LNG Allies™

COMMENTS TO U.S. DEPARTMENT OF ENERGY ON LNG EXPORT STUDIES
FEB. 12, 2016

About Us. LNG Allies, Inc. is a nonprofit organization formed to: (1) promote the common interests of its members and the energy industry as a whole; and (2) encourage free trade in energy resources between the United States and its allies. We conduct energy and economic research; prepare informational materials; and host, organize, and/or sponsor meetings, conferences, seminars, and other educational events. LNG Allies supports the U.S. liquefied natural gas (LNG) export industry and the upstream/midstream companies which benefit from such exports. We also cooperate routinely with several foreign nations—primarily in Central and Eastern Europe—all of them keenly interested in U.S. LNG exports.

Background. On Dec. 28, 2015, the Department of Energy (DOE) issued a *Federal Register* Notice that requested comments from interested parties on two studies examining the economic impacts of increased U.S. LNG exports between 12 and 20 billion cubic feet per day (Bcf/day):

- *Effect of Increased Levels of Liquefied Natural Gas Exports on U.S. Energy Markets,* U.S. Energy Information Administration, Oct. 2014. (EIA-2014)
- *The Macroeconomic Impact of Increasing U.S. LNG Exports*, Center for Energy Studies at Rice University's Baker Institute for Public Policy and Oxford Economics, Oct. 29, 2015. (Baker/Oxford-2015)

Comments submitted pursuant to the Notice will be incorporated into the administrative record of all pending applications to export U.S. LNG to foreign nations that do not have Free Trade Agreements with the United States that include the national treatment of natural gas ("non-FTA applications").

Comments Submitted by LNG Allies

- We generally support the findings contained in the Baker/Oxford-2015 and EIA-2014 studies.
- DOE is to be commended for commissioning these two studies and for using the results to inform the Department's decisions in the pending non-FTA reviews. This approach is preferable to requiring project sponsors to commission ad hoc macroeconomic studies for each project, an outcome that would surely raise the cost of and add additional uncertainty to the DOE review process, a most unsatisfactory result.
- The EIA-2014 and Baker/Oxford-2015 analyses—when considered along with the earlier studies conducted by EIA and NERA Economic Consulting in 2012—are sufficient to inform the DOE non-FTA decision-making process <u>at least</u> to the point where cumulative non-FTA approvals reach 20 Bcf/day. (In fact we would argue that the Baker/Oxford-2015 study provides sufficient evidence to support a level of 28 Bcf/day.)
- However, to the extent that DOE concludes that it needs additional studies for export cases beyond 20 Bcf/day, we urge DOE to commission these as far in advance as possible. Waiting until the level of non-FTA approvals reaches the 20 Bcf/day mark (as could happen this year) might introduce unnecessary delays into subsequent non-FTA reviews.

- In any case, these two studies—and others conducted by the private sector—demonstrate conclusively that U.S. macroeconomic benefits grow steadily along with U.S. LNG exports. More significantly, the Baker/Oxford-2015 study showed that the greatest net macroeconomic benefits accrue when no limit is placed on U.S. LNG exports by the federal government (the so-called "endogenous case").
- The Baker/Oxford-2015 study, makes a clear point that should not be lost on DOE decision-makers and other interested parties: ***LNG exports have almost no impact on domestic natural gas demand or prices.*** This is because of "the very elastic long-run [natural gas] supply curve in North America."
- However, the international benefits of rising U.S. LNG exports are profound: "the spread between Henry Hub and other international benchmark prices narrows as U.S. LNG exports increase [helping to] alleviate the highly constrained supply situation internationally."
- In fact, when U.S. LNG exports are set "endogenously" (i.e. by the market): "The [Henry Hub versus international] price spreads are narrowest thereby reflecting full capture of the U.S. LNG arbitrage opportunity."
- Further, the majority of the price movement occurs abroad, meaning that U.S. natural gas consumers will not be adversely affected (expect perhaps minimally), but international gas consumers (most notably in Asia) will be helped. Given that fuel switching—from coal to gas—in Asian nations (e.g. India and China) is likely to be critically important for implementation of the COP-21 agreement, this is a very significant finding.
- One small disagreement we have with the Baker/Oxford-2015 study is the statement that exports over 12 Bcf/day would have only "marginally positive" benefits. The analysis shows that such exports could generate up to 35,200 jobs and increase U.S. GDP by as much as $20.5 billion annually from 2026 to 2040. ***We hardly consider such impacts to be "marginally positive." A better characterization—in our view—would be "significant and meaningful."***
- In our opinion, the appropriate yardstick for measuring the contribution of additional LNG exports to the U.S. economy is not the economy as a whole. After all, no one item can uplift the entire economy in a double digit fashion. Instead, the proper question to ponder is this: ***What other actions could be taken by U.S. government decision-makers that could equal or exceed the positive contributions of LNG exports?***
- The U.S. economy is big and multi-faceted. Thus, using a "substantial impact" test as the threshold for taking positive action would lead to the conclusion that nothing whatsoever could improve the economy. In fact, the only way to advance our standard of living materially is through the sum of a series of "marginal" steps and LNG exports are very important in that sense.
- We also support the comment made by the American Petroleum Institute (API) concerning the "magnitude of the impacts shown for specific key variables" [in the reference case] and agree with API's observations that "the natural gas price impacts… could be smaller" [than estimated]. We also agree with API that omission of natural gas liquids (NGLs) from the Baker/Oxford-2015 study, "means that the economic impact of LNG exports are underestimated."
- Despite these minor disagreements, we support the findings in these two studies. Increased LNG exports will have net positive economic benefits to the United States. ***And, the economic, environmental, and geostrategic benefits to America's global allies will also be immensely positive.***

- In that regard, DOE must continue to consider increased U.S. LNG exports in a broader context. The public interest of the United States is inextricably linked to the health of the global economy—both for purposes of trade and political stability/national security. That is why lowering global natural gas prices through expanded U.S. LNG exports is so critically important.
- Driving down global energy prices stimulates key sectors of the global economy which, in turn, leads to greater demand for U.S. products. Lower energy prices also reduce the income of many of the international players who pose a threat to the United States and our loyal allies. This is a virtuous cycle, because when we force our geopolitical adversaries to lower their energy prices, they help "pay" for an improved global economy that buys more goods and services from the United States.

For the reasons set forth above, LNG Allies urges DOE to approve all pending non-FTA LNG export applications as expeditiously as possible. As API notes in their comments, "each day that we delay affirmative decisions on export applications puts U.S. projects at a competitive disadvantage in the global race to construct LNG facilities."

Respectfully submitted,

Fred H. Hutchison, Executive Director