

**Testimony of the American Public Gas Association before the  
Energy and Power Subcommittee of the House Energy and  
Commerce Committee Hearing, “H.R. 6, The Domestic Prosperity  
and Global Security Act”**

**A Consumer Perspective**

On behalf of the American Public Gas Association (APGA), thank you for the opportunity to testify at the hearing titled, “H.R. 6, The Domestic Prosperity and Global Security Act.”

APGA is the national association for publicly owned natural gas distribution systems. There are approximately 1,000 public gas systems in 37 states and over 700 of these systems are APGA members. Publicly owned gas systems are not-for-profit, retail distribution entities owned by, and accountable to, the citizens they serve. They include municipal gas distribution systems, public utility districts, county districts, and other public agencies that own and operate natural gas distribution facilities in their communities. Public gas systems’ primary focus is on providing safe, reliable, and affordable service to their customers. The long-term affordability of natural gas has been a focus of APGA and its members.

APGA has the privilege of representing the views of American natural gas consumers. We represent the homeowners and small businesses that rely on affordable natural gas to heat their homes, cook their meals, power their restaurants, operate small manufacturing entities, and

service businesses. The interests of these millions of Americans have often been lost in the contentious debate about liquefied natural gas (LNG) exports. Media outlets have framed the debate as oil and gas companies on one side and manufacturers on the other.<sup>1</sup>

However, as advocates for natural gas consumers, our position is slightly different from the manufacturing companies that have spoken out on the issue. Simply put, APGA opposes all exports of LNG from the lower 48 states. The simple economics of supply and demand, along with every study that has been conducted on the subject, whether done by the federal government or by private consulting companies, all reach one conclusion: exports will increase the price of domestic natural gas. How adverse that upward pressure on price will be, no one knows. Based on past experience though, APGA believes the experts who supported the export of propane would not have predicted the significant adverse prices homeowners paid this winter for their propane.

What this means for average consumers is that their energy bill for natural gas service, electricity, and the goods and services they purchase--all of which have the cost of energy built into their prices--will escalate. We can debate about net benefits, aggregate welfare measures, and other economic metrics, but ultimately LNG export translates into people paying more for energy and other goods and services, and consequently having less disposable income. This fact applies to businesses as well. As energy costs go up, companies are less competitive and hire fewer workers, whether they serve customers down the street or compete for customers around the globe.

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<sup>1</sup>APGA is a proud member of America's Energy Advantage (AEA), which represents the interests of both manufacturers and natural gas consumers.

Before discussing the details of APGA’s opposition to the export of LNG, there is one message that we would like Congress to focus on when thinking about this issue: it is irrefutable that consumers and businesses will pay increased prices for energy and all goods and services if LNG exports are sanctioned.

## **LNG Export**

The Department of Energy Office of Fossil Energy (DO- FE) commissioned two studies regarding the effects of LNG exports. The first, conducted by the U.S. Energy Information Administration (EIA), studied the impact of LNG exports on domestic prices and concluded that exports will increase prices with higher volumes causing more drastic increases.<sup>2</sup> The second, conducted by NERA Economic Consulting, focused on the macroeconomic effects of LNG exports, which were found to be a net positive while at the same time confirming that LNG exports would raise domestic natural gas prices. This would ultimately burden the U.S. consumers who can least afford the increase and disadvantage domestic manufacturing.<sup>3</sup>

Policymakers must consider both of these studies—and and other non-governmental studies on

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<sup>2</sup> *Effect of Increased Natural Gas Exports on Domestic Energy Markets*, U.S. Energy Information Administration (Jan. 2012) (“EIA Export Report”). As requested by the DOE/FE, the EIA Export Report considered four scenarios: (1) 6 Bcf/d phased in at a rate of 1 Bcf/d per year (low/slow scenario); (2) 6 Bcf/d phased in at a rate of 3 Bcf/d per year (low/rapid scenario); (3) 12 Bcf/d phased in at a rate of 1 Bcf/d per year (high/slow scenario); and (4) 12 Bcf/d phased in at a rate of 3 Bcf/d per year (high/rapid scenario).

