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Energy Policy Research Foundation, Inc.  
1031 31st Street, NW, Washington, DC 20007-4401  
www.eprinc.org

Phone: 202.944.3339  
Fax: 202.944.9830  
E-mail: contact@eprinc.org

November 16, 2014

Honorable Ernest Moniz  
Secretary of Energy  
United States Department of Energy  
1000 Independence Avenue Southwest  
Washington, D.C. 20585-0001

Re: Alaska LNG Project LLC, Docket No. 14-96-LNG

Dear Mr. Secretary

We welcome the opportunity to comment on the application submitted by the Alaskan LNG Project LLC to export LNG to both Free Trade Agreement and Non-Free Trade Agreement countries. It is EPRINC's assessment that this project will provide long-term and substantial economic and security benefits to the United States, but achieving these benefits will require an approval process that is both predictable and expeditious.

The Energy Policy Research Foundation is a non-profit, non-partisan organization that has published extensive research on developments in U.S. and world energy markets since 1944. Our focus is on the intersection of petroleum economics and public policy. We have been called on to testify at every session of Congress in the last decade and routinely provide briefings on our research for industry, non-profit organizations, federal, state, and local agencies and Congressional staff. EPRINC has been a source of expertise for numerous government studies and its chairman and president have served on virtually every National Petroleum Council study

The sponsors of the Alaskan LNG Project LLC are North Slope producers ExxonMobil, ConocoPhillips and BP, as well as pipeline company TransCanada and the state of Alaska. The companies estimate a project cost of \$45 billion to more than \$65 billion (2012 dollars) that includes a large plant to cleanse produced gas of carbon dioxide and other impurities; an approximately 800-mile pipeline from Alaska's North Slope to the liquefaction plant; and an LNG plant, storage and shipping terminal at Nikiski, 60 air miles southwest of Anchorage along Cook Inlet.

Given the massive financial commitment to bring this project to completion, conditional approval from DOE is one of several steps essential to contain regulatory risk for this important project. It is a large project and can succeed only through effective management of the entire range of risks, including technical, project, financial, and regulatory.

Our support for expeditious DOE "conditional approval" rests on the following factors:

## **Economic Value**

An important feature of this project is that it offers an opportunity to generate economic value for both the United States and the State of Alaska.

It is important to understand how the value of the project contributes to economic growth. Whenever domestic resources used to produce natural gas can be sold for prices above their cost of production to consumers abroad (including value-added processing), the national economy benefits. The economic gain occurs because the U.S. can produce a product that will make a claim on foreign resources above our domestic cost of production resulting in wealth transfers from other countries to the U.S. The surplus value from these transactions shows up in higher revenues to federal, state, and local governments, return on capital investment, and employment growth.

The U.S. Department of Commerce (DOC) supports this assessment of the benefits of natural gas exports. DOC's Bureau of Economic Analysis (BEA) estimates that the average GDP growth multiplier for all manufacturing is approximately 2. This means that a \$1 increase in manufactured goods production results in a \$2 benefit to the overall U.S. economy. The BEA estimates the GDP multipliers for oil and gas extraction, chemicals production, and plastics and rubber production are 1.7, 2.4, and 2.3, respectively.

The United States is now approaching more than ten years of a historically low rate of economic growth, an average annual rate of approximately 2 percent. Since the financial collapse of 2008, U.S. capital investment as a percent of GNP remains well below previous post-recession recoveries. This is one of the major contributors to the low rate of recovery in the national economy. The Alaskan LNG Project LLC is precisely the kind of large-scale investment needed to help expand the national economy.

## **Adding Economic Value to a Stranded Resource**

A somewhat unique feature of natural gas reserves on the North Slope of Alaska is that there remains little alternative use for the produced gas. A combination of the remote location of the reserves and limited opportunity for value added use, at least at large scale, clearly demonstrates that if it is not liquefied and transported to markets abroad, most of the value of the resource will be lost. The often (and incorrect) view that the U.S. should limit LNG exports to save domestic gas for use as a feedstock for domestic manufacturers or as a instrument to limit increases in natural gas prices is not relevant to North Slope gas. If it is not exported it will remain in the ground.

## **Trade, Security, and Foreign Policy**

The United States is a leader in promoting open trade and free markets and these policies remain a central tenant of American foreign policy. Rising production of crude oil and natural gas from the U.S. represents an important new and stable production platform adding to energy security for the U.S. and world oil and gas markets. We also cannot ignore geopolitical concerns. China's rapid economic growth and influence continues to expand throughout East Asia and today there is more trade between South

Korea and many other Asian countries with China instead of the U.S. An important component of American influence is our reliability as an active and stable trade partner and the U.S. now represents an important alternative supplier of oil and gas resources from less stable production centers.

### **Project Management and Regulatory Risks**

A project of the scale and capital expense of the Alaskan LNG Project LLC requires managing a large number of complex risks. The project sponsors are well experienced in addressing technical and financial risks. It is management of regulatory risk that offers the most unique challenge and it is important government policy recognize that regulatory reviews should be both predictable and timely. DOE conditional approval is only one of a long list of regulatory reviews that must be navigated to bring the project to a successful completion. One only needs to look at the extensive regulatory constraints now in place on the construction of LNG export facilities. A short list includes: FERC approval (based on an Environmental Impact Statement which includes an Endangered Species Act review, and cultural resource assessment); EPA and state approval of air permits for potential traditional air pollutants and greenhouse gas emissions; US Army Corps of Engineers approval of possible wetlands permits; and EPA and States approval of water quality permits. Even the US Coast Guard plays a role with a water suitability assessment.

The North American petroleum renaissance is a remarkable achievement of American technology and innovation. Capital flows and project planning essential for expanding the economy require expectations that government policies will be supportive of economic growth, and not create further impediments. Government policy should send strong signals to natural gas producers that our economy will remain open and that investment in new natural gas production will have access to the entire range of domestic and foreign markets. The benefits of this project will lift employment, bolster the national economy, and even enhance our strategic outlook.

Sincerely,



Lucian Pugliaresi  
President