



Via e-mail: LNGStudy@hq.doe.gov

February 22, 2013

John A. Anderson
U.S. Department of Energy
Office of Natural Gas Regulatory Activities, Office of Fossil Energy
P.O. Box 44375
Washington, DC 20026-4375

Re: Reply Comments for the 2012 LNG Export Study

Dear Mr. Anderson:

Western Energy Alliance submits the following reply comments to the Department of Energy's (DOE) 2012 Liquefied Natural Gas Export Cumulative Impact Study (LNG Export Study), conducted for the Energy Information Administration (EIA) by NERA Economic Consulting. We appreciate the opportunity to reply to comments received on the study. In analyzing the comments, we found none that provided sufficient credible information to undermine the study's basic premise that the overall US economy would greatly benefit from LNG exports, nor any that convincingly make the case for DOE to deny export terminal licenses.

Western Energy Alliance represents over 400 companies involved in all aspects of environmentally responsible extraction and production (E&P) of oil and natural gas in the West. We represent independent producers, most of which are small businesses with an average of twelve employees. With abundant natural gas reserves and spare capacity in the West, western producers stand ready and able to increase production in response to an increase in demand from exports, thereby keeping prices affordable for U.S. consumers.

Response to EITE Industry Comments

The Energy Intensive, Trade Exposed (EITE) industry argues against LNG exports in part by claiming the LNG Export Study greatly underestimates natural gas price increases. In their initial comments, they complain that the demand projections used in the LNG Export Study are from EIA's Annual Energy Outlook (AEO) 2011 and are too low.¹ While that may be true, it is certain that EIA's natural gas production numbers were greatly underestimated in the AEO 2011. The evidence of this significant underestimation comes from EIA's 2013 Early Release. The 2020 dry natural gas production projection is 13.1% greater in the 2013 Early Release than in the AEO 2011, and the natural gas liquids (NGL) projection by 38.5%. Further, since

¹ For example, see initial comments to DOE on the LNG Export Study submitted by Dow Chemical, Nucor Corporation, and ALOCA.

production is not inelastic, and American producers have already demonstrated the ability to dramatically increase production in response to demand, EITE companies are being shortsighted in their emphasis only on the underestimate of demand without acknowledging the greater underestimation of production.

Clearly natural gas producers have responded to the oversupply of natural gas rationally by shifting production away from gas to oil. Between Jan. 2012 and Jan. 2013, active rigs drilling in both dry and wet gas fields decreased by 287, a 13.6% drop.² A shift back to natural gas could likewise occur with increased the demand arising from exports.

Analysts at Deutsche Bank, Ernst &Young's Oil and Gas Center, and Deloitte's Center for Energy Solutions all see lower natural gas prices in the next few years, indicating that proved natural gas reserves will continue to remain untapped without an increase in demand.³ With an increase in demand from exports, accompanied by minor price increases as NERA has projected, many fields would become profitable for production again. At only \$5/MMBtu, ten fields in Wyoming, Colorado, Texas, Utah, Pennsylvania and other states would likely become profitable and begin producing natural gas.⁴ Tapping into that spare capacity will likewise maintain downward pressure on price.

In addition, continued exploratory work continues to increase reserves. According to Deloitte analyst Jon England, "The market should prepare for produced volumes [of natural gas] to rise even higher. The majority of the nineteen recognized basins are still in early exploratory or development stages. Moreover, production is still ramping up in Marcellus, the largest U.S. shale gas basin." We have not begun to hit the limit on proved reserves or production potential.

Other comments from EITE groups base their overestimation of natural gas price increases on proposed manufacturing projects and unrealistically high levels of exports. Under many cases examined by NERA, LNG exports are not feasible, and peak LNG export levels and price increases from the EIA LNG export report (part 1 of the LNG Export Study) are not likely to occur. It's important to remember that exports are necessarily constrained by their significant transportation costs. While average pipeline exports cost \$4.35/Mcf, LNG exports cost an average of \$10.51/Mcf.⁵ High export transportation costs provide a built-in incentive to service domestic customers first.

Some commenters speculate that regulations will decrease natural gas production, yet that is not a solid reason for assuming price increases. Certainly regulatory policies that hamper production can be adjusted as adverse consequences arise. In addition, some new regulations will actually increase the volume of natural gas sent to sales pipelines, such as recent EPA NSPS/NESHAP rules banning venting and flaring in many situations, and requiring "green

² Bentek Energy, January 2013

³ Deloitte Oil & Gas Mergers and Acquisitions Report – Year-end 2012

⁴ Bentek Energy, January 2013

⁵ DOE, EIA US Natural Gas Exports by Country

completions” to capture additional gas. Another example is North Dakota, where about a third of the associated gas from oil wells is flared. Regulatory efforts and the natural build-out of infrastructure as production in new fields matures means that significant gas volumes from the Bakken will be captured and that percentage will drop. In fact, associated gas production from the Bakken and other oil plays such as the Eagle Ford, Permian Basin, and Niobrara have significantly contributed to the current oversupply of natural gas.