<sup>3</sup> *Macroeconomic Impacts of LNG Exports from the United States*, NERA Economic Consulting (Dec. 2012) (“NERA Study”). APGA understands (and applauds the fact) that the merits and demerits of the NERA Study will be assessed independently by DOE/FE in a separate proceeding (77 Fed. Reg. 73627); and hence APGA’s comments here on the NERA Study are only preliminary and not intended to represent its complete assessment of the NERA Study.

the subject—and in doing so, consider the profound tradeoffs entailed by exporting away an increasingly valuable U.S. fuel resource rather than supporting its use domestically.

Increased production of natural gas in the U.S. to meet domestic demand provides the nation with an unprecedented opportunity to pursue energy independence and sustained economic growth through a manufacturing renaissance grounded in plentiful, low cost natural gas. Price increases will also jeopardize the viability of natural gas as a bridge fuel in the transition away from carbon-intensive and otherwise environmentally problematic coal-fired electric generation and inhibit efforts to foster natural gas as a major transportation fuel, which is important in weaning the U.S. from its historic and high-risk dependence on foreign oil.

## **Background**

To date, over 30 applications have been submitted to DOE to export domestic LNG from the United States to free trade agreement (FTA) or non-FTA nations based on the promise of huge unconventional domestic gas reserves and huge profits for the few affected companies. Of those applications, six have already been approved, meaning that 8.5 Bcf/day has been approved by DOE for export to non-FTA countries. Also to date, the total export capacity applied for is 38.51Bcf/d and 35.86 Bcf/d to FTA and non-FTA nations, respectively. Total natural gas production was approximately 67 Bcf/d in the U.S. in 2013<sup>4</sup>; therefore, based on current data, the total applied-for export capacity, if authorized, would have the potential effect of increasing the demand for natural gas by nearly 54 percent.

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<sup>4</sup> See: <http://www.eia.gov/naturalgas/issuesandtrends/production/2013/>

Policymakers in Congress and at DOE have a duty to ensure that any non-FTA application under consideration for export authority is not inconsistent with the public interest pursuant to NGA section 3(a).<sup>5</sup> The “public interest analysis of export applications” should be “focused on *domestic* need for natural gas,” threats to domestic supply, and “other factors to the extent they are shown to be relevant.”<sup>6</sup>

For exports of LNG to countries with which the United States has a free trade agreement, the application for export authority is automatically assumed to be in the public interest and is granted almost instantly without opportunity for the public to comment.

For exports to non-FTA countries, which are the focal point for the current export debate, DOE adopts a rebuttable presumption that exports are in the public interest. Those opposed to exports face a nearly insurmountable challenge of proving a negative; more specifically, that each individual application is not in the public interest. APGA has filed motions to intervene and protests every non-FTA application, pointing out the deleterious impacts of the applications on the nation’s consumers and businesses, relying on, among other materials, the EIA Export Report and the NERA Study. But since APGA does not have the resources to conduct independent detailed market impact analyses for each application in order to prove to DOE that exports are not in the public interest, the die is cast and the export applications are granted.

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<sup>5</sup> 15 U.S.C. § 717b(a).

<sup>6</sup> *Sabine Pass Liquefaction, LLC*, Opinion and Order Denying Request for Review Under Section 3(c) of the Natural Gas Act, October 21, 2010, FE Docket No. 10-111-LNG.

APGA believes that the burden of proof should be shifted to exporting companies. Companies that seek to export the U.S.’s plentiful--but ultimately finite—reserves of a strategic commodity should have to prove to DOE that exporting LNG benefits not merely their bottom line, nor oil and gas producers, but all sectors of the economy including natural gas consumers. Surely, consideration of the public interest requires no less.

