Industrial Energy Consumers of America (IECA)
The Voice of the Industrial Energy Consumers

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December 4, 2024

The Honorable Pat Fallon
Chairman
Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs
Committee on Oversight and Accountability
U.S. House of Representatives
Washington, DC 20515

The Honorable Cori Bush
Ranking Member
Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs
Committee on Oversight and Accountability
U.S. House of Representatives
Washington, DC 20515

Re: Hearing on "Exposing the Truth on LNG: How the Administration Played Politics with America's Energy Future"

Dear Chairman Fallon and Ranking Member Bush:

Thank you for holding this hearing. The truth is that LNG exports exacerbate structural reliability and price volatility risks for U.S. natural gas and electricity markets.[1] LNG exports import global market volatility – a phenomenon that the U.S. market has been insulated from historically. The more we export the more vulnerable the U.S. economy becomes and will directly impact the competitiveness of the U.S. manufacturing sector. It is for this reason that the Industrial Energy Consumers of America (IECA) urges the U.S. Department of Energy (DOE) and Congress to put in place a policy to insulate the U.S. from the negative impacts of increased LNG exports. Our recommended policy is an LNG Inventory Policy that is an America First policy.[2]

One hundred percent of our member companies are manufacturers from a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, consumer goods, building products, automotive, independent oil refining, and cement.

While all jobs are good jobs, oil and gas extraction and support activities for oil and gas operations equals only 347,400 jobs, according to the U.S. Bureau of Labor Statistics.[3] This pales in comparison to the over 13 million jobs from the manufacturing sector, whose competitiveness will be directly impacted by excessive LNG exports.

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[1] LNG Exports do Negatively Impact Consumers: https://www.ieca-us.org/wp-content/uploads/04.17.24_LNG-Exports-Do-Impact-U.S.-Prices.pdf

[2] IECA LNG Inventory Policy, https://www.ieca-us.com/wp-content/uploads/02.05.24_LNG-Inventory-Policy.pdf

[3] National Employment, U.S. Bureau of Labor Statistics, https://www.bls.gov/ces/

We recommend the Committee conduct oversight to examine China's U.S. LNG contracts and its implication to economic and national security when U.S. natural gas inventories are low.

According to the DOE[4] , China has 34 long term contracts, most of which are for 20 or 25 years, which is equal to 5.32 Bcf/d and is equal to 36.8 percent of U.S. operating LNG export capacity.[5] This volume does not account for contracts with U.S. multinational oil companies nor does it account for spot purchases. China has contracted for more volume than any other country. China is not using LNG to displace coal. They are using it to expand their manufacturing industries to compete with U.S. manufacturers.[6] The American Security Project report states that the "United States is sacrificing its strategic advantage in global energy markets" and China is engaged in "predatory" resale of U.S. LNG.[7] According to the Baker Institute for Policy "Chinese buyers account for almost 25 percent of the volume of long-term contracts entered into by LNG export facilities affected by the DOE's LNG export pause."[8]

THE TRUTH ABOUT HOW LNG EXPORTS NEGATIVELY IMPACT THE U.S.

According to the Federal Energy Regulatory Commission (FERC),[9] LNG export volumes that are in operation, DOE approved and under construction, and DOE approved and not under construction are equal to 43.4 Bcf/d, which is equal to 45.7 percent of net 2023 supply. Only 10 percent of U.S. gasoline is exported.[10]

What has already been approved is very significant. This is why IECA supported the DOE pause. It is in the public interest to not increase exports without having policy in place to insulate the U.S. market from potential devastating financial impacts.

LNG export shipments are the highest in the winter months when we have our highest winter heating demand and puts upward pricing pressure on natural gas and electricity prices when inventories are low.

Most countries that purchase LNG have winter when we do. Each increment of additional export capacity increases the U.S. winter peak demand. This is problematic when U.S. inventories are

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[4] Long-term Contract Information and Registrations, U.S. Department of Energy, https://www.energy.gov/fecm/articles/long-term-contract-information-and-registrations
[5] China's U.S. LNG Contracts Equals 36.8 Percent of U.S. LNG Operating Export Capacity, https://www.ieca-us.org/wp-content/uploads/11.13.24_China-US-LNG-Contracts.pdf
[6] LNG is not displacing coal in China's power mix, Institute for Energy Economics And Financial Analysis, June 25, 2024, https://ieefa.org/resources/lng-not-displacing-coal-chinas-power-mix
[7] Perspective — The U.S.-China LNG Export Dilemma: Reclaiming Leverage in an Imbalanced Trade Relationship, American Security Project, Courtney Manning, American Security Project, October 16, 2024, https://www.americansecurityproject.org/us-china-lng-competition/
[8] Is the US Preparing to Ban Future LNG Sales to China?, Baker Institute for Policy, April 25, 2024, https://www.bakerinstitute.org/research/us-preparing-ban-future-lng-sales-china
[9] U.S. LNG Export Terminals – Existing, Approved not Yet Built, and Proposed, FERC, U.S. LNG Export Terminals – Existing, Approved not Yet Built, and Proposed | Federal Energy Regulatory Commission
[10] The United States is the world's largest gasoline exporter, U.S. Energy Information Administration, September 24, 2024, https://www.eia.gov/todayinenergy/detail.php?id=63224

low, which occurs 51 percent of the time, according to the Energy Information Administration (EIA).

