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DEMOCRATIC STAFF DIRECTOR

January 4, 2012

Secretary Steven Chu
U.S. Department of Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Secretary Chu:

As Ranking Member of the House Natural Resources Committee, which has jurisdiction over oil and gas exploration and production on public lands, and the conservation of our nation's energy resources, I write to inquire about the consequences of exporting liquefied natural gas (LNG). As you know, the Department of Energy (DOE) recently approved a plan from a Cheniere Energy subsidiary, Sabine Pass Liquefaction, to export LNG and is now considering seven other LNG export applications. The total amount exported by these eight plans would equal about 18 percent of the natural gas currently consumed in the United States, according to data provided by DOE to Democratic Committee staff.

I believe we must quickly transition to clean, sustainable sources of energy, such as solar and wind, to achieve lasting energy security and reduce pollution causing global climate change and other environmental problems. However, natural gas has been called a "bridge fuel" because it's now cheap and abundant and, when burned, it emits less carbon dioxide and other pollutants than coal and oil.¹ I am worried that exporting America's natural gas would raise energy costs for American consumers, reduce the global competitiveness of U.S. businesses, make us more dependent on foreign sources of energy, and slow our transition away from dirtier fuels.

In the 1990s, energy companies began investing in LNG terminals to import natural gas to the United States, anticipating that U.S. domestic supplies would not be able to meet projected demand. By the early 2000s, there were over 47 LNG import terminals certified for construction.² Then came advances in drilling techniques that allow for the cheap, efficient production of natural gas from shale, which is found in large quantities in the United States. U.S.

¹ John Podesta and Timothy Wirth, "Natural Gas: A Bridge Fuel for the 21st Century," Center for American Progress (Aug. 10, 2009), available at http://www.americanprogress.org/issues/2009/08/bridge_fuel.html.

² Testimony of Kenneth B. Medlock III, Rice University, before the Senate Committee on Energy and Natural Resources, Nov. 8, 2011, available at <http://energy.senate.gov/public/files/MedlockTestimony110811.pdf>.

natural gas production spiked to an all-time high, and energy costs for American consumers fell. Many of the LNG import terminals were cancelled or delayed due to reduced demand, while others are operating at a fraction of their capacity.

Because natural gas prices, unlike oil prices, are not set on a world market, natural gas is currently far more expensive in foreign countries. That has motivated energy companies to seek DOE approval to export U.S. natural gas, with most, including Sabine Pass, planning to use LNG terminals that were originally built for importing. Already, these companies are lining up deals to sell to Asia, where they can charge four times as much as in the United States.

If DOE approves their export applications, American consumers may see their energy bills rise in accordance with what foreign buyers are willing to pay. Natural gas has a disproportionate impact on electricity prices because it is frequently the fuel used to run the plants that meet marginal demand and thus set the spot market electricity price at any given time. Exposing U.S. electricity consumers to the volatility that comes with globally-tied energy markets has the potential to undermine the stable electricity prices that Americans have come to expect. Beyond electricity markets, higher natural gas prices could also hurt the competitiveness of U.S. businesses that use natural gas in manufacturing products such as plastics, chemicals, fertilizers, and more.

It's been suggested that energy companies, if given the opportunity to export, would accelerate development of natural gas, perhaps enough so that U.S. consumers and businesses would not experience large short-term price increases. Indeed, in approving Sabine Pass, DOE was persuaded that "this application will result in increased production." I want to know why we should risk higher prices, but we should also remember what happened with our domestic oil reserves. Until 1974, the United States was the world's leading producer of oil. For many of those years we were also the world's leading exporter, selling our oil to foreign countries for as little as \$1 a barrel. Today, we are the leading *importer* at a time when oil is selling for more than \$100 a barrel, and many of the world's leading oil-producing countries are undemocratic, unstable, and even hostile to U.S. interests. I want to make sure we carefully consider our long-term economic and security interests before deciding to export our natural gas. If exporting means accelerated development, then we will more rapidly deplete natural gas resources that could help sustain future generations of Americans, leading to higher prices as resources diminish.

