

**Statement of
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Before the

**Committee on Oversight and Government Reform
Subcommittee on Energy Policy,
Health Care & Entitlements
United States House of Representatives**

The Department of Energy's Program Regulating Liquefied Natural Gas Exports

April 30, 2014

Thank you Chairmen Lankford and Issa, Ranking Members Speier and Cummings, and members of the Subcommittee; I appreciate the opportunity to be here today to discuss the Department of Energy's (DOE) program regulating the export of liquefied natural gas (LNG).

Recent Developments in LNG Exports

The boom in domestic shale gas provides unprecedented opportunities for the United States. Over the last several years, domestic natural gas production has increased significantly, outpacing consumption growth, resulting in declining natural gas and LNG imports. Production growth is primarily due to the development of improved drilling technologies, including the ability to produce natural gas trapped in shale gas geologic formations.

Historically, the DOE has played an important role in the development of technologies that have enabled the United States to expand development of our energy resources. Between 1978 and 1992, public research investments managed by the Department contributed to the development of hydraulic fracturing and extended horizontal lateral drilling technologies that spurred private sector investments and industry innovation, unlocking billions of dollars in economic activity associated with shale gas.

Today, domestic natural gas prices are lower than international prices of delivered LNG to overseas markets. As in the United States, demand for natural gas is growing rapidly in foreign markets. Due primarily to these developments, DOE has received a growing number of applications to export domestically produced natural gas to overseas markets in the form of LNG.

DOE's Statutory Authority

DOE's authority to regulate the export of natural gas arises under section 3 of the Natural Gas Act (NGA), 15 U.S.C. § 717b. This authority is vested in the Secretary of Energy and has been delegated to the Assistant Secretary for Fossil Energy.

Section 3(a) of the NGA sets forth the standard for review of most LNG export applications:

[N]o person shall export any natural gas from the United States to a foreign country or import any natural gas from a foreign country without first having secured an order of the [Secretary of Energy] authorizing it to do so. The [Secretary] shall issue such order upon application, unless after opportunity for hearing, [he] finds that the proposed exportation or importation will not be consistent with the public interest. The [Secretary] may by [the Secretary's] order grant such application, in whole or part, with such modification and upon such terms and conditions as the [Secretary] may find necessary or appropriate.

Section 3(a) thus creates a rebuttable presumption that a proposed export of natural gas is in the public interest. Section 3(a) also authorizes DOE to attach terms or conditions to orders that authorizing natural gas exports the Secretary finds are necessary or appropriate to protect the public interest. Under this provision, DOE performs a thorough public interest analysis before acting.

In the Energy Policy Act of 1992, Congress introduced a new section 3(c) to the NGA. Section 3(c) created a different standard of review for applications to export natural gas, including LNG, to those countries with which the United States has in effect a free trade agreement requiring the national treatment for trade in natural gas. Section 3(c) requires such applications to be deemed consistent with the public interest, and requires such applications to be granted without modification or delay.

Free Trade Agreement (FTA) Countries

There are currently 18 countries with which the United States has in place free trade agreements that require national treatment for trade in natural gas for purposes of the Natural Gas Act. These 18 countries include: Australia, Bahrain, Canada, Chile, Colombia, the Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore.

There also are two countries — Israel and Costa Rica — that have free trade agreements with the United States that do not require national treatment for trade in natural gas for purposes of the Natural Gas Act.

Because complete applications under section 3(c) must be granted without modification or delay and are deemed to be in the public interest, DOE does not conduct a public interest analysis of those applications.

DOE Process to Review Applications to Export LNG to non-FTA Countries

DOE's review of applications to export LNG to non-FTA countries is conducted through a public and transparent process. Upon receipt of an application, DOE issues a notice of the application in the *Federal Register*, posts the application and all subsequent pleadings and orders in the proceeding on its website, and invites interested persons to participate in the proceeding by intervening and/or filing comments or protests. Section 3(a) applicants are typically given an opportunity to respond to any such comments or protests and, after consideration of the evidence that has been introduced into the record, DOE issues an order on the application.

