



January 23, 2013

Sent Via email to: LNGStudy@hq.doe.gov

Hon. Steven Chu, PhD.
Secretary of Energy
Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

Re: Comments on the DOE Natural Gas Export Study

Dear Secretary Chu:

These comments are submitted by the American Exploration & Production Council ("AXPC") in support of the recently released Department of Energy study on the economic effects of the export of natural gas conducted by NERA Economic Consulting (the "Study"). AXPC fully agrees with the conclusions of the Study, particularly the finding that "(A)cross all scenarios, the U.S. is projected to gain net economic benefits from allowing LNG exports. Moreover, for every one of the market scenarios examined, net economic benefits increased as the level of LNG exports increased".

AXPC strongly believes that the export of natural gas is in the national interest of the United States. Our support is based on sound economic reasoning - the increase in sales of natural gas via exports would increase demand for economically advantaged U.S. natural gas and natural gas liquids (NGL's), thereby increasing investment of domestic and foreign capital which will enhance the search for and production of additional quantities of US natural gas and NGL's. The Study bears out our support by making it clear that, as noted above, the export of natural gas would generate substantial benefits for the overall US economy in all market scenarios. Additionally, it is important to note that — due to evolving pricing mechanisms — LNG exports would have a minimal impact on domestic natural gas prices. The DOE study concludes that global markets will limit any increase in prices, and that U.S. natural gas prices would not become linked to oil prices in any of the cases examined in the report.

AXPC is a national trade association representing 32 of the largest and most active US independent natural gas and crude oil exploration and production companies. Our members are leaders in developing and applying the advanced technology necessary to explore for and extract onshore and offshore reserves, including in deep water as well as from onshore unconventional sources. AXPC member companies are, as a group, leaders in adding domestic energy reserves and are committed to doing so in environmentally responsible ways. It is because our members have been so instrumental in developing the technologies leading to the discovery of these new natural gas reserves that have resulted in the abundance of natural gas that our nation suddenly enjoys that we are compelled to comment on the Study and why we feel it is so very important for us to communicate directly with you on this matter.

Energy supplies respond to the realities of the market, i.e they expand to meet demand and contract when demand declines. No one understands this principle better than the AXPC member companies. One needs to look no further than the current U.S. natural gas market for substantiation of this economic reality. Until very recently, we were dealing with anticipated shortages of US energy supplies which resulted in an extensive build-out of liquefied natural gas “LNG” terminals in anticipation of the need for massive imports of foreign LNG. Now, as a result of extraordinary technological advances and the willingness of AXPC members as well as other US exploration and production companies to take risks and invest capital to expand US energy supplies, our nation now enjoys an abundance of natural gas. The game changing nature of the shale gas revolution cannot be overstated. Because of the recent increases in our nation's shale gas resources, the Energy Information Administration and others have raised estimates of our domestic natural gas supply to an estimated 2,000 trillion cubic feet.

In fact, U.S. industrial consumers have gone from having such a tight supply situation that they anticipated the need for massive LNG imports to one in which they now have a substantial competitive advantage over their global competitors due to low-cost domestic shale gas supplies. The current shale gas and NGL abundance allows U.S. industrial customers to easily meet all domestic needs, including the return of manufacturing capacity to the U.S., and still provide surplus natural gas for export. We have achieved a strategic advantage with respect to a critical commodity, and we must not allow this opportunity to slip away. Absent an increase in demand and the massive inflows of domestic and direct foreign capital investment, such as would result from the ability to export natural gas, it will not be long before supplies decline and those industrial consumers who now enjoy a significant competitive advantage over their foreign competitors will once again find themselves in an energy dependent state and have lost their competitive advantage. This would have extremely detrimental economic and national security implications. Already we have seen a substantial reduction in the number of drilling rigs dedicated to the search for natural gas due to unsustainably low natural gas prices. The unsustainability of low natural gas prices will negatively affect natural gas consumers, particularly those in the petrochemical sector who are advocating for disallowing the exportation of natural gas, as these supply reductions will inhibit further investment in these new energy resources. This trend will only continue unless the demand for natural gas increases. Our nation would not be well served by such a result.

There are those companies that argue for an absolute restriction on natural gas exports, but theirs is a protectionist argument that does not serve our nation's best interests in the long run nor does it truly serve theirs either. While these well-meaning opponents complain about the export of “dry” natural gas it is really the “wet” gas or the NGL’s that provide them with the feedstock for their petrochemicals that they are most in need of to sustain their product pricing advantage. To our knowledge no one is proposing to export these NGL’s, but are focused on the “dry” natural gas for which inadequate domestic markets currently exist. Furthermore, artificially restricted demand for our abundance of natural gas would only result in reduced development of an American resource and the loss of jobs, capital investment and restricted economic activity.

Our nation is grounded upon the economic principle of free market capitalism. Free markets work, and the imposition of artificial restraints on commerce, e.g. a prohibition on the export of natural gas, only result in less of the subject commodity and the imposition of trade barriers by other trading partners in retaliation. The U.S. independent natural gas and oil companies have created one of the few economic bright spots for our country in recent years.

Our nation must not adopt a policy that risks more job loss, a higher U.S. trade deficit and punitive trade partner response. The Study makes it clear that our nation's best interests are served by the development and production of our domestic natural gas resources. A quick example comes from our agricultural sector where our farmers sell American grown grain and other products into a world market

virtually without restriction and our supplies of these products has only increased. All parties are better off when trade expands. Increased economic activity benefits all. Our nation's abundant supply of natural gas combined with a thoughtful and appropriate public policy permitting the export of natural gas will ensure economic growth and long-term, affordable supplies of domestic natural gas.

AXPC appreciates your consideration of our views and looks forward to continuing to work with you and others at the DOE as we endeavor to provide America and the world with reasonably priced domestic energy discovered and produced in an environmentally responsible manner.

Sincerely,

A handwritten signature in blue ink, appearing to read "V. Bruce Thompson". The signature is fluid and cursive, with the first name "V." and last name "Thompson" clearly distinguishable.

V. Bruce Thompson
President
American Exploration & Production Council