

DOE responds to public comments on macroeconomic study of LNG exports

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On December 28, 2018, the Office of Fossil Energy (FE) of the US Department of Energy (DOE) responded to the 19 public comments received on the *Macroeconomic Outcomes of Market Determined Levels of U.S. LNG Exports* (2018 LNG Export Study or Study)¹. The DOE concluded that, subject to other factors, the Study provides substantial support for pending and future applications to export liquefied natural gas (LNG) to countries with whom the United States does not have a free trade agreement (FTA). The Study determined that the United States will experience net economic benefits from the issuance of authorizations to export domestically-produced LNG.

Overview of the 2018 LNG Export Study

Prior to the 2018 LNG Export Study, DOE had commissioned four studies to examine the economic impact of US LNG exports. Currently, DOE has approved applications to export up to 59.33 Bcf/day and 23.05 Bcf/day of domestically-produced natural gas converted to LNG to FTA and non-FTA countries, respectively. At the time DOE commissioned the 2018 LNG Export Study, DOE had 25 pending applications to export up to an additional 21.35 Bcf/day of domestically-produced gas in the form of LNG to non-FTA countries. In light of the additional volume of LNG requested for export in those pending applications, DOE determined that a new macroeconomic study was warranted. DOE engaged NERA Economic Consulting (NERA) to conduct the study.

The 2018 LNG Export Study assesses different market-determined levels of LNG exports and analyzes the effect of such different levels on the US natural gas markets and

the US economy as a whole, during the 2020-2050 period. The Study develops 54 scenarios of market-determined levels by identifying various assumptions for domestic and international supply and demand conditions. The Study also includes an assessment of the probability of each of the scenarios, by examining the likelihood of conditions leading to the various export scenarios.

The Study concluded that there is a 68 percent probability that LNG exports in the year 2040 will be in the range of the equivalent of 9.0 to 30.7 Bcf/day of natural gas. About 80 percent of the projected increase in LNG exports is expected to be satisfied by increased domestic production of natural gas rather than by decreased domestic consumption. The Study projects that this will have positive effects on labor income, output and profits. For each of the scenarios, higher levels of LNG exports in response to increased international demand are projected to consistently lead to higher levels of gross domestic product (GDP). Even the most extreme scenarios of high LNG exports show higher overall economic performance in terms of GDP, household income, and consumer welfare. Additionally, chemical industry subsectors that rely heavily on natural gas are projected to continue growing even with an increased level of LNG exports.

DOE published the 2018 LNG Export Study and its request for comments on June 12, 2018. During the public comment period, DOE received 19 comments on the Study from a variety of sources. Of these comments, nine supported the Study, eight opposed the Study and/or exports of LNG in general, one comment took no position and one comment was non-responsive.

¹ Study on Macroeconomic Outcomes of LNG Exports: Response to Comments Received on Study, 83 Fed. Reg. 67,251 (December 28, 2018).

Public comments on the 2018 LNG Export Study and DOE responses

DOE evaluated the 19 comments and summarized them into ten topics: (1) Data Inputs and Estimates of Natural Gas Demand; (2) Economic Benefits Associated with LNG Exports; (3) Distributional Impacts; (4) Regional Impacts; (5) Estimates of Domestic Natural Gas Supply; (6) Cost of Environmental Externalities; (7) Natural Gas Price Impacts; (8) Benefits to US Trade Balance; (9) Procedural Arguments; and (10) Potential Impact on DOE/FE's Regulatory Process. Each topic is shortly discussed below.

First, every commenter supporting the Study commended the studying of unbounded exports driven by market demand, rather than prescribed LNG export volumes as was done in past studies. DOE responded to commenters, who suggested the Study overstates the future level of US LNG exports, by asserting that if increased global demand for US LNG exports does not materialize, there would be no corresponding economic losses, irrespective of regulatory approvals. Second, with regard to economic benefits associated with LNG exports, multiple commenters agreed with the Study's conclusion that LNG exports provide a clear net benefit to the US economy and are therefore in the public interest. Third, DOE rejected concerns that LNG exports could negatively impact consumer welfare and chemical industry subsectors relying on natural gas, by pointing to the Study's conclusion that all scenarios within the more likely range of results are welfare-improving for the average US household and would not negatively impact natural gas intensive sectors. Fourth, DOE dismissed concerns regarding regional impacts as those are considered on a case-by-case basis during review of each non-FTA application.

Fifth, in response to concerns that DOE has already approved LNG exports in excess of projected US production, DOE pointed to production data showing US domestic natural gas production has been well in excess of current FTA and non-FTA authorizations. Sixth, DOE dismissed comments regarding the increased cost of negative environmental externalities by stating that an analysis of environmental impacts was not part of the scope of the Study. Seventh, several commenters pointed to potential natural gas price increases in connection with increased LNG exports. DOE responded by stating that US natural gas prices are far more dependent on available resources and technologies than on US policies and further concluded that increasing US LNG exports will lead to only small increases in price and provide large potential benefits under other economic factors.

Eighth, several commenters agreed with the Study's conclusion that "increased exports of natural gas will improve the U.S. balance of trade and result in a wealth transfer into the U.S." Ninth, one of the comments opposed the Study for violating three standards set forth in the Data Quality Act: "reproducibility," "objectivity" and "integrity." DOE concluded that, although NERA's economic models are intellectual property subject to trade secret and confidentiality constraints, the incorporation of publicly-available data and assumptions satisfies its reproducibility standards. Further, allegations of bias on the part of the peer reviewers were rejected, as no evidence of bias was presented, other than pointing to the professional affiliations of the peer review panel.

Last, DOE rejected any implications that the Study will impact the regulatory process for pending and future non-FTA applications and maintained that the Study will be one of many considerations involved in DOE's decision-making. Accordingly, DOE will not prejudge any of the pending non-FTA applications on the basis of the 2018 LNG Export Study alone and will continue to evaluate each pending application based on the administrative record compiled in the individual proceeding.

Conclusion and Implications

After evaluating the public comments, DOE concluded that none of the comments opposing the Study provided sufficient evidence to rebut or undermine the Study. DOE found the Study to be fundamentally sound and supporting the proposition that exports of domestically-produced LNG would not be inconsistent with the public interest.

The conclusion of the 2018 LNG Export Study is that the US will experience net economic benefits from the issuance of authorizations to export domestically-produced LNG to non-FTA countries. DOE concluded that the Study provides substantial support for the pending non-FTA applications, as well as future non-FTA applications for export volumes within the range considered by the Study. However, DOE will continue to consider each non-FTA application individually based on the administrative record compiled in the proceeding.

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