### **LNG Exports Will Increase Domestic Natural Gas Prices**

According to the EIA Export Report, “[l]arger export levels lead to larger domestic price increases.”<sup>7</sup> EIA also concluded that “rapid increases in export levels lead to large initial price increases,” but that slower increases in export levels will “eventually produce higher average prices during the decade between 2025 and 2035.”<sup>8</sup>

Even under the “low/slow” baseline scenario in the EIA Export Report, price impacts will reach about 14 percent.<sup>9</sup> Under the “low/rapid” baseline scenario, EIA projects that wellhead prices will be approximately 18 percent higher in 2016 than they otherwise would be.<sup>10</sup> In fact, under all of the low scenarios accounting for different economic and shale reserve conditions, EIA predicts price impacts well above 10 percent that then moderate.<sup>11</sup> Under the “high/rapid” scenario, EIA projects that prices will increase by 36 percent to 54 percent by 2018 depending on natural gas supplies and economic growth. It is important to note that the low/slow baseline

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<sup>7</sup> *Id.* at 6.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 8.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.* at 9.

assumed an export level of 6 Bcf/day, which as noted above has already been exceeded in terms of approvals, and that the high/rapid scenario assumed an export level of 12 Bcf/day, which appears imminent given recent actions by DOE.

The NERA study also concluded that the higher the volume of LNG exports, the more domestic natural gas prices will rise. Both studies underestimate potential price increases because they are based on outdated projections of domestic demand for natural gas and the questionable assumption that the demand for natural gas is sufficiently elastic to prevent significant price spikes.

### **Domestic Demand Underestimated**

On December 16, 2013, the EIA issued the Early Release of its Annual Energy Outlook for 2014 (AEO2014). The AEO2014 projects greater increases in domestic demand for natural gas than projected in prior Annual Energy Outlooks. In particular, the AEO2014 projects greater increases in demand for natural gas from domestic industry, particularly from the bulk chemicals and metals-based durables shipments, which “grow by 3.4 percent per year from 2012-2025...as compared to 1.9 percent in AEO 2013.”<sup>12</sup>

AEO2014 also projects greater increases in future reliance on natural gas for electric generation than projected by the EIA in previous Annual Energy Outlooks. In fact, the AEO2014 Reference case projects that by 2040 natural gas will account, “for 35 percent of total electricity generation,

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<sup>12</sup> AEO2014 Early Release Overview at 1.

while coal accounts for 32 percent.”<sup>13</sup> In AEO2013, natural gas would only overtake coal in terms of the share of electric generation by 2040 under the High Oil and Gas Resource scenario and would not have done so under the Reference case.

Moreover, the shift to natural gas for electric generation will be further increased by the forthcoming implementation of the Environmental Protection Agency’s (EPA) pending Mercury Air Toxic Standards (MATS), which will force the retirement of a large number of coal-fired generators.

Both studies commissioned by DOE-FE rely on projected natural gas demand from AEO2011. These outdated projections fail to account for current EIA expectations regarding future demand and tend to overestimate demand elasticity, or the ability of natural gas consumers to curtail their purchases in response to higher prices in the electric generation sector. Once a coal plant is retired due to MATS, or for any other reason, the operator of the retired plant cannot switch it back on in response to higher natural gas costs. Meanwhile, the EPA’s new greenhouse gas standards for new electric generators virtually ensure that new coal plants will not be constructed to replace those that are retired.<sup>14</sup> Soon, electric generation companies will not only demand more gas but also rely on it more heavily for base load production, altering expectations about demand elasticity that prognosticators have relied on when assuming that natural gas prices will

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<sup>13</sup> AEO2014 Early Release at 2.

<sup>14</sup> “Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units” 77 C.F.R. 22392 (Apr. 13, 2012).

not rise sharply due to LNG exports.<sup>15</sup> This same trend would also exacerbate the increases in the price of electricity caused by LNG exports that are projected by the EIA and NERA.

While demand elasticity will shrink in the electric sector, leading to sharper increases in natural gas and electricity prices than previously forecasted, manufacturers will continue to be responsive to increases in the price of natural gas—meaning that manufacturers will curtail consumption and hence production due to higher prices. Congress and the DOE need to examine what this means for the economy and the broader public interest of the nation in its consideration of this and other LNG export applications.

### **Effects of Higher Prices**

Increases in the price of natural gas will impact the U.S. consumers who can least afford the price increase, inhibit the expansion of domestic manufacturing, and forestall the further use of natural gas as a bridge fuel away from carbon-intensive coal for generation and from foreign sourced oil for transportation. The NERA study demonstrates that the effects of LNG exports and the attendant price increases are tantamount to a “wealth transfer” from poor and middle class Americans to those with investments in the natural gas industry. The DOE-FE should examine what this wealth transfer would entail for the public interest when evaluating LNG export applications. Congress must do likewise in considering the state of LNG exports.

