EXHIBIT-18

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Lovelace et al., v United States

Industry Expert Testimony on the Impact of Natural Gas Exports on Natural Gas Prices within the United States

June 8, 2015

Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

1776 K Street, NW, Suite 720 • Washington, D.C. 20006
Telephone (202) 223-1420 • www.ieca-us.org

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Cristobal Bonifaz
Attorney
180 Maple Street
PO Box 180
Conway, MA 01331

Re: How Natural Gas Prices are Determined and the Impact of LNG Exports

Dear Mr. Bonifaz:

Thank you for your question regarding how natural gas prices are determined, the relationship to pipelines that deliver the gas, and the impact of LNG exports. The below explanation is a simplistic answer to your question but covers the basic issues surrounding these important issues.

LNG exports are an important topic because unlike other products, the U.S. consumer does not have an alternative to natural gas. And, as natural gas prices rise, it will also impact the price of electricity. All reports by the Energy Information Administration (EIA) say that LNG exports increase the price of natural gas to U.S. consumers. The EIA report of May 22, 2015 said that due primarily to EPA regulations, 90 GW of coal-fired power plants will be shutdown. They estimate that a significant amount of the electric generating capacity will be replaced with natural gas electric generation. This will make all consumers even more vulnerable to the impacts of higher natural gas prices.

IECA represents energy-intensive trade-exposed manufacturing companies whose competitiveness is dependent upon the cost of natural gas and electricity. The industrial sector consumes up to one-third of the U.S. natural gas and electricity. Therefore, we are an important stakeholder on these important issues.

Fundamentally, the price of domestic natural gas is set via the relationship between supply and demand. If there is more demand than supply, prices will rise. <u>**The reverse is also true.**</u>

The U.S. natural gas market is a domestic market where prices are not influenced by international demand like crude oil. This is an important distinction. As international demand increases for crude oil, U.S. prices of refined products like gasoline, diesel, fuel oil, and jet fuel all go up or down. With the advent of large LNG exports, we are entering into a new era where over time, the U.S. natural gas market prices will rise to international parity levels. This means that higher demand for LNG from China, India, Japan, South Korea and Europe will determine what prices the U.S. consumer will pay. EIA AEO 2015 indicates that LNG export volumes will be larger than the residential sector by 2021.

IECA has expressed the concern that because natural gas is not renewable, and as more and more LNG exports occur, this will have an increasingly larger impact to domestic prices. There is a second unique reason why domestic consumers should be very worried. The organizations that are contracting to buy the LNG are less price sensitive than domestic consumers who will be competing for the gas. For example, many are large fully regulated natural gas and electric utilities from other countries. As an extension of their government, they have an obligation to serve, which means they must ensure that they keep the lights on and the factories running. And, importantly, their cost of the purchased LNG is automatically passed through to the retail customer.

This distinction of the price sensitivity is important to the manufacturing sector and all other U.S. consumers because the marginal higher demand sets the price for everyone. Manufacturing cannot automatically pass costs onto our customers due to international competition. If prices rise due to increased demand from international price insensitive demand, and manufacturers can no longer be competitive, they shutdown facilities. This is what happened from 1999 to 2008 when prices rose over 200 percent, more than 20 percent per year. Thousands of facilities were shut down and millions of jobs were lost.

Industrial companies and municipal gas distribution organizations typically enter into long-term contracts with interstate natural gas pipelines to transport the natural gas to them for a portion of their needs. This is called “firm” capacity because they essentially own the right to move a specific volume of gas in a specific period of time. The alternative is to buy natural gas using an “interruptible” tariff which is less expensive, but means there is the possibility that others could “bump” you from using the pipeline capacity, and not get the natural gas.

In return for the pipeline transportation service they pay a “tariff” (a fee) to the interstate pipeline company that is then included in the price of the natural gas to their consumers. Pipeline companies do not own the gas. Their sole role is as a transporter.

Industrials and municipals typically hire natural gas marketers to assist them in buying the natural gas and scheduling its movement in the pipeline. The gas marketer bundles the needed services to meet the needs of the customer. Regardless of whether they buy on a contract or spot market natural gas, the prices are determined by using NYMEX natural gas prices. The NYMEX natural gas price can change every second, and it trades on a month-by-month basis. Supply contracts to industrials or municipals can designate a specific day of the month that will determine their natural gas price or use the month-end settlement price. **<u>Contracts that provide a predetermined price, or firm price, are nonexistent</u>**. Hedging is sometimes used to help manage price volatility. NYMEX does not distinguish between firm and interruptible supply.

Both natural gas and electricity daily prices and month-end prices are set by the last increment of demand. The last marginal increment of demand sets the price for ALL of the natural gas that will be priced on that day-end price. **<u>This means that if the last increment of demand is insensitive to price (like LNG buyers) and is willing to pay more for the gas, everyone else in the U.S. will pay the higher price.</u>** This is particularly worrisome in high peak demand winter and summer months.

IECA does not oppose LNG exports, if safeguards in the Natural Gas Act (NGA) are fully implemented. However, the U.S. Department of Energy has failed to implement them, leaving consumers completely vulnerable to the price impacts of increasing LNG exports. For example, the NGA includes a provision that requires the DOE to complete a public interest determination. **The Government Accountability Office determined that the DOE has not defined "public interest."[1] If they have not defined public interest, then how will they know how much LNG exports to approve or deny?** IECA is on record pointing out significant errors in their analytical reports used to justify the approval of LNG export terminals.

I hope this explanation is of some assistance.

Sincerely,

s/Paul Cicio
Paul N. Cicio
President

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.4 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: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, brewing, independent oil refining, and cement.

[1] "Federal Approval Process for Liquefied Natural Gas Exports," Government Accountability Office, http://www.gao.gov/assets/670/666177.pdf.