NERA was asked to evaluate the macroeconomic impact of LNG exports, not focus on specific sectors. EITE industry comments indicate they would like special treatment in DOE’s analysis of exports, essentially asking our government to choose one sector of our economy over another. We posit that it is not DOE’s job to choose one industry over another, but to determine to the best of their ability whether LNG exports will be an overall benefit to the US economy. The LNG Export Study clearly shows that exports would benefit our economy as a whole.

Response to Environmental Concerns

Several commenters expressed concern that environmental issues are not included in DOE’s definition of the “public interest” and call for a rulemaking to “develop criteria and standards to define public interest.” Others complain that LNG exports would “transfer wealth from the poor and middle class to a small group of wealthy corporations.”⁶ These comments fail to take into account the jobs and economic benefits resulting from a robust oil and gas industry, as demonstrated over the last few years as the industry has been responsible for 9% of all job growth in the U.S.. LNG exports would increase demand for natural gas and likely result in new production across the US, adding jobs and helping communities grow. Furthermore, NERA has clearly demonstrated how the economy overall benefits from increased GDP in all export scenarios. Basic economics, as confirmed by NERA, show that increased GDP is good for the country and leads to job creation. The suspicion of economic expansion demonstrated by environmental groups with clearly stated anti-growth agendas must be taken with a large grain of salt.

The issue of using the license approval process to expand the analysis into all possible environmental impacts, as some groups have suggested, is a red herring designed to delay expansion of a primary energy source for which there are no viable, scalable alternatives currently available. These groups, with their stated anti-fossil fuels agendas, are attempting to drag out the process of export approvals as long as possible with seemingly endless environmental reviews. Western Energy Alliance requests that DOE avoid that pressure.

Oil and natural gas companies comply with numerous federal, state and local regulations to ensure development has as small of an environmental impact as possible. Where there’s a federal nexus, such as on public lands or where federal funding is involved, additional environmental analysis is completed on a project by project basis under the National

⁶ For example, see initial comments submitted by the Natural Resources Defense Council (NRDC), Sierra Club, and Food and Water Watch.

Environmental Policy Act (NEPA). Those who suggest a colossal NEPA analysis be completed covering all possible impacts from exports are fundamentally misinterpreting NEPA.

The Sierra Club even claims that communities with natural gas production will suffer from “resource curse”, a reference to the paradoxical situation where countries with abundant natural resources end up with poor development and stagnant or contracting economies. Economists argue over the existence of the curse, but it is commonly applied to developing countries with weak or corrupt governments, unstable currency and little to no other economic activity. It strains the limits of credulity to apply this phenomenon to America, and is demonstrably false given the huge benefit in terms of GDP and job creation that the oil and gas industry provides. Communities with oil and natural gas activity have low unemployment, strong small businesses, and strong government revenue. North Dakota’s sub-two percent unemployment and \$2 billion budget surplus belie the Sierra Club’s unsubstantiated claims.

Finally, many commenters expressed concern that LNG exports would increase hydraulic fracturing and complain that NERA did not factor environmental damage into the costs of allowing LNG exports. Hydraulic fracturing and all other aspects of development and production are safely conducted and heavily regulated by local, state and federal governments to manage risks and protect the environment. Proposed LNG terminals undergo significant environmental review as well. With the existing layers of environmental review, DOE should not be compelled to add another layer at the licensing stage.

Conclusion

As with any technological innovation, the United States cannot expect to maintain its first-mover advantage forever. Other nations are starting to invest in American-developed horizontal drilling and hydraulic fracturing technology to develop their own reserves. Calls for “four or five more studies”⁷ or rulemaking will only take more time and further erode our advantage.

No study is perfect, given the fast pace of change in the market. However, DOE’s LNG Export Studies have clearly shown an overall benefit to the country. Our free-trade principles and obligations should strongly impel America to move forward with LNG exports.

Sincerely,



Kathleen M. Sgamma
Vice President of Government & Public Affairs

⁷ Testimony from Dow Chemical CEO Andrew Livernis before the US Senate Energy and Natural Resources Committee.