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<sup>15</sup> See Energy Information Administration, *Fuel Competition in Power Generation and Elasticities of Substitution* (June 2012) (general description of fuel switching and price elasticity among fuels in the power generation sector) available at <http://www.eia.gov/analysis/studies/fuelelasticities/pdf/eia-fuelelasticities.pdf>.

## **Hurts Economically Vulnerable Households**

LNG exports will raise domestic natural gas prices, which will increase costs to households that rely on natural gas for heating and cooking. NERA projects that these higher costs will be offset by increases in the value of natural gas resources and related companies, which NERA assumes many Americans own through retirement savings and other investments.<sup>16</sup>

However, the validity of that assumption is highly questionable since according to a Pew Research survey, “53 percent of Americans say they have no money at all invested in the stock market, including retirement accounts.”<sup>17</sup>

Furthermore, merely owning stock does not guarantee an individual will own stock in an oil and gas company or exporting company, without which an individual will not directly benefit from LNG exports. Taking the analysis a step further, even if an individual does own stock and owns oil and gas company/exporting company stock, the key question is, does that person own enough shares to offset the price increases for energy, goods, and services that will result from LNG exports. This distribution of stock ownership casts significant doubt that a majority of Americans own oil and gas/exporter stock in sufficient quantities to offset energy price increases.

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<sup>16</sup> See Markey Letter (casting doubt on the assumption that benefits to the natural gas sector will be widely enjoyed by ordinary American via retirement investments).

<sup>17</sup> See: <http://www.pewresearch.org/fact-tank/2013/05/31/stocks-and-the-recovery-majority-of-americans-not-invested-in-the-market/>

NERA does admit, however, that “[h]ouseholds with income solely from wages or government transfers,” will not share in the benefits of increased profits from natural gas.<sup>18</sup> Therefore, the increase in natural gas prices due to exports will impact most those consumers without investments or retirement savings, those living paycheck-to-paycheck or relying on government assistance, which includes the 46.5 million people that live in poverty in the U.S.<sup>19</sup> Even beyond Americans who live in poverty, the majority of Americans, some 167 million people, will only incur the costs of exports and none of the benefits.

### **Suppresses Other Domestic Industries**

The NERA study indicates that as the price of natural gas increases, the economy demands or produces fewer goods and services. This results in lower wages and capital income for consumers; under such economic conditions, consumers save less of their income for investment.

As a result, industries that rely on natural gas will experience “a reduction in overall output,” mitigated by a “switch to fuels that are relatively cheaper.”<sup>20</sup> The latter argument assumes that alternatives to natural gas are affordable and available, which is an invalid assumption for fertilizer manufacturers and many other industries.

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<sup>18</sup> NERA Study at 8.

<sup>19</sup> See: <http://www.nclej.org/poverty-in-the-us.php>

<sup>20</sup> NERA Study at 53.

Moreover, the NERA study identified chemical manufacturing as one of the natural gas and energy intensive industries that will be among the most severely disadvantaged due to natural gas price increases caused by LNG exports.<sup>21</sup> According to NERA “[d]omestic industries for which natural gas is a significant component of their cost structure will experience increases in their cost of production, which will adversely impact their competitive position in a global market and harm U.S. consumers who purchase their goods.”<sup>22</sup> Leaders in the chemical sector have voiced concern regarding LNG exports and adverse impacts on the industry caused by inflated natural gas prices.<sup>23</sup>

When evaluating whether export applications are consistent with the public interest, policymakers must ask not only “what will we gain from LNG exports,” but also “what will we give up.” A U.S. manufacturing renaissance that promises greater economic growth and job creation with positive effects rippling throughout the economy hangs in the balance. Right now, industry is poised to invest billions of dollars in new natural gas intensive facilities in the U.S. premised on the promise of low domestic natural gas prices. For example, Sasol North America, Inc. is currently considering investing in the first gas to liquids plant in the U.S., an innovative technology for producing diesel and other liquid fuels without oil, and U.S. natural gas prices are a primary consideration regarding whether the investment will go forward.<sup>24</sup>

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<sup>21</sup> NERA Study at 64.

