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Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify concerning the Department of Energy's (DOE) policies pertaining to the importation of liquefied natural gas (LNG) and to the siting of related facilities in the United States.

Because U.S. natural gas demand continues to outstrip domestic natural gas production, the U.S. economy requires increasing supplies of natural gas from imports. According to the most recent forecasts of DOE's Energy Information Administration (EIA), net imports of natural gas are projected to supply 21 percent of total U.S. natural gas consumption by 2010, compared with 15 percent historically. In 2003, pipeline imports from Canada provided 87 percent of U.S. imports of natural gas. However, with declining production from mature Canadian fields after 2010 and increasing domestic Canadian demand, increased U.S. natural gas demand will need to be met with additional LNG imports. These factors, in combination with higher natural gas prices, lower LNG production costs, and the desire of gas producers in other countries to monetize their stranded gas reserves, set the stage for increased LNG trade in the years ahead.

LNG is currently an important part of the U.S. natural gas supply. LNG contributed 507 Bcf, or 12.9 percent of all imported gas in 2003, up significantly from the 229 Bcf, or 5.7

percent contribution in 2002. Gas storage levels were very tight during last winter and this incremental 278 Bcf of gas supplied by LNG imports had an important effect in meeting natural gas demand and a positive effect on the economy. Without a rise in LNG imports, there would have been increased pressure on prices this past year, assuming the same level of production and consumption.

In particular, northeastern states, such as Massachusetts, might have seen further price spikes and even tighter market conditions, with possible service interruptions (at least to interruptible customers) without this additional import of LNG. LNG's contribution will become even more important to these customers located at the end of the interstate pipeline system in the future as demand increases. For instance, today LNG supplies about 20 percent of New England's gas annually and can provide nearly 30 percent of New England's peak daily? requirements (according to the Northeast Gas Association).

It is critical that necessary LNG import facilities receive appropriate permits and approvals in a timely and orderly fashion, if U. S. consumers are to be assured of adequate supplies of natural gas at reasonable prices. This goal is best served by a uniform national policy and Federal regulation of import and related facilities
I will summarize DOE's jurisdiction over LNG imports and provide an overview of LNG supply, demand, markets, and the industry's plans for expansion of U. S. LNG facilities.

DOE Jurisdiction over LNG Imports

Section 3 of the Natural Gas Act (NGA) requires prior authorization of imports (and exports) of natural gas, including LNG. For nearly 30 years since a decision by the United States Court of Appeals for the District of Columbia Circuit in *Distrigas v. F.P.C.*, Federal authorities have asserted jurisdiction over the siting, construction, and operation of LNG import and export facilities based on the authority provided in NGA section 3.

In 1977, the Department of Energy Organization Act transferred the section 3 authority from the former Federal Power Commission to the Secretary of Energy. By a series of delegation orders, the Secretary of Energy has divided the exercise of this authority between DOE and the Federal Energy Regulatory Commission (FERC). The currently applicable DOE Redelegation Order No. 00-002.04, effective January 8, 2002, delegates to the Assistant Secretary for Fossil Energy the section 3 authority to regulate the import (or export) of natural gas, including the place of entry (or exit). The Secretary has delegated to FERC, in the complementary Delegation Order No. 00-004.00, the authority to approve or disapprove proposals for the siting, construction, and operation of facilities, and whenever the import (or export) involves construction of new domestic facilities, the place of entry (or exit). Both delegation orders stipulate that DOE retains the authority to "disapprove" the siting, construction, and operation of particular facilities, and where the construction of new domestic facilities are involved, the place of entry (or exit). DOE exercised this reserved authority in a 1989 order authorizing the export of LNG from

Alaska to the Pacific Rim but disapproving any place of export other than a particular site deemed environmentally preferable to alternative export sites.

The Energy Policy Act of 1992 (EPAct) made certain amendments to NGA section 3, but in DOE's view, those amendments did not alter DOE's authority – which has been delegated to FERC – with respect to the siting, construction and operation of onshore LNG import or export facilities. Recent amendments to the Deepwater Port Act effectively transferred jurisdiction over the siting, construction, and operation of offshore natural gas facilities to the U.S. Coast Guard and the Maritime Administration.

DOE supports the recent decision issued by FERC, in a case concerning a proposed LNG facility near Long Beach, California, that exclusive authority over the siting, construction and operation of LNG import facilities lies at the Federal level under NGA section 3, and that any State permits necessary for facilities of this type must be consistent with and must not impede or unduly delay projects that have been approved by FERC. In 1938, Congress said in section 1 of the Natural Gas Act that "[f]ederal regulation in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest." That is true today, as it was 66 years ago. FERC works cooperatively with State agencies in siting and permitting LNG facilities, just as it does when issuing certificates for interstate natural gas pipelines, but it is vital to the development of infrastructure for our Nation that that exclusive jurisdiction over the siting, construction and operation of LNG facilities remain, as it is today, at the Federal level.

