A recent report on LNG exports is being carefully scrutinized and hotly debated. Making your opinion known is critical. BY MARK KALPIN

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THE IMPACT OF EXPORTS

On December 5, 2012, the U.S. Department of Energy released a report on the potential macroeconomic impact of liquefied natural gas exports on the U.S. economy. The report, prepared by NERA Economic Consulting, gives particular emphasis to the energy and manufacturing sectors, and complements an earlier study that was conducted by the U.S. Energy Information Administration for the DOE in January 2012.

Under Section 3 of the Natural Gas Act, an entity proposing to export natural gas (including LNG) must obtain authorization from the DOE. The DOE is required to review proposed exports to countries that do not have a free trade agreement with the U.S. and must authorize the export unless it finds that the proposed export "will not be consistent with the public interest." In making this determination, DOE considers economic, energy security, and environmental impacts.

The DOE is reviewing 15 applications that propose to export a total of almost 12 billion cubic feet per day of natural gas from the lower 48 states to non-FTA nations. In a conditional authorization issued in May 2011 for the proposed Sabine Pass Liquefaction Project, the DOE stated that it would review the potential cumulative impact of the Sabine Pass authorization and any future LNG export authorizations on the U.S. economy when considering subsequent LNG export applications.

In the report, NERA concluded that the U.S. would gain net economic benefits from allowing LNG exports, and that the net economic benefits increased as the level of LNG exports increased. However, NERA also found that increased levels of LNG exports could lead to negative economic impacts, including slightly higher natural gas prices, reduced wage income for certain consumers, negative competitive impacts on energy intensive manufacturers, and higher prices for electricity.

The report's conclusions will be hotly contested. A trade association of LNG producers, shippers, terminal operators, and developers has released a statement in support of the report and its conclusions. In contrast, energy-intensive manufac=turers and other trade associations have objected to additional LNG exports on the fear that increased domestic natural gas prices will hurt economic growth in the U.S. and the international competitiveness of energy-intensive manufacturers.

The report has been scrutinized by a number of elected officials. Some, including Sen. Lisa Murkowski (R-Ark.), have expressed support for increased LNG exports. Others, such as Rep. Ed Markey (D-Mass.), have criticized the report on the grounds that increased LNG exports will benefit oil and gas companies at the expense of consumers.

The issue of LNG exports will also raise the level of debate over hydraulic fracturing, a practice that is credited with helping to create a surplus of natural gas supplies in the U.S. Neither the NERA report nor the preceding EIA report consider environmental impacts, let alone the issue of hydraulic fracturing. The Sierra Club already has protested a pending LNG export application on the grounds that the environmental harm resulting from the increased use of hydraulic fracturing has not been evaluated by the DOE. More recently, a group of health professionals petitioned the administration to delay authorization of LNG exports until studies on the health effects of hydraulic fracturing can be completed.

The question of whether the DOE should authorize increased exports of LNG raises a number of key issues for natural gas utility companies. Many believe that allowing increased LNG exports is essential to the further development of the nation's natural gas resources, and to the realization of additional domestic market opportunities for natural gas. As such, the risk that domestic market opportunities will be foregone if LNG exports are denied far outweighs any concern that domestic natural gas prices may slightly rise if more exports are allowed.

Of equal concern is whether environmental and other groups can successfully turn the authorization process for LNG exports into a referendum on the practice of hydraulic fracturing. These groups previously have challenged authorizations issued for domestic natural gas pipeline projects by the Federal Energy Regulatory Commission on similar grounds. If any of these challenges are successful, increased supplies of natural gas will not be available for either domestic or international markets.

Regardless of whether you or your organization supports or opposes increased exports of LNG, one thing is clear: it is important that you make your opinion on this important issue known. ◆

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EXCERPTS FROM THE NERA REPORT

NERA Economic Consulting, at the request of the U.S. Department of Energy, Office of Fossil Energy, prepared the report described in Mark Kalpin's article using its Global Natural Gas Model to estimate expected levels of U.S. LNG exports under several scenarios, and its NewERA energy-economy model to determine the U.S. macroeconomic impacts resulting from the LNG exports. Findings are summarized below, drawn directly from the report's executive summary. For the full report, visit www.fossil.energy.gov/programs/gasregulation/reports/nera_lng_report.pdf.

- Across all these scenarios, the U.S. was 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.

- Benefits that come from export expansion more than outweigh the losses from reduced capital and wage income to U.S. consumers, and hence LNG exports have net economic benefits in spite of higher domestic natural gas prices.

- Net benefits to the U.S. would be highest if the U.S. becomes able to produce large quantities of gas from shale at low cost, if world demand for natural gas increases rapidly, and if LNG supplies from other regions are limited.

- LNG exports are not likely to affect the overall level of employment in the U.S. There will be some shifts in the number of workers across industries, with those industries associated with natural gas production and exports attracting workers away from other industries. In no scenario is the shift in employment out of any industry projected to be larger than normal rates of turnover of employees in those industries.

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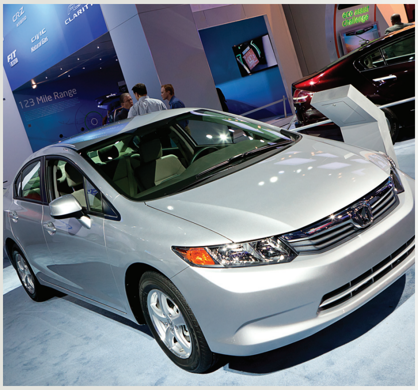

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