<sup>22</sup> NERA Study at 13.

<sup>23</sup> Press Release, Dow Chemical, *DOE Report on LNG Exports Short Changes Manufacturing and U.S. Competitiveness* (Dec. 6, 2012) available at <http://www.dow.com/news/press-releases/article/?id=6138>

<sup>24</sup> Clifford Kraus, *South African Company to Build U.S. Plant to Convert Gas to Liquids*, New York Times (Dec. 3, 2012) available at: <http://www.nytimes.com/2012/12/04/business/energy-environment/sasol-plans-first-gas-to-liquids-plant-in-us.html? r=0>.

Affordable natural gas prices in the U.S. provide the path forward for the manufacturing renaissance. Higher natural gas prices due to LNG exports threaten this promising return to American manufacturing, and prior economic data demonstrate that when domestic energy prices increase, the country loses manufacturing jobs, particularly in the fertilizer, plastics, chemicals, and steel industries.<sup>25</sup>

Rather than trading long-term manufacturing jobs for short-term natural gas-related construction jobs, the DOE-FE should pursue policies that create new manufacturing jobs and broader economic growth in the U.S. Using natural gas for manufacturing provides a value-added benefit to the economy because industry multiplies the value of every dollar it expends on natural gas for energy or as a raw material. Rather than investing in natural gas exports, which squeeze out investments from other sectors of the economy, the U.S. should pursue policies that allow industry to invest in natural gas dependent manufacturing. Energy and natural gas intensive manufacturing produces chemicals, metals, cement and other materials that may be add low-value, but create positive ripple effects up the value chain and throughout the economy.<sup>26</sup> Rather than exporting natural gas as a raw natural resource, the U.S. could export processed materials, such as steel, or higher value-added goods at more competitive prices, with greater benefits to the U.S. job market and GDP.

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<sup>25</sup> U.S. House Committee on Natural Resources Democrats, *Drill Here, Sell There, Pay More: The Painful Price of Exporting Natural Gas* (March 2012) available at <http://democrats.naturalresources.house.gov/reports/drill-here-sell-there-pay-more>.

<sup>26</sup> NERA claims that harm resulting from exports will “likely be confined to very narrow segments of industry,” namely low value-added, energy intensive manufacturing. NERA Study at 67-69. NERA, however, ignores the benefits of producing materials in the U.S. that can then be used by other U.S. manufactures that are less energy intensive and higher up the value chain. For instance, if plastics are produced at competitive prices in the U.S., toy manufacturers may find it economical to “re-shore” toy manufacturing plants. Steven Mufson, *The New Boom: Shale Gas Fueling an American Industrial Revival*, Washington Post (Nov. 14, 2012).

## **Threaten Transition from Coal**

Current low natural gas prices provide an opportunity to wean the U.S. off of carbon-intensive coal. Inflated natural gas prices due to LNG exports will decrease the viability of natural gas as a bridge fuel to a lower carbon future. Current low prices make natural gas-fired electricity generation an economically sound alternative to coal-fired generation. Sustained low prices may encourage this transition by private initiative regardless of increased environmental regulations as investors find natural gas competitive with coal. If exports inflate natural gas prices, the economics turn against cleaner burning natural gas.<sup>27</sup>

As discussed above, new greenhouse gas regulations will also soon force coal retirements. If natural gas prices remain low, the U.S. may be able to transition away from carbon intensive coal without causing electricity prices to increase significantly. If natural gas prices are high, however, electricity prices will spike as relatively cheap coal-fired generators are forced to retire for regulatory reasons. Spiking electricity rates will have rippling effects on the U.S. economy, especially energy intensive, cost-sensitive manufacturing.

## **Keeps the U.S. Dependent on Foreign Oil**

Currently, the U.S. imports billions of dollars of oil from around the globe, a great deal of which is used as gasoline to fuel vehicles. The replacement of current gasoline-powered fleets with natural gas vehicles would significantly reduce U.S. dependence on foreign oil, and thereby

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<sup>27</sup> EIA Export Report at 17.

enhance U.S. security and strategic interests and reduce our trade deficit.<sup>28</sup> State governments, businesses and many of APGA's members are expending substantial resources today to put the needed infrastructure in place.<sup>29</sup>

Automobiles are not the only modes of transportation that businesses are interested in transitioning to natural gas. A company in Canada is investing in commercial locomotives powered by LNG and teaming up with Caterpillar to employ similar technology in heavy duty equipment that currently runs on diesel.<sup>30</sup> If Congress and the DOE allow export applications to go through, the resulting increase in natural gas prices could undermine recent investments to expand natural gas as a transportation fuel.

