Congress of the United States
House of Representatives
Washington, DC 20515

May 31, 2012

The Honorable Barack H. Obama
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President,

As you know, U.S. fossil fuel markets are experiencing a period of significant change. New technologies and drilling practices are enabling the development of significant new domestic supplies of oil and natural gas. These additional supplies are shifting energy usage patterns in the United States and have the potential to significantly impact global trade flows, domestic energy prices, American manufacturing competitiveness, and human and environmental health. We are concerned that many of the current and potentially additional future public benefits of these developments in domestic energy markets could be undermined by unrestricted export of American resources to foreign markets. You have the tools at your disposal to address this problem. The Energy Policy and Conservation Act of 1975 (EPCA) authorizes you to adopt rules concerning the export of coal, petroleum products, natural gas and petrochemical feedstocks (42 USC §6212). We believe it is critical that you exercise this authority and to ensure energy exports proceed only to the extent that they are in both the short and long-term national interest and to provide greater market certainty to energy consumers and producers alike.

Energy resources are *not* like every other good or service traded on international markets and should not be treated as such as a matter of U.S. policy. EPCA was conceived as a response to resource scarcity, but its vision and applicability are much wider. The Conference Report to EPCA speaks to the wider purposes Congress had in mind in passing the legislation and makes clear that ensuring secure and affordable domestic energy supplies is a core rationale for the new presidential authority provided in the law and which remain true today:

> "For the long run, the Act will decrease dependence upon foreign imports, enhance national security, achieve the efficient utilization of scarce resources, <u>and guarantee the availability of domestic energy supplies at prices consumers can afford."</u> (Emphasis added.)

A dramatic increase in exports of American energy will likely have significant implications for our economy, for the competitiveness of American industries and for consumers. We are concerned that these implications have not yet been fully thought through. For example, a recent Energy Information Administration report found that natural gas exports of 12 billion cubic feet per day – a significantly lower volume than what companies have already applied to export – could raise U.S. natural gas prices by as much 54 per cent.

Just a few years ago, the U.S. was projected to be heading towards a "natural gas crisis" caused by low domestic supplies and soaring prices. As a result, companies proposed—and regulators approved—the construction of facilities at ports around the country for large-scale importation of liquefied natural gas (LNG). Much of the import capacity that was built has never been used. Now, with the growth of shale gas increasing American supply and domestic prices falling to ten-year lows, companies are proposing to build new or convert existing facilities to *export* American natural gas. Already, 13 companies have filed applications with the Department of Energy to export more than 17 billion cubic feet of natural gas per day. This amounts to 26 percent of current daily domestic consumption. We are concerned that the price increases expected if natural gas is allowed to be exported in the amounts proposed would severely harm the recovery of key industrial sectors that are so vital to this country's overall economic well-being.

For example, the electric power sector has seen substantial fuel switching as a result of the recent drop in natural gas prices. The share of U.S. electricity generated from coal has fallen from 50 percent in 2005 to 36 percent in the first quarter of 2012 while the share generated from natural gas has increased from 18 percent to 27 percent during that period.

The impacts of higher natural gas prices would not just be felt by utilities and consumers of electricity, but would likely have a dramatic impact on the domestic manufacturing sector. Since January 2010, U.S. natural gas prices have steadily declined by more than half while 470,000 domestic manufacturing jobs have been created. PricewaterhouseCoopers estimates that U.S. manufacturing companies could employ 1 million more workers by 2025 as a result of abundant, low-cost natural gas.

A prime example of these potential impacts can be illustrated by an examination of the chemical sector. Chemical manufacturers rely on natural gas for 58 percent of their fuel and natural gas and natural gas liquids for 58 percent of their feedstock. Natural gas constitutes upwards of 80 percent of the total cost to produce plastic. The U.S. chemical industry was dramatically reduced as an export sector between 1997 and 2006, a period when natural gas prices reached then-record highs and annual net chemical exports fell from $16.8 billion to $218 million.

Of the largest 120 chemical plants being built around the world in2005, exactly one was located in the U.S. However, since the beginning of 2010 as domestic natural gas supplies increased and prices dropped, chemical and plastic manufacturers have expanded dramatically, creating 36,000 U.S. jobs. Dow Chemical Company has also estimated that for every dollar the chemical industry spends on low-cost natural gas as energy or feedstock in the U.S., it generates $23 of economic value in the U.S. By contrast, when $1 of natural gas is exported to another country, the producers and marketers make just $1 and there is little downstream economic benefit to the U.S. economy. According to the American Chemistry Council, "a new competitive advantage has already emerged for U.S. petrochemical producers," and they estimate that if feedstock prices stay low and supply expands, the U.S. chemical industry will invest $49 billion in new plants and equipment in the U.S., drive the creation of more than 400,000 jobs across the U.S. economy, and generate $44 billion in new federal, state, and local tax revenue over the next decade.

Similar analyses of the relationship between natural gas costs and the fertilizer, steel and metal manufacturing sectors show a dramatic decline in these sectors when natural gas costs were high and a subsequent revitalization that coincides with the production of cheaper U.S. supplies.

We are not just concerned about the unintended consequences of natural gas exports. With domestic demand shrinking, coal companies are significantly increasing exports of American coal to foreign markets. U.S. coal exports hit 107 million tons in 2011, a 20-year high. Pending proposals for additional coal export terminals in the Pacific Northwest alone could lead to a doubling of total coal exports, primarily serving companies mining on public lands in Montana and Wyoming. This has significant implications for Federal coal leasing policies and will result in additional environmental impacts associated with the mining, transportation, and combustion of these coal resources.

Meanwhile in 2011, the U.S. became a net exporter of petroleum products for the first time in 62 years – exporting more than two million barrels of gasoline, diesel and other products per day. Refined petroleum products actually became America's leading export in 2011, with more than $100 billion in refined product sent overseas according to the Commerce Department, at a time when Americans experienced near record petroleum prices.

We are concerned about the inadequacy of the existing federal processes which govern the export of all of these American energy commodities. A more robust framework is needed for evaluating proposed exports, guided by a clear set of national policy principles.

We believe that four key considerations should guide our determination of whether energy exports are in the national interest: national security; energy security; economic impacts, including impacts on domestic energy prices and America's manufacturing competiveness; and environmental protection. We urge you to consider adoption of a regulatory framework firmly anchored around these four pillars.

Recent developments in the American energy sector provide us with a tremendous opportunity to enhance our international competiveness, while moving towards an era of cleaner, more affordable domestic energy. It also carries tremendous risks. It would be unwise for our country to go down a road in which we incur the potential environmental impacts of increased energy development, while sending overseas the economic benefits of these greater supplies. These are issues that the government must consider in all areas of energy development, but particularly with regard to well defined policies on energy exports.

Unlimited export of energy commodities could undermine the economic opportunity before us and result in unwanted economic and environmental impacts. The development of clear, rational energy export policies will be crucial and the authority already present under the Energy Policy and Conservation Act would allow this to be done quickly. We urge you to use your authority to adopt rules governing energy exports, and we look forward to working with you to ensure Americans have the energy they need at prices they can afford.

Sincerely,

Ron Wyden
SEN. RON WYDEN

Edward J. Markey
REP. EDWARD J. MARKEY