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Energy Practice

Department of Energy Releases Long-Awaited LNG Export Study: Study Yields Positive Result for the Natural Gas Industry

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The Department of Energy's ("DOE") long-awaited study on the impact of liquefied natural gas ("LNG") exports from the United States has been released, with key findings showing a positive future for the natural gas industry. Initial comments on the December 5, 2012, study are to be filed no later than 4:30 p.m. eastern time on January 24, 2013, and Reply comments are to be filed by February 25, 2013.

The study, performed by NERA Economic Consulting under contract to DOE, contains an analysis of the impact of exports of LNG on the U.S. economy under a range of different assumptions regarding levels of exports, global market conditions, and the cost of producing natural gas in the U.S. The assumptions were combined into a set of market scenarios ranging from relatively normal conditions to stress cases with high costs of producing natural gas in the U.S. and exceptionally large demand for U.S. LNG exports in world markets.

The key findings of the study are:

- "Across all studied 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. In particular, scenarios with unlimited exports always had higher net economic benefits than corresponding cases with limited exports.
- In all of these cases, 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. This is exactly the outcome that economic theory describes when barriers to trade are removed.
- 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. If the promise of shale gas is not fulfilled and costs of producing gas in the U.S. rise substantially, or if there are ample supplies of LNG from other regions to satisfy world demand, the U.S. would not export LNG. Under these conditions, allowing exports of LNG would cause no change in natural gas prices and do no harm to the overall economy.
- U.S. natural gas prices increase when the U.S. exports LNG, but the global market limits how high U.S. natural gas prices can rise under pressure of LNG exports because importers will not purchase U.S. exports if U.S. wellhead price rises above the cost of competing supplies. In particular, the U.S. natural gas price does not become linked to oil prices in any of the cases examined.

- Natural gas price changes attributable to LNG exports remain in a relatively narrow range across the entire range of scenarios. Natural gas price increases at the time LNG exports could begin range from zero to $0.33 (2010 $/Mcf). The largest price increases that would be observed after 5 more years of potentially growing exports could range from $0.22 to $1.11 (2010 $/Mcf). The higher end of the range is reached only under conditions of ample U.S. supplies and low domestic natural gas prices, with smaller price increases when U.S. supplies are more costly and domestic prices higher."

The DOE stated that it will begin to act on the 15 existing applications to export LNG to Non-Free Trade Agreement nations on a case-by-case basis and that it expects to act first upon applications for which the applicants have commenced the pre-filing process at the Federal Energy Regulatory Commission as of December 5, 2012, in the general order in which the DOE received them.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact one of the authors:

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