Keeping natural gas prices low not only benefits U.S. consumers and businesses; it also provides incentive to transition away from dirtier fuels. In the last six years, coal's share of the U.S. electricity market has dropped from 50 percent to 43 percent, with natural gas displacing much of this coal production. Natural gas also has the potential to cut into our consumption of foreign oil, as buses and commercial fleet vehicles, which consume large amounts of fuel, are increasingly powered by natural gas instead of gasoline. By 2035, U.S. natural gas demand is estimated to rise 18 percent under current policies and commitments, "driven by the power generation and transportation sectors, causing coal demand to drop by around 9% and oil demand by around 6%," according to the International Energy Agency.³ This transition away

³ International Energy Agency, "Are We Entering a Golden Age of Gas?", World Energy Outlook 2011, page 22, available at http://www.iea.org/weo/docs/weo2011/WEO2011_GoldenAgeofGasReport.pdf.

from foreign oil and dirtier energy sources could be slowed or jeopardized if we undermine our affordable domestic natural gas supply by exporting it to foreign markets.

To help me and other Members of the Committee assess the implications of exporting natural gas for consumer prices, U.S. economic competitiveness, energy security, and the environment, and to help me understand how DOE is weighing these issues in considering export applications, I ask that you please provide a written response to the following questions:

1. If DOE approves the additional natural gas export plans now under consideration, the United States is expected to export an amount equal to about 18 percent of the natural gas we now use, as noted above. What would be the consequences of exporting this volume of natural gas? Please compare this export scenario to a scenario in which no natural gas is exported, providing your near- and long-term expectations for (1) domestic supply and consumer prices; (2) U.S. economic competitiveness and manufacturing; (3) consumption rates of oil, coal, and natural gas in the United States and foreign countries; and (4) greenhouse gas emissions in the United States and globally.
2. Companies may seek DOE approval to export even more natural gas than is now being considered. How would exporting even greater volumes of natural gas affect consumer prices, U.S. economic competitiveness, energy security, and greenhouse gas emissions? Does DOE believe we should be concerned about the total volume of natural gas exports? Is there an amount that DOE believes would be too much? And how does DOE intend to weigh the total volume of natural gas exports as a factor in deciding whether to approve export applications?
3. U.S. manufacturers depend on natural gas to produce a wide array of consumer, agricultural, and industrial products. How important is the price of natural gas for the competitiveness of such manufacturers? And has DOE assessed the effects of higher and lower natural gas prices on U.S. manufacturing? If so, please describe your conclusions and provide materials created or used in developing your conclusions.
4. Section 3(a) of the Natural Gas Act of 1938 defines the process for DOE's reviews of most LNG export applications. In particular, the Secretary of Energy must approve an export application "unless after opportunity for hearing, [the Secretary] finds that the proposed exportation... will not be consistent with the public interest." In its approval of Sabine Pass, DOE states that this "creates a rebuttable presumption that a proposed export of natural gas is in the public interest" and that DOE must overcome this presumption if it is to deny an export application. What does this presumption mean in practice? What is required for DOE to determine an export application is not in the public interest? And do you believe we should presume natural gas exports are in the public interest? Why or why not?
5. Sabine Pass submitted technical and economic analysis to DOE claiming its export plan would not significantly increase consumer prices or pose risks to energy security. The Industrial Energy Consumers of America and the American Public Gas Association challenged Sabine Pass's claims, but "neither... introduced economic or technical studies

to support their allegations.”⁴ DOE consequently sided with Sabine Pass, citing the presumption in favor of granting export applications. I am concerned about the lack of an independent technical or economic analysis by DOE with respect to the impact of LNG exports on domestic natural gas prices. Do you believe that DOE has a responsibility to independently analyze and verify claims made by applicants for LNG export approval? Does DOE request EIA or any other government agency or contractor to provide an independent analysis of individual applications and the accompanying technical and economic analysis submitted by applicants? If not, why? If so, please provide copies of all such analyses. Do challengers have to provide or produce such analysis for DOE if they hope to prevail? Did DOE attempt to verify for itself Sabine Pass’s claims by performing its own technical or economic analysis? And does DOE stand behind Sabine Pass’s claims about the economic and public benefits of its export plan? Please provide all materials created or reviewed by DOE in assessing the effects of Sabine Pass’s export plan.