This happened during the winter of 2021/2022 and NYMEX monthly natural gas prices increased from $2.00 per MMBtu to $8.40 per MM Btu, a 320 percent increase and electricity prices increased by 30 percent, driven by higher natural gas-fired electricity generation. During this shortage of natural gas, LNG exports were shipping at maximum capacity. As a result, as compared to average spending between 2010-2020, this event increased residential consumer costs by $14 billion, commercial by $11 billion, industry by $33 billion, and electricity by $50 billion. A total impact of $108 billion.

Pipeline capacity has not kept up with rising demand, which means that LNG exporters will get the natural gas and U.S. consumers will not.

Interstate natural gas pipeline capacity additions in 2023 were the lowest in recent history. The U.S. has a lot of natural gas resources but without pipelines, LNG exporters get the natural gas and U.S. consumers do not. LNG terminals use the 25-year LNG supply contracts to lock up what limited natural gas pipeline capacity is available. Manufacturers cannot compete with LNG 25 year contracts for the dwindling pipeline capacity.

LNG consumers are countries who will pay any price, no matter how high, to get natural gas to keep the lights on in their countries. They are insensitive to price.

U.S. consumers cannot compete with LNG consuming countries. Even when our inventories are low and prices are high, LNG consuming countries will "buy-away" the natural gas regardless of the impact to U.S. natural gas and electricity prices, supply chains, and national security.

LNG 25-year contracts decrease U.S. energy independence and threaten reliability of natural gas and electricity markets.

The LNG 25-year contracts guarantee supply to foreign countries and reduces reliability of supply to U.S. consumers. These contracts shift supply and price risk from countries that consume the LNG to U.S. consumers. U.S. consumers and power generators do not have an alternative for natural gas. Seventy-five of 127 million households and over 300,000 factories are dependent upon natural gas. And, unlike gasoline, natural gas cannot be imported if we have short supply like the winter of 2021-2022.

Already approved LNG exports dwarf storage inventories and can destabilize markets.

Cumulatively approved LNG exports could equal more than 17,500 Bcf/year. This is more than 4.6 times peak U.S. storage, which destabilizes the current equilibrium of low prices benefiting consumers.

LNG exports result in importing global market volatility.

Market balancing mechanisms are already failing prior to the new wave of LNG demand increases. Natural gas price volatility has been soaring since 2020. Higher highs (57 percent) above 2010-2019 and lower lows (16 percent).

Market balancing mechanisms are weakening. Storage capacity is shrinking relative to the market size. And coal-fired power generation that has historically capped rising natural gas prices has been substantially reduced. Natural gas producers have specifically warned of reduced industrial output from potential price spikes.[11]

The Freeport LNG explosion and forced outage on June 8, 2022 offers a natural experiment of price impacts from LNG.

Prior to the explosion, natural gas prices were rising. Immediately after the explosion, U.S. LNG exports dropped 17 percent as a result of the outage. The NYMEX front month natural gas price plunged from $9.29 MMBtu pre-outage on June 7 to $5.42 MMBtu by June 30th – a decline of 42 percent.

We may have a lot of natural gas, but not a lot of cheap natural gas.[12] And Congress's number one responsibility is to protect America first. Advancing more LNG exports without policy to insulate the consumer will be an economic disaster with decades of impacts.

Sincerely,

Paul N. Cicio
Paul N. Cicio
President & CEO

cc: House Committee on Oversight and Accountability

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.3 trillion in annual sales, over 12,000 facilities nationwide, and with more than 1.9 million employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, consumer goods, building products, automotive, independent oil refining, and cement.

[11] EQT's CEO Warns of Gas Price Surge Amid Storage Shortage, Zacks Equity Research, March 20, 2024, https://finance.yahoo.com/news/eqts-ceo-warns-gas-price-125100780.html?fr=yhssrp_catchall
[12] Rising LNG terminal costs to make new US projects less competitive, says analyst, Curtis Williams, Reuters, December 3, 2024, https://finance.yahoo.com/news/rising-lng-terminal-costs-us-151002333.html?utm_source=substack&utm_medium=email