other manufacturing companies to produce "their" products. Examples of EITE industries include: chemical, plastics, steel, iron ore, aluminum, paper, nitrogen fertilizer,glass, industrial gases, and cement.

At the 2012 U.S. natural gas demand rate, the U.S. Geological Survey (USGS) says that we have a 33-year supply of technically recoverable reserves in the lower 48. With this in mind, we urge this nation to use these resources wisely to accelerate domestic job creation, especially in the manufacturing sector.

The consequences of decisions regarding the quantity and timing of LNG exports are of extraordinary importance. What makes these decisions complex is that once the DOE approves an export terminal, it locks in new demand for a period of 20 to 30 years and thrusts enormous risk and uncertainties of the future onto domestic consumers and manufacturers – while exporters and other countries benefit. Placing this risk on domestic consumers is not acceptable public policy when indeed, it can be avoided. Once an export terminal is approved, there is no putting the genie back in the bottle.

The natural gas export debate is different from other trade product debates. Natural gas prices have a direct and indirect impact on peoples' lives, their safety (such as heating, cooling and electricity), economic growth, investment, exports of manufactured products, and jobs. Other export products do not have this significance.

Common sense and economic sense dictates that sound public policy should support LNG exports, only to the extent that domestic consumers are not negatively impacted by exports. The American consumer should come first, not second. And, the American manufacturer should come first, not second.

The key message we wish to convey today, is that there remains great uncertainty of key factors that lead to sound decisions as to what levels of exports can occur without damaging U.S. consumers. It is essential that the DOE address these uncertainties before they proceed to approve non-free trade export terminals. Congress should insist that DOE address these matters promptly.

IECA does not oppose exports of LNG. However, because of these uncertainties, we do urge great caution and further study of LNG export impacts that include consideration of potential public policy decisions such as new regulations, and staging of DOE export terminal approvals in a manner that would allow domestic production to ramp up without impacting domestic prices.

KEY POINTS

1. The DOE needs to formally define the "public interest" test for shipments to non-free trade countries and do so with a transparent public process. When the DOE was faced with how to address imports of LNG, they did so by implementing rulemaking with public input and transparency. The Natural Gas Act gives DOE the responsibility to protect the interests of the public, yet as consumers, we still have no idea how the DOE will define it.

2. The DOE has released two studies, both of which are significantly flawed and need to be redone before there are additional export application decisions. Both studies should give policy makers pause. On page 7 of the NERA report, it includes the following paragraph:

> "Expansion of LNG exports has two major effects on income: it raises energy costs and, in the prices, depresses both real wages and the return on capital in all other industries, but it also creates two additional sources of income. First, additional income comes in the form of higher export revenues and wealth transfers from incremental LNG exports at higher prices paid by overseas purchasers."

In short, under every scenario, domestic prices rise.

Those who support unlimited LNG exports tout the NERA study headline that there is a net benefit gain of $10 billion to the U.S. economy in 2015. In fact, this is a trivial amount when you consider that the U.S. is a $14 trillion economy. The Purdue University study explains it this way, "The $10 billion gain (in 2015) in the NERA study amounts to 6 hours of U.S. economic activity."

3. Staging of approvals are needed to reduce the risk to consumers. Export terminals are approved for 20 to 30 year periods, and a lot can happen to domestic production or demand over that period.

The problem is that the production and cost of natural gas is greatly impacted by state and federal regulations and legislation. None of these public policy changes would reduce the cost of natural gas or increase its production. There are only negative impacts.

Public policy decision examples include: regulation of hydraulic fracturing on federal and private lands, Congressional repeal of the Intangible Drilling Costs tax provision, regulation of GHGs, access to onshore and offshore federal lands, and the Endangered Species Act.

The same applies to natural gas demand. Examples include: the Electric Utility MAT, the proposed GHG rule on new electric generating units, future GHG rules on existing units, the Industrial Boiler MACT, the ozone and PM2.5 rules and, GHG regulation of the industrial sector. All of these rules do not decrease natural gas demand – they drive accelerating demand for natural gas.

Mr. Chairman, this very important dimension of the debate continues to be ignored by DOE and by all of the studies funded by those who desire to export LNG. The undeniable fact is that domestic natural gas production and costs, and natural gas demand can be drastically impacted by public policy. Given that it will be public policy decisions that impact us consumers, it levies even greater responsibilities upon policy makers to ensure that consumers are not left holding the bag for LNG exporting companies.

Thank you.