

Testimony of The Honorable J. Bennett Johnston
before the Subcommittee on Energy and Power
of the U. S. House Committee on Energy and Commerce

“U.S. Energy Abundance:
Exports and the Changing Global Energy Landscape”

May 7, 2013

Chairman Whitfield , Ranking Member Rush, and Members of the Subcommittee,

Thank you for the opportunity to present my views on natural gas exports and the role of the government in regulating natural gas and natural gas exports.

The Department of Energy in its latest annual report projected a 100-year supply of natural gas with, by 2040, a growth in natural gas production of 40% and a growth in consumption of only 20%. And the current trend in supplies is up! Just last Wednesday (May 1), The Washington Post reported that the Williston Basin contains three times as much gas as previously reported and China has 50% more shale gas than the United States. A study commissioned by DOE concluded that exports of natural gas would not appreciably increase the price.

Leading the opposition to LNG exports are prominent members of the chemical industry. They argue that unfettered exports can cause demand shock and price volatility, which can smother America’s chemical industry rebirth.

The petroleum industry counters that LNG facilities require \$10-\$40 billion to complete and 5-7 years to finance, build and permit. On top of that, the exporter must have secured a multi-decade supply of natural gas and a firm contract on the receiving end to purchase the LNG. These factors along with very healthy competition from foreign exporters will prevent an export-driven price spike. Moreover, DOE sponsored

studies support the conclusion that exports provide the demand incentive to increase production of natural gas. Much of America's best dry gas supply, such as the Haynesville Shale in my state of Louisiana, lies undeveloped for lack of demand.

Thus the issue is the one Adam Smith identified more than two centuries ago in "The Wealth of Nations": How best to procure that balance between supply and demand that produces prosperity. Is it through government regulation or by the free market?

My years in the U.S. Senate (1972-97) spanned a period rich with experimentation in the efforts of government to regulate price and supply. My first chairmanship was of the Production and Stabilization Subcommittee of the Banking Committee, which had jurisdiction over President Nixon's 1971 wage-and-price controls. Our hearings exposed the shortages, dislocations and distortions that the scheme produced. This disastrous experiment in central planning was soon abandoned and should stand as a reminder of the dangers of regulatory overreach.

My 24 years on the Senate Energy Committee also involved dealing with the government's efforts to regulate price and supply. In the early 1970s, the Federal Power Commission sought to protect consumers by regulating the price of natural gas. Instead of hitting a price "sweet spot," the effort produced massive shortages.

In the record cold winter of 1976-77, hundreds of thousands of workers in the Midwest were laid off for lack of natural gas to power manufacturing plants and other companies. The crisis was such that it took just five days for Congress to introduce and pass the Emergency Natural Gas Act of 1977 authorizing President Jimmy Carter to suspend antitrust laws in the industry to address a shortage in supply. Five days!

The epic fight for the deregulation of natural gas was the most controversial issue of the day. A round-the-clock filibuster with senators sleeping on cots in the cloakroom was finally overcome. The resulting Natural Gas Policy Act of 1978 increased the price of gas in stages until full deregulation on Jan. 1, 1985. The regulatory community predicted a terrible price explosion on this date with a calamity for consumers. Instead, the nation experienced lower prices and an adequate supply.

During this time, Congress also sought to prevent this valuable commodity from being wasted, and it passed the Fuel Use Act of 1978 preventing natural gas from being burned for electricity generation. The law did not cause an emergency but it became clear that electric generation was frequently the best use of the gas. The folly of this attempt at resource allocation was soon evident and repeal ensued.

And if you believe that the government's ability to estimate supply and demand has improved since I left office, I refer you to two recent instances indicating that you'd be mistaken. In 2007, Congress predicted there would be 500 million gallons of cellulosic ethanol for commercial use in the United States. In fact, there was less than one million gallons. The fuel is simply not commercially available in the United States.

And in 2011, the President set a goal of one million electric cars on the road by 2015. To date, only 87,000 electric and hybrid cars have been sold. This number would have to increase 10-fold to reach the Administration's goal. It's a cinch that Fisker Motors won't supply the deficit. An April report from the Congressional Research Service acknowledges, "Electric vehicles are still in their infancy, and there is a gap between the Administration's goal of having 1 million electric vehicles on the road by 2015 and consumer demand for such vehicles."

That brings us back to today's calls for top-down control of the LNG market. Does anyone really think that Congress or the Department of Energy, years in advance, can predict supply and demand or determine which of the 20 applicants can procure the billions of dollars and decades-long contracts necessary to build an LNG export facility?

The free market might not always lead to everyone's definition of the sweet spot, but experience has shown that it is a better allocator and regulator than bureaucrats and politicians. We should heed the admonition of Adam Smith that demand begets supply: Allow the free market to allocate the nation's newfound energy bounty.

Again, thank you for the opportunity to testify before you today. I would, of course, be happy to answer any of your questions.