Supply

Since the mid-1970s, world natural gas proved reserves have generally trended upward each year. In 2004, worldwide proved reserve estimates increased for the ninth consecutive year. As of January 1, 2004, proved world natural gas reserves, as reported by the Oil & Gas Journal, were estimated at 6,076 trillion cubic feet (Tcf) —575 Tcf (10 percent) more than the estimate for 2003. The developing world accounted for virtually all the increase in proved reserves. Qatar, where the estimate of proved gas reserves grew from 508 Tcf for 2003 to 910 Tcf for 2004, accounted for most of the increment. Smaller but still substantial increases in estimated gas proved reserves were reported for Iran (an increase of 128 Tcf) and Nigeria (35 Tcf). Almost three-quarters of the world's proved natural gas reserves are located in the Middle East and Eastern Europe and the former Soviet Union (EE/FSU), with Russia, Iran, and Qatar accounting for about 58 percent of the total. Proved reserves in the rest of the world are fairly evenly distributed on a regional basis.

Much of this gas is considered "stranded" because it is located in regions distant from consuming markets. The 12 countries that currently export LNG have approximately 30 percent of world natural gas reserves. Three countries with 33 percent of the world's reserves are currently building their first liquefaction facilities. At least seven additional countries, with 19 percent of the world's reserves, are potential LNG exporters.

The United States has produced more than 40 percent of its total estimated natural gas resource and carries less than 10 percent as remaining reserves. In contrast, the rest of

the world has produced less than 10 percent of its total estimated natural gas resource and carries more than 30 percent as remaining reserves.

North American natural gas demand already exceeds North American production, and this gap is projected to grow in the future. In fact, North American production is expected to meet only 84 percent of U.S. gas needs in 2025. Net pipeline imports from Canada are expected to reach 3.7 Tcf in 2010, and then decline as Canadian fields mature and Canadian demand increases. Increased access to U.S. resources including natural gas located on the North Slope of Alaska could save consumers $300 billion in natural gas costs over the next 20 years. According to EIA's most recent forecast, total net imports are projected to supply 21 percent of the total U.S. natural gas consumption in 2010 (5.5 Tcf) and 23 percent in 2025 (7.2 Tcf), compared with 15 percent historically; nearly all of this increase in net imports is expected to consist of LNG. It is projected that LNG will become the largest source of net U.S. imports by 2015, as Canadian imports decline. LNG imports are expected to rise from 5 percent of net U.S. natural gas imports in 2002 to 39 percent in 2010.

Demand

Today natural gas provides nearly one-quarter of U.S. energy requirements as a clean fuel for heating and cooking in over 60 million U.S. households. U.S. industries get over 40 percent of their primary energy needs from natural gas. Power generators and industrial consumers are more dependent on gas-fired equipment and less able to respond to higher gas prices by using alternate sources of energy. Gas consumption will grow, but such

growth will be moderated as the most price-sensitive industries become less competitive, causing some industries to relocate outside North America.

Growing LNG Market

The increases in world natural gas consumption projected in EIA's International Energy Outlook of 2004 reference case will require bringing new gas resources to market. Many of the natural gas assets of the developing world are remote from major consuming markets ("stranded"). This fact, coupled with cost decreases throughout the LNG chain, has made LNG increasingly competitive, contributing to the expectation of strong worldwide growth in LNG trade.

In 2002, 12 countries shipped 5.4 Tcf of LNG—up from 9 exporting countries shipping less than 4 Tcf in 1997. Global LNG liquefaction capacity is expected to increase from 6.6 Tcf per year in 2003 to 9.4 Tcf per year in 2007, based upon facilities currently under construction.

U.S. Expanding LNG Activity

U. S. LNG imports in 2003 are estimated at 540 Bcf, up from 229 Bcf in 2002. The United States is both an importer and an exporter of LNG. LNG has been produced in and exported from Kenai, Alaska, to Japan for the last 30 years, with 63 Bcf exported in 2002. While historically Algeria was the largest supplier of LNG to the United States, since 2000 it has been far surpassed by Trinidad and Tobago, which now serves as the

source for 75 percent of the nation's U.S. LNG imports in 2003. The United States imported 378 Bcf from Trinidad and Tobago in 2003. In addition the United States also received LNG cargos in 2003 from Malaysia, Nigeria, Oman, and Qatar.

Current U.S. LNG regasification terminals are at Cove Point, Maryland; Elba Island, Georgia; Everett, Massachusetts; and Lake Charles, Louisiana. These four terminals have an estimated combined peak capacity of about 1.2 Tcf per year and an estimated baseload capacity of 880 Bcf per year. All four terminals either have recently completed an expansion or plan to expand their regasification capacity by 2008. Existing U.S. LNG plants are expected to be at, or close to, full capacity by 2007, importing 1.4 Tcf annually.

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EIA's Annual Energy Outlook 2004 (AEO2004) projects that four new LNG regasification terminals will need to be constructed on the Atlantic and Gulf Coasts from 2007 through 2010 to meet the 54 percent increase in imported LNG demand that is projected for that timeframe. It has been projected that additional terminals will need to be constructed to serve markets in Florida, the south Atlantic states, and the western Gulf Coast.

This concludes my testimony. I would be glad to answer any questions you may have.