Under the Natural Gas Act, DOE's orders are subject to a rehearing process that can be initiated by any party to a proceeding seeking to challenge DOE's determinations. Court review is available as well after the rehearing process is exhausted.

Public Interest Criteria for NGA Section 3(a) Applications

For applications requesting authority to export LNG to countries that do not have free trade agreements requiring national treatment for trade in natural gas, DOE conducts a full public interest review. Section 3(a) of the NGA establishes a broad public interest standard and a presumption favoring export authorizations. In prior decisions, DOE/FE has identified a range of factors that it evaluates when reviewing an application for export authorization. These factors include economic impacts, international considerations, U.S. energy security, and environmental considerations, among others. To conduct its review, DOE/FE looks to record evidence developed in the application proceeding. Applicants and interveners are free to raise new issues or concerns relevant to the public interest that may not have been addressed in prior cases.

Jurisdiction over the LNG Commodity Export Versus the LNG Export Facility

The DOE exercises export jurisdiction over the commodity (natural gas), whereas other Federal, state, and local organizations have jurisdiction over the facilities used in the import or export of the commodity, depending on the facility location.

The Federal Energy Regulatory Commission (FERC) is responsible for authorizing the siting, construction, expansion, and operation of LNG import and export terminals pursuant to a delegation of authority from the Secretary of Energy and section 3(e) of the Natural Gas Act. FERC may approve those applications in whole or in part with such modifications and upon such terms and conditions as it finds necessary or appropriate.

The U.S. Department of Transportation's Maritime Administration (MARAD) is responsible under the Deepwater Port Act of 1974, as amended, (33 U.S.C. § 1501 *et seq.*) for the licensing system for ownership, construction, operation and decommissioning of deepwater port structures located beyond the U.S. territorial sea, including deepwater LNG export facilities.

Sabine Pass Authorization – First Long-Term LNG Export Authorization

DOE granted the first long-term application to export domestically-produced lower-48 LNG to non-FTA countries to *Sabine Pass Liquefaction, LLC*, (*Sabine Pass*) in DOE/FE Order Nos. 2961 (May 20, 2011), 2961-A (August 7, 2012), and 2961-B (January 25, 2013). The LNG export volume authorized is equivalent to 2.2 billion cubic feet per day (Bcf/d) of natural gas for a period of 20 years. In the first of the *Sabine Pass* orders, DOE stated that it would evaluate the cumulative impact of the Sabine Pass authorization and any future authorizations for export authority when considering subsequent applications.

LNG Export Study

Following issuance of the *Sabine Pass* order, DOE undertook a two-part study of the cumulative economic impact of LNG exports. The first part of the study was conducted by the Energy Information Administration (EIA) and looked at the potential impact of additional natural gas exports on domestic energy consumption, production, and prices under several prescribed export scenarios. The second part of the study, performed by NERA Economic Consulting under contract to DOE, evaluated the macroeconomic impact of LNG exports on the U.S. economy with an emphasis on the energy sector and natural gas in particular. The NERA study was made available on December 5, 2012.

On December 11, 2012, DOE published in the *Federal Register* a Notice of Availability of the EIA and NERA studies, and inserted both parts of the study into 15 then-pending LNG export application dockets for public comment. An initial round of comments on the study ended on January 24, 2013, and reply comments were due February 25, 2013.

Comments to the LNG Study

In response to the Notice of Availability, DOE received over 188,000 initial comments and approximately 2,700 reply comments. Proponents of LNG exports generally endorsed the results of the two-part study, particularly the conclusion of the NERA study that increasing levels of exports will generate net economic benefits for the United States. On the other hand, comments filed by opponents of LNG exports raised a number of issues, including challenges to the assumptions and economic modeling underlying the two-part study and assertions that the two-part macroeconomic study should have further examined regional, sectoral, or environmental issues.

