
Exports of LNG and the Public Interest: The Department of Energy Releases Its Report on the Impact of LNG Exports on the US Economy

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On December 5, 2012, the U.S. Department of Energy (the "Department") released for public review and comment its long-awaited report on the potential impact of liquefied natural gas ("LNG") exports on the U.S. economy. The Department's Report, which was prepared by NERA Economic Consulting ("NERA"), evaluates the macroeconomic impact of LNG exports on the U.S. economy with particular emphasis given to the energy and manufacturing sectors. The NERA Report complements an earlier study which was conducted by the U.S. Energy Information Administration ("EIA") for the Department in January 2012.

In announcing the Report's availability, the Department made clear that the findings in the Report were those of NERA, and not the Department. The deadline for filing initial public comments on the Report is January 24, 2013, and reply comments are due no later than February 25, 2013.

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

The Department currently 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 by the Department in May 2011 for the proposed Sabine Pass Liquefaction Project, the Department stated that it would have to review the potential cumulative impact of the Sabine Pass authorization and any future LNG export authorizations on the U.S. economy when considering subsequent applications to export LNG to Non-FTA Nations.

In the Report, NERA examined the economic impact of different levels of LNG exports under a total of 63 different market scenarios. Across all these scenarios, NERA concluded that the U.S. was projected to gain net economic benefits from allowing LNG exports, and that the net economic benefits increased as the level of LNG exports increased. However, consistent with the prior EIA

study, NERA also found that increased levels of LNG exports could lead to negative economic impacts, including slightly higher natural gas prices, reduced capital and wage income to certain classes of consumers, negative competitive impacts on energy intensive manufacturers, and higher prices for electricity.

The conclusions in the Report are likely to be hotly contested, with numerous entities and organizations filing comments either in support or opposition to additional exports of LNG. On one hand, a trade association of LNG producers, shippers, terminal operators and developers, and energy trade associations, as well as other companies in the energy development and production sector, have released statements in support of the Report and its conclusions. In contrast, energy-intensive manufacturers and other energy trade associations have objected to 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 already has been scrutinized by a number of elected officials. Some officials, including Senator Lisa Murkowski (R-AK), have expressed support for increased LNG exports. Others, such as Representative Ed Markey (D-MA), have criticized the Report on the grounds that it improperly relies on dated information, and have voiced concerns that increased LNG exports will benefit oil and gas companies at the expense of consumers.

The issue of LNG exports has also raised the level of debate over hydraulic fracking, a practice which is credited with helping to create a surplus of natural gas supplies in the U.S. Because their focus was on economic impacts, neither the NERA Report nor the preceding EIA report consider environmental impacts, let alone the issue of hydraulic fracking. The Sierra Club has protested a pending export application at the Department on the grounds that the potential environmental harm that would result from the increased hydraulic fracturing that would be associated with increased LNG exports had not been considered by the Department. Similarly, a group of 110 health professionals recently petitioned the Administration to delay the approval of additional LNG export applications until studies on the medical and epidemiological effects of hydraulic fracturing can be completed.

Regardless of whether you or your organization supports or opposes increased exports of LNG from the U.S., one thing is clear – it is important that you file comments and make your opinion on this issue known to the Department.

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