Policymakers should not pursue an export policy that undermines the efficient, domestic use of a domestic fuel stock and America's first and best opportunity to move toward energy independence by decreasing reliance on foreign oil.

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<sup>28</sup> Cheniere and other exporters claim that their proposed exports will benefit the U.S. balance of trade, but it does not consider the benefits to the trade balance of cutting oil imports and exporting value-added goods manufactured in the U.S. with affordable natural gas.

<sup>29</sup> Officials are planning a series of compressed natural gas ("CNG") filling pumps at existing filling stations across the Pennsylvania US Route 6, stretching 400 miles from New York State near Milford, Pike County, Pa. in the east and through Crawford County, Pa. to the Ohio state line on the west, known as "PA Route 6 CNG Corridor;" at the same time, Chesapeake Energy is converting its vehicles in northeastern Pennsylvania to CNG and working with a local convenience-store chain and transit authority to foster further CNG integration. Eric Hrin, *Pennsylvania Looks to CNG*, The Daily Review Online (May 26, 2011) available at <http://thedailyreview.com/news/pennsylvania-looks-to-cng-1.1135267>; see also, Texas S.B. 20 (On July 15, 2011, the governor of Texas signed S.B. 20, supporting a network of natural gas-refueling stations along the Texas Triangle between Dallas/Ft. Worth, San Antonio, and Houston. The new legislation will lay a foundation for wider-scale deployment of heavy-duty, mid- and light-duty natural gas vehicles ("NGVs") in the Texas market).

<sup>30</sup> Rodney White, *Firm on Track to Build LNG-Fueled Locomotive*, Platts Gas Daily (Nov. 28, 2012).

## U.S. and Foreign Natural Gas Prices Will Converge

Currently, there are significant disparities between domestic natural gas commodity prices and prices in some nations that rely on LNG imports. These disparities provide would-be exporters with appealing arbitrage opportunities in the short-term, but they will not last. Gas rich shale deposits are a global phenomenon, just now beginning to be tapped. Also, despite relatively low domestic natural gas prices, certain countries, such as Qatar, can produce massive quantities of natural gas at even lower prices. As other nations develop their resources and export capacity, and as U.S. natural gas prices increase due to export, international and domestic prices will converge, leaving the U.S. with higher domestic prices that thwart energy independence and that undermine the competitiveness of the manufacturing sector that relies heavily on natural gas as a process fuel.

The U.S. is at the forefront of technology in the development of shale gas reserves. A recent study by MIT concludes that the U.S. should export its technology and expertise.<sup>31</sup> According to MIT, the development of international unconventional natural gas reserves will create a more liquid market with less disparity between prices around the globe.<sup>32</sup>

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<sup>31</sup> MIT Energy Initiative, *The Future of Natural Gas*, at 14 (2011).

<sup>32</sup> *Id.*

The U.S. should follow this strategy, instead of spending billions of dollars to build facilities in order to export a commodity that will possibly be abundant worldwide before the LNG export facilities can even be completed.<sup>33</sup>

The U.S. has an opportunity that was unimaginable two or three years ago to significantly expand its manufacturing sector, transition away from our reliance on coal-fired electricity generation without risking price shocks, and finally make real progress towards energy independence. All of this, however, depends on relatively low and stable natural gas prices, which sharply contrasts with the history of natural gas price volatility. Congress and the DOE should not turn a blind eye and allow the same businesses that gambled and lost on projections of the need for future natural gas imports to now potentially squander our nation's future on what may well turn out to be another failed venture as natural gas production and export capacity develop throughout the world.