Use of Annual Energy Outlook Projections

On December 16, 2013, EIA issued its most recent projections for 2035 in the Annual Energy Outlook 2014 Early Release Overview (AEO 2014 ER). Compared to AEO 2013 Reference Case, total natural gas consumption for 2035 is projected to increase by 4.7 Bcf/d, from 78.7 Bcf/d to 83.4 Bcf/d. However, total domestic dry gas production is projected to rise by 13 Bcf/d of natural gas, from 85.9 Bcf/d to 98.9 Bcf/d (although this increase includes Alaska natural gas

production). Projections from the AEO 2014 ER reflect net LNG exports from the United States in a volume equivalent to 9.2 Bcf/d of natural gas. Of this projected volume, 7.4 Bcf/d are exports from the lower-48 states, 0.4 Bcf/d are imports to the lower-48 states, and 2.2 Bcf/d are exports from Alaska. This estimate compares with projected net LNG imports of 0.4 Bcf/d in the lower-48 for 2035 in the AEO 2011 Reference Case. The 2035 Henry Hub price in the AEO 2014 Early Release Reference Case is \$6.92/MMBtu, down from \$7.31/MMBtu in the AEO 2011 Reference Case (both in 2012 dollars).

When comparing the AEO 2014 ER and AEO 2013 Reference Case, the projections indicate that market conditions would continue to accommodate increased exports of natural gas. We also note that EIA's projection in the AEO 2014 Early Release Overview reflects domestic prices of natural gas that rise due to both increased domestic demand and exports, but that these price increases will be followed by "[a] sustained increase in production ... leading to slower price growth over the rest of the projection period."

LNG Export Applications Status

Consistent with the NGA, as of March 24, 2014, DOE has approved 35 long-term applications to export lower-48 LNG to free trade agreement countries in an amount equivalent to 37.96 billion standard cubic feet per day of natural gas. In addition, DOE has two long-term applications pending to export lower-48 LNG to free trade agreement countries. No worldscale liquefaction facilities in the lower-48 currently exist, one facility is currently under construction, and my office estimates that another 26 additional worldscale facilities are proposed to be built.

Most of the applicants seeking authorization to export LNG from proposed facilities to free trade agreement countries have also filed to export LNG to non-free trade agreement countries in the same volume from the same facility to provide optionality on the final destination country. The volumes of the applications to export to free trade agreement countries and non-free trade agreement countries are therefore not additive.

As of April 29, 2014, DOE has granted one final and six conditional long-term authorizations to export lower-48 LNG to non-free trade agreement countries in a total amount equivalent to 9.27 billion standard cubic feet per day of natural gas from five proposed liquefaction facilities and one under construction. As of April 29, 2014, DOE had 24 applications pending to export LNG equivalent to an additional 26.59 billion standard cubic feet per day of natural gas to non-free trade agreement countries.

DOE Path Forward

The Department will continue processing the pending non-FTA LNG export applications on a case-by-case basis, following the order of precedence previously established and set forth on DOE's website. During this time, the Department will continue to monitor any market developments and assess their impact in subsequent public interest determinations as further information becomes available.

Conclusion

In conclusion Mr. Chairman, I would like to emphasize that DOE is committed to considering the export applications as expeditiously as possible. DOE understands the significance of this issue — as well as the importance of getting these decisions right.



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Christopher Smith is Principal Deputy Assistant Secretary with responsibilities for office operations and managing the oversight of Fossil Energy's Research and Development program (encompassing coal, oil and natural gas) and the U.S. Petroleum Reserves.

He was appointed to the Department of Energy in 2009 as Deputy Assistant Secretary for FE's Office of Oil and Natural Gas.

Prior to joining DOE, Smith spent eleven years with two major international oil companies focused primarily on upstream business development and LNG trading, including three years negotiating production and transportation agreements in Bogotá, Colombia.

Smith began his career as an officer in the U. S. Army and served tours in Korea and Hawaii. Smith holds a bachelor's degree in Engineering Management from the United States Military Academy at West Point and an MBA from Cambridge University.