6. Christopher Smith, DOE’s Deputy Assistant Secretary for Oil and Natural Gas, recently testified in the U.S. Senate that DOE has commissioned the Energy Information Administration and a private contractor to undertake separate studies on the cumulative impacts of pending natural gas export applications. These two studies are expected to be completed within the first quarter of 2012. Will DOE withhold approval of pending export applications until these studies are completed? Why or why not? And what research or analysis did DOE ask EIA and the private contractor to perform? Please provide any written instructions DOE has given to EIA and the private contractor that address the issues, scope, and other information to be covered in the studies, as well as the methodology to be used.
7. Section 3(a) also authorizes DOE to attach terms or conditions to approvals that the Secretary finds are necessary or appropriate to protect the public interest. In the case of Sabine Pass, DOE requires the company to commence LNG export operations within seven years and regularly report on its export activities and transactions. Does DOE plan to use the same terms and conditions set for Sabine Pass for other export approvals? And does DOE anticipate using any other terms or conditions in future LNG export orders? If so, what concerns would they address?
8. The Sabine Pass order does not specify terms or conditions for protecting human health, safety, and the environment. Why is that? Who is responsible for ensuring such protection for LNG exports and how is that carried out?
9. In a recent briefing on LNG exports, you reportedly said, “There’s a way of doing this and sampling it. We don’t want the price of gas to go to \$10 and \$12 per million Btus. That would not be good for the country.”⁵ I am encouraged that you will be monitoring the effects of exporting LNG on domestic prices, but I want to know how you intend to protect against such adverse effects. Is DOE planning to limit or phase in export

⁴ Testimony of Christopher Smith before the Committee on Energy and Natural Resources, U.S. Senate, Nov. 8, 2011.

⁵ Margaret Kriz Hobson, E&E News, “DOE Will Keep an Eye on Prices as it Mulls LNG Exports,” Dec. 21, 2011.

approvals, to allow sufficient time to evaluate effects? Is that what you mean by “sampling”? Would DOE deny export applications if we experience a spike in domestic prices? Would DOE withdraw approvals of any previously granted LNG export applications? And could DOE attach terms or conditions to orders that would require companies to halt or slow exports if DOE determines domestic prices are being adversely affected? If so, would DOE consider employing such a protection?

10. Under section 3(c) of the Natural Gas Act, which was added by the Energy Policy Act of 1992, DOE *must* approve permit applications to export natural gas to the 15 countries that have free trade agreements (FTAs) with the United States covering natural gas.⁶ Such applications are automatically deemed in the public interest, and DOE cannot add any terms or conditions to approvals. Does DOE believe that all natural gas exports to FTA countries—regardless of impacts on U.S. consumers, U.S. manufacturing competitiveness, and U.S. energy security—are indeed in America’s public interest? Why or why not? Please describe any concerns DOE has about exporting LNG to FTA countries, including any concerns about LNG export plans involving FTA countries that DOE is currently reviewing or has already approved.
11. During natural gas production, some natural gas is lost into the atmosphere. Worldwide leakage is an estimated 95 billion cubic meters of natural gas each year.⁷ This reduces supplies and increases greenhouse gas concentrations without providing any societal benefit. Would exporting natural gas encourage more rapid development before technological solutions are implemented or regulatory requirements promulgated that would prevent or reduce leakage from natural gas wells? Would America lose more of its natural gas not only to foreign countries but to the air?

Thank you for your assistance in responding to this inquiry. I ask that you please respond by January 31, 2011. Should you have any questions, please contact Reece Rushing of the House Natural Resources Committee Democratic staff at 202-226-4627.

Sincerely,



Edward J. Markey
Ranking Member
Committee on Natural Resources

⁶ These countries are Australia, Bahrain, Canada, Chile, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Peru, and Singapore. Three other countries, South Korea, Colombia, and Panama, will soon join this club when their Senate-ratified trade agreements take effect.

⁷ International Energy Agency, “Are We Entering a Golden Age of Gas?”, World Energy Outlook 2011, page 60, available at http://www.iea.org/weo/docs/weo2011/WEO2011_GoldenAgeofGasReport.pdf.