### **The Domestic Prosperity and Global Freedom Act**

The Domestic Prosperity and Global Freedom Act, H.R. 6 was introduced by Representative Cory Gardner (R-Colo.) on March 6, 2014, in response to, among other things, the ongoing crisis in Ukraine. In an effort to reduce Ukraine's approximately 60 percent dependence on

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<sup>33</sup> The U.S. should be ever mindful of the billions of dollars invested in LNG *import* facilities, which are white elephants that stand as testaments to the extent to which technology at home or abroad can undermine investments that ignore the portability of technology.

Russian natural gas,<sup>34</sup> this legislation would automatically approve all pending applications for LNG export from the U.S. for which a notice has been published in the Federal Register by March 6, and would grant FTA status for natural gas to all members of the World Trade Organization (WTO).

Though well intentioned, this legislation will fail to achieve its desired purpose and will have unintended consequences that harm this nation as discussed above. This legislation will not ensure that Ukraine or any other country that is heavily dependent upon Russian energy will ever receive U.S. natural gas, much less receive it in a timely fashion. This is due to the fact that U.S. LNG exports, which cannot occur until the necessary export facilities are constructed later in this decade, will be sold by private firms to the highest bidder without any consideration of U.S. geopolitical interests. Wherever these firms can obtain the highest price for natural gas exports is where the gas will be sold. Exporting firms answer to dollars, not diplomats.

Proof of this assertion can be found in the already approved applications for export of natural gas to non-FTA countries. The six approved applications have finalized contracts or are being negotiated to sell U.S. gas to Japan, South Korea, and India. Since the goal of profit maximization applies to all pending non-FTA export applications, any future exports will also go where the price is highest and not where U.S. geopolitical interests may wish them to be sent.

Even in the unlikely event that the international market for natural gas dictated that the price is highest in Ukraine, LNG exports from the U.S. would not arrive there for several years at the

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<sup>34</sup> See: <http://www.nytimes.com/2014/03/06/world/europe/us-seeks-to-reduce-ukraines-reliance-on-russia-for-natural-gas.html>

earliest, which is well beyond the likely timeframe for the crisis that is currently enveloping the country. In addition, Ukraine, unlike its likely Asian competitors, currently has no LNG import facilities or plans for such, and therefore no capacity to receive U.S. gas in the near future. And the recent Russian takeover of the Crimean region on the Black Sea diminishes the likelihood that LNG import facilities will ever be built by Ukraine.

It is certain, however, that if H.R. 6 is passed, the regular order of non-FTA export consideration and evaluation of the public interest—even if cursory and currently unsatisfactory— will not occur. Instead, the process to export will be rushed with no consideration of the potential negative impacts on U.S. energy prices or on the U.S. economy.

Moreover, the price consumers pay for natural gas will increase, as has been established by every study on the impact of exports. Increased energy prices harm homeowners by reducing their disposable income, of particular concern for the poor and the elderly. Businesses will also be harmed by the increase in the price of natural gas as increased energy costs reduce their competitiveness, whether they serve their local community or consumers around the globe.

### **Alternative Approach**

There is an approach that accomplishes Rep. Gardner's well intentioned outcome without the various downsides and risks that are associated with the proffered legislation. The United States should be exporting the drilling technology that has enabled producers in this country to tap into our huge shale reserves. There are likewise vast shale reserves in Europe, including the Ukraine,

that are there for the taking, assuming the selfsame WTO countries are willing to invest in the technology to access those reserves and also to permit drilling for shale gas reserves. There is certainly no good reason why the U.S should undertake a domestic LNG export policy that has numerous downsides for the American gas consumers when many of the very countries we are seeking to help are capable of helping themselves by accessing their own domestic shale gas reserves.

In lieu of exporting our affordable premium fossil fuel, Congress should focus on adopting policies that encourage greater domestic demand for natural gas and greater emphasis on exporting drilling technology to WTO and other countries that have the capability to access natural gas reserves. It is a much better choice, in both the short and long term, to accelerate the transition in the United States from imported oil to domestic natural gas to fuel our transportation sector, revitalize our manufacturing industry, and improve our balance of trade.

## **Conclusion**

APGA appreciates the opportunity to testify before the House Energy and Commerce Committee's Energy and Power Subcommittee regarding this critical natural gas and public interest issue. We stand ready to work with the Committee on these and